Stock Code:6462

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Financial Statements

With Independent Auditors' Review Report for the Six Months Ended June 30, 2018 and 2017

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

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

Table of contents

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

Independent Auditors' Review Report

To the Board of Directors of Egis Technology Inc.:

Introduction

We have reviewed the accompanying consolidated balance sheets of the Egis Technology Inc. and its subsidiaries of June 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2018 and 2017, as well as the changes in equity and cash flows for the six months ended June 30, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Egis Technology Inc. and its subsidiaries as of June 30, 2018 and 2017, and of its consolidated financial performance for the three months and six months ended June 30, 2018 and 2017, as well as its consolidated cash flows for the six months ended June 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, " Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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)
August 7, 2018

Notes to Readers

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

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

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

Reviewed only, not audited in accordance with generally accepted auditing standards as of June 30, 2018 and 2017

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2018, December 31, 2017, and June 30, 2017

(Expressed in Thousands of New Taiwan Dollars)

		June 30, 2018		December 31, 2017		June 30, 2017	
	Assets	Amount	%	Amount	%	Amount	%
	Current assets:						
1100	Cash and cash equivalents (notes 6(a) and (u))	$ 2,257,205	46	1,153,711	31	1,172,154	41
1110	Financial assets at fair value through profit or loss—current (notes 6(b) and (u))	-	-	57,912	2	27,814	1
1170	Accounts receivable, net (notes 6(f), (q) and (u))	1,013,485	20	729,289	20	411,861	14
130X	Inventories (note 6(g))	1,114,972	23	699,553	19	680,910	24
1470	Prepayments and other current assets	74,860	2	65,088	2	42,052	1
1476	Other financial assets—current (notes 6(a) and (u) and 8)	46,222	1	533,416	15	243,415	8
	Total current assets	4,506,744	92	3,238,969	89	2,578,206	89
	Non-current assets:						
1543	Financial assets carried at cost—non-current (notes 6(d) and (u))	-	-	93,835	3	23,590	1
1517	Non-current financial assets at fair value through other comprehensive income (notes 6(c)(u))	87,425	2	-	-	-	-
1600	Property, plant and equipment (note 6(h))	33,722	-	33,758	1	35,078	1
1780	Intangible assets (note 6(i))	192,599	4	200,641	6	208,385	7
1840	Deferred income tax assets	50,690	1	50,690	1	55,204	2
1960	Prepayments for investments (note 6(e))	34,157	1	-	-	-	-
1995	Other non-current assets (note 6(u))	9,838	-	9,775	-	6,934	-
	Total non-current assets	408,431	8	388,699	11	329,191	11
	Total assets	$ 4,915,175	100	3,627,668	100	2,907,397	100

		June 30, 2018		December 31, 2017		June 30, 2017	
	Liabilities and Equity	Amount	%	Amount	%	Amount	%
	Current liabilities:						
2100	Short-term borrowings (notes 6(j)(u)(x) and 8)	$ 967,087	20	280,519	8	526,892	18
2170	Notes and accounts payable (notes 6(u))	720,091	14	642,598	18	323,692	11
2216	Cash dividends payable (note 6(n))	301,462	6	-	-	-	-
2230	Current tax liabilities	139,659	3	128,889	3	60,730	2
2399	Other payables (notes 6(s)(u))	355,236	7	311,580	9	157,331	6
	Total current liabilities	2,483,535	50	1,363,586	38	1,068,645	37
	Non-current liabilities:						
2570	Deferred income tax liabilities	-	-	-	-	1,285	-
	Total liabilities	2,483,535	50	1,363,586	38	1,069,930	37
	Equity (note 6(n)):						
3110	Common stock	709,803	15	704,908	19	696,778	24
3140	Common stock subscribed	-	-	4,415	-	1,700	-
3200	Capital surplus	948,681	19	942,038	26	760,574	26
	Retained earnings:						
3310	Legal reserve	70,722	2	11,403	-	11,403	-
3350	Unappropriated earnings	845,950	17	695,814	19	362,412	13
	Other equity interest:						
3411	Exchange differences on translation of foreign financial statements	4,152	-	3,238	-	4,600	-
3420	Unrealized gains from financial assets measured at fair value through other comprehensive income	(6,410)	-	-	-	-	-
3491	Deferred compensation cost arising from issuance of restricted stock	(62,383)	(1)	(97,734)	(2)	-	-
3500	Treasury stock	(78,875)	(2)	-	-	-	-
	Total equity	2,431,640	50	2,264,082	62	1,837,467	63
	Total liabilities and equity	$ 4,915,175	100	3,627,668	100	2,907,397	100

See accompanying notes to consolidated financial statements.

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

Reviewed only, not audited in accordance with generally accepted auditing standards

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017

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

		For the three months ended June 30				For the six months ended June 30			
		2018		2017		2018		2017	
		Amount	%	Amount	%	Amount	%	Amount	%
4000	**Revenue (notes 6(q)(r))**	$ 1,479,849	100	874,654	100	3,113,534	100	2,060,141	100
5000	**Costs of revenue (notes 6(g)(h) and 12)**	913,469	62	568,929	65	1,970,994	63	1,278,484	62
	Gross profit	566,380	38	305,725	35	1,142,540	37	781,657	38
	Operating expenses (notes 6(f)(h)(i)(l)(o)(s), 7 and 12):								
6100	Selling expenses	67,624	5	50,429	6	129,763	4	121,502	6
6200	Administrative expenses	63,354	4	27,514	3	116,455	4	65,731	3
6300	Research and development expenses	177,684	12	140,605	16	328,981	11	236,293	12
	Total operating expenses	308,662	21	218,548	25	575,199	19	423,526	21
	Operating income	257,718	17	87,177	10	567,341	18	358,131	17
	Non-operating income and loss:								
7010	Other income (note 6(t))	10,565	1	5,180	1	16,752	-	7,163	-
7020	Other gains and losses, net (notes 6(t) and (u))	87,967	6	5,009	-	53,598	2	(32,691)	(1)
7050	Finance costs (note 6(t))	(1,752)	-	(2,432)	-	(4,191)	-	(4,698)	-
	Total non-operating income and loss	96,780	7	7,757	1	66,159	2	(30,226)	(1)
	Income before taxes	354,498	24	94,934	11	633,500	20	327,905	16
7950	Income tax expense (note 6(m))	60,067	4	20,040	2	122,583	4	68,116	3
	Net income	294,431	20	74,894	9	510,917	16	259,789	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(n)(u))	(6,626)	-	-	-	(7,585)	-	-	-
8349	Income tax related to items that will not be reclassified subsequently to profit or loss	-	-	-	-	-	-	-	-
	Items that will not be reclassified subsequently to profit or loss	(6,626)	-	-	-	(7,585)	-	-	-
8360	**Items that may be reclassified subsequently to profit or loss:**								
8361	Exchange differences on translation of foreign operations (note 6(n))	1,157	-	99	-	914	-	(1,246)	-
8399	Income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-	-	-	-	-
	Items that may be reclassified subsequently to profit or loss	1,157	-	99	-	914	-	(1,246)	-
	Other comprehensive income, net	(5,469)	-	99	-	(6,671)	-	(1,246)	-
	Comprehensive income	$ **288,962**	**20**	**74,993**	**9**	**504,246**	**16**	**258,543**	**13**
	Earnings per common share (expressed in dollars) (note 6(p)) :								
9750	Basic earnings per share	$	**4.20**		**1.07**		**7.27**		**3.73**
9850	Diluted earnings per share	$	**4.18**		**1.07**		**7.22**		**3.69**

See accompanying notes to consolidated financial statements.

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

Reviewed only, not audited in accordance with generally accepted auditing standards

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent									
				Retained earnings		Total other equity interest				
	Common stock	Common stock subscribed	Capital Surplus	Legal reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Deferred compensation cost arising from issuance of restricted stock	Treasury stock	Total equity
Balance at January 1, 2017	$ 688,393	7,180	742,625	-	114,026	5,846	-	-	-	1,558,070
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	-	11,403	(11,403)	-	-	-	-	-
Issuance of common stock from exercise of employee stock options	8,385	(5,480)	10,628	-	-	-	-	-	-	13,533
Compensation cost of employee stock options	-	-	7,321	-	-	-	-	-	-	7,321
Net income in 2017	-	-	-	-	259,789	-	-	-	-	259,789
Other comprehensive income in 2017	-	-	-	-	-	(1,246)	-	-	-	(1,246)
Total comprehensive income in 2017	-	-	-	-	259,789	(1,246)	-	-	-	258,543
Balance at June 30, 2017	$ 696,778	1,700	760,574	11,403	362,412	4,600	-	-	-	1,837,467
Balance at January 1,2018	$ 704,908	4,415	942,038	11,403	695,814	3,238	-	(97,734)	-	2,264,082
Effects of retrospective application	-	-	-	-	-	-	1,175	-	-	1,175
Equity at beginning of period after adjustments	704,908	4,415	942,038	11,403	695,814	3,238	1,175	(97,734)	-	2,265,257
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	-	59,319	(59,319)	-	-	-	-	-
Cash dividends to shareholders	-	-	-	-	(301,462)	-	-	-	-	(301,462)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(78,875)	(78,875)
Issuance of common stock from exercise of employee stock options	4,895	(4,415)	5,045	-	-	-	-	-	-	5,525
Compensation cost of employee stock options	-	-	1,598	-	-	-	-	-	-	1,598
Compensation cost arising from restricted shares of stock issued to employees	-	-	-	-	-	-	-	35,351	-	35,351
Net income in 2018	-	-	-	-	510,917	-	-	-	-	510,917
Other comprehensive income in 2018	-	-	-	-	-	914	(7,585)	-	-	(6,671)
Total comprehensive income in 2018	-	-	-	-	510,917	914	(7,585)	-	-	504,246
Balance at June 30, 2018	$ 709,803	-	948,681	70,722	845,950	4,152	(6,410)	(62,383)	(78,875)	2,431,640

See accompanying notes to consolidated financial statements.

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

Reviewed only, not audited in accordance with generally accepted auditing standards

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2018	**2017**
Cash flows from operating activities:		
Income before income taxes	$ 633,500	327,905
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation	7,469	7,018
Amortization	11,088	10,728
Net loss (gain) on financial assets at fair value through profit or loss	755	(311)
Interest expense	4,191	4,698
Interest income	(16,535)	(5,099)
Share-based payments	36,949	7,321
Impairment loss on accounts receivable	-	25,105
Total adjustments to reconcile profit	43,917	49,460
Changes in operating assets and liabilities:		
Changes in operating assets:		
Accounts receivable	(284,196)	(29,269)
Inventories	(415,419)	(132,119)
Prepayments and other current assets	(8,937)	4,842
Total changes in operating assets	(708,552)	(156,546)
Changes in operating liabilities:		
Notes and accounts payable	77,493	(144,427)
Other payables	43,368	(49,423)
Total changes in operating liabilities	120,861	(193,850)
Total changes in operating assets and liabilities	(587,691)	(350,396)
Cash used in operations	89,726	26,969
Interest received	18,019	4,441
Interest paid	(3,964)	(3,871)
Income taxes paid	(112,587)	(11,063)
Net cash provided by (used in) operating activities	(8,806)	16,476

See accompanying notes to consolidated financial statements.

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

Reviewed only, not audited in accordance with generally accepted auditing standards

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2018	2017
Cash flows from investing activities:		
Proceeds from disposal of financial assets at fair value through profit or loss	57,157	-
Acquisition of financial assets at fair value through profit or loss	-	(27,503)
Acquisition of financial assets carried at cost	-	(3,590)
Increase in prepayments for investments	(34,157)	-
Acquisition of property, plant and equipment	(7,422)	(22,101)
Additions to intangible assets	(3,046)	(1,977)
Decrease in other financial assets	485,710	65,355
Increase in other non-current assets	(63)	(837)
Net cash provided by investing activities	498,179	9,347
Cash flows from financing activities:		
Proceeds from short-term borrowings	1,770,172	1,093,204
Repayments of short-term borrowings	(1,083,604)	(819,005)
Proceeds from exercise of employee stock options	5,525	13,533
Purchase of treasury stock	(78,875)	-
Net cash provided by financing activities	613,218	287,732
Effects of foreign exchange rate changes	903	(1,196)
Net increase in cash and cash equivalents	1,103,494	312,359
Cash and cash equivalents at beginning of the period	1,153,711	859,795
Cash and cash equivalents at end of the period	$ 2,257,205	1,172,154

See accompanying notes to consolidated financial statements.

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

Reviewed only, not audited in accordance with generally accepted auditing standards

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 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, 2007, the Company acquired the business and operating assets of Arachnoid Biometrics Identification Group Corp. ("ABIG"). ABIG was primarily involved in developing and selling software of fingerprint identifications.

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

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

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

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

2. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the Board of Directors on August 7, 2018.

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

3. Application of new and revised accounting standards and interpretations:

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

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(c).

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

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

2) Impairment of financial assets

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

3) Transition

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

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

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

— The determination of the business model within which a financial asset is held.

— The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

— The designation of certain investments in equity instruments not held for trading as at FVOCI.

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

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

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

(Continued)

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

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

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

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

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

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

(iii) Amendments to IAS 7 "Disclosure Initiative"

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

To satisfy the new disclosure requirements, the Group present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(x).

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

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

(Continued)

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, wherein the detailed assessment has yet to be completed. The actual impact of applying IFRS 16 on its financial statements in the period of initial application will depend on future economic conditions, including the Group' s discounting rate, the composition of the Group' s lease portfolio at that date, the Group' s latest assessment of whether it will exercise any lease renewal options, and the extent to which the Group chooses to use practical expedients and recognition exemptions.

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 results will be disclosed when the Group completes its evaluation.

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.

(Continued)

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

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.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make adjustments for leases in which the Group is the intermediate lessor in a sub-lease.

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

As of the date, the following IFRSs that have been issued by the IASB, but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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

The above IFRSs may not be relevant to the Group.

4. Summary of significant accounting policies

(a) Statement of compliance

The consolidatedfinancial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and by the International Financial Reporting Standards, the International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for full annual consolidated financial statements.

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

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statements for the year ended December 31, 2017. Please refer to Note 4 of the consolidated financial statements for the year ended December 31, 2017 for the related information.

(b) Basis of consolidation

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

Name of Investor	Name of Subsidiary	Principal Activity	Shareholding June 30, 2018	Shareholding December 31, 2017	Shareholding June 30, 2017
The Company	Egis Inc.(Cayman Islands)	Investment and holding activity	100 %	100 %	100 %
The Company	Egis Technology (Japan) Inc.	Sale of data security software and biometric authentication software and hardware	100 %	100 %	100 %
The Company	Egis Tec USA Inc.	Technology development	100 %	100 %	100 %
The Company	Egis Technology Korea Inc.	Customer service, Business promotion and technical support	100 %	100 %	-

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

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

(c) Financial instruments (applicable from January 1, 2018)

(i) Financial assets

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).

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.

(Continued)

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

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.

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 debt 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).

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

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 for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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.

(Continued)

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

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

(i) 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.

(ii) 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.

(e) 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.

(f) Income taxes

Tax expense in the consolidated interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting".Income tax expense is best estimated by multiplying pre-tax income for the interim reporting period with the effective annual tax rate as forecasted by the management, and is recognized as current tax expense.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the effective tax rate at the time of realizations or liquidation and shall be recognized directly in equity or other comprehensive income as tax expense.

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

For a change in tax rate that is substantively enacted in an interim period, the effect of the change is spread in the tax rate by an adjustment to the estimated annual effective income tax rate.

5. Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34"Interim financial reporting"and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the consolidated interim financial statements, estimates and underlying assumptions, are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to Note 5 of the consolidated financial statements for the year ended December 31, 2017.

6. Significant account disclosures

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2017. Please refer to Note 6 of the 2017 annual consolidated financial statements.

(a) Cash and cash equivalents

	June 30, 2018	December 31, 2017	June 30, 2017
Cash on hand	$ 685	486	504
Bank deposits	529,438	409,017	494,805
Time deposits	1,635,702	625,168	616,005
Repurchase agreements—bond	91,380	119,040	60,840
	$ 2,257,205	1,153,711	1,172,154

As of June 30, 2018, December 31, and June 30, 2017, the time deposits with original maturities of more than six months amounted to $9,138, $426,528 and $128,822, respectively, which were classified as other financial assets—current.

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

	June 30, 2018	December 31, 2017	June 30, 2017
Open-end mutual fund	$ -	57,912	27,814

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

	June 30, 2018
Equity instruments at fair value through other comprehensive income：	
Unlisted common shares (Please refer note 13(a).3)	$ 87,425

(Continued)

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

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, and June 30, 2017.

No strategic investments were disposed as of June 30, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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

	December 31, 2017	June 30, 2017
Unlisted common shares	$ 93,835	23,590

The aforementioned investments held by the Group were measured at amortized cost as of December 31, and June 30, 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 June 30, 2018.

(e) Prepayments for investments

In the first half of 2018, the Group invested the amount of $34,157 to acquire the common shares of investee for the development techniques on optical sensing and fingerprint identification.

(f) Accounts receivable, net

	June 30, 2018	December 31, 2017	June 30, 2017
Accounts receivable	$ 1,038,623	753,849	436,966
Less：allowance for impairment	(25,138)	(24,560)	(25,105)
	$ 1,013,485	729,289	411,861

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 June 30, 2018. The loss allowance provision as of June 30, 2018 was determined as follows:

	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ 1,013,485	0.0001%	-
More than 180 days past due	25,138	100%	25,138
	$ 1,038,623		25,138

(Continued)

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

As of December 31, and June 30, 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, and June 30, 2017.

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

		June 30, 2017	
	June 30, 2018	Individually assessed impairment	Collectively assessed impairment
Balance on January 1, 2017 and 2016 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	-	25,105	-
Foreign exchange losses	578	-	-
Balance on June 30, 2018 and 2017	$ 25,138	25,105	-

(g) Inventories

	June 30, 2018	December 31, 2017	June 30, 2017
Raw materials	$ 95,158	155,197	15,164
Work in process	982,674	535,676	652,781
Finished goods	37,140	8,680	12,965
	$ 1,114,972	699,553	680,910

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Cost of inventories sold	$ 883,259	532,833	1,944,016	1,212,980
Loss on write-down of inventories devaluation	13,547	36,446	12,540	66,504
Others	16,663	(350)	14,438	(1,000)
	$ 913,469	568,929	1,970,994	1,278,484

Loss on inventory devaluation mentioned above was attributed to the write-down of inventories to net realizable value, and was included in cost of revenue.

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

(h) 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		154	2,298	-	4,970	7,422
Disposals		-	(240)	-	-	(240)
Effect of exchange rate changes		-	-	6	23	29
Balance at June 30, 2018	$	22,558	13,401	7,918	43,263	87,140
Balance at January 1, 2017	$	25,354	9,471	1,567	34,008	70,400
Additions		109	793	3,446	13,925	18,273
Disposals		-	(823)	-	(478)	(1,301)
Effect of exchange rate changes		-	-	(17)	(48)	(65)
Balance at June 30, 2017	$	25,463	9,441	4,996	47,407	87,307
Depreciation:						
Balance at January 1, 2018	$	21,882	7,127	2,117	15,045	46,171
Depreciation		475	1,441	1,241	4,312	7,469
Disposals		-	(240)	-	-	(240)
Effect of exchange rate changes		-	-	4	14	18
Balance at June 30, 2018	$	22,357	8,328	3,362	19,371	53,418
Balance at January 1, 2017	$	21,496	5,931	680	18,419	46,526
Depreciation		2,585	893	533	3,007	7,018
Disposals		-	(823)	-	(477)	(1,300)
Effect of exchange rate changes		-	-	(2)	(13)	(15)
Balance at June 30, 2017	$	24,081	6,001	1,211	20,936	52,229
Carrying amounts:						
Balance at June 30, 2018	$	201	5,073	4,556	23,892	33,722
Balance at January 1, 2018	$	522	4,216	5,795	23,225	33,758
Balance at June 30, 2017	$	1,382	3,440	3,785	26,471	35,078

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

(i) Intangible assets

	Goodwill	Patent	Technology	Computer software	Total
Costs:					
Balance at January 1, 2018	$ 106,827	25,714	84,726	14,873	232,140
Additions	-	-	-	3,046	3,046
Balance at June 30, 2018	$ 106,827	25,714	84,726	17,919	235,186
Balance at January 1, 2017	$ 106,827	25,714	84,726	9,352	226,619
Additions	-	-	-	1,977	1,977
Balance at June 30, 2017	$ 106,827	25,714	84,726	11,329	228,596
Accumulated amortization and impairment loss:					
Balance at January 1, 2018	$ -	9,302	13,239	8,958	31,499
Amortization	-	3,511	5,295	2,282	11,088
Balance at June 30, 2018	$ -	12,813	18,534	11,240	42,587
Balance at January 1, 2017	$ -	2,279	2,648	4,556	9,483
Amortization	-	3,512	5,295	1,921	10,728
Balance at June 30, 2017	$ -	5,791	7,943	6,477	20,211
Carrying amount:					
Balance at June 30, 2018	$ 106,827	12,901	66,192	6,679	192,599
Balance at January 1,2018	$ 106,827	16,412	71,487	5,915	200,641
Balance at June 30, 2017	$ 106,827	19,923	76,783	4,852	208,385

(j) Short-term borrowings

	June 30, 2018	December 31, 2017	June 30, 2017
Secured bank loans	$ 967,087	280,519	526,892
Unused credit facilities	$ 979,473	1,134,201	1,105,148
Interest rate	1.20%~3.04%	1.52%~2.73%	1.52%~2.73%

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

(k) Operating lease

There were no significant additions in operating lease contracts for the six months ended June 30, 2018 and 2017. Please refer to Note 6(i) of the consolidated financial statements for the year ended December 31, 2017 for the details.

(l) 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.

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

The Group recognized the pension expenses of $4,254 and $3,231 for the three months ended June 30, 2018 and 2017, respectively; and $8,090 and $6,202 for the six months ended June 30, 2018 and 2017, respectively, in relation to the defined contribution plans.

(m) 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. The group spreads the effect of the change in the tax rate by an adjustment to the estimated annual effective income tax rate.

(i) Income tax expense

	For the three months ended June 30		For the six months ended June 30	
	2018	**2017**	**2018**	**2017**
Current income tax expense				
Current period	$ 79,662	18,223	142,024	61,049
Withholding tax in foreign jurisdiction	330	1,669	752	6,742
Adjustments for prior years	(19,925)	148	(20,193)	325
Income tax expense	$ 60,067	20,040	122,583	68,116

(ii) For the six months ended June 30, 2018 and 2017, there was no income tax expense recognized in other comprehensive income.

(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.

(n) Capital and other equity

Except for the following disclosures, there was no significant change for capital and other equity for the six months ended June 30, 2018 and 2017. For the related information, please refer to Note 6(l) of the consolidated financial statements for the year ended December 31, 2017.

(i) Common stock

As of June 30, 2018, December 31, and June 30, 2017, the Company's authorized shares of common stock, at $10 par value per share, consisted of 100,000 thousand shares, of which 70,980 thousand shares, 70,491 thousand shares and 69,678 thousand shares, respectively, were issued and outstanding.

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

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

	For the six months ended June 30	
	2018	**2017**
Balance at January 1	70,036	68,839
Exercise of employee stock options	489	839
Purchase of treasury stock	(600)	-
Balance at June 30	69,925	69,678

As of June 30, 2018 and 2017, the related registration process of issuance of new shares for employee stock options had been completed.

(ii) Capital surplus

	June 30, 2018	December 31, 2017	June 30, 2017
Paid-in capital in excess of par value	$ 823,411	787,473	719,877
Compensation cost of employee stock options	27,364	27,975	40,697
Restricted stock issued to employees	97,906	126,590	-
	$ 948,681	942,038	760,574

(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.

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

3) Earnings distribution

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

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

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

	2017	
	Dividends per share (NT$)	**Amount**
Dividends distributed to ordinary shareholders：		
Cash	$ 4.25	301,462

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

(iv) Treasury shares

In accordance with Article 28-2 of the Securities and Exchange Act, the Company purchased 600 thousand of its own common shares for an aggregate amount of $78,875 for the six months ended June 30, 2018, 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 stock can not be collateralized and do not bear any shareholder rights prior to being sold to third parties.

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		914	-	-
Deferred compensation cost		-	35,351	-
Unrealized gains (losses) from equity instruments measured at fair value through other comprehensive income		-	-	(7,585)
Balance at June 30, 2018	$	4,152	(62,383)	(6,410)
Balance at January 1, 2017	$	5,846	-	-
Foreign exchange differences arising from translation of foreign operations		(1,246)	-	-
Balance at June 30, 2017	$	4,600	-	-

(o) Share-based payment

(i) A summary of the Company'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.

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):

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

Movements in number of shares of employee stock option plans (Amounts in New Taiwan dollars):

	For the six months ended June 30,			
	2018		2017	
	Weighted-average exercise price	Number of shares	Weighted-average exercise price	Number of shares
Outstanding, beginning of year	$ 112.76	643,000	95.80	1,511,000
Granted	-	-	-	-
Exercised	115.11	(48,000)	46.59	(290,500)
Forfeited	127.18	(4,000)	98.20	(65,000)
Outstanding, at June 30	112.47	591,000	108.03	1,155,500
Exercisable, at June 30	105.39	399,000	98.20	70,000

June 30, 2018				
Year of grant	Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number exercisable
2014/12	300,000	1.47	$ 98.20	300,000
2015	291,000	2.34	127.18	99,000
	591,000			399,000

(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

June 30, 2017				
Year of grant	**Number outstanding**	**Weighted-average remaining contractual years**	**Weighted-average exercise price**	**Number exercisable**
2014/12	763,500	2.47	$ 98.20	70,000
2015	392,000	3.34	127.18	-
	1,155,500			70,000

(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

	2017 condition 1	**2017 condition 2**
Granted date	2017.12.04	2017.12.04
Number of shares granted	350,000 shares	222,000 shares
Vested period	The restricted shares will be vested into 116,600, 116,700, 116,700 shares at the year end of 2017, 2018, 2019, respectively, based on the individual performance of the employee.	The restricted shares will be vested into 74,000, 74,000, 74,000 shares at the year end of 2018, 2019, 2020, respectively, based on the individual performance of the employee.

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

2) Movements in the number of restricted shares of stock issued (in thousands) was as follows:

	For the six months ended June 30, 2018
Balance at January 1	572
Restricted stock issued	-
Forfeited	(6)
Balance at June 30	566
Accumulated vested shares	(117)
Unvested shares	**449**

The fair value of restricted stock was NT$246 per share, which was determined by reference to the closing price of the company's common stock traded on the Taiwan stock Exchange at the grant date.

(iii) Expenses resulted from share-based payments

	For the three months ended June 30		For the six months ended June 30	
	2018	**2017**	**2018**	**2017**
Employee stock options	$ 883	4,098	1,598	7,321
Restricted stock	17,675	-	35,351	-
	$ 18,558	**4,098**	**36,949**	**7,321**

(p) Earnings per share ("EPS")

(i) Basic earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2018	**2017**	**2018**	**2017**
Net income attributable to the shareholders of the Company	$ 294,431	74,894	510,917	259,789
Weighted-average number of ordinary shares outstanding (in thousands)	70,044	69,837	70,282	69,740
Basic earnings per share (in New Taiwan dollars)	**$ 4.20**	**1.07**	**7.27**	**3.73**

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

(ii) Diluted earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2018	**2017**	**2018**	**2017**
Net income attributable to the shareholders of the Company	$ 294,431	74,894	510,917	259,789
Weighted-average number of ordinary shares outstanding (in thousands)	70,044	69,837	70,282	69,740
Effect of dilutive potential common stock:				
Stock options	82	384	110	577
Employees compensation	237	83	319	98
Restricted stock	36	-	53	-
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	70,399	70,304	70,764	70,415
Diluted earnings per share (in New Taiwan dollars)	$ **4.18**	**1.07**	**7.22**	**3.69**

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended June 30, 2018	For the six months ended June 30, 2018
Primary geographical markets:		
Taiwan	$ 1,590	4,384
Asia	1,478,259	3,109,150
	$ **1,479,849**	**3,113,534**
Major products/ services line:		
Biometric authentication IC sensor and its applicetion	$ 1,478,738	3,110,002
Date security and its application	1,111	2,346
Non-recurring engineering service revenue	-	1,186
	$ **1,479,849**	**3,113,534**

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

(ii) Contract balances

		June 30, 2018	January 1, 2018
Accounts recivable	$	1,038,623	753,849
Less: allowance for impairment		(25,138)	(24,560)
Total	$	1,013,485	729,289

For details on accounts receivable and allowance for impairment, please refer to note 6(f).

(r) Revenue

		For the three months ended June 30, 2017	For the six months ended June 30, 2017
Revenue from sale of goods and royalty revenue	$	874,654	2,060,141

(s) Remuneration to employees and directors

Pursuant to the Company's articles of incorporation, the Company shall distribute no less than 5% of its profits in the current period as remuneration to its employees, and no more than 1% to its directors. Nevertheless, the profits in the current period should be reserved for offsetting the accumulated deficit, if any, prior to distributing the remuneration to the employees and directors. The aforementioned remuneration to employees could be distributed in the form of cash or stock to the employees of the Company's subsidiaries conforming to certain requirements. The remuneration to directors only can be distributed by cash.

For the three months and six months ended June 30, 2018 and 2017, the Company accrued its remuneration to employees amounting to $18,865, $5,076, $33,674 and $17,289, respectively; as well as to its directors amounting to $3,773, $1,015, $6,735 and $3,458, respectively, which were calculated by using the net profits before tax in the current period (excluding the remuneration to employees and directors), multiplied by the distribution ratio of remuneration to employees and directors under the Company's Article of Incorporation, and recognized them as operating expenses. The differences between the distributed and estimated amounts, if any, shall be accounted for as a change in accounting estimate and recognized as profit or loss in the distribution year.

For the years ended December 31, 2017 and 2016, the Company accrued its remuneration to employees amounting to $38,934 and $8,375, respectively, as well as its remuneration to directors amounting to $7,787 and $1,675, respectively. The differences between the aforementioned accrued remuneration and the amount approved by the Board of Directors on March 5, 2018 and March 21, 2017 were $1 and $65, respectively, which shall be accounted as changes in accounting estimates and charged to profit or loss in 2018 and 2017. Related information would be available at the Market Observation Post System website.

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

(t) Non-operating income and loss

(i) Other income

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Interest income	$ 10,466	3,296	16,535	5,099
Sub-lease income	65	-	65	-
Others	34	1,884	152	2,064
	$ 10,565	5,180	16,752	7,163

(ii) Other gains and losses

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Foreign exchange gains (losses), net	$ 91,022	4,838	57,418	(32,861)
Net gain (loss) on financial assets measured at fair value through profit or loss	-	311	(755)	311
Others	(3,055)	(140)	(3,065)	(141)
	$ 87,967	5,009	53,598	(32,691)

(iii) Finance costs

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Interest expense on bank loans	$ (1,752)	(2,432)	(4,191)	(4,698)

(u) Financial instruments

Except for the following disclosures, there was no significant change in the fair value of the Group's financial instruments and in the degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. Please refer to Note 6(r) of the consolidated financial statements for the year ended December 31, 2017 for the related information.

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

(i) Categories of financial instruments

1) Financial assets

	June 30, 2018	December 31, 2017	June 30, 2017
Financial assets at fair value through profit or loss	$ -	57,912	27,814
Financial assets at fair value through other comprehensive income	87,425	-	-
Financial assets measured at amortized cost (Loans and receivables):			
Cash and cash equivalents	2,257,205	1,153,711	1,172,154
Accounts receivable	1,013,485	729,289	411,861
Other financial assets－current	46,222	533,416	243,415
Prepayments for investments	34,157	-	-
Refundable deposits	9,685	9,775	6,846
	3,360,754	2,426,191	1,834,276
Available-for-sale financial assets :			
Financial assets carried at cost	-	93,835	23,590
Total	$ 3,448,179	2,577,938	1,885,680

2) Financial liabilities

	June 30, 2018	December 31, 2017	June 30, 2017
Financial liabilities measured at amortized cost:			
Short-term borrowings	$ 967,087	280,519	526,892
Notes and accounts payable	720,091	642,598	323,692
Accrued expenses	225,210	169,217	59,576
	$ 1,912,388	1,092,334	910,160

(ii) Foreign currency risk

1) Exposure to foreign currency risk

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

At the reporting date, the carrying amounts of the Group's significant monetary assets and liabilities denominated in a currency, other than the respective functional currencies of Group entities, was as follows:

	June 30, 2018				
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Change in magnitude of the exchange rate	Pre-tax effect on profit or loss (in thousands)
Financial assets					
USD	$ 94,244	30.46	2,870,672	1 %	28,707
Financial liabilities					
USD	28,679	30.46	873,562	1 %	8,736

	December 31, 2017				
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Change in magnitude of the exchange rate	Pre-tax effect on profit or loss (in thousands)
Financial assets					
USD	$ 73,652	29.76	2,191,884	1 %	21,919
Financial liabilities					
USD	34,763	29.76	1,034,547	1 %	10,345

	June 30, 2017				
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Change in magnitude of the exchange rate	Pre-tax effect on profit or loss (in thousands)
Financial assets					
USD	$ 51,756	30.42	1,574,418	1 %	15,744
Financial liabilities					
USD	28,337	30.42	862,012	1 %	8,620

2) Gains or losses on monetary items

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

	For the three months ended June 30			
	2018		2017	
	Foreign exchange gains (losses) (in thousands)	Exchange rate	Foreign exchange gains (losses) (in thousands)	Exchange rate
Financial assets				
USD:TWD	$ 126,450	29.79	(3,851)	30.25
Financial liabilities				
USD:TWD	(35,974)	29.79	8,338	30.25

	For the six months ended June 30			
	2018		2017	
	Foreign exchange gains (losses) (in thousands)	Exchange rate	Foreign exchange gains (losses) (in thousands)	Exchange rate
Financial assets				
USD:TWD	$ 84,266	29.5454	(66,762)	30.6479
Financial liabilities				
USD:TWD	(28,314)	29.5454	33,361	30.6479

(iii) 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.

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).

	June 30, 2018				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Non—current financial assets at fair value through other comprehensive income :					
Unlisted common shares	$ 87,425	-	-	87,425	87,425

	December 31, 2017				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:					
Open-end mutual fund	$ 57,912	57,912	-	-	57,912

3) Valuation techniques and assumptions used in fair value measurement

A financial instrument is regarded as being quoted in an active market if quoted prices are readily. The fair value of open-end mutual fund with standard terms and conditions and traded on active liquid markets are determined based on quoted market prices.

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

The fair value of unlisted common shares is estimated by using the market approach and is determined by reference to similar companies, third party quoted price, equity of the company, and operation conditions. 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.

(iv) Transfers between fair value levels

There are no transfers between fair value levels for the six months ended June 30, 2018 and 2017.

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

(v) Reconciliation of Level 3 fair values (financial assets classified as financial assets measured at fair value through other comprehensive income)

	For the three months ended June 30, 2018	For the six months ended June 30, 2018
Opening balance	$ 94,051	95,010
Loss recognized in other comprehensive income	(6,626)	(7,585)
Ending Balance	$ 87,425	87,425

(v) Financial risk management

There were no significant changes in the Group' s financial risk management and policies as disclosed in Note 6(s) of the consolidated financial statements for the year ended December 31, 2017.

(w) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2017. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2017. Please refer to Note 6(t) of the consolidated financial statements for the year ended December 31, 2017 for further details.

(x) Financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities were as follows:

	January 1,2018	Cash flows	Non-cash changes	June 30, 2018
Short-term borrowings	$ 280,519	686,568	-	967,087

7. Related-party transactions

(a) Significant related-party transactions

As of June 30, 2018, December 31, and June 30, 2017, the Group's credit facilities from financial institutions were guaranteed by the Group's chairman, Mr. Steve Ro.

(b) Compensation for key management personnel

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Short-term employee benefits	$ 12,775	16,803	24,592	27,544
Post-employment benefits	189	166	378	305
Share-based payments	11,435	2,101	22,865	3,170
	$ 24,399	19,070	47,835	31,019

(Continued)

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

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

8. Pledged assets

Assets	Pledged to secure	June 30, 2018	December 31, 2017	June 30, 2017
Other financial assets-current (time deposits)	Deposit for purchase fulfillment	$ 10,000	10,000	10,000
Other financial assets-current (time deposits)	Credit facilities	20,713	89,280	100,690
		$ 30,713	99,280	110,690

9. Significant commitments and contingencies

(a) As of June 30, 2018, December 31, and June 30, 2017, the Group had issued promissory notes amounting to $1,946,560, $1,414,720 and $1,353,820, respectively, as collaterals for obtaining credit facilities from financial institutions.

10. Significant loss from casualty: None.

11. Significant subsequent events: None.

12. Others

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

By function / By item	For the three months ended June 30, 2018			For the three months ended June 30, 2017		
	Cost of sales	**Operating expenses**	**Total**	**Cost of sales**	**Operating expenses**	**Total**
Employee benefits:						
Salaries	-	129,707	129,707	-	96,630	96,630
Labor and health insurance	-	4,717	4,717	-	3,785	3,785
Pension cost	-	4,254	4,254	-	3,231	3,231
Remuneration of directors	-	3,991	3,991	-	1,095	1,095
Others	-	6,253	6,253	-	5,186	5,186
Depreciation	496	3,095	3,591	379	3,222	3,601
Amortization	-	5,662	5,662	-	5,363	5,363

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

By function / By item	For the six months ended June 30, 2018 Cost of sales	Operating expenses	Total	For the six months ended June 30, 2017 Cost of sales	Operating expenses	Total
Employee benefits:						
Salaries	-	253,848	253,848	-	185,543	185,543
Labor and health insurance	-	10,748	10,748	-	8,807	8,807
Pension cost	-	8,090	8,090	-	6,202	6,202
Remuneration of directors	-	7,003	7,003	-	3,578	3,578
Others	-	11,765	11,765	-	10,253	10,253
Depreciation	992	6,477	7,469	523	6,495	7,018
Amortization	-	11,088	11,088	-	10,728	10,728

(b) The operation of the Group is not significantly influenced by seasonality or cyclicality.

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 six months ended June 30, 2018:

(i) Financing provided to other parties: None.

(ii) Guarantees and endorsements provided to other parties: None.

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

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance Shares (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Note
The Company	Gingy Technology Inc.		Financial assets at fair value through other comprehensive income	859	17,180	4.00 %	17,180	
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	40,000	13.96 %	40,000	

(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.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(vii) Total purchases from and sales to related parties which exceed $100 million or 20% of the paid-in capital: None.

(viii) Receivables from related parties which exceed $100 million or 20% of the paid-in capital: None.

(ix) Information about derivative instrument transactions: None.

(i) Business relationships and significant intercompany transactions: None.

(b) Information on investees:

Names, locations, and related information of investees over which the Company exercises significant influence for the six months ended June 30, 2018 (excluding investee companies in Mainland China):

(In Thousands of New Taiwan Dollars)

				Original Investment Amount		Balance as of June 30, 2018					
Investor	Investee	Location	Main Businesses and Products	June 30, 2018	December 31, 2017	Shares (in thousands)	Percentage of Ownership	Carrying Value	Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
The Company	Egis Inc.	Cayman Islands	Investment and holding activity	678,340	678,340	25,848	100.00 %	9,485	63	63	
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 %	4,773	(4,844)	(4,844)	
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	16,329	2,948	2,948	
The Company	Egis Technology Korea Inc.	Korea	Customer service, business promotion and technical support	2,923	2,923	10	100.00 %	2,933	(1)	(1)	

Note: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

(c) Information on investments in Mainland China: None.

14. Segment information

The Group is mainly engaged in the research and development, design and sale of data security software and biometric identification software and hardware. The overall operating results are regularly reviewed by the Group's chief operating decision maker to assess its performance. Therefore, the Group has only one reportable segment. For the six months ended June 30, 2018 and 2017, there were no material inconsistency between the reportable segment profit or loss and the consolidated financial statements.