

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

**EGIS TECHNOLOGY INC.
AND ITS SUBSIDIARIES**

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**June 30, 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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Independent Auditors' Review Report

The Board of Directors
Egis Technology Inc.:

We have reviewed the accompanying consolidated balance sheets of Egis Technology Inc. (the “Company”) and its subsidiaries (together referred to as the “Group”) as of June 30, 2017 and 2016, and the related consolidated statements of comprehensive income for the three-month periods ended June 30, 2017 and 2016 and for the six-month periods ended June 30, 2017 and 2016, changes in equity and cash flows for the six-month periods ended June 30, 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 reviews in accordance with Statement on Auditing Standard 36, "Engagements to Review Financial Statements" of 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 reviews, 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 the 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)
August 11, 2017

Notes to Readers

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

KPMG, a Taiwan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

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

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2017, December 31, 2016, and June 30, 2016

(Expressed in Thousands of New Taiwan Dollars)

	June 30, 2017		December 31, 2016		June 30, 2016	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (notes 6(a) and (r))	\$ 1,172,154	41	859,795	35	405,309	27
1110 Financial assets at fair value through profit or loss – current (note 6(b))	27,814	1	-	-	-	-
1170 Accounts receivable, net (notes 6(c) and (r))	411,861	14	407,697	16	164,652	11
130X Inventories (note 6(d))	680,910	24	548,791	22	334,602	22
1470 Prepayments and other current assets	42,052	1	46,399	2	20,097	1
1476 Other financial assets – current (notes 6(n)(r) and 8)	243,415	8	308,112	12	386,933	25
Total current assets	2,578,206	89	2,170,794	87	1,311,593	86
Non-current assets:						
1543 Financial assets carried at cost – non-current (notes 6(c) and (r))	23,590	1	20,000	1	20,000	1
1600 Property, plant and equipment (note 6(f))	35,078	1	23,874	1	18,685	1
1780 Intangible assets (note 6(g))	208,385	7	217,136	9	113,702	8
1840 Deferred income tax assets	55,204	2	55,204	2	53,919	4
1995 Other non-current assets (note 6(r))	6,934	-	6,050	-	3,325	-
Total non-current assets	329,191	11	322,264	13	209,631	14
Total assets	\$ 2,907,397	100	2,493,058	100	1,521,224	100
Liabilities and Equity						
Current liabilities:						
2100 Short-term borrowings (notes 6(h)(r), 7 and 8)	\$ 526,892	18	252,693	10	30,000	2
2170 Notes and accounts payable (note 6(r))	323,692	11	468,119	19	104,976	7
2399 Other payables (notes 6(p)(r) and 9)	218,061	8	212,891	9	101,611	7
Total current liabilities	1,068,645	37	933,703	38	236,587	16
Non-current liabilities:						
2570 Deferred income tax liabilities	1,285	-	1,285	-	-	-
Total liabilities	1,069,930	37	934,988	38	236,587	16
Equity attributable to owners of parent (notes 6(k)(l) and (m)):						
3110 Common stock	696,778	24	688,393	28	687,643	45
3140 Common stock subscribed	1,700	-	7,180	-	750	-
3200 Capital surplus	760,574	26	742,625	30	676,876	44
Retained earnings:						
3310 Legal reserve	11,403	-	-	-	-	-
3300 Unappropriated earnings (accumulated deficit)	362,412	13	114,026	4	(86,983)	(6)
3411 Exchange differences on translation of foreign operations	4,600	-	5,846	-	6,351	1
Total equity	1,837,467	63	1,558,070	62	1,284,637	84
Total liabilities and equity	\$ 2,907,397	100	2,493,058	100	1,521,224	100

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

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

For the three-month periods ended June 30, 2017 and 2016, and

For the six-month periods ended June 30, 2017 and 2016

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

	For the three-month periods ended June 30				For the six-month periods ended June 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
4000 Revenue (note 6(o))	\$ 874,654	100	252,289	100	2,060,141	100	358,484	100
5000 Costs of revenue (notes 6(d)(f) and 12)	568,929	65	125,886	50	1,278,484	62	150,090	42
Gross profit	305,725	35	126,403	50	781,657	38	208,394	58
Operating expenses (notes 6(c)(f)(g)(j)(m)(p), 7 and 12):								
6100 Selling expenses	50,429	6	27,135	11	121,502	6	48,552	14
6200 Administrative expenses	27,514	3	17,846	7	65,731	3	39,747	11
6300 Research and development expenses	140,605	16	97,437	38	236,293	12	172,331	48
Total operating expenses	218,548	25	142,418	56	423,526	21	260,630	73
Operating income (loss)	87,177	10	(16,015)	(6)	358,131	17	(52,236)	(15)
Non-operating income and loss (notes 6(q) and (r)):								
7010 Other income	5,180	1	4,388	2	7,163	-	6,039	2
7020 Other gains and losses, net	5,009	-	635	-	(32,691)	(1)	(3,880)	(1)
7050 Finance costs	(2,432)	-	(118)	-	(4,698)	-	(242)	-
Total non-operating income and loss	7,757	1	4,905	2	(30,226)	(1)	1,917	1
Income (loss) before taxes	94,934	11	(11,110)	(4)	327,905	16	(50,319)	(14)
7950 Income tax expense (note 6(k))	20,040	2	20,165	8	68,116	3	36,664	10
Net income (loss)	74,894	9	(31,275)	(12)	259,789	13	(86,983)	(24)
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(l))	99	-	1,441	-	(1,246)	-	1,186	-
8399 Income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-	-	-	-	-
Other comprehensive income (losses) for the periods, net of taxes	99	-	1,441	-	(1,246)	-	1,186	-
Total comprehensive income (loss) for the period	\$ 74,993	9	(29,834)	(12)	258,543	13	(85,797)	(24)
Earnings (loss) per share (in New Taiwan dollars) (note 6(n)) :								
9750 Basic earnings (loss) per share	\$ 1.07		(0.45)		3.73		(1.27)	
9850 Diluted earnings (loss) per share	\$ 1.07		(0.45)		3.69		(1.27)	

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the six-month periods ended June 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings					Total equity
	Common stock	Common stock subscribed	Capital surplus	Legal reserve	Unappropriated earnings (accumulated deficit)	
Balance at January 1, 2016	\$ 684,693	-	749,662	-	(89,590)	1,349,930
Issuance of common stock from exercise of employee stock options	2,950	750	-	-	-	3,700
Compensation cost of employee stock options	-	-	16,804	-	-	16,804
Decrease in capital surplus to offset accumulated deficit	-	-	(89,590)	-	89,590	-
Net loss for the period	-	-	-	-	(86,983)	(86,983)
Other comprehensive income (loss)	-	-	-	-	-	1,186
Total comprehensive income (loss)	-	-	-	-	(86,983)	(85,797)
Balance at June 30, 2016	\$ 687,643	750	676,876	-	(86,983)	1,284,637
Balance at January 1, 2017	\$ 688,393	7,180	742,625	-	114,026	1,558,070
Appropriation approved by the stockholders:						
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 for the period	-	-	-	-	259,789	259,789
Other comprehensive income (loss)	-	-	-	-	-	(1,246)
Total comprehensive income (loss)	-	-	-	-	259,789	258,543
Balance at June 30, 2017	\$ 696,778	1,700	760,574	11,403	362,412	1,837,467

See accompanying notes to Consolidated Interim Financial Statements.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six-month periods ended June 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the six-month periods ended June 30	
	2017	2016
Cash flows from operating activities:		
Income (loss) before income taxes	\$ 327,905	(50,319)
Adjustments for:		
Depreciation	7,018	7,318
Amortization	10,728	1,480
Net gain on financial assets at fair value through profit or loss	(311)	-
Interest expense	4,698	242
Interest income	(5,099)	(2,346)
Compensation cost of employee stock options	7,321	16,804
Impairment loss on accounts receivable	25,105	2,017
	<u>49,460</u>	<u>25,515</u>
Changes in operating assets and liabilities:		
Accounts receivable	(29,269)	(85,520)
Inventories	(132,119)	(183,271)
Prepayments and other current assets	4,842	(3,358)
Notes and accounts payable	(144,427)	30,163
Other payables	(49,423)	(31,899)
Total changes in operating assets and liabilities	<u>(350,396)</u>	<u>(273,885)</u>
Cash provided by (used in) operations	26,969	(298,689)
Interest received	4,441	1,755
Interest paid	(3,871)	(245)
Income taxes paid	(11,063)	(16,445)
Net cash provided by (used in) operating activities	<u>16,476</u>	<u>(313,624)</u>

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the six-month periods ended June 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the six-month periods ended June 30	
	2017	2016
Cash flows from investing activities:		
Purchase of financial assets at fair value through profit or loss	(27,503)	-
Acquisition of financial assets carried at cost	(3,590)	(20,000)
Acquisition of property, plant and equipment	(22,101)	(9,359)
Additions to intangible assets	(1,977)	(1,041)
Decrease (increase) in other financial assets	65,355	(245,164)
Increase in refundable deposits	(837)	(28)
Net cash provided by (used in) investing activities	<u>9,347</u>	<u>(275,592)</u>
Cash flows from financing activities:		
Proceeds from short-term borrowings	1,093,204	30,000
Decrease of short-term borrowings	(819,005)	(30,000)
Proceeds from exercise of employee stock options	13,533	3,700
Net cash provided by financing activities	<u>287,732</u>	<u>3,700</u>
Effects of foreign exchange rate changes	(1,196)	1,120
Net increase (decrease) in cash and cash equivalents	312,359	(584,396)
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>\$ 1,172,154</u>	<u>405,309</u>

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

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

For the six-month periods ended June 30, 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 August 11, 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) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

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

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

(Continued)

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

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “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 the consolidated interim financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting. The actual impact of adopting IFRS 9 on the Group’s consolidated financial statements in 2018 can only be determined and reliably estimated depending on the financial instruments that the Group holds and economic conditions at that time, as well as the accounting elections and judgments that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments. However, the Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on its positions at June 30, 2017.

(Continued)

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

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliably. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at June 30, 2017, would have had a material impact on its accounting for trade receivables, investments in debt securities and investments in equity securities that are managed on a fair value basis. At June 30, 2017, the Group had equity investments classified as financial assets measured at cost of \$23,590 thousand that are held for long-term strategic purposes. If these investments continue to be held for the same purpose at initial application of IFRS 9, the Group may elect then to classify them as FVOCI or FVTPL. The Group has not yet made a decision in this regard. In the former case, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. In the latter case, all fair value gains and losses would be recognized in profit or loss as they arise, increasing volatility in the Group's profits.

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

(Continued)

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

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group's preliminary assessment indicated that application of IFRS 9's impairment requirements would not have any material impact on the consolidated financial statements.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist 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.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

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

1) Sales of goods

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. Currently, revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer, and the Group does not expect that there will be a significant impact on its consolidated financial statements.

2) Transition

The Group plans to adopt IFRS 15 in its consolidated financial statements using the retrospective approach. As a result, the Group will apply all of the requirements of IFRS 15 to each comparative period presented and adjust its consolidated financial statements.

The Group plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the same comparative reporting period, as well as the contracts that are completed at the beginning of the earliest period presented, are not restated.

The Group's preliminary assessment indicated that application of IFRS 15 would not have any material impact on the consolidated financial statements.

(iii) Amendments to IAS 7 "Disclosure Initiative"

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

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

(iv) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

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

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019

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

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

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

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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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.

(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		
			June 30, 2017	December 31, 2016	June 30, 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.

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

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.

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>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>
Cash on hand	\$ 504	436	446
Bank deposits	494,805	482,034	129,450
Time deposits	616,005	377,325	275,413
Repurchase agreements	60,840	-	-
	<u>\$ 1,172,154</u>	<u>859,795</u>	<u>405,309</u>

As of June 30, 2017, December 31 and June 30, 2016, the time deposits with original maturities of more than three months amounted to \$128,822, \$243,352 and \$363,502, respectively, which were classified as other financial assets—current.

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

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>
Open-end mutual fund	\$ <u>27,814</u>	<u>-</u>	<u>-</u>

(Continued)

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

(c) Accounts receivable, net

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
	\$ 436,966	407,697	166,669
Accounts receivable			
Less : allowance for doubtful receivables	<u>(25,105)</u>	<u>-</u>	<u>(2,017)</u>
	<u>\$ 411,861</u>	<u>407,697</u>	<u>164,652</u>

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
	\$ -	42,775	4,579
Past due 0~30 days			
Past due 31~90 days	-	10,962	1,196
Past due 91~180 days	-	6,189	11,415
Past due 181~365 days	<u>-</u>	<u>-</u>	<u>1,997</u>
	<u>\$ -</u>	<u>59,926</u>	<u>19,187</u>

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

Movements of the allowance for doubtful receivables for the periods were as follows:

	<u>Individually assessed for impairment</u>	<u>Collectively assessed for impairment</u>	<u>Total</u>
Balance at January 1, 2017	\$ -	-	-
Impairment loss recognized	<u>25,105</u>	<u>-</u>	<u>25,105</u>
Balance at June 30, 2017	<u>\$ 25,105</u>	<u>-</u>	<u>25,105</u>
	<u>Individually assessed for impairment</u>	<u>Collectively assessed for impairment</u>	<u>Total</u>
Balance at January 1, 2016	\$ -	-	-
Impairment loss recognized	<u>2,017</u>	<u>-</u>	<u>2,017</u>
Balance at June 30, 2016	<u>\$ 2,017</u>	<u>-</u>	<u>2,017</u>

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

(d) Inventories

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Raw materials	\$ 15,164	46,225	4,794
Work in process	652,781	500,527	274,496
Finished goods	<u>12,965</u>	<u>2,039</u>	<u>55,312</u>
	<u>\$ 680,910</u>	<u>548,791</u>	<u>334,602</u>

Cost of goods sold for the periods are as follows :

	<u>For the three-month periods ended June 30,</u>		<u>For the six-month periods ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
The cost of inventories sold	\$ 547,790	97,536	1,227,287	115,190
Loss on inventory devaluation	<u>21,139</u>	<u>28,350</u>	<u>51,197</u>	<u>34,900</u>
	<u>\$ 568,929</u>	<u>125,886</u>	<u>1,278,484</u>	<u>150,090</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 June 30, 2017, December 31 and June 30, 2016, the inventories were not pledged as collateral.

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Non-publicly traded stocks	<u>\$ 23,590</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

(f) 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	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	<u>\$ 25,463</u>	<u>9,441</u>	<u>4,996</u>	<u>47,407</u>	<u>87,307</u>
Balance at January 1, 2016	\$ 30,986	10,173	5,787	21,794	68,740
Additions	3,138	2,122	268	3,069	8,597
Disposals	-	(3,218)	(4,786)	(2,043)	(10,047)
Effect of exchange rate changes	-	-	-	150	150
Balance at June 30, 2016	<u>\$ 34,124</u>	<u>9,077</u>	<u>1,269</u>	<u>22,970</u>	<u>67,440</u>
Depreciation:					
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	<u>\$ 24,081</u>	<u>6,001</u>	<u>1,211</u>	<u>20,936</u>	<u>52,229</u>
Balance at January 1, 2016	\$ 20,820	8,174	4,987	17,419	51,400
Depreciation	5,359	606	287	1,066	7,318
Disposals	-	(3,218)	(4,786)	(2,043)	(10,047)
Effect of exchange rate changes	-	-	-	84	84
Balance at June 30, 2016	<u>\$ 26,179</u>	<u>5,562</u>	<u>488</u>	<u>16,526</u>	<u>48,755</u>
Carrying amounts:					
Balance at June 30, 2017	<u>\$ 1,382</u>	<u>3,440</u>	<u>3,785</u>	<u>26,471</u>	<u>35,078</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 June 30, 2016	<u>\$ 7,945</u>	<u>3,515</u>	<u>781</u>	<u>6,444</u>	<u>18,685</u>

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

(g) 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	-	-	-	1,977	1,977
Balance at June 30, 2017	<u>\$ 106,827</u>	<u>25,714</u>	<u>84,726</u>	<u>11,329</u>	<u>228,596</u>
Balance at January 1, 2016	\$ 419,301	5,714	-	5,265	430,280
Additions	-	-	-	1,041	1,041
Effect of exchange rate changes	(1,891)	-	-	-	(1,891)
Balance at June 30, 2016	<u>\$ 417,410</u>	<u>5,714</u>	<u>-</u>	<u>6,306</u>	<u>429,430</u>
Accumulated amortization and impairment loss:					
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	<u>\$ -</u>	<u>5,791</u>	<u>7,943</u>	<u>6,477</u>	<u>20,211</u>
Balance at January 1, 2016	\$ 312,474	1,881	-	1,784	316,139
Amortization	-	220	-	1,260	1,480
Effect of exchange rate changes	(1,891)	-	-	-	(1,891)
Balance at June 30, 2016	<u>\$ 310,583</u>	<u>2,101</u>	<u>-</u>	<u>3,044</u>	<u>315,728</u>
Carrying amount:					
Balance at June 30, 2017	<u>\$ 106,827</u>	<u>19,923</u>	<u>76,783</u>	<u>4,852</u>	<u>208,385</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 June 30, 2016	<u>\$ 106,827</u>	<u>3,613</u>	<u>-</u>	<u>3,262</u>	<u>113,702</u>

(h) Short-term borrowings

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Secured bank loans	<u>\$ 526,892</u>	<u>252,693</u>	<u>30,000</u>
Unused credit facilities	<u>\$ 1,105,148</u>	<u>823,327</u>	<u>131,375</u>
Interest rate	<u>1.52%~2.73%</u>	<u>1.51%~2.73%</u>	<u>1.59%~1.66%</u>

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

(i) Operating lease

There were no significant additions in operating lease contracts for the six-month periods ended June 30, 2017 and 2016. Please refer to 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
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(j) Employee benefits

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

The Group recognized the pension expenses of \$3,231 and \$2,325 for the three-month periods ended June 30, 2017 and 2016, respectively; and \$6,202 and \$4,467 for the six-month periods ended June 30, 2017 and 2016, respectively, in relation to the defined contribution plans.

(k) Income taxes

(i) Income tax expense

	<u>For the three-month periods ended June 30,</u>		<u>For the six-month periods ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current income tax expense				
Current period	\$ 18,223	337	61,049	742
Withholding tax in foreign jurisdiction	1,669	19,828	6,742	35,774
Adjustments for prior years	<u>148</u>	<u>-</u>	<u>325</u>	<u>148</u>
Income tax expense	<u>\$ 20,040</u>	<u>20,165</u>	<u>68,116</u>	<u>36,664</u>

(ii) For the six-month periods ended June 30, 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>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Unappropriated earnings earned (accumulated deficit)	<u>\$ 362,412</u>	<u>114,026</u>	<u>(86,983)</u>
Balance of imputation credit account	<u>\$ 17</u>	<u>17</u>	<u>17</u>
		<u>2016 (estimated)</u>	<u>2015(actual)</u>
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
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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.

(l) Capital and other equity

Except for the following disclosures, there was no significant change for capital and other equity for the six-month periods ended June 30, 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 June 30, 2017, December 31 and June 30, 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 six-month periods ended June 30,	
	2017	2016
Balance at January 1	68,839	68,469
Exercise of employee stock options	839	295
Balance at June 30	69,678	68,764

For the six-month periods ended June 30, 2017 and 2016, 839 thousand shares and 295 thousand shares, respectively, were issued at par, with respect to the exercise of employee stock options, with the net proceeds of \$8,385 and \$2,950, respectively.

(ii) Capital surplus

	June 30, 2017	December 31, 2016	June 30, 2016
Paid-in capital in excess of par value	\$ 613,045	602,417	602,417
Employee stock options	147,529	140,208	74,459
	\$ 760,574	742,625	676,876

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

(iv) Other equity

	Exchange differences on translation of foreign operations
Balance at January 1, 2017	\$ 5,846
Foreign exchange differences arising from translation of foreign operations	<u>(1,246)</u>
Balance at June 30, 2017	<u>\$ 4,600</u>
Balance at January 1, 2016	\$ 5,165
Foreign exchange differences arising from translation of foreign operations	<u>1,186</u>
Balance at June 30, 2016	<u>\$ 6,351</u>

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

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

	For the six-month periods ended June 30,			
	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	46.59	(290,500)	10.00	(370,000)
Forfeited	98.20	(65,000)	75.83	(41,000)
Outstanding at June 30	108.03	<u>1,155,500</u>	90.76	<u>2,259,000</u>
Exercisable at June 30	98.20	<u>70,000</u>	10.00	<u>20,000</u>

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

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	-
	<u>1,155,500</u>			<u>70,000</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>
June 30, 2016				
Year of grant	Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number exercisable
2013	150,000	2.35	\$ 10.00	20,000
2014/03	170,000	2.70	10.00	-
2014/12	1,545,000	3.47	98.20	-
2015	394,000	4.34	127.18	-
	<u>2,259,000</u>			<u>20,000</u>

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(iii) Expenses resulted from share-based payments

The Group recognized the expenses of \$4,098 and \$7,846 for the three-month periods ended June 30, 2017 and 2016, respectively; and \$7,321 and \$16,804 for the six-month periods ended June 30, 2017 and 2016, respectively, in relation to the share-based payments.

(n) Earnings (loss) per share ("EPS")

(i) Basic earnings (loss) per share

	<u>For the three-month periods ended June 30,</u>		<u>For the six-month periods ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net income (loss) attributable to the shareholders of the Company	\$ 74,894	(31,275)	259,789	(86,983)
Weighted-average number of ordinary shares outstanding (in thousands)	69,837	68,828	69,740	68,713
Basic earnings (loss) per share (in New Taiwan dollars)	<u>\$ 1.07</u>	<u>(0.45)</u>	<u>3.73</u>	<u>(1.27)</u>

(ii) Diluted earnings (loss) per share

	<u>For the three-month periods ended June 30,</u>		<u>For the six-month periods ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2016</u>
Net income (loss) attributable to the shareholders of the Company	\$ 74,894	(31,275)	259,789	(86,983)
Weighted-average number of ordinary shares outstanding (in thousands of shares)	69,837	68,828	69,740	68,713
Effect of dilutive potential common stock:				
Stock options	384	-	577	-
Employees compensation	83	-	98	-
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	70,304	68,828	70,415	68,713
Diluted earnings (loss) per share (in New Taiwan dollars)	<u>\$ 1.07</u>	<u>(0.45)</u>	<u>3.69</u>	<u>(1.27)</u>

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(o) Revenue

	<u>For the three-month periods ended June 30,</u>		<u>For the six-month periods ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue from sale of goods and royalty revenue	\$ <u>874,654</u>	<u>252,289</u>	<u>2,060,141</u>	<u>358,484</u>

(p) Remuneration to employees and directors

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

For the three-month periods and the six-month periods ended June 30, 2017, the Company accrued its remuneration to employees amounting to \$5,076 and \$17,289, respectively; and the Company accrued its remuneration to directors amounting to \$1,015 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. The Company incurred a net loss for the six-month periods ended June 30, 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.

(q) Non-operating income and loss

(i) Other income

	<u>For the three-month periods ended June 30,</u>		<u>For the six-month periods ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Interest income	\$ 3,296	1,637	5,099	2,346
Others	<u>1,884</u>	<u>2,751</u>	<u>2,064</u>	<u>3,693</u>
	<u>\$ 5,180</u>	<u>4,388</u>	<u>7,163</u>	<u>6,039</u>

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

	<u>For the three-month</u> <u>periods ended June 30,</u>		<u>For the six-month</u> <u>periods ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Foreign exchange gains (losses), net \$	4,838	631	(32,861)	(3,617)
Net gain on financial assets at fair value through profit or loss	311	-	311	-
Others	(140)	4	(141)	(263)
	<u>\$ 5,009</u>	<u>635</u>	<u>(32,691)</u>	<u>(3,880)</u>

(iii) Finance costs

	<u>For the three-month</u> <u>periods ended June 30,</u>		<u>For the six-month</u> <u>periods ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Interest expense on bank loans	<u>\$ (2,432)</u>	<u>(118)</u>	<u>(4,698)</u>	<u>(242)</u>

(r) 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

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>
Financial assets at fair value through profit or loss	\$ 27,814	-	-
Loans and receivables:			
Cash and cash equivalents	\$ 1,172,154	859,795	405,309
Accounts receivable	411,861	407,697	164,652
Other financial assets – current	243,415	308,112	386,933
Refundable deposits	6,846	6,009	3,325
	<u>\$ 1,862,090</u>	<u>1,581,613</u>	<u>960,219</u>
Available-for-sale financial assets :			
Financial assets carried at cost	<u>\$ 23,590</u>	<u>20,000</u>	<u>20,000</u>

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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2) Financial liabilities

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>
Financial liabilities measured at amortized cost:			
Short-term borrowings	\$ 526,892	252,693	30,000
Notes and accounts payable	323,692	468,119	104,976
Accrued expenses	<u>59,576</u>	<u>108,534</u>	<u>47,361</u>
	<u>\$ 910,160</u>	<u>829,346</u>	<u>182,337</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>June 30, 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	\$ 51,756	30.42	1,574,418	1 %	15,744
<u>Financial liabilities</u>					
USD	28,337	30.42	862,012	1 %	8,620
<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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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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June 30, 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	\$ 9,753	32.275	314,778	1 %	3,148
<u>Financial liabilities</u>					
USD	3,818	32.275	123,226	1 %	1,232

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-month periods ended June 30,			
	2017		2016	
	Foreign exchange gains (losses) (in thousands)	Exchange rate	Foreign exchange gains (losses) (in thousands)	Exchange rate
<u>Financial assets</u>				
USD:TWD	\$ (3,851)	30.2514	3,399	32.4275
<u>Financial liabilities</u>				
USD:TWD	8,338	30.2514	(2,644)	32.4275

	For the six-month periods ended June 30,			
	2017		2016	
	Foreign exchange gains (losses) (in thousands)	Exchange rate	Foreign exchange gains (losses) (in thousands)	Exchange rate
<u>Financial assets</u>				
USD:TWD	\$ (66,762)	30.6479	(1,631)	32.7648
<u>Financial liabilities</u>				
USD:TWD	33,361	30.6479	(1,884)	32.7648

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(iii) Information on fair values

1) Financial instruments not measured at fair value

The Group considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values. The financial assets carried at cost is an equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required.

2) Financial instruments measured at fair value

	Carrying Amount	June 30, 2017			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:					
Open-end mutual fund	\$ 27,814	27,814	-	-	27,814

3) Fair value hierarchy

The different levels have been defined as follows:

- a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- c) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

There were no transfers between fair value levels for the six-month periods ended June 30, 2017.

4) Valuation techniques and assumptions used in fair value measurement

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

(s) Financial risk management

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

(t) Capital management

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

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

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

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>
Total liabilities	<u>\$ 1,069,930</u>	<u>934,988</u>	<u>236,587</u>
Total equity	<u>\$ 1,837,467</u>	<u>1,558,070</u>	<u>1,284,637</u>
Liability-to-equity ratio	<u>58.23 %</u>	<u>60.01 %</u>	<u>18.42 %</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) Significant related-party transactions

As of June 30, 2017, December 31 and June 30, 2016, the Group's credit facilities from financial institutions were guaranteed by the Group's chairman, Mr. Steve Ro.

(b) Compensation for key management personnel

	<u>For the three-month</u> <u>periods ended June 30,</u>		<u>For the six-month</u> <u>periods ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 16,803	7,817	27,544	14,566
Post-employment benefits	166	192	305	358
Share-based payments	<u>2,101</u>	<u>2,858</u>	<u>3,170</u>	<u>7,579</u>
	<u>\$ 19,070</u>	<u>10,867</u>	<u>31,019</u>	<u>22,503</u>

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

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

8. Pledged assets

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

Assets	Pledged to secure	June 30, 2017	December 31, 2016	June 30, 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	100,690	50,310	11,000
		<u>\$ 110,690</u>	<u>60,310</u>	<u>21,000</u>

9. Significant commitments and contingencies

- (a) As of June 30, 2017, December 31 and June 30, 2016, the Group had issued promissory notes amounting to \$1,353,820, \$1,005,250 and \$161,375, respectively, as collaterals for obtaining credit facilities from financial institutions.
- (b) In 2016, the Group entered into a technical development agreement with its outsourcing vendor (the "Vendor"). Due to the different interpretations between both parties regarding the contract, the implementation of the agreement was temporarily suspended. On March 7, 2017, Taipei District Court ruled in favor of the Vendor. However, the Group did not agree with the decision made by the Taipei District Court; therefore, it appealed to the Taiwan High Court. The relevant liabilities on the case 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-month periods ended June 30, 2017			For the three-month periods ended June 30, 2016		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:							
Salaries		-	97,725	97,725	-	54,246	54,246
Labor and health insurance		-	3,785	3,785	-	2,701	2,701
Pension cost		-	3,231	3,231	-	2,325	2,325
Others		-	5,186	5,186	-	2,042	2,042
Depreciation		379	3,222	3,601	-	3,744	3,744
Amortization		-	5,363	5,363	-	791	791

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By function	For the six-month periods ended June 30, 2017			For the six-month periods ended June 30, 2016		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
By item						
Employee benefits:						
Salaries	-	189,121	189,121	-	106,626	106,626
Labor and health insurance	-	8,807	8,807	-	5,825	5,825
Pension cost	-	6,202	6,202	-	4,467	4,467
Others	-	10,253	10,253	-	3,856	3,856
Depreciation	523	6,495	7,018	-	7,318	7,318
Amortization	-	10,728	10,728	-	1,480	1,480

(b) Seasonality operations

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

13. Additional disclosures

(a) Information on significant transactions:

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

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Nomura Global Short Duration Bond Fund	-	Financial assets at fair value through profit or loss	88	27,814	-	27,814	
The Company	Gingy Technology Inc.	-	Financial assets carried at cost	859	23,590	5.37 %	-	

- (iv) Marketable securities for which the accumulated purchase or sale amounts exceed \$300 million or 20% of the paid-in capital: None.
- (v) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
- (vi) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
- (vii) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital: None.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(viii) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital: None.

(ix) Information about derivative instrument transactions: None.

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

(b) Information on investees:

Names, locations, and related information of investees over which the Company exercises significant influence for the six-month periods ended June 30, 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 June 30, 2017			Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
				June 30, 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 %	9,524	12	12	
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 %	98	(6,057)	(6,057)	
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	13,974	1,007	1,007	

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-month periods ended June 30, 2017 and 2016, there were no material inconsistency between the reportable segment profit or loss and the consolidated financial statements.