

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

**EGIS TECHNOLOGY INC.
AND ITS SUBSIDIARIES**

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**September 30, 2017 and 2016
(With Independent Auditors' Review Report Thereon)**

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

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.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Review Report	3
4. Consolidated Balance Sheets	4
5. Consolidated Statements of Comprehensive Income (Loss)	5
6. Consolidated Statements of Changes in Equity	6
7. Consolidated Statements of Cash Flows	7
8. Notes to the Consolidated Interim Financial Statements	
(1) Organization and business	8
(2) Authorization of the consolidated financial statements	8
(3) Application of new and revised accounting standards and interpretations	9~14
(4) Summary of significant accounting policies	15~16
(5) Critical accounting judgments and key sources of estimation uncertainty	16
(6) Significant account disclosures	16~32
(7) Related-party transactions	32
(8) Pledged assets	33
(9) Significant commitments and contingencies	33
(10) Significant loss from casualty	33
(11) Significant subsequent events	33
(12) Others	33~34
(13) Additional disclosures	
(a) Information on significant transactions	34~35
(b) Information on investees	35
(c) Information on investments in Mainland China	35
(14) Segment information	35



安侯建業聯合會計師事務所
KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F, TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Review Report

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 September 30, 2017 and 2016, and the related consolidated statements of comprehensive income for the three-month periods ended September 30, 2017 and 2016 and for the nine-month periods ended September 30, 2017 and 2016, changes in equity and cash flows for the nine-month periods ended September 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)
November 7, 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

September 30, 2017, December 31, 2016, and September 30, 2016

(Expressed in Thousands of New Taiwan Dollars)

	September 30, 2017		December 31, 2016		September 30, 2016	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (notes 6(a) and (r))	\$ 1,420,430	46	859,795	35	468,002	27
1110 Financial assets at fair value through profit or loss – current (notes 6(b) and (r))	28,070	1	-	-	-	-
1170 Accounts receivable, net (notes 6(c) and (r))	633,298	21	407,697	16	253,518	15
130X Inventories (note 6(d))	270,138	9	548,791	22	312,922	18
1470 Prepayments and other current assets	44,098	1	46,399	2	25,196	2
1476 Other financial assets – current (notes 6(e)(r) and 8)	316,817	10	308,112	12	346,565	20
Total current assets	2,712,851	88	2,170,794	87	1,406,203	82
Non-current assets:						
1543 Financial assets carried at cost – non-current (notes 6(e) and (r))	23,590	1	20,000	1	20,000	1
1600 Property, plant and equipment (note 6(f))	34,455	1	23,874	1	23,109	1
1780 Intangible assets (note 6(g))	206,250	7	217,136	9	197,882	12
1840 Deferred income tax assets	55,204	2	55,204	2	53,919	4
1960 Prepayments for investments (note 6(e))	30,245	1	-	-	-	-
1995 Other non-current assets (note 6(r))	7,126	-	6,050	-	4,572	-
Total non-current assets	356,870	12	322,264	13	299,482	18
Total assets	\$ 3,069,721	100	2,493,058	100	1,705,685	100
Liabilities and Equity						
Current liabilities:						
2100 Short-term borrowings (notes 6(h)(r), 7 and 8)	\$ 388,145	13	252,693	10	109,311	6
2170 Notes and accounts payable (note 6(r))	291,838	9	468,119	19	141,145	9
2230 Current income tax liabilities	99,250	3	3,520	-	4,564	-
2399 Other payables (notes 6(p) and (r))	272,251	9	209,371	9	137,049	8
Total current liabilities	1,051,484	34	933,703	38	392,069	23
Non-current liabilities:						
2570 Deferred income tax liabilities	1,285	-	1,285	-	-	-
Total liabilities	1,052,769	34	934,988	38	392,069	23
Equity attributable to owners of parent (notes 6(k)(l) and (m)):						
3110 Common stock	698,478	23	688,393	28	688,393	40
3140 Common stock subscribed	125	-	7,180	-	-	-
3200 Capital surplus	766,104	25	742,625	30	684,807	40
Retained earnings:						
3310 Legal reserve	11,403	-	-	-	-	-
3300 Unappropriated earnings (accumulated deficit)	536,889	18	114,026	4	(65,646)	(3)
3411 Exchange differences on translation of foreign operations	3,953	-	5,846	-	6,062	-
Total equity	2,016,952	66	1,558,070	62	1,313,616	77
Total liabilities and equity	\$ 3,069,721	100	2,493,058	100	1,705,685	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 September 30, 2017 and 2016, and

For the nine-month periods ended September 30, 2017 and 2016

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

	For the three-month periods ended September 30				For the nine-month periods ended September 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
4000 Revenue (note 6(o))	\$ 1,417,348	100	430,444	100	3,477,489	100	788,928	100
5000 Costs of revenue (notes 6(d)(f) and 12)	879,782	62	253,740	59	2,158,266	62	403,830	51
Gross profit	537,566	38	176,704	41	1,319,223	38	385,098	49
Operating expenses (notes 6(e)(f)(g)(j)(m)(p), 7 and 12):								
6100 Selling expenses	160,521	11	31,160	7	282,023	8	79,712	10
6200 Administrative expenses	34,038	3	19,615	4	99,769	3	59,362	7
6300 Research and development expenses	129,362	9	92,982	22	365,655	11	265,313	34
Total operating expenses	323,921	23	143,757	33	747,447	22	404,387	51
Operating income (loss)	213,645	15	32,947	8	571,776	16	(19,289)	(2)
Non-operating income and loss (notes 6(q) and (r)):								
7010 Other income	3,901	-	1,510	-	11,064	-	7,549	1
7020 Other gains and losses, net	(1,607)	-	(8,422)	(2)	(34,298)	(1)	(12,302)	(2)
7050 Finance costs	(1,723)	-	(352)	-	(6,421)	-	(594)	-
Total non-operating income and loss	571	-	(7,264)	(2)	(29,655)	(1)	(5,347)	(1)
Income (loss) before taxes	214,216	15	25,683	6	542,121	15	(24,636)	(3)
7950 Income tax expense (note 6(k))	39,739	3	4,346	1	107,855	3	41,010	5
Net income (loss)	174,477	12	21,337	5	434,266	12	(65,646)	(8)
Other comprehensive income (loss) :								
Items that may be reclassified subsequently to profit or loss								
8361 Exchange differences on translation of foreign operations (note 6(l))	(647)	-	(289)	-	(1,893)	-	897	-
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	(647)	-	(289)	-	(1,893)	-	897	-
Total comprehensive income (loss) for the period	\$ 173,830	12	21,048	5	432,373	12	(64,749)	(8)
Earnings (loss) per share (in New Taiwan dollars) (note 6(n)) :								
9750 Basic earnings (loss) per share	\$ 2.50		0.31		6.22		(0.95)	
9850 Diluted earnings (loss) per share	\$ 2.48		0.30		6.16		(0.95)	

(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 Changes in Equity

For the nine-month periods ended September 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	3,700	-	-	-	-	3,700
Compensation cost of employee stock options	-	-	24,735	-	-	24,735
Decrease in capital surplus to offset accumulated deficit	-	-	(89,590)	-	89,590	-
Net loss for the period	-	-	-	-	(65,646)	(65,646)
Other comprehensive income (loss)	-	-	-	-	-	897
Total comprehensive income (loss)	-	-	-	-	(65,646)	(64,749)
Balance at September 30, 2016	\$ 688,393	-	684,807	-	(65,646)	1,313,616
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	10,085	(7,055)	11,730	-	-	14,760
Compensation cost of employee stock options	-	-	11,749	-	-	11,749
Net income for the period	-	-	-	-	434,266	434,266
Other comprehensive income (loss)	-	-	-	-	-	(1,893)
Total comprehensive income (loss)	-	-	-	-	434,266	432,373
Balance at September 30, 2017	\$ 698,478	125	766,104	11,403	536,889	2,016,952

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 Cash Flows

For the nine-month periods ended September 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the nine-month periods ended September 30	
	2017	2016
Cash flows from operating activities:		
Income (loss) before income taxes	\$ 542,121	(24,636)
Adjustments for:		
Depreciation	10,455	10,793
Amortization	16,310	2,264
Net gain on financial assets at fair value through profit or loss	(567)	-
Interest expense	6,421	594
Interest income	(8,877)	(3,681)
Compensation cost of employee stock options	11,749	24,735
Loss on disposal of property, plant and equipment	255	-
Impairment loss on accounts receivable	24,973	-
	<u>60,719</u>	<u>34,705</u>
Changes in operating assets and liabilities:		
Accounts receivable	(250,574)	(172,369)
Inventories	278,653	(161,591)
Prepayments and other current assets	3,044	(8,801)
Notes and accounts payable	(176,281)	66,332
Other payables	66,193	(8,818)
Total changes in operating assets and liabilities	<u>(78,965)</u>	<u>(285,247)</u>
Cash provided by (used in) operations	523,875	(275,178)
Interest received	7,137	2,420
Interest paid	(6,441)	(560)
Income taxes paid	(12,380)	(36,042)
Net cash provided by (used in) operating activities	<u>512,191</u>	<u>(309,360)</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

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the nine-month periods ended September 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the nine-month periods ended September 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)
Increase in prepayments for investments	(30,245)	-
Acquisition of property, plant and equipment	(25,100)	(16,142)
Proceeds from disposal of property, plant and equipment	13	-
Additions to intangible assets	(5,424)	(54,645)
Increase in other financial assets	(6,965)	(204,126)
Increase in refundable deposits	(1,117)	(1,275)
Net cash provided by (used in) investing activities	<u>(99,931)</u>	<u>(296,188)</u>
Cash flows from financing activities:		
Proceeds from short-term borrowings	1,483,443	109,311
Decrease of short-term borrowings	(1,347,991)	(30,000)
Proceeds from exercise of employee stock options	14,760	3,700
Net cash provided by financing activities	<u>150,212</u>	<u>83,011</u>
Effects of foreign exchange rate changes	<u>(1,837)</u>	<u>834</u>
Net increase (decrease) in cash and cash equivalents	560,635	(521,703)
Cash and cash equivalents at beginning of the period	859,795	989,705
Cash and cash equivalents at end of the period	<u>\$ 1,420,430</u>	<u>468,002</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

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

For the nine-month periods ended September 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 November 7, 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 September 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 reliable. 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 September 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 September 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".

(Continued)

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 contracts at the beginning of the earliest period (January 1, 2017) 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.

(Continued)

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
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	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.

(Continued)

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

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		
			September 30, 2017	December 31, 2016	September 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 %	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.

(Continued)

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

	September 30, 2017	December 31, 2016	September 30, 2016
Cash on hand	\$ 548	436	462
Bank deposits	585,971	482,034	241,748
Time deposits	743,131	377,325	225,792
Repurchase agreements	90,780	-	-
	<u>\$ 1,420,430</u>	<u>859,795</u>	<u>468,002</u>

As of September 30, 2017, December 31 and September 30, 2016, the time deposits with original maturities of more than three months amounted to \$219,555, \$243,352 and \$307,454, respectively, which were classified as other financial assets – current.

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

	September 30, 2017	December 31, 2016	September 30, 2016
Open-end mutual fund	<u>\$ 28,070</u>	<u>-</u>	<u>-</u>

(Continued)

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

(c) Accounts receivable, net

	September 30, 2017	December 31, 2016	September 30, 2016
	\$ 658,271	407,697	253,518
Accounts receivable			
Less : allowance for doubtful receivables	<u>(24,973)</u>	<u>-</u>	<u>-</u>
	<u>\$ 633,298</u>	<u>407,697</u>	<u>253,518</u>

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

	September 30, 2017	December 31, 2016	September 30, 2016
	\$ -	42,775	61,927
Past due 0~30 days			
Past due 31~90 days	-	10,962	5,421
Past due 91~180 days	<u>-</u>	<u>6,189</u>	<u>2,205</u>
	<u>\$ -</u>	<u>59,926</u>	<u>69,553</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:

	Individually assessed for impairment	Collectively assessed for impairment	Total
Balance at January 1, 2017	\$		
Impairment loss recognized	<u>24,973</u>	<u>-</u>	<u>24,973</u>
Balance at September 30, 2017	<u>\$ 24,973</u>	<u>-</u>	<u>24,973</u>

(Continued)

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

(d) Inventories

	September 30, 2017	December 31, 2016	September 30, 2016
Raw materials	\$ 8,661	46,225	39,944
Work in process	258,711	500,527	235,157
Finished goods	2,766	2,039	37,821
	<u>\$ 270,138</u>	<u>548,791</u>	<u>312,922</u>

Cost of goods sold for the periods are as follows :

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2017	2016	2017	2016
The cost of inventories sold	\$ 858,620	239,799	2,085,907	354,989
Loss on inventory devaluation	21,162	13,941	72,359	48,841
	<u>\$ 879,782</u>	<u>253,740</u>	<u>2,158,266</u>	<u>403,830</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.

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

	September 30, 2017	December 31, 2016	September 30, 2016
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.

In September, 2017 the Group invested \$30,245 in Theia Limited and expected to acquire 10% shares of its stock for developing and integrating algorithm technology.

(Continued)

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	2,599	3,621	15,031	21,360
Disposals	-	(823)	-	(1,460)	(2,283)
Effect of exchange rate changes	-	-	(18)	(51)	(69)
Balance at September 30, 2017	<u>\$ 25,463</u>	<u>11,247</u>	<u>5,170</u>	<u>47,528</u>	<u>89,408</u>
Balance at January 1, 2016	\$ 30,986	10,173	5,787	21,794	68,740
Additions	3,138	2,469	464	10,428	16,499
Disposals	-	(3,218)	(4,786)	(2,043)	(10,047)
Effect of exchange rate changes	-	-	-	137	137
Balance at September 30, 2016	<u>\$ 34,124</u>	<u>9,424</u>	<u>1,465</u>	<u>30,316</u>	<u>75,329</u>
Depreciation:					
Balance at January 1, 2017	\$ 21,496	5,931	680	18,419	46,526
Depreciation	3,011	1,402	947	5,095	10,455
Disposals	-	(823)	-	(1,192)	(2,015)
Effect of exchange rate changes	-	-	(2)	(11)	(13)
Balance at September 30, 2017	<u>\$ 24,507</u>	<u>6,510</u>	<u>1,625</u>	<u>22,311</u>	<u>54,953</u>
Balance at January 1, 2016	\$ 20,820	8,174	4,987	17,419	51,400
Depreciation	7,585	980	381	1,847	10,793
Disposals	-	(3,218)	(4,786)	(2,043)	(10,047)
Effect of exchange rate changes	-	-	-	74	74
Balance at September 30, 2016	<u>\$ 28,405</u>	<u>5,936</u>	<u>582</u>	<u>17,297</u>	<u>52,220</u>
Carrying amounts:					
Balance at September 30, 2017	<u>\$ 956</u>	<u>4,737</u>	<u>3,545</u>	<u>25,217</u>	<u>34,455</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 September 30, 2016	<u>\$ 5,719</u>	<u>3,488</u>	<u>883</u>	<u>13,019</u>	<u>23,109</u>

(Continued)

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	-	-	-	5,424	5,424
Balance at September 30, 2017	<u>\$ 106,827</u>	<u>25,714</u>	<u>84,726</u>	<u>14,776</u>	<u>232,043</u>
Balance at January 1, 2016	\$ 419,301	5,714	-	5,265	430,280
Additions	-	-	84,726	1,279	86,005
Effect of exchange rate changes	(5,037)	-	-	-	(5,037)
Balance at September 30, 2016	<u>\$ 414,264</u>	<u>5,714</u>	<u>84,726</u>	<u>6,544</u>	<u>511,248</u>
Accumulated amortization and impairment loss:					
Balance at January 1, 2017	\$ -	2,279	2,648	4,556	9,483
Amortization	-	5,267	7,943	3,100	16,310
Balance at September 30, 2017	<u>\$ -</u>	<u>7,546</u>	<u>10,591</u>	<u>7,656</u>	<u>25,793</u>
Balance at January 1, 2016	\$ 312,474	1,881	-	1,784	316,139
Amortization	-	309	-	1,955	2,264
Effect of exchange rate changes	(5,037)	-	-	-	(5,037)
Balance at September 30, 2016	<u>\$ 307,437</u>	<u>2,190</u>	<u>-</u>	<u>3,739</u>	<u>313,366</u>
Carrying amount:					
Balance at September 30, 2017	<u>\$ 106,827</u>	<u>18,168</u>	<u>74,135</u>	<u>7,120</u>	<u>206,250</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 September 30, 2016	<u>\$ 106,827</u>	<u>3,524</u>	<u>84,726</u>	<u>2,805</u>	<u>197,882</u>

(h) Short-term borrowings

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Secured bank loans	<u>\$ 388,145</u>	<u>252,693</u>	<u>109,311</u>
Unused credit facilities	<u>\$ 1,628,355</u>	<u>823,327</u>	<u>78,849</u>
Interest rate	<u>1.52%~2.73%</u>	<u>1.51%~2.73%</u>	<u>1.52%~1.70%</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 nine-month periods ended September 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.

(Continued)

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

(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 \$3,526 and \$2,372 for the three-month periods ended September 30, 2017 and 2016, respectively; and \$9,728 and \$6,839 for the nine-month periods ended September 30, 2017 and 2016, respectively, in relation to the defined contribution plans.

(k) Income taxes

(i) Income tax expense

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2017	2016	2017	2016
Current income tax expense				
Current period	\$ 40,405	451	101,454	1,193
Withholding tax in foreign jurisdiction	(632)	3,895	6,110	39,669
Adjustments for prior years	(34)	-	291	148
Income tax expense	<u>\$ 39,739</u>	<u>4,346</u>	<u>107,855</u>	<u>41,010</u>

(ii) For the nine-month periods ended September 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:

	September 30, 2017	December 31, 2016	September 30, 2016
Unappropriated earnings earned (accumulated deficit)	<u>\$ 536,889</u>	<u>114,026</u>	<u>(65,646)</u>
Balance of imputation credit account	<u>\$ 17</u>	<u>17</u>	<u>17</u>
		2016	2015
Creditable ratio for distribution of earnings to R.O.C. residents		<u>0.01%</u>	<u>-</u>

(Continued)

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.

(l) Capital and other equity

Except for the following disclosures, there was no significant change for capital and other equity for the nine-month periods ended September 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 September 30, 2017, December 31 and September 30, 2016, the Company's authorized shares of common stock, at \$10 par value per share, consisted of 100,000 thousand shares, of which 69,848 thousand shares, 68,839 thousand shares and 68,839 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 nine-month periods ended September 30,	
	2017	2016
Balance at January 1	68,839	68,469
Exercise of employee stock options	1,009	370
Balance at September 30	69,848	68,839

For the nine-month periods ended September 30, 2017 and 2016, 1,009 thousand shares and 370 thousand shares, respectively, were issued at par, with respect to the exercise of employee stock options, with the net proceeds of \$10,085 and \$3,700, respectively.

(ii) Capital surplus

	September 30, 2017	December 31, 2016	September 30, 2016
Paid-in capital in excess of par value	\$ 614,147	602,417	602,417
Employee stock options	151,957	140,208	82,390
	\$ 766,104	742,625	684,807

(Continued)

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>(1,893)</u>
Balance at September 30, 2017	<u>\$ 3,953</u>
Balance at January 1, 2016	\$ 5,165
Foreign exchange differences arising from translation of foreign operations	<u>897</u>
Balance at September 30, 2016	<u>\$ 6,062</u>

(Continued)

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

(Continued)

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):

	<u>For the nine-month periods ended September 30,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Weighted- average exercise price</u>	<u>Number of shares</u>	<u>Weighted- average exercise price</u>	<u>Number of shares</u>
Outstanding, beginning of year	\$ 95.80	1,511,000	79.34	2,670,000
Granted	-	-	-	-
Exercised	48.71	(303,000)	10.00	(370,000)
Forfeited	98.20	(65,000)	84.56	(63,000)
Outstanding at September 30	108.14	<u>1,143,000</u>	90.66	<u>2,237,000</u>
Exercisable at September 30	98.20	<u>57,500</u>	10.00	<u>20,000</u>

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

<u>September 30, 2017</u>				
<u>Year of grant</u>	<u>Number outstanding</u>	<u>Weighted-average remaining contractual years</u>	<u>Weighted-average exercise price</u>	<u>Number exercisable</u>
2014/12	751,000	2.21	\$ 98.20	57,500
2015	392,000	3.09	127.18	-
	<u>1,143,000</u>			<u>57,500</u>
<u>December 31, 2016</u>				
<u>Year of grant</u>	<u>Number outstanding</u>	<u>Weighted-average remaining contractual years</u>	<u>Weighted-average exercise price</u>	<u>Number exercisable</u>
2014/03	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>
<u>September 30, 2016</u>				
<u>Year of grant</u>	<u>Number outstanding</u>	<u>Weighted-average remaining contractual years</u>	<u>Weighted-average exercise price</u>	<u>Number exercisable</u>
2013	150,000	2.10	\$ 10.00	20,000
2014/03	170,000	2.45	10.00	-
2014/12	1,525,000	3.21	98.20	-
2015	392,000	4.09	127.18	-
	<u>2,237,000</u>			<u>20,000</u>

(Continued)

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

(iii) Expenses resulted from share-based payments

The Group recognized the expenses of \$4,428 and \$7,931 for the three-month periods ended September 30, 2017 and 2016, respectively; and \$24,735 and \$24,735 for the nine-month periods ended September 30, 2017 and 2016, respectively, in relation to the share-based payments.

(n) Earnings (loss) per share (“EPS”)

(i) Basic earnings (loss) per share

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2017	2016	2017	2016
Net income (loss) attributable to the shareholders of the Company \$	<u>174,477</u>	<u>21,337</u>	<u>434,266</u>	<u>(65,646)</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>69,849</u>	<u>68,839</u>	<u>69,777</u>	<u>68,755</u>
Basic earnings (loss) per share (in New Taiwan dollars)	<u><u>\$ 2.50</u></u>	<u><u>0.31</u></u>	<u><u>6.22</u></u>	<u><u>(0.95)</u></u>

(ii) Diluted earnings (loss) per share

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2017	2016	2017	2016
Net income (loss) attributable to the shareholders of the Company	<u>\$ 174,477</u>	<u>21,337</u>	<u>434,266</u>	<u>(65,646)</u>
Weighted-average number of ordinary shares outstanding (in thousands of shares)	<u>69,849</u>	<u>68,839</u>	<u>69,777</u>	<u>68,755</u>
Effect of dilutive potential common stock:				
Stock options	<u>533</u>	<u>1,136</u>	<u>557</u>	<u>-</u>
Employees compensation	<u>105</u>	<u>-</u>	<u>115</u>	<u>-</u>
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	<u>70,487</u>	<u>69,975</u>	<u>70,449</u>	<u>68,755</u>
Diluted earnings (loss) per share (in New Taiwan dollars)	<u><u>\$ 2.48</u></u>	<u><u>0.30</u></u>	<u><u>6.16</u></u>	<u><u>(0.95)</u></u>

(Continued)

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

(o) Revenue

	<u>For the three-month periods ended September 30,</u>		<u>For the nine-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue from sale of goods and royalty revenue	<u>\$ 1,417,348</u>	<u>430,444</u>	<u>3,477,489</u>	<u>788,928</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 nine-month periods ended September 30, 2017, the Company accrued its remuneration to employees amounting to \$11,448 and \$28,737, respectively; and the Company accrued its remuneration to directors amounting to \$2,289 and \$5,747, 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 nine-month periods ended September 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, and 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 September 30,</u>		<u>For the nine-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Interest income	\$ 3,778	1,335	8,877	3,681
Others	<u>123</u>	<u>175</u>	<u>2,187</u>	<u>3,868</u>
	<u>\$ 3,901</u>	<u>1,510</u>	<u>11,064</u>	<u>7,549</u>

(Continued)

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

(ii) Other gains and losses

	<u>For the three-month periods</u> <u>ended September 30,</u>		<u>For the nine-month periods</u> <u>ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Foreign exchange gains (losses), net	\$ (1,509)	(8,423)	(34,370)	(12,040)
Net gain on financial assets at fair value through profit or loss	256	-	567	-
Loss on disposal of property, plant and equipment	(254)	-	(255)	-
Others	(100)	1	(240)	(262)
	<u>\$ (1,607)</u>	<u>(8,422)</u>	<u>(34,298)</u>	<u>(12,302)</u>

(iii) Finance costs

	<u>For the three-month periods</u> <u>ended September 30,</u>		<u>For the nine-month periods</u> <u>ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Interest expense on bank loans	\$ (1,723)	(352)	(6,421)	(594)

(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>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>September 30,</u> <u>2016</u>
Financial assets at fair value through profit or loss	\$ 28,070	-	-
Loans and receivables:			
Cash and cash equivalents	\$ 1,420,430	859,795	468,002
Accounts receivable	633,298	407,697	253,518
Other financial assets – current	316,817	308,112	346,565
Prepayments for investments	30,245	-	-
Refundable deposits	7,126	6,009	4,572
	<u>\$ 2,435,986</u>	<u>1,581,613</u>	<u>1,072,657</u>
Available-for-sale financial assets :			
Financial assets carried at cost	<u>\$ 23,590</u>	<u>20,000</u>	<u>20,000</u>

(Continued)

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

2) Financial liabilities

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Financial liabilities measured at amortized cost:			
Short-term borrowings	\$ 388,145	252,693	109,311
Notes and accounts payable	291,838	468,119	141,145
Accrued expenses	<u>169,862</u>	<u>108,534</u>	<u>94,201</u>
	<u>\$ 849,845</u>	<u>829,346</u>	<u>344,657</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>September 30, 2017</u>					
	<u>Foreign currency (in thousands)</u>	<u>Exchange rate</u>	<u>TWD (in thousands)</u>	<u>Change in magnitude of the exchange rate</u>	<u>Pre-tax effect on profit or loss (in thousands)</u>
<u>Financial assets</u>					
USD	\$ 71,615	30.26	2,167,070	1 %	21,671
<u>Financial liabilities</u>					
USD	26,879	30.26	813,359	1 %	8,134
<u>December 31, 2016</u>					
	<u>Foreign currency (in thousands)</u>	<u>Exchange rate</u>	<u>TWD (in thousands)</u>	<u>Change in magnitude of the exchange rate</u>	<u>Pre-tax effect on profit or loss (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

(Continued)

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

September 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	\$ 19,560	31.360	613,402	1 %	6,134	
<u>Financial liabilities</u>						
USD	8,356	31.360	262,044	1 %	2,620	

2) Gains or losses on monetary items

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

	For the three-month periods ended September 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	\$ (3,660)	30.2645	(12,538)	31.7092
<u>Financial liabilities</u>				
USD:TWD	1,344	30.2645	4,059	31.7092

	For the nine-month periods ended September 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	\$ (70,422)	30.5119	(14,169)	32.4014
<u>Financial liabilities</u>				
USD:TWD	34,705	30.5119	2,175	32.4014

(Continued)

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

(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

	September 30, 2017				
	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:					
Open-end mutual fund	\$ <u>28,070</u>	<u>28,070</u>	<u>-</u>	<u>-</u>	<u>28,070</u>

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 nine-month periods ended September 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.

(Continued)

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:

	September 30, 2017	December 31, 2016	September 30, 2016
Total liabilities	\$ <u>1,052,769</u>	<u>934,988</u>	<u>392,069</u>
Total equity	\$ <u>2,016,952</u>	<u>1,558,070</u>	<u>1,313,616</u>
Liability-to-equity ratio	<u>52.20 %</u>	<u>60.01 %</u>	<u>29.85 %</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 September 30, 2017, December 31 and September 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

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2017	2016	2017	2016
Short-term employee benefits	\$ 15,653	7,555	43,197	22,121
Post-employment benefits	165	173	470	531
Share-based payments	<u>1,987</u>	<u>2,889</u>	<u>5,157</u>	<u>10,468</u>
	<u>\$ 17,805</u>	<u>10,617</u>	<u>48,824</u>	<u>33,120</u>

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

(Continued)

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	September 30, 2017	December 31, 2016	September 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	82,005	50,310	25,722
		<u>\$ 92,005</u>	<u>60,310</u>	<u>35,722</u>

9. Significant commitments and contingencies

As of September 30, 2017, December 31 and September 30, 2016, the Group had issued promissory notes amounting to \$1,804,680, \$1,005,250 and \$188,160, respectively, as collaterals for obtaining credit facilities from financial institutions.

10. Significant loss from casualty: None.

11. Significant subsequent events: None.

12. Others

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

By item	By function	For the three-month periods ended September 30, 2017			For the three-month periods ended September 30, 2016		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:							
Salaries		-	86,397	86,397	-	61,213	61,213
Labor and health insurance		-	4,371	4,371	-	2,870	2,870
Pension cost		-	3,526	3,526	-	2,372	2,372
Others		-	6,692	6,692	-	3,316	3,316
Depreciation		495	2,942	3,437	-	3,475	3,475
Amortization		-	5,582	5,582	-	784	784

(Continued)

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

By item	By function	For the nine-month periods ended September 30, 2017			For the nine-month periods ended September 30, 2016		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:							
Salaries		-	275,518	275,518	-	167,839	167,839
Labor and health insurance		-	13,178	13,178	-	8,695	8,695
Pension cost		-	9,728	9,728	-	6,839	6,839
Others		-	16,945	16,945	-	7,172	7,172
Depreciation		1,018	9,437	10,455	-	10,793	10,793
Amortization		-	16,310	16,310	-	2,264	2,264

(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	28,070	-	28,070	
The Company	Gingy Technology Inc.	-	Financial assets carried at cost	859	23,590	4.64 %	-	

- (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.

(Continued)

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

(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 nine-month periods ended September 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 September 30, 2017			Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
				September 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 %	9,490	29	29	
The Company	Egis Technology (Japan) Inc.	Japan	Sale of data security software and biometric authentication software and hardware	83,213	67,846	5,840	100.00 %	11,582	(9,417)	(9,417)	
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	21,182	8,290	8,290	

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