

CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2017(restated)		2016	
	Amount	%	Amount	%
NET SALES (Note 4)	\$ 9,878,148	100	\$ 10,374,172	100
COST OF SALES (Notes 10, 20 and 22)	<u>10,627,260</u>	<u>108</u>	<u>11,170,927</u>	<u>108</u>
GROSS LOSS	<u>(749,112)</u>	<u>(8)</u>	<u>(796,755)</u>	<u>(8)</u>
OPERATING EXPENSES (Notes 20, 22 and 31)				
Selling and marketing expenses	224,416	2	230,258	2
General and administrative expenses	256,749	3	206,684	2
Research and development expenses	<u>440,846</u>	<u>4</u>	<u>338,671</u>	<u>4</u>
Total operating expenses	<u>922,011</u>	<u>9</u>	<u>775,613</u>	<u>8</u>
OTHER OPERATING INCOME AND EXPENSES (Notes 22 and 34)	<u>-</u>	<u>-</u>	<u>(33,870)</u>	<u>-</u>
LOSS FROM OPERATIONS	<u>(1,671,123)</u>	<u>(17)</u>	<u>(1,606,238)</u>	<u>(16)</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4, 22 and 31)				
Other income	47,890	-	91,014	1
Other gains and losses	67,143	1	(13,608)	-
Finance costs	<u>(126,827)</u>	<u>(1)</u>	<u>(14,639)</u>	<u>-</u>
Total non-operating income and expenses	<u>(11,794)</u>	<u>-</u>	<u>62,767</u>	<u>1</u>
LOSS BEFORE INCOME TAX	(1,682,917)	(17)	(1,543,471)	(15)
INCOME TAX BENEFITS (Notes 4, 5 and 23)	<u>(132,891)</u>	<u>(1)</u>	<u>(59,609)</u>	<u>(1)</u>
NET LOSS FOR THE YEAR	<u>(1,550,026)</u>	<u>(16)</u>	<u>(1,483,862)</u>	<u>(14)</u>
OTHER COMPREHENSIVE LOSS				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 21)	(72,632)	(1)	(415,325)	(4)
Unrealized loss on available-for-sale financial assets (Note 21)	<u>(28)</u>	<u>-</u>	<u>(11,145)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(72,660)</u>	<u>(1)</u>	<u>(426,470)</u>	<u>(4)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (1,622,686)</u>	<u>(17)</u>	<u>\$ (1,910,332)</u>	<u>(18)</u>

(Continued)

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	2017		2016	
	Amount	%	Amount	%
NET LOSS ATTRIBUTABLE TO:				
Owners of CMMT	\$ (1,226,260)	(13)	\$ (1,483,921)	(14)
Non-controlling interests	<u>(323,766)</u>	<u>(3)</u>	<u>59</u>	<u>-</u>
	<u>\$ (1,550,026)</u>	<u>(16)</u>	<u>\$ (1,483,862)</u>	<u>(14)</u>
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Owners of CMMT	\$ (1,269,892)	(13)	\$ (1,794,388)	(17)
Non-controlling interests	<u>(352,794)</u>	<u>(4)</u>	<u>(115,944)</u>	<u>(1)</u>
	<u>\$ (1,622,686)</u>	<u>(17)</u>	<u>\$ (1,910,332)</u>	<u>(18)</u>
LOSS PER SHARE (Note 24)				
Basic loss per share	\$ <u>(2.18)</u>		\$ <u>(2.88)</u>	
Diluted loss per share	\$ <u>(2.18)</u>		\$ <u>(2.88)</u>	

The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)

c. Other receivables

The movements of the allowance for doubtful other receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1 and December 31, 2017 and 2016	<u>\$ 18,215</u>	<u>\$ -</u>	<u>\$ 18,215</u>

10. INVENTORIES

	December 31	
	2017	2016
Commodities	\$ 11,408	\$ -
Finished goods	429,139	576,187
Work in progress	633,761	367,820
Raw materials	<u>1,208,402</u>	<u>1,097,896</u>
	<u>\$ 2,282,710</u>	<u>\$ 2,041,903</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was NT\$10,627,260 thousand and NT\$11,170,927 thousand, respectively.

The cost of goods sold included write-downs of inventories and reversals of write-downs of inventories which were as follows:

	December 31	
	2017	2016
(Reversal of) write-down of inventories	<u>\$ (2,182)</u>	<u>\$ 241,593</u>

The provision for inventory write-downs was reversed when the related inventory items were sold.

11. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

Investor	Investee	Nature of Activities	Proportion of Ownership		Remark
			December 31		
			2017	2016	
CMMT	Chimei Materials Technology (SAMOA) Corp. (“CMMTS”)	Investment company	100%	100%	-
	Chi Mei Visual Technology Corporation (“CMVT”)	Electronic component manufacture and sale	68.33%	68.33%	-
	Chi Mei Materials Technology Investment Co., Ltd. (“CMMTI”)	Investment company	100%	100%	-
	Chi Tsai Investment Co., Ltd. (“CTI”)	Investment company	100%	100%	-

(Continued)

Had these business combinations been in effect for the entire annual reporting period, rather than just from March 3 to December 25, 2017, the Corporation's revenue from continuing operations would have been NT\$9,878,148 thousand and the loss from continuing operations would have been NT\$1,550,026 thousand. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Corporation that actually would have been achieved had the acquisition been completed on January 1, 2017 and sustained until December 31, 2017 nor is it intended to be a projection of future results.

27. DISPOSALS OF SUBSIDIARIES - WITH LOSS OF CONTROL

On December 21, 2017, the Corporation entered into a sale agreement with its affiliate, Zhejiang Hengjie Co., Ltd., to dispose of KK. The disposal was completed on December 25, 2017, on which date control of KK passed to the acquirer.

a. Consideration received from disposal

KK

Sales proceeds receivable (JPY47,000 thousand, included in other receivables - related parties)	<u>\$ 12,436</u>
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b. Analysis of assets and liabilities on the date control was lost

KK

Current assets	
Cash and cash equivalents	\$ 13,861
Accounts receivable	517
Other receivables	248
Non-current assets	
Goodwill	873
Refundable deposits	215
Other non-current assets	126
Current liabilities	
Advance receipts and other current liabilities	<u>(249)</u>
Net assets disposed of	<u>\$ 15,591</u>

c. Gain on disposal of subsidiaries

KK

Consideration received	\$ 12,436
Net assets disposed of	(15,591)
Non-controlling interests	4,839
Reclassification of other comprehensive income in respect of KK	<u>(381)</u>
Gain on disposal	<u>\$ 1,303</u>

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Table 8
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: Table 9
 - a) The amounts and percentages of purchases and the balances and percentages of the related payables at the end of the period.
 - b) The amounts and percentages of sales and the balances and percentages of the related receivables at the end of the period.

38. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Corporation's reportable segments under IFRS 8 "Operating Segments" were as follows:

a. Segment revenues and results

The following was an analysis of the Corporation's revenue and results from continuing operations by reportable segment.

	Segment Revenue		Segment Profit or Loss	
	For the Year Ended December 31	For the Year Ended December 31	For the Year Ended December 31	For the Year Ended December 31
	2017	2016	2017	2016
Taiwan operating entities	\$ 3,006,234	\$ 5,518,355	\$ (666,452)	\$ (934,299)
China operating entities	6,871,380	4,855,817	(1,001,940)	(671,939)
Others	534	-	(2,730)	-
Total from continuing operations	<u>\$ 9,878,148</u>	<u>\$ 10,374,172</u>	<u>(1,671,122)</u>	<u>(1,606,238)</u>
Net foreign exchange gain			14,449	60,474
Interest income			21,474	42,773
Gain on disposal of property, plant and equipment			36	121
Gain on disposal of available-for-sale financial instruments			45	24,761
Gain on disposal of subsidiaries			1,303	-
Net gain arising on financial assets designated as at FVTPL			19,136	6,598
Net gain (loss) arising on financial assets and liabilities held for trading			32,342	(102,166)
Finance costs			(124,319)	(13,833)
Others			<u>23,740</u>	<u>44,039</u>
Loss before income tax			<u>\$ (1,682,917)</u>	<u>\$ (1,543,471)</u>

Segment profit represented profit before tax earned by each segment without the allocation of central administration costs and directors' salaries, interest income, gains or losses on disposals of property, plant and equipment, gains or losses on disposals of available-for-sale financial instruments, gain on disposal of subsidiaries, exchange gains or losses, valuation gains or losses on financial instruments, finance costs and income tax expenses. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and the assessment of segment performance.

b. Segment assets

The Corporation does not regularly provide information on assets to the Corporation's chief operating decision maker.

c. Revenue from major products and services

The following is an analysis of the Corporation's revenue from continuing operations from its major products and services.

	For the Year Ended December 31	
	2017	2016
Polarizing films	\$ 9,779,560	\$ 10,222,239
Others	<u>98,588</u>	<u>151,933</u>
	<u><u>\$ 9,878,148</u></u>	<u><u>\$ 10,374,172</u></u>

d. Geographical information

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2017	2016	2017	2016
Taiwan	\$ 3,313,760	\$ 3,875,536	\$ 4,807,561	\$ 5,155,454
China	<u>6,564,388</u>	<u>6,498,636</u>	<u>6,953,979</u>	<u>4,970,741</u>
	<u><u>\$ 9,878,148</u></u>	<u><u>\$ 10,374,172</u></u>	<u><u>\$ 11,761,540</u></u>	<u><u>\$ 10,126,195</u></u>

e. Information about major customers

Single customers who contributed 10% or more to the Corporation's gross sales were as follows:

	For the Year Ended December 31	
	2017	2016
Customer A (Note)	\$ 3,027,460	\$ 3,531,635
Customer B (Note)	1,950,448	2,235,405
Customer C (Note)	1,153,819	1,582,296

Note: Revenue from polarizing films.

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INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars)

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details		
				Financial Statement Accounts	Amount	% of Total Sales or Assets
0	CMMT	NBCMMT	1	Sales	\$ 4,080,812	41
			1	Accounts receivable	1,562,229	7
			1	Provisions	1,221	1
			1	Accounts payable	138,723	1
		CMVT	1	Other payables	853	-
			1	Sales	15,349	-
			1	Accounts receivable	10,853	-
			1	Provisions	1,336	-
		KSCMS	1	Accounts payable	864	-
			1	Rental income	2,905	-
			1	Sales	45,264	-
			1	Accounts receivable	3,221	-
		KSCMMT	1	Sales	129,411	1
			1	Accounts receivable	11,298	-
1	NBCMMT		1	Other receivables	147,619	-
			1	Royalty receipts	54,848	1
			1	Advance receipts	18,283	-
			1	Other income	64,636	1
		CMVT	2	Sales	16,944	-
			2	Accounts receivable	5,968	-
		KSCMS	2	Sales	5,306	-
			2	Accounts payable	3,128	-
		KSCMMT	2	Sales	338,200	3
			2	Accounts receivable	119,480	1
2	KSCMMT	KSCMS	1	Interest revenue	5,428	-

Note 1: No. 1 represents transaction from the parent company to a subsidiary.

No. 2 represents transactions between subsidiaries.

Note 2: Prices and terms were determined in accordance with mutual agreements.