

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

**EGIS TECHNOLOGY INC.
AND ITS SUBSIDIARIES**

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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The 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 auditors' report and consolidated financial statements, the Chinese version shall prevail.

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安侯建業聯合會計師事務所

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Independent Auditors' Review Report

The Board of Directors
Egis Technology Inc.:

We have reviewed the accompanying consolidated balance sheets of Egis Technology Inc. and its subsidiaries (the "Group") as of March 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

We conducted our review in accordance with Statement on Auditing Standards No.36, "Engagements to Review Financial Statements" in the republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated interim financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to in the first paragraph in order for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard No.34, "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.

KPMG

Taipei, Taiwan (Republic of China)
May 5, 2017

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 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 auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2017, December 31 and March 31, 2016

(expressed in thousands of New Taiwan Dollars)

	March 31, 2017		December 31, 2016		March 31, 2016		March 31, 2017		December 31, 2016		March 31, 2016			
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
Assets														
Current assets:														
1100 Cash and cash equivalents (notes 6(a) and (q))	\$	1,111,387	41	859,795	35	536,227	37	2100	518,519	19	252,693	10	30,000	2
1170 Accounts receivable, net (notes 6(b) and (q))		452,451	17	407,697	16	132,791	9	2170	274,230	10	468,119	19	42,303	3
130X Inventories (note 6(c))		560,332	21	548,791	22	188,010	13	2399	171,404	6	212,891	9	90,006	6
1470 Prepayments and other current assets		59,929	2	46,399	2	11,335	1		964,153	35	933,703	38	162,309	11
1476 Other financial assets - current (notes 6(a)(q) and 8)		218,778	7	308,112	12	387,915	26							
Total current assets		<u>2,402,897</u>	<u>88</u>	<u>2,170,794</u>	<u>87</u>	<u>1,256,278</u>	<u>86</u>	2570	<u>1,285</u>	<u>-</u>	<u>1,285</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current assets:														
1543 Financial assets carried at cost--non-current (notes 6(d) and (q))		20,000	1	20,000	1	20,000	1		965,438	35	934,988	38	162,309	11
1600 Property, plant and equipment (note 6(e))		24,321	1	23,874	1	20,137	1	3110	696,778	26	688,393	28	687,643	47
1780 Intangible assets (note 6(f))		212,062	8	217,136	9	114,257	8	3140	-	-	7,180	-	-	-
1840 Deferred income tax assets		55,204	2	55,204	2	53,919	4	3200	756,476	28	742,625	30	758,620	52
1995 Other non-current assets (note 6(g))		7,630	-	6,050	-	3,593	-	3300	298,921	11	114,026	4	(145,298)	(10)
Total non-current assets		<u>319,217</u>	<u>12</u>	<u>322,264</u>	<u>13</u>	<u>211,906</u>	<u>14</u>	3411	<u>4,501</u>	<u>-</u>	<u>5,846</u>	<u>-</u>	<u>4,910</u>	<u>-</u>
Total assets		<u>2,722,114</u>	<u>100</u>	<u>2,493,058</u>	<u>100</u>	<u>1,468,184</u>	<u>100</u>		<u>1,756,676</u>	<u>65</u>	<u>1,538,070</u>	<u>62</u>	<u>1,305,875</u>	<u>89</u>
									<u>2,722,114</u>	<u>100</u>	<u>2,493,058</u>	<u>100</u>	<u>1,468,184</u>	<u>100</u>
Liabilities and Equity														
Current liabilities:														
Short-term borrowings (notes 6(g)(q), 7 and 8)														
Notes and accounts payable (note 6(q))														
Other payables (notes 6(o)(q) and 9)														
Total current liabilities														
Non-current liabilities:														
Deferred income tax liabilities														
Total liabilities														
Equity attributable to owners of parent (notes 6(j)(k) and (l)):														
Common stock														
Common stock subscribed														
Capital surplus														
Unappropriated earnings (accumulated deficit)														
Exchange differences on translation of foreign operations														
Total equity														
Total liabilities and equity														

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

For the three months ended March 31, 2017 and 2016

(expressed in thousands of New Taiwan Dollars , except for earnings per share)

		<u>For the three months ended March 31</u>			
		<u>2017</u>		<u>2016</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Revenue (note 6(n))	\$ 1,185,487	100	106,195	100
5000	Costs of revenue (notes 6(c)(e) and 12)	<u>709,555</u>	<u>60</u>	<u>24,204</u>	<u>23</u>
	Gross profit	<u>475,932</u>	<u>40</u>	<u>81,991</u>	<u>77</u>
	Operating expenses (notes 6(e)(f)(i)(l)(o), 7 and 12):				
6100	Selling expenses	71,073	6	21,417	20
6200	Administrative expenses	38,217	3	21,901	21
6300	Research and development expenses	<u>95,688</u>	<u>8</u>	<u>74,894</u>	<u>70</u>
	Total operating expenses	<u>204,978</u>	<u>17</u>	<u>118,212</u>	<u>111</u>
	Operating income (loss)	<u>270,954</u>	<u>23</u>	<u>(36,221)</u>	<u>(34)</u>
	Non-operating income and loss (notes 6(p) and (q)):				
7010	Other income	1,983	-	1,651	1
7020	Other gains and losses, net	(37,700)	(3)	(4,515)	(4)
7050	Finance costs	<u>(2,266)</u>	<u>-</u>	<u>(124)</u>	<u>-</u>
	Total non-operating income and loss	<u>(37,983)</u>	<u>(3)</u>	<u>(2,988)</u>	<u>(3)</u>
	Income (loss) before taxes	232,971	20	(39,209)	(37)
7950	Income tax expense (note 6(j))	<u>48,076</u>	<u>4</u>	<u>16,499</u>	<u>16</u>
	Net income (loss)	<u>184,895</u>	<u>16</u>	<u>(55,708)</u>	<u>(53)</u>
	Other comprehensive income (loss) :				
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign operations (note 6(k))	(1,345)	-	(255)	-
8399	Income tax related to items that may be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Other comprehensive income (losses) for the periods, net of taxes	<u>(1,345)</u>	<u>-</u>	<u>(255)</u>	<u>-</u>
	Total comprehensive income (loss) for the period	<u>\$ 183,550</u>	<u>16</u>	<u>(55,963)</u>	<u>(53)</u>
	Earnings (loss) per share (in New Taiwan dollars) (note 6(m)) :				
9750	Basic earnings (loss) per share	<u>\$ 2.65</u>		<u>(0.81)</u>	
9850	Diluted earnings (loss) per share	<u>\$ 2.62</u>		<u>(0.81)</u>	

See accompanying notes to Consolidated Interim Financial Statements.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2017 and 2016

(expressed in thousands of New Taiwan Dollars)

	Common stock	Common stock subscribed	Capital surplus	Unappropriated retained earnings (accumulated deficit)	Exchange differences on translation of foreign operations	Total equity
Balance at January 1, 2016	\$ 684,693	-	749,662	(89,590)	5,165	1,349,930
Issuance of common stock from exercise of employee stock options	2,950	-	-	-	-	2,950
Compensation cost of employee stock options	-	-	8,958	-	-	8,958
Net loss for the periods	-	-	-	(55,708)	-	(55,708)
Other comprehensive income (loss)	-	-	-	-	(255)	(255)
Total comprehensive income (loss)	-	-	-	(55,708)	(255)	(55,963)
Balance at March 31, 2016	\$ <u>687,643</u>	-	<u>758,620</u>	<u>(145,298)</u>	<u>4,910</u>	<u>1,305,875</u>
Balance at January 1, 2017	\$ 688,393	7,180	742,625	114,026	5,846	1,558,070
Issuance of common stock from exercise of employee stock options	8,385	(7,180)	10,628	-	-	11,833
Compensation cost of employee stock options	-	-	3,223	-	-	3,223
Net income for the periods	-	-	-	184,895	-	184,895
Other comprehensive income	-	-	-	-	(1,345)	(1,345)
Total comprehensive income (loss)	-	-	-	184,895	(1,345)	183,550
Balance at March 31, 2017	\$ <u>696,778</u>	-	<u>756,476</u>	<u>298,921</u>	<u>4,501</u>	<u>1,756,676</u>

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2017 and 2016

(expressed in thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2017	2016
Cash flows from operating activities:		
Income (loss) before income taxes	\$ 232,971	(39,209)
Adjustments for:		
Depreciation	3,417	3,574
Amortization	5,365	689
Interest expense	2,266	124
Interest income	(1,803)	(709)
Compensation cost of employee stock options	3,223	8,958
Impairment loss on accounts receivable	25,031	-
	<u>37,499</u>	<u>12,636</u>
Changes in operating assets and liabilities:		
Accounts receivable	(69,785)	(51,642)
Inventories	(11,561)	(36,679)
Prepayments and other current assets	(13,758)	5,356
Notes and accounts payable	(193,889)	(32,510)
Other payables	(84,148)	(38,713)
Total changes in operating assets and liabilities	<u>(373,141)</u>	<u>(154,188)</u>
Cash used in operations	(102,671)	(180,761)
Interest received	2,077	627
Interest paid	(1,573)	(124)
Income taxes paid	(5,433)	(1,083)
Net cash used in operating activities	<u>(107,600)</u>	<u>(181,341)</u>

See accompanying notes to Consolidated Interim Financial Statements.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the three months ended March 31, 2017 and 2016

(expressed in thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2017	2016
Cash flows from investing activities:		
Acquisition of financial assets carried at cost	-	(20,000)
Acquisition of property, plant and equipment	(5,421)	(7,052)
Additions to intangible assets	(291)	(805)
Decrease (increase) in other financial assets	89,060	(246,655)
Increase in refundable deposits	(526)	(296)
Net cash provided by (used in) investing activities	<u>82,822</u>	<u>(274,808)</u>
Cash flows from financing activities:		
Proceeds from short-term borrowings	517,134	-
Decrease of short-term borrowings	(251,308)	-
Proceeds from exercise of employee stock options	11,833	2,950
Net cash provided by financing activities	<u>277,659</u>	<u>2,950</u>
Effects of foreign exchange rate changes	<u>(1,289)</u>	<u>(279)</u>
Net increase (decrease) in cash and cash equivalents	251,592	(453,478)
Cash and cash equivalents at beginning of the period	<u>859,795</u>	<u>989,705</u>
Cash and cash equivalents at end of the period	<u><u>\$ 1,111,387</u></u>	<u><u>536,227</u></u>

See accompanying notes to Consolidated Interim Financial Statements.

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of March 31, 2017 and 2016

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and 2016

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

1. Organization and business

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

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

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

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

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

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

2. Authorization of the consolidated financial statements

These consolidated interim financial statements were authorized for issuance by the Board of Directors on May 5, 2017.

(Continued)

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

3. Application of new and revised accounting standards and interpretations

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already taken effect.

The Group conforms to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their consolidated financial statements. The related new standards, interpretations and amendments are as follows:

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

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

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

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

Below is a summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group's financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 9 <i>Financial Instruments</i>	January 1, 2018
Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture</i>	Effective date to be determined by IASB
IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2018
IFRS 16 <i>Leases</i>	January 1, 2019
Amendment to IFRS 2 <i>Clarifications of Classification and Measurement of Share-based Payment Transactions</i>	January 1, 2018
Amendments to IFRS 15 <i>Clarifications of IFRS 15</i>	January 1, 2018
Amendments to IAS 7 <i>Disclosure Initiative</i>	January 1, 2017
Amendments to IAS 12 <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>	January 1, 2017
Amendments to IFRS 4 <i>Insurance Contracts (Applicable for IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts)</i>	January 1, 2018
Annual Improvements to IFRSs 2014-2016 Cycle:	
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2017
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures</i>	January 1, 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	January 1, 2018
Amendments to IAS 40 <i>Investment Property</i>	January 1, 2018

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

The items disclosed below are considered to have significant impact on the Group's accounting policies:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 <i>Revenue</i> , IAS 11 <i>Construction Contracts</i> , and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> , and the main amendments are as follows: <ul style="list-style-type: none"> • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. The amount of change in the fair value of the financial liability designated as at fair value through profit or loss that is attributable to change in the credit risk of that liability shall be presented in other comprehensive income. • Impairment: IFRS 9 adds a new expected loss impairment model to measure the impairment of financial assets. • Hedge accounting: The change in hedge accounting reflects a broad articulation of a principle-based approach with a focus on the purpose of the entity's risk management activities.

(Continued)

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

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

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

4. Summary of significant accounting policies

(a) Statement of compliance

The consolidated interim financial 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 by FSC. These consolidated interim financial statements 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 approved by the FSC (hereinafter referred to IFRS approved by the FSC) for full annual financial statements.

Except for the following accounting policies, the significant accounting policies adopted in the consolidated interim financial statements are the same as those in the consolidated financial statements for the year ended December 31, 2016. Please refer to Note 4 of the consolidated financial statements for the year ended December 31, 2016 for the related information.

(b) Basis of consolidation

The principle of preparation of the consolidated interim financial statements are the same as the consolidated financial statement for the year ended December 31, 2016. Please refer to Note 4(c) of the consolidated financial statements for the year ended December 31, 2016.

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

(i) List of subsidiaries in the consolidated financial statements

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

Name of Investor	Name of Subsidiary	Principal Activity	Shareholding		
			March 31, 2017	December 31, 2016	March 31, 2016
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 %	-

Note: On August 9, 2016, the Board of Directors approved a resolution for the Company to establish a 100% owned subsidiary of Egis Tec USA Inc. in USA, for US \$1,000 (equivalent to TW \$31,260). Egis Tec USA Inc. is primarily involved in technical developing and research of fingerprint identifications.

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

(c) Income taxes

Tax expense in the 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.

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated interim financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim financial reporting” and approved by 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, 2016. For the related information, please refer to Note 5 of the consolidated financial statements for the year ended December 31, 2016.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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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, 2016. Please refer to Note 6 of the 2016 annual consolidated financial statements.

(a) Cash and cash equivalents

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Cash on hand	\$ 654	436	404
Bank deposits	664,882	482,034	402,130
Time deposits	<u>445,851</u>	<u>377,325</u>	<u>133,693</u>
	<u>\$ 1,111,387</u>	<u>859,795</u>	<u>536,227</u>

As of March 31, 2017, December 31 and March 31, 2016, the time deposits with original maturities of more than three months amounted to \$149,796, \$243,352 and \$365,418, respectively, which were classified as other financial assets – current.

(b) Accounts receivable, net

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Accounts receivable	\$ 477,482	407,697	132,791
Less : allowance for doubtful receivables	<u>(25,031)</u>	<u>-</u>	<u>-</u>
	<u>\$ 452,451</u>	<u>407,697</u>	<u>132,791</u>

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Past due 0~30 days	\$ 68	42,775	6,672
Past due 31~90 days	-	10,962	30,096
Past due 91~180 days	<u>-</u>	<u>6,189</u>	<u>4,036</u>
	<u>\$ 68</u>	<u>59,926</u>	<u>40,804</u>

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

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

Movements of the allowance for doubtful receivables for the three-month period ended March 31, 2017, were as follows:

	<u>Individually assessed for impairment</u>	<u>Collectively assessed for impairment</u>	<u>Total</u>
Balance at January 1, 2017	\$ -	-	-
Impairment loss recognized	<u>25,031</u>	-	<u>25,031</u>
Balance at March 31, 2017	<u>\$ 25,031</u>	<u>-</u>	<u>25,031</u>

(c) Inventories

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Raw materials	\$ 4,845	46,225	20,112
Work in process	504,301	500,527	125,551
Finished goods	<u>51,206</u>	<u>2,039</u>	<u>42,347</u>
	<u>\$ 560,352</u>	<u>548,791</u>	<u>188,010</u>

Cost of goods sold for the periods are as follows :

	<u>For the three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
The cost of inventories sold	\$ 679,497	17,654
Loss on inventory devaluation	<u>30,058</u>	<u>6,550</u>
	<u>\$ 709,555</u>	<u>24,204</u>

The loss on inventory devaluation was due to the write-down of inventories to net realizable value, and was included in cost of revenue.

As of March 31, 2017, December 31 and March 31, 2016, the inventories were not pledged as collateral.

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Non-publicly traded stocks	<u>\$ 20,000</u>	<u>20,000</u>	<u>20,000</u>

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

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

(e) Property, plant and equipment

The movements of cost and accumulated depreciation of the property, plant and equipment were as follows:

	<u>Tooling</u>	<u>Research and development equipment</u>	<u>Leasehold improvement</u>	<u>Other equipment</u>	<u>Total</u>
Cost:					
Balance at January 1, 2017	\$ 25,354	9,471	1,567	34,008	70,400
Additions	109	422	1,821	1,569	3,921
Disposals	-	-	-	(3)	(3)
Effect of exchange rate changes	-	-	(18)	(55)	(73)
Balance at March 31, 2017	<u>\$ 25,463</u>	<u>9,893</u>	<u>3,370</u>	<u>35,519</u>	<u>74,245</u>
Balance at January 1, 2016	\$ 30,986	10,173	5,787	21,794	68,740
Additions	3,137	1,417	-	1,793	6,347
Disposals	-	(2,331)	(4,786)	(1,833)	(8,950)
Effect of exchange rate changes	-	-	-	48	48
Balance at March 31, 2016	<u>\$ 34,123</u>	<u>9,259</u>	<u>1,001</u>	<u>21,802</u>	<u>66,185</u>
Depreciation:					
Balance at January 1, 2017	\$ 21,496	5,931	680	18,419	46,526
Depreciation	1,470	430	219	1,298	3,417
Disposals	-	-	-	(2)	(2)
Effect of exchange rate changes	-	-	(2)	(15)	(17)
Balance at March 31, 2017	<u>\$ 22,966</u>	<u>6,361</u>	<u>897</u>	<u>19,700</u>	<u>49,924</u>
Balance at January 1, 2016	\$ 20,820	8,174	4,987	17,419	51,400
Depreciation	2,621	275	198	480	3,574
Disposals	-	(2,331)	(4,786)	(1,833)	(8,950)
Effect of exchange rate changes	-	-	-	24	24
Balance at March 31, 2016	<u>\$ 23,441</u>	<u>6,118</u>	<u>399</u>	<u>16,090</u>	<u>46,048</u>
Carrying amounts:					
Balance at March 31, 2017	<u>\$ 2,497</u>	<u>3,532</u>	<u>2,473</u>	<u>15,819</u>	<u>24,321</u>
Balance at January 1, 2017	<u>\$ 3,858</u>	<u>3,540</u>	<u>887</u>	<u>15,589</u>	<u>23,874</u>
Balance at March 31, 2016	<u>\$ 10,682</u>	<u>3,141</u>	<u>602</u>	<u>5,712</u>	<u>20,137</u>

As of March 31, 2017, December 31 and March 31, 2016, property, plant and equipment were not pledged as collateral. Please refer to Note 12 for detail on depreciation expense.

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

(f) Intangible assets

- (i) The movements of costs and accumulated amortization and impairment loss of intangible assets were as follows:

	<u>Goodwill</u>	<u>Patent</u>	<u>Technology</u>	<u>Computer software</u>	<u>Total</u>
Costs:					
Balance at January 1, 2017	\$ 106,827	25,714	84,726	9,352	226,619
Additions	-	-	-	291	291
Balance at March 31, 2017	<u>\$ 106,827</u>	<u>25,714</u>	<u>84,726</u>	<u>9,643</u>	<u>226,910</u>
Balance at January 1, 2016	\$ 419,301	5,714	-	5,265	430,280
Additions	-	-	-	805	805
Effect of exchange rate changes	(2,201)	-	-	-	(2,201)
Balance at March 31, 2016	<u>\$ 417,100</u>	<u>5,714</u>	<u>-</u>	<u>6,070</u>	<u>428,884</u>
Accumulated amortization and impairment loss:					
Balance at January 1, 2017	\$ -	2,279	2,648	4,556	9,483
Amortization	-	1,756	2,648	961	5,365
Balance at March 31, 2017	<u>\$ -</u>	<u>4,035</u>	<u>5,296</u>	<u>5,517</u>	<u>14,848</u>
Balance at January 1, 2016	\$ 312,474	1,881	-	1,784	316,139
Amortization	-	110	-	579	689
Effect of exchange rate changes	(2,201)	-	-	-	(2,201)
Balance at March 31, 2016	<u>\$ 310,273</u>	<u>1,991</u>	<u>-</u>	<u>2,363</u>	<u>314,627</u>
Carrying amount:					
Balance at March 31, 2017	<u>\$ 106,827</u>	<u>21,679</u>	<u>79,430</u>	<u>4,126</u>	<u>212,062</u>
Balance at January 1, 2017	<u>\$ 106,827</u>	<u>23,435</u>	<u>82,078</u>	<u>4,796</u>	<u>217,136</u>
Balance at March 31, 2016	<u>\$ 106,827</u>	<u>3,723</u>	<u>-</u>	<u>3,707</u>	<u>114,257</u>

(g) Short-term borrowings

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Secured bank loans	<u>\$ 518,519</u>	<u>252,693</u>	<u>30,000</u>
Unused credit facilities	<u>\$ 959,081</u>	<u>823,327</u>	<u>130,925</u>
Interest rate	<u>1.90%~2.27%</u>	<u>1.51%~2.73%</u>	<u>1.66%</u>

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

(h) Operating lease

There were no significant additions in operating lease contracts for the three-month periods ended March 31, 2017 and 2016. Please refer to the Note 6(h) of the consolidated financial statements for the year ended December 31, 2016 for the details.

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

(i) 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 three-month ended March 31, 2017 and 2016, the Group recognized the pension expenses of \$2,971 and \$2,142, respectively, in relation to the defined contribution plans.

(j) Income taxes

(i) Income tax expense

The components of income tax expense for the three-month periods ended March 31, 2017 and 2016 were as follows:

	For the three months ended	
	March 31,	
	<u>2017</u>	<u>2016</u>
Current income tax expense		
Current period	\$ 42,826	405
Withholding tax in foreign jurisdiction	5,073	15,946
Adjustments for prior years	<u>177</u>	<u>148</u>
Income tax expense	<u>\$ 48,076</u>	<u>16,499</u>

(ii) For the three-month ended March 31, 2017 and 2016, there was no income tax expense recognized in other comprehensive income.

(iii) The Company's income tax returns for all fiscal years through 2015 were examined and approved by the R.O.C. income tax authorities.

(iv) Information about the integrated income tax system:

	<u>March 31,</u>	<u>December 31,</u>	<u>March 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
Unappropriated earnings earned (accumulated deficit) commencing from January 1, 1998	<u>\$ 298,921</u>	<u>114,026</u>	<u>(145,298)</u>
Balance of imputation credit account	<u>\$ 17</u>	<u>17</u>	<u>17</u>
		2016	2015(actual)
Creditable ratio for distribution of earnings to R.O.C. residents		<u>0.01%</u>	<u>-%</u>

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

Effective January 1, 2015, the creditable ratio for distribution of earnings to R.O.C. residents is half of the original creditable ratio mentioned above in accordance with the amended Income Tax Act. Furthermore, the 10% surtax paid on any unappropriated earnings for the years following December 31, 1997 can be credited against the dividend withholding tax for non-resident stockholders once the Company distributes its dividends from the corresponding retained earnings in the subsequent years. According to the amended Income Tax Act, effective January 1, 2015, only half of the retained earnings tax paid can be credited against the dividend withholding tax.

(k) Capital and other equity

Except for the following disclosures, there was no significant change for capital and other equity for the three-month periods ended March 31, 2017 and 2016. For the related information, please refer to Note 6(k) of the consolidated financial statements for the year ended December 31, 2016.

(i) Common stock

As of March 31, 2017 December 31 and March 31, 2016, the Company's authorized shares of common stock, at \$10 par value per share, consisted of 100,000 thousand shares, of which 69,678 thousand shares, 68,839 thousand shares and 68,764 thousand shares, respectively, were issued and outstanding.

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

	Ordinary Shares	
	For the three months ended	
	March 31,	
	2017	2016
Balance at January 1	68,839	68,469
Exercise of employee stock options	839	295
Balance at March 31	69,678	68,764

For the three-month periods ended March 31, 2017 and 2016, 839 thousand shares and 295 thousand shares, were issued at par, with respect to the exercise of employee stock options, with the net proceeds of \$8,385 and \$2,950, respectively. As of March 31, 2017 and 2016, the related registration process had been completed.

(ii) Capital surplus

	March 31,	December 31,	March 31,
	2017	2016	2016
Paid-in capital in excess of par value	\$ 613,045	602,417	692,007
Employee stock options	143,431	140,208	66,613
	\$ 756,476	742,625	758,620

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

(iii) Retained earnings and dividend policy

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.

On March 21, 2017, the Company's Board of Directors decided not to distribute the 2016 earnings, in view of the Company's operation and capital requirement.

(iv) Other equity

	Exchange differences on translation of foreign operations
Balance at January 1, 2017	\$ 5,846
Foreign exchange differences arising from translation of foreign operations	(1,345)
Balance at March 31, 2017	<u>\$ 4,501</u>
Balance at January 1, 2016	\$ 5,165
Foreign exchange differences arising from translation of foreign operations	(255)
Balance at March 31, 2016	<u>\$ 4,910</u>

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(l) 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 shares granted (in thousands of shares/units (note 1))	408 (2014 plan)	1,995 (403 from 2013 plan and 1,592 from 2014 plan)
Contract term	5 years	5 years
Qualified employees	Employees of the Company conforming to certain requirements	Employees of the Company conforming to certain requirements
Vesting conditions	Note 2	Note 2

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

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

The 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/shares):

	<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

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

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

	For the three months ended March 31,			
	2017		2016	
	Weighted- average exercise price	Number of shares	Weighted- average exercise price	Number of shares
Outstanding, beginning of year	\$ 95.80	1,511,000	79.34	2,670,000
Granted	-	-	-	-
Exercised	98.20	(120,500)	10.00	(295,000)
Forfeited	98.20	(55,000)	127.18	(5,000)
Outstanding at March 31	95.48	<u>1,335,500</u>	87.87	<u>2,370,000</u>
Exercisable at March 31	35.73	<u>240,000</u>	10.00	<u>95,000</u>

Information on outstanding shares of stock option plans for each reporting date was as follows:

March 31, 2017				
Year of grant	Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number exercisable
2014/03	170,000	1.95	\$ 10.00	170,000
2014/12	773,500	2.72	98.20	70,000
2015	392,000	3.59	127.18	-
	<u>1,335,500</u>			<u>240,000</u>

December 31, 2016				
Year of grant	Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number exercisable
2014/03	170,000	2.2	\$ 10.00	-
2014/12	949,000	2.96	98.20	190,500
2015	392,000	3.84	127.18	-
	<u>1,511,000</u>			<u>190,500</u>

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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March 31, 2016				
Year of grant	Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number exercisable
2013	225,000	2.61	\$ 10.00	95,000
2014/03	185,000	2.95	10.00	-
2014/12	1,557,000	3.72	98.20	-
2015	403,000	4.59	127.18	-
	2,370,000			95,000

(iii) Expenses resulted from share-based payments

For the three-month periods ended March 31, 2017 and 2016, the Group recognized the expenses of \$3,223 and \$8,958, respectively, in relation to the share-based payments.

(m) Earnings (loss) per share (“EPS”)

(i) Basic earnings (loss) per share

	For the three months ended March 31,	
	2017	2016
Net income (loss) attributable to the shareholders of the Company	\$ 184,895	(55,708)
Weighted-average number of ordinary shares outstanding (in thousands)	69,643	68,600
Basic earnings (loss) per share (in New Taiwan dollars)	\$ 2.65	(0.81)

(ii) Diluted earnings (loss) per share

	For the three months ended March 31,	
	2017	2016
Net income (loss) attributable to the shareholders of the Company	\$ 184,895	(55,708)
Weighted-average number of ordinary shares outstanding (in thousands of shares)	69,643	68,600
Effect of dilutive potential common stock:		
Stock options	761	-
Employees compensation	50	-
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	70,454	68,600
Diluted earnings (loss) per share (in New Taiwan dollars)	\$ 2.62	(0.81)

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

(n) Revenue

	For the three months ended March 31,	
	2017	2016
Revenue from sale of goods and royalty revenue	\$ 1,185,487	106,195

(o) 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-month period ended March 31, 2017, the Company accrued its remuneration to employees and directors amounting to \$12,213 and \$2,443, 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. The Company incurred a net loss for the three-month periods ended March 31, 2016, hence, no remuneration was accrued.

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

(p) Non-operating income and loss

(i) Other income

	For the three months ended March 31,	
	2017	2016
Interest income	\$ 1,803	709
Others	180	942
	\$ 1,983	1,651

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(ii) Other gains and losses

	For the three months ended March 31,	
	2017	2016
Foreign exchange losses, net	\$ (37,699)	(4,248)
Others	(1)	(267)
	\$ (37,700)	(4,515)

(iii) Finance costs

	For the three months ended March 31,	
	2017	2016
Interest expense on bank loans	\$ (2,266)	(124)

(q) 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, 2016 for the related information.

(i) Categories of financial instruments

1) Financial assets

	March 31, 2017	December 31, 2016	March 31, 2016
Loans and receivables:			
Cash and cash equivalents	\$ 1,111,387	859,795	536,227
Accounts receivable	452,451	407,697	132,791
Other financial assets – current	218,778	308,112	387,915
Refundable deposits	6,535	6,009	3,593
	\$ 1,789,151	1,581,613	1,060,526
Available-for-sale financial assets :			
Financial assets carried at cost	\$ 20,000	20,000	20,000

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

2) Financial liabilities

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>March 31,</u> <u>2016</u>
Financial liabilities measured at amortized cost:			
Short-term borrowings	\$ 518,519	252,693	30,000
Notes and accounts payable	274,230	468,119	42,303
Accrued expenses	<u>62,032</u>	<u>108,534</u>	<u>63,999</u>
	<u>\$ 854,781</u>	<u>829,346</u>	<u>136,302</u>

(ii) 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.

1) Exposure to foreign currency risk

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

<u>March 31, 2017</u>					
	<u>Foreign</u> <u>currency</u> <u>(in thousands)</u>	<u>Exchange</u> <u>rate</u>	<u>TWD</u> <u>(in thousands)</u>	<u>Change in</u> <u>magnitude of</u> <u>the exchange</u> <u>rate</u>	<u>Pre-tax effect</u> <u>on profit or</u> <u>loss</u> <u>(in thousands)</u>
<u>Financial assets</u>					
USD	\$ 50,613	30.33	1,535,092	1 %	15,351
<u>Financial liabilities</u>					
USD	25,551	30.33	774,962	1 %	7,750
<u>December 31, 2016</u>					
	<u>Foreign</u> <u>currency</u> <u>(in thousands)</u>	<u>Exchange</u> <u>rate</u>	<u>TWD</u> <u>(in thousands)</u>	<u>Change in</u> <u>magnitude of</u> <u>the exchange</u> <u>rate</u>	<u>Pre-tax effect</u> <u>on profit or</u> <u>loss</u> <u>(in thousands)</u>
<u>Financial assets</u>					
USD	\$ 36,414	32.25	1,174,363	1 %	11,744
<u>Financial liabilities</u>					
USD	22,477	32.25	724,900	1 %	7,249

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March 31, 2016					
	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)
<u>Financial assets</u>					
USD	\$ 8,639	32.185	278,046	1 %	2,780
<u>Financial liabilities</u>					
USD	2,500	32.185	80,463	1 %	805

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 March 31,			
	2017		2016	
	Foreign exchange gains (losses) (in thousands)	Exchange rate	Foreign exchange gains (losses) (in thousands)	Exchange rate
<u>Financial assets</u>				
USD:TWD	\$ (62,911)	30.33	(5,030)	32.185
<u>Financial liabilities</u>				
USD:TWD	25,023	30.33	760	32.185

(iii) Information on fair values

As of March 31, 2017, December 31 and March 31, 2016, there were no financial instruments measured at fair value within the Group. 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.

(r) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in Note 6(r) of the consolidated financial statements for the year ended December 31, 2016.

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(s) **Capital management**

In consideration of industry dynamics and future development, as well as external environment factors, the Group maintains an optimal capital structure to enhance long-term shareholder value by managing its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development activities, dividend payments, and other business requirements for continuing operations and to reward shareholders and take into consideration the interests of other stakeholders.

The Group monitors its capital through reviewing the liability-to-equity ratio periodically.

The Group's liability-to-equity ratio at the end of each reporting period was as follows:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>March 31,</u> <u>2016</u>
Total liabilities	\$ <u>965,438</u>	<u>934,988</u>	<u>162,309</u>
Total equity	\$ <u>1,756,676</u>	<u>1,558,070</u>	<u>1,305,875</u>
Liability-to-equity ratio	<u>54.96 %</u>	<u>60.01 %</u>	<u>12.43 %</u>

The Group's liability-to-equity ratio increased in 2017 and 2016, which were mainly due to the expansion of its operating. Therefore, the bank loan, accounts payable and accrued expenses have increased for funding its working capital needs.

7. Related-party transactions

(a) **Parent company and ultimate controlling party**

The Company is the ultimate controlling party of the Group.

(b) **Significant related-party transactions**

As of March 31, 2017, December 31 and March 31, 2016, the Group's credit facilities from financial institutions were guaranteed by the Group's chairman, Mr. Steve Ro.

(c) **Compensation for key management personnel**

	For the three months ended March 31,	
	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 10,741	6,749
Post-employment benefits	139	166
Share-based payments	<u>1,069</u>	<u>4,721</u>
	<u>\$ 11,949</u>	<u>11,636</u>

Refer to Note 6(l) for information on share-based payment.

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8. Pledged assets

The carrying amounts of assets pledged as collateral are detailed below:

Assets	Pledged to secure	March 31, 2017	December 31, 2016	March 31, 2016
Other financial assets- current (time deposits)	Deposit for purchase fulfillment	\$ 10,000	10,000	10,000
Other financial assets- current (time deposits)	Credit facilities	56,414	50,310	11,000
		<u>\$ 66,414</u>	<u>60,310</u>	<u>21,000</u>

9. Significant commitments and contingencies

- (a) As of March 31, 2017, December 31 and March 31, 2016, the Group had issued promissory notes amounting to \$1,200,280, \$1,005,250 and \$160,925, respectively, as collaterals for obtaining credit facilities from financial institutions.
- (b) In 2016, the Group entered into a technical development agreements with its outsourcing vender. Due to different understandings between counterparties, the implementation of the agreement was suspended. On March 7, 2017, Taipei District Court handed down the judgment against the Group. The Group has appealed the case to the High Court, and relevant liabilities amounting to \$13,333 had been accrued in 2016.

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 item	By function	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:							
Salaries		-	91,396	91,396	-	52,380	52,380
Labor and health insurance		-	5,022	5,022	-	3,124	3,124
Pension cost		-	2,971	2,971	-	2,142	2,142
Others		-	5,067	5,067	-	1,814	1,814
Depreciation		144	3,273	3,417	-	3,574	3,574
Amortization		-	5,365	5,365	-	689	689

- (b) Seasonality operations

The operation of the Group is not significantly influenced by seasonality or cyclicity.

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13. Additional disclosures

(a) Information on significant transactions:

- (i) Financing provided to other parties: None.
- (ii) Guarantees and endorsements provided to other parties: None.
- (iii) Marketable securities held at reporting date (excluding investments in subsidiaries, associates, and jointly controlled entities):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Gingiv Technology Inc.	-	Financial assets carried at cost	500	20,000	5.62 %	-	

- (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.

(b) Information on investees:

Names, locations, and related information of investees over which the Company exercises significant influence for the three months ended March 31, 2017 (excluding investee companies in Mainland China):

(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2017			Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
				March 31, 2017	December 31, 2016	Shares (in thousands)	Percentage of Ownership	Carrying Value			
The Company	Egis Inc.	Cayman Islands	Investment and holding activity	678,340	678,340	25,848	100.00 %	9,479	(5)	(5)	
The Company	Egis Technology (Japan) Inc.	Japan	Sale of data security software and biometric authentication software and hardware	67,846	67,846	4,740	100.00 %	3,062	(3,081)	(3,081)	
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	7,026	(5,882)	(5,882)	

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

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

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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 three-month periods ended March 31, 2017 and 2016, there were no material inconsistency between the reportable segment profit or loss and the consolidated financial statements.