

**ChipMOS TECHNOLOGIES INC. AND
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

For the convenience of readers and for information purpose only, the independent accountants' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language independent accountants' report and consolidated financial statements shall prevail.

ChipMOS TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
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ChipMOS TECHNOLOGIES INC.

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2017, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the company that is required to be included in the consolidated financial statements of affiliates, is the same as the company required to be included in the consolidated financial statements under International Financial Reporting Standards 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliated enterprises has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare consolidated financial statements of affiliated enterprises.

Hereby declare,

ChipMOS TECHNOLOGIES INC.

March 15, 2018

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of ChipMOS TECHNOLOGIES INC.

Opinion

We have audited the accompanying consolidated balance sheets of ChipMOS TECHNOLOGIES INC. and its subsidiaries (the “Group”) as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other independent accountants, as described in the *Other matters* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (“ROC GAAS”). Our responsibilities under those standards are further described in the *Independent Accountant’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with this Code. Based on our audits and the report of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in

the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements of the year ended December 31, 2017 are stated as follows:

Disposal of equity investment

Description

Please refer to Note 4(3) to the consolidated financial statements for information on the basis of consolidation; Notes 4(13) and 6(5) for the information on the accounting policies and the transaction in relating to investments accounted for using equity method; and Note 6(7) for the details of non-current assets held for sale and discontinued operations.

On November 30, 2016, the Board of Directors of ChipMOS TECHNOLOGIES INC. (the "Company") adopted a resolution to authorize its subsidiary, ChipMOS TECHNOLOGIES (BVI) LTD., to dispose 54.98% of its shareholding in the subsidiary, ChipMOS TECHNOLOGIES (Shanghai) LTD. The equity transfer was completed in March 2017, and the Group recognized gain on disposal of discontinued operations amounted to NT\$1,843,234 thousand for the year ended December 31, 2017. Since the disposal of equity investment was a material transaction during the financial reporting period, it was identified as a key audit matter.

How our audit addressed the matter

Our key audit procedures performed in respect of the above included the following:

1. Interviewed the management to understand the purpose, evaluation process, and determination of the consideration of the equity investment disposal.
2. Reviewed the Equity Interest Transfer Agreement and the meeting minutes of the Board of Directors' Meeting, verified that the related meeting resolutions were consistent with the Equity Interest Transfer Agreement, and provisions within the Equity Interest Transfer Agreement in relating to financial reporting were accounted for using the appropriate accounting treatment.
3. Evaluated the competency and objectivity of the independent experts engaged by the management, and reviewed the fairness opinion, as provided by management, of the disposal consideration issued by the independent experts.
4. Reviewed the equity investment disposal disclosures in the financial statements.



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Provisions for deficiency compensation

Description

Please refer to Note 4(19) to the consolidated financial statements for the accounting policies on provisions; Note 5(1) for uncertainty of accounting estimates and assumptions of provisions; and Note 6(11) for the details of the provisions for deficiency compensation.

The Group is primarily engaged in assembly and testing services for high-integration and high-precision integrated circuits. In case of deficiencies in the assembly and testing services provided, the Group has to clarify the reason for such deficiencies and attribute responsibilities, and determine whether to provide related provisions. Since the timing and amount of deficiency compensation are uncertain, and subject to management's significant judgment, the provisions for deficiency compensation was identified as a key audit matter.

How our audit addressed the matter

Our key audit procedures performed in respect of the above included the following:

1. Interviewed the management and verified the internal process on estimating provisions for deficiency compensation, and the consistency of process application during the financial reporting periods.
2. Reviewed related documents and evidence provided by management, sampled and tested the reasonableness of providing and reversing provisions for deficiency compensation during the current period.
3. Reviewed significant payments made subsequent to the reporting period and validated the reasonableness of provisions for deficiency compensation.

Other matters

The report of the other independent accountants

We did not audit the financial statements of a certain investee company accounted for using the equity method. Those financial statements were audited by the other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information on the investee disclosed in Note 13 was based solely on the report of the other independent accountants. Investments in this investee company amounted to NT\$373,276 thousand and NT\$369,329 thousand, both representing 1% of total consolidated assets as of December 31, 2017 and 2016, and total net comprehensive income including the share of profit and other comprehensive income of associate accounted for using the equity method amounted to NT\$1,343 thousand and NT\$28,791 thousand, representing 0% and 3% of total

consolidated comprehensive income for the years then ended, respectively.

Parent company only financial reports

We have audited and expressed an unmodified opinion on the parent company only financial statements of ChipMOS TECHNOLOGIES INC. as of and for the years ended December 31, 2017 and 2016.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the Audit Committee, are responsible for overseeing the Group’s financial reporting process.

Independent accountant’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the footnote disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and



are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Chun - Yuan Hsiao

Chun-Yuan Hsiao

For and on behalf of PricewaterhouseCoopers, Taiwan

March 15, 2018

Chih - Cheng Hsieh

Chih-Cheng Hsieh

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

ChipMOS TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

			December 31, 2017		December 31, 2016			
Assets			Notes	Amount	%	Amount	%	
Current assets								
1100	Cash and cash equivalents	6(1)	\$	8,035,714	24	\$	7,571,366	24
1150	Notes receivable, net			2,029	-		1,753	-
1170	Accounts receivable, net	6(2)		4,013,705	12		4,138,493	13
1180	Accounts receivable—related parties, net			11	-		-	-
1200	Other receivables			56,716	-		57,411	-
1210	Other receivables—related parties			4,534	-		-	-
1220	Current tax assets			104,906	1		-	-
130X	Inventories	6(3)		1,929,239	6		1,877,982	6
1410	Prepayments			54,126	-		142,281	1
1460	Non-current assets held for sale, net	6(7)		-	-		3,105,071	10
1476	Other current financial assets			-	-		1,600	-
11XX	Total current assets			<u>14,200,980</u>	<u>43</u>		<u>16,895,957</u>	<u>54</u>
Non-current assets								
1543	Non-current financial assets carried at cost	6(4)		20,890	-		9,960	-
1550	Investments accounted for using equity method	6(5)		3,433,332	10		369,329	1
1600	Property, plant and equipment	6(6) and 8		15,265,311	46		13,497,218	43
1840	Deferred tax assets	6(28)		212,372	1		249,806	1
1920	Refundable deposits			21,342	-		21,321	-
1980	Other non-current financial assets	8		70,241	-		70,677	-
1990	Other non-current assets			35,474	-		181,692	1
15XX	Total non-current assets			<u>19,058,962</u>	<u>57</u>		<u>14,400,003</u>	<u>46</u>
1XXX	Total assets		\$	33,259,942	100	\$	31,295,960	100

(Continued)

ChipMOS TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2017		December 31, 2016	
			Amount	%	Amount	%
Liabilities						
Current liabilities						
2100	Short-term bank loans	6(8)	\$ 969,353	3	\$ -	-
2170	Accounts payable	6(9)	687,960	2	825,062	3
2180	Accounts payable—related parties		226	-	-	-
2200	Other payables	6(10)	2,693,495	8	1,962,400	6
2220	Other payables—related parties		36	-	-	-
2230	Current tax liabilities		790	-	90,104	-
2250	Current provisions	6(11)	127,311	1	80,719	-
2260	Liabilities directly related to non-current assets held for sale	6(7)	-	-	587,639	2
2310	Receipts in advance	6(14) and 7	5,209	-	1,324	-
2320	Long-term bank loans, current portion	6(12) and 8	2,143,168	6	1,062,285	4
2355	Long-term lease obligations payable, current portion	6(13)	11,785	-	11,291	-
2399	Other current liabilities		31,275	-	43,676	-
21XX	Total current liabilities		<u>6,670,608</u>	<u>20</u>	<u>4,664,500</u>	<u>15</u>
Non-current liabilities						
2540	Long-term bank loans	6(12) and 8	7,498,853	23	9,687,720	31
2570	Deferred tax liabilities	6(28)	174,293	1	92,543	-
2613	Long-term lease obligations payable	6(13)	18,057	-	29,311	-
2630	Long-term deferred revenue	6(14) and 7	24,898	-	-	-
2640	Net defined benefit liability, non-current	6(15)	478,526	1	546,968	2
2645	Guarantee deposits		1,371	-	1,404	-
25XX	Total non-current liabilities		<u>8,195,998</u>	<u>25</u>	<u>10,357,946</u>	<u>33</u>
2XXX	Total liabilities		<u>14,866,606</u>	<u>45</u>	<u>15,022,446</u>	<u>48</u>
Equity						
Equity attributable to equity holders of the Company						
Capital stock						
3110	Capital stock—common stock	6(17)	8,862,971	27	8,869,663	28
Capital surplus						
3200	Capital surplus	6(18)	6,288,377	19	6,888,826	22
Retained earnings						
3310	Legal reserve	6(19)	1,166,517	3	1,137,837	4
3350	Unappropriated retained earnings		3,071,424	9	286,801	1
Other equity interest						
3410	Financial statements translation differences of foreign operations	6(20)	65,593	-	10,600	-
3425	Unrealized gain on valuation of available-for-sale financial assets		678	-	-	-
3470	Equity directly related to non-current assets held for sale	6(7)	-	-	287,645	1
3490	Unearned employee awards		(54,570)	-	(200,204)	(1)
3500	Treasury stock	6(17)	(1,007,654)	(3)	(1,007,654)	(3)
31XX	Equity attributable to equity holders of the Company		<u>18,393,336</u>	<u>55</u>	<u>16,273,514</u>	<u>52</u>
3XXX	Total equity		<u>18,393,336</u>	<u>55</u>	<u>16,273,514</u>	<u>52</u>
Significant contingent liabilities and unrecognized contract commitments						
Significant events after the reporting period						
3X2X	Total liabilities and equity	11	\$ 33,259,942	100	\$ 31,295,960	100

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

ChipMOS TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items		Notes	Years ended December 31,			
			2017		2016	
			Amount	%	Amount	%
4000	Revenue	6(21)	\$ 17,940,855	100	\$ 18,387,593	100
5000	Cost of revenue	6(3)(26)(27)	(14,703,729)	(82)	(14,745,472)	(80)
5900	Gross profit		3,237,126	18	3,642,121	20
	Operating expenses	6(26)(27)				
6100	Sales and marketing expenses		(64,397)	-	(72,918)	-
6200	General and administrative expenses		(639,809)	(4)	(822,068)	(4)
6300	Research and development expenses		(985,873)	(5)	(838,866)	(5)
6000	Total operating expenses		(1,690,079)	(9)	(1,733,852)	(9)
6500	Other income (expenses), net	6(22)	692,834	4	90,306	-
6900	Operating profit		2,239,881	13	1,998,575	11
	Non-operating income (expenses)					
7010	Other income	6(23)	64,198	-	46,757	-
7020	Other gains and losses	6(24)	(391,818)	(2)	(194,705)	(1)
7050	Finance costs	6(25)	(217,283)	(1)	(179,116)	(1)
7060	Share of profit (loss) of associates and joint ventures accounted for using equity method	6(5)	(179,491)	(1)	28,924	-
7000	Total non-operating income (expenses)		(724,394)	(4)	(298,140)	(2)
7900	Profit before income tax		1,515,487	9	1,700,435	9
7950	Income tax expense	6(28)	(303,912)	(2)	(352,050)	(2)
8000	Profit for the year from continuing operations		1,211,575	7	1,348,385	7
8100	Profit (loss) for the year from discontinued operations	6(7)	1,814,953	10	(122,105)	(1)
8200	Profit for the year		\$ 3,026,528	17	\$ 1,226,280	6

(Continued)

ChipMOS TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share)

			Years ended December 31,			
			2017		2016	
Items		Notes	Amount	%	Amount	%
Other comprehensive income (loss)						
8311	Profit (loss) on remeasurements of defined benefit plans	6(15)	\$ 50,838	-	(\$ 43,383)	-
8330	Share of other comprehensive loss of associates and joint ventures accounted for using equity method that will not be reclassified to profit or loss	6(5)	(124)	-	(133)	-
8349	Income tax effect that will not be reclassified to profit or loss	6(28)	(8,642)	-	7,375	-
8310	Components of other comprehensive income (loss) that will not be reclassified to profit or loss		42,072	-	(36,141)	-
8361	Exchange differences on translation of foreign operations	6(20)	(232,652)	(1)	(200,280)	(1)
8380	Share of other comprehensive income of associates and joint ventures accounted for using equity method that will be reclassified to profit or loss	6(5)	678	-	-	-
8360	Components of other comprehensive loss that will be reclassified to profit or loss		(231,974)	(1)	(200,280)	(1)
8300	Other comprehensive loss, net of income tax		(\$ 189,902)	(1)	(\$ 236,421)	(1)
8500	Total comprehensive income for the year		<u>\$ 2,836,626</u>	<u>16</u>	<u>\$ 989,859</u>	<u>5</u>
Profit (loss) attributable to:						
Equity holders of the Company						
8610	- continuing operations		\$ 1,211,575	7	\$ 1,654,397	9
	- discontinued operations		1,814,953	10	(122,105)	(1)
8615	Predecessors' interests under common control		-	-	(306,012)	(2)
			<u>\$ 3,026,528</u>	<u>17</u>	<u>\$ 1,226,280</u>	<u>6</u>
Comprehensive income (loss) attributable to:						
Equity holders of the Company						
8710	- continuing operations		\$ 1,309,318	7	\$ 1,613,948	9
	- discontinued operations		1,527,308	9	(318,077)	(2)
8715	Predecessors' interests under common control		-	-	(306,012)	(2)
			<u>\$ 2,836,626</u>	<u>16</u>	<u>\$ 989,859</u>	<u>5</u>
Earnings per share-basic		6(29)				
Equity holders of the Company						
9710	- continuing operations		\$ 1.43		\$ 1.92	
9720	- discontinued operations		2.14		(0.14)	
9750	Equity holders of the Company		\$ 3.57		\$ 1.78	
	Predecessors' interests under common control		-		(0.35)	
Earnings per share-basic			<u>\$ 3.57</u>		<u>\$ 1.43</u>	
Earnings per share-diluted		6(29)				
Equity holders of the Company						
9810	- continuing operations		\$ 1.40		\$ 1.90	
9820	- discontinued operations		2.10		(0.14)	
9850	Equity holders of the Company		\$ 3.50		\$ 1.76	
	Predecessors' interests under common control		-		(0.35)	
Earnings per share-diluted			<u>\$ 3.50</u>		<u>\$ 1.41</u>	

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

ChipMOS TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

Equity attributable to equity holders of the Company													
		Retained earnings				Other equity interest							
	Notes	Capital stock —common stock	Capital surplus	Legal reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain on valuation of available-for- sale financial assets	Equity directly related to non-current assets held for sale	Unearned employee awards	Treasury stock	Total	Equity attributable to predecessors' interests under common control	Total equity
<u>Year 2016</u>													
Balance at January 1, 2016		\$ 8,962,066	\$ 3,755,849	\$ 914,790	\$ 5,858,579	\$ 63,668	\$ -	\$ -	(\$ 447,323)	\$ -	\$ 19,107,629	\$ 2,127,532	\$ 21,235,161
Appropriation of prior year's earnings:	6(19)												
Legal reserve		-	-	223,047	(223,047)	-	-	-	-	-	-	-	-
Cash dividends		-	-	-	(1,792,553)	-	-	-	-	-	(1,792,553)	-	(1,792,553)
Share-based payments		-	56,689	-	-	-	-	-	-	-	56,689	(128,602)	(71,913)
Restricted shares		4,347	10,755	-	14	-	-	-	247,119	-	262,235	-	262,235
Repurchase of shares	6(17)	-	-	-	-	-	-	-	-	(1,007,654)	(1,007,654)	-	(1,007,654)
Profit (loss) for the year		-	-	-	1,532,292	-	-	-	-	-	1,532,292	(306,012)	1,226,280
Other comprehensive loss for the year	6(20)	-	-	-	(36,141)	(200,280)	-	-	-	-	(236,421)	-	(236,421)
Reclassified as discontinued operations	6(7)	-	-	-	-	(287,645)	-	287,645	-	-	-	-	-
Effect of capital reorganization	6(30)	(96,750)	3,065,533	-	(5,052,343)	434,857	-	-	-	-	(1,648,703)	(1,692,918)	(3,341,621)
Balance at December 31, 2016		<u>\$ 8,869,663</u>	<u>\$ 6,888,826</u>	<u>\$ 1,137,837</u>	<u>\$ 286,801</u>	<u>\$ 10,600</u>	<u>\$ -</u>	<u>\$ 287,645</u>	<u>(\$ 200,204)</u>	<u>(\$ 1,007,654)</u>	<u>\$ 16,273,514</u>	<u>\$ -</u>	<u>\$ 16,273,514</u>
<u>Year 2017</u>													
Balance at January 1, 2017		\$ 8,869,663	\$ 6,888,826	\$ 1,137,837	\$ 286,801	\$ 10,600	\$ -	\$ 287,645	(\$ 200,204)	(\$ 1,007,654)	\$ 16,273,514	\$ -	\$ 16,273,514
Appropriation of prior year's earnings:	6(19)												
Legal reserve		-	-	28,680	(28,680)	-	-	-	-	-	-	-	-
Cash dividends		-	-	-	(257,026)	-	-	-	-	-	(257,026)	-	(257,026)
Cash distribution from capital surplus	6(18)(19)	-	(599,728)	-	-	-	-	-	-	-	(599,728)	-	(599,728)
Restricted shares	6(16)	(6,692)	(17,650)	-	1,729	-	-	-	145,634	-	123,021	-	123,021
Change in shareholding of equity investment	6(18)	-	16,929	-	-	-	-	-	-	-	16,929	-	16,929
Effect of disposal of a subsidiary	6(7)	-	-	-	-	287,645	-	(287,645)	-	-	-	-	-
Profit for the year		-	-	-	3,026,528	-	-	-	-	-	3,026,528	-	3,026,528
Other comprehensive income (loss) for the year	6(20)	-	-	-	42,072	(232,652)	678	-	-	-	(189,902)	-	(189,902)
Balance at December 31, 2017		<u>\$ 8,862,971</u>	<u>\$ 6,288,377</u>	<u>\$ 1,166,517</u>	<u>\$ 3,071,424</u>	<u>\$ 65,593</u>	<u>\$ 678</u>	<u>\$ -</u>	<u>(\$ 54,570)</u>	<u>(\$ 1,007,654)</u>	<u>\$ 18,393,336</u>	<u>\$ -</u>	<u>\$ 18,393,336</u>

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

ChipMOS TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

		Years ended December 31,	
	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax – continuing operations		\$ 1,515,487	\$ 1,700,435
Profit (loss) before income tax – discontinued operations	6(7)	1,814,953	(122,105)
Profit before income tax		3,330,440	1,578,330
Adjustments to reconcile profit (loss)			
Depreciation	6(6)(26)	2,899,278	3,228,441
Amortization	6(26)	-	2,838
(Reversal of) allowance for impairment of accounts receivable	6(2)	(87)	87
Interest expense		190,425	145,151
Interest income		(53,123)	(42,307)
Share-based payments	6(16)(27)	123,021	356,463
Share of (profit) loss of associates and joint ventures accounted for using equity method	6(5)	179,491	(28,924)
Donation		-	127
Gain on disposal of property, plant and equipment		(132,777)	(6,839)
Impairment loss on property, plant and equipment	6(6)(22)	956	8,198
Profit for the year from discontinued operations	6(7)	(1,814,953)	-
Elimination of the transactions between discontinued operations and affiliated companies		3,076	-
Deferred income		(11,434)	(2,403)
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(276)	(359)
Accounts receivable		124,875	(479,989)
Accounts receivable – related parties		26	-
Other receivables		703	(124,226)
Other receivables – related parties		35,855	-
Inventories		(51,257)	(347,133)
Prepayments		104,870	12,291
Other current financial assets		1,600	17,243
Other non-current assets		6,914	6,914
Changes in operating liabilities			
Accounts payable		(137,102)	215,555
Accounts payable – related parties		226	-
Other payables		450,625	(249,607)
Other payables – related parties		36	-
Current provisions		46,592	(16,184)
Receipts in advance		(172)	2,150
Other current liabilities		(12,401)	22,878
Net defined benefit liability, non-current		(17,604)	(15,886)
Cash generated from operations		5,267,823	4,282,809
Interest received		47,299	44,413
Dividends received		14,325	5,730
Interest paid		(188,630)	(145,668)
Income tax paid		(387,590)	(499,293)
Net cash generated from operating activities		4,753,227	3,687,991

(Continued)

ChipMOS TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31,	
		2017	2016
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of non-current financial assets carried at cost	6(4)	(\$ 10,940)	\$ -
Acquisition of investments accounted for using equity method	6(5) and 7	(1,373,486)	-
Acquisition of property, plant and equipment	6(32)	(4,411,180)	(4,471,465)
Proceeds from disposal of property, plant and equipment		306,634	59,134
(Increase) decrease in refundable deposits		(11)	407
Decrease (increase) in other current financial assets		436	(5,466)
Proceeds from disposal of a subsidiary	6(32)	2,230,544	-
Increase in other non-current assets		-	(139,304)
Cash and cash equivalents reclassified as non-current assets held for sale	6(1)(7)	-	(389,897)
Net cash used in investing activities		(3,258,003)	(4,946,591)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term bank loans		5,247,871	3,820,594
Payments on short-term bank loans		(4,278,518)	(4,969,469)
Proceeds from long-term bank loans		-	10,560,000
Payments on long-term bank loans		(1,124,699)	(6,200,567)
Decrease in guarantee deposits		(33)	(44)
Payments on repurchase of shares	6(17)	-	(1,007,654)
Cash paid in respect of share-based payments		-	(292,623)
Cash paid for capital reorganization	6(32)	-	(3,341,621)
Cash dividend	6(19)	(257,026)	(1,792,553)
Cash distribution from capital surplus	6(18)(19)	(599,728)	-
Net cash used in financing activities		(1,012,133)	(3,223,937)
Effect of foreign exchange rate changes		(18,743)	(73,447)
Net increase (decrease) in cash and cash equivalents		464,348	(4,555,984)
Cash and cash equivalents at beginning of year		7,571,366	12,127,350
Cash and cash equivalents at end of year		<u>\$ 8,035,714</u>	<u>\$ 7,571,366</u>

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

ChipMOS TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

ChipMOS TECHNOLOGIES INC. (the “Company”) was incorporated on July 28, 1997. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in the research, development, manufacturing and sale of high-integration and high-precision integrated circuits and related assembly and testing services. On April 11, 2014, the Company’s shares were listed on the Taiwan Stock Exchange (“TWSE”). On October 31, 2016, the Company’s former parent company, ChipMOS TECHNOLOGIES (Bermuda) LTD. (“ChipMOS Bermuda”) was merged with and into the Company, with the latter being the surviving company (the “Merger”). On November 1, 2016, the Company’s American Depositary Shares (“ADSs”) were listed on the NASDAQ Global Select Market.

2. THE AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements were authorized for issuance by the Board of Directors on March 15, 2018.

3. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

(1) Effect of the adoption of new or amended International Financial Reporting Standards (“IFRSs”) as endorsed by the Financial Supervisory Commission (“FSC”)

A. New standards, interpretations and amendments endorsed by the FSC effective from 2017 are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date issued by International Accounting Standards Board (“IASB”)</u>
Amendments to IFRS 10, IFRS 12 and International Accounting Standards (“IAS”) 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment 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 “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
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date issued by IASB</u>
International Financial Reporting Interpretations Committee (“IFRIC”) 21 “Levies”	January 1, 2014
Annual Improvements to IFRSs 2010 – 2012 Cycle	July 1, 2014
Annual Improvements to IFRSs 2011 – 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 – 2014 Cycle	January 1, 2016

- B. The above standards and interpretations have no significant impact on the Group’s financial position and financial performance based on the Group’s assessment.

(2) Effect of new, revised or amended IFRSs as endorsed by the FSC that has not been adopted

- A. New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date issued by IASB</u>
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendment to IFRS 4 on 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 IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendment to IAS 40 “Transfer of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018
Annual Improvements to IFRSs 2014 – 2016 Cycle – Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”	January 1, 2018
Annual Improvements to IFRSs 2014 – 2016 Cycle – Amendments to IFRS 12 “Disclosure of Interest in Other Entities”	January 1, 2017
Annual Improvements to IFRSs 2014 – 2016 Cycle – Amendments to IAS 28 “Investments in Associates and Joint Ventures”	January 1, 2018

- B. Except for the following, the above standards and interpretations have no significant impact on the Group’s financial position and financial performance based on the Group’s assessment.

(a) IFRS 9 “Financial Instruments”

- i. Debt instruments are classified as financial assets measured at the fair value through profit or loss, financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost according to the characteristics of the entity’s business model and the contractual cash flows. Equity instruments are

classified as financial assets measured at the fair value through profit or loss, unless an entity irrevocably designates an investment in equity instruments that is not held for trading as measured at fair value through other comprehensive income.

- ii. The expected loss model is used to assess the impairment losses of debt instruments. The 12 months expected credit loss or lifetime expected credit loss (i.e. interest income calculated on the gross carrying amount of the asset before impairment losses occurred) is adopted if the credit risk of a financial instrument has increased significantly since the initial recognition at each balance sheet date; or if the instrument has been impaired, the interest income after the impairment is calculated based on the book value (net of allowance) of the asset. The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(b) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”) replaces IAS 11 “Construction Contracts”, IAS 18 “Revenue” and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following five steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract(s).

Step 5: Recognize revenue when (or as) the entity satisfies the performance obligation.

Furthermore, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(c) Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of the good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a license should

be recognized at a point of time or over a period of time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

(d) Amendments to IAS 7 “Disclosure initiative”

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group expects to provide additional disclosure describing the changes in liabilities arising from financing activities.

C. When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 “Financial Instruments” (“IFRS 9”) and adopt IFRS 15 using the modified retrospective approach from January 1, 2018. The significant effects of applying the new standards as of January 1, 2018 are summarized below:

(a) In accordance with IFRS 9, the Group expects to reclassify financial assets carried at cost in the amount of \$9,950, and make an irrevocable decision at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, retained earnings and other equity interest in the amounts of \$89,335, \$28,584 and \$50,801, respectively.

(b) In accordance with IFRS 9, the Group expects to reclassify financial assets carried at cost in the amount of \$10,940, by increasing financial assets at fair value through profit or loss and retained earnings in the amounts of \$11,433 and \$493, respectively.

(c) In line with the regulations under IFRS 9 on provision for impairment based on the expected credit loss model, contract assets will be decreased by \$115, accounts receivable decreased by \$1,819, other receivables decreased by \$5, other receivables—related parties decreased by \$2, and retained earnings decreased by \$1,941.

(d) Revenue recognition of customized products

The Group provides high-integration and high-precision integrated circuits and related assembly and testing services based on the specifications as required by the customers. The revenue is recognized when the significant risks and rewards are transferred under previous accounting policies, and the timing of recognition usually occurred upon service completion. Considering that the Group provides assembly and testing service to create or enhance a highly customized product and the customer controls the asset as it is created or enhanced, the revenue will be recognized based on the percentage of completion under IFRS 15. As a result, retained earnings will be increased by \$46,607, inventory decreased by \$208,505 and contract assets increased by \$255,112.

(e) Presentation of contract assets and contract liabilities

In line with IFRS 15 requirements, the Group’s liabilities in relation to sales discounts to customers are recognized as contract liabilities, but were previously presented as current

provisions in the balance sheet. As of January 1, 2018, the balance is \$70,156.

(f) Recognition of deferred tax

When initially adopting IFRS 9 and IFRS 15, the Group will have to recognize adjustments in the balance sheet which would result to temporary differences. Accordingly, as of January 1, 2018, deferred tax assets will be decreased by \$736 and deferred tax liabilities increased by \$19,651.

(3) The IFRSs issued by IASB but not yet endorsed by the FSC

A. New, revised or amended standards and interpretations issued by IASB but not yet included in the IFRSs endorsed by the FSC are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date issued by IASB</u>
Amendments to IFRS 9, “Prepayments Features with Negative Compensation”	January 1, 2019
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined By IASB
IFRS 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 19, “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28, “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019
Annual Improvements to IFRSs 2015 – 2017 Cycle	January 1, 2019

B. Except for the following, the above standards and interpretations have no significant impact on the Group’s financial position and financial performance based on the Group’s assessment.

IFRS 16 “Leases”

IFRS 16 “Leases” (“IFRS 16”) supersedes IAS 17 “Leases” and the related interpretations. The standard requires lessees to recognize a right-of-use asset and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting treatment is the same for lessors, who classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these accompanying consolidated financial statements are set out below. These policies have been consistently applied during the reported periods, unless otherwise stated.

(1) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, IFRSs, IASs and interpretations of IFRSs and IASs as endorsed by the FSC (“IFRSs”).

(2) Basis of preparation

- A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
- (a) Available-for-sale financial assets were measured at fair value.
 - (b) Defined benefit liabilities were recognized based on the net amount of pension fund assets less the present value of benefit obligation.
- B. The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Transactions, balances and unrealized gains or losses between inter-companies and the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in a deficit balance in the non-controlling interests.
- (d) Changes in a parent's ownership interests in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of investee	Main business	Percentage of Ownership (%)		Note
			December 31, 2017	December 31, 2016	
The Company	ChipMOS U.S.A., Inc. ("ChipMOS USA")	Research, development, and marketing of semiconductors, circuits, electronic related products	100	100	
The Company	ChipMOS TECHNOLOGIES (BVI) LTD. ("ChipMOS BVI")	Holding company	100	100	
ChipMOS BVI	ChipMOS TECHNOLOGIES (Shanghai) LTD. ("ChipMOS Shanghai")	Semiconductor assembling and testing services	-	100	Note

Note: On November 30, 2016, the Company's Board of Directors approved ChipMOS BVI's disposal of 54.98% interests of its subsidiary, ChipMOS Shanghai. The transaction was completed in March 2017, thereafter, ChipMOS Shanghai was excluded from the consolidated financial statements and recorded as "Investments accounted for using equity method". Detailed information is provided in Note 6(5).

C. Subsidiaries not included in the consolidated financial statements:

None.

D. Adjustments for subsidiaries with different balance sheet dates:

Not applicable.

E. Significant restrictions on the funds transfer from subsidiaries to parent company:

According to the Regulations on the Foreign Exchange System of the People's Republic of China ("P.R.C."), capital inward and outward remittance of ChipMOS Shanghai have to be approved by the regulatory foreign exchange administrations and designated banks.

F. Subsidiaries that have non-controlling interests that are material to the Group:

None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars (NTD), which is the Company's functional currency and the Group's presentation currency.

A. Foreign currency transactions and balances

- Foreign currency transactions are translated into the functional currency using the exchange rates on the trade date or measurement date. Therefore, foreign exchange differences resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation are recognized in profit or loss on the balance sheet date.
- Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their exchange differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their exchange differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured

at fair value are translated using the historical exchange rates at the initial dates of the transactions.

- (d) All foreign exchange differences are presented in the statement of comprehensive income under “other gains and losses” by the nature of transactions.

B. Translation of foreign operations

The operating results and financial position of all the group entities, associates that have different functional currency and presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet are translated at the exchange rates prevailing at the balance sheet date;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All exchange differences are recognized in other comprehensive income.

(5) Classification of current and non-current assets and liabilities

A. Assets that meet one of the following criteria are classified as current assets:

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within 12 months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than 12 months after the balance sheet date.

All assets that do not meet the above criteria are classified as non-current assets.

B. Liabilities that meet one of the following criteria are classified as current liabilities:

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within 12 months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be unconditionally extended to more than 12 months after the balance sheet date. Liabilities bearing terms that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All liabilities that do not meet the above criteria are classified as non-current liabilities.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits that meet the above definition and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

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

A. Financial assets at fair value through profit or loss (“FVTPL”) are financial assets held for trading or financial assets designated as at fair value through profit or loss on the initial recognition. Financial assets are classified as assets held for trading if acquired principally for

the purpose of selling in the short term. The purchase or disposal of FVTPL is a type of operating activity that derives from managing operating cash. Derivatives are categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on the initial recognition:

- (a) Hybrid (combined) contracts; or
- (b) Eliminating or significantly reducing the inconsistency on measurement or recognition; or
- (c) Investment is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.

C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are recognized in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

D. As of December 31, 2017 and 2016, there were no financial assets classified as FVTPL.

(8) Loans and receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or loss events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss are as follows:

- (a) Significant financial difficulty of the issuer or the debtor;
- (b) A breach of contract, such as a default or delinquency in interest or principal payments;
- (c) The Group, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (d) The possibility of the borrower entering bankruptcy or other financial reorganization increases significantly;
- (e) The disappearance of an active market for that financial asset because of financial difficulties;
- (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or

- local economic conditions that correlate with defaults on the assets in the group;
- (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
 - (h) The fair value of an investment of equity instrument declines significantly or prolonged below its cost.
- C. When the Group assesses there is objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made according to the category of financial assets, as follows:

(a) Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. The impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset have expired.

(11) Inventories

Inventories are initially recorded at cost. Cost is determined on a weighted-average cost basis. At the end of reporting period, the differences were allocated to inventories and cost of revenue based on an appropriate rate. Allocation of fixed production overheads is based on the normal operating capacity of the production facilities. Costs associated with underutilized capacity are expensed in the period that the cost occurs.

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The item by item approach is used in raw materials, and category method is used in work in process and finished goods. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs.

(12) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(13) Investments accounted for using equity method - associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in "capital surplus" in proportion to its ownership.
- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case where an associate issues new shares and the Group does not subscribe or proportionately acquire the new shares, which results in a change in the Group's ownership percentage of the associate while maintaining significant influence on the associate, then "capital surplus" and "investments accounted for using the equity method" shall be adjusted for the increase or decrease of its share of equity interests. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. When the Group disposes of its investment in an associate, if it loses significant influence on this associate, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence on this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8 "Accounting Policies, Change in Accounting Estimates and Errors", from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	6 to 51 years
Machinery and equipment	2 to 8 years
Tools	2 to 3 years
Others	2 to 6 years

(15) Leased assets / operating leases (lessee)

- A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.
 - (a) A finance lease is recognized as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.
 - (b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
 - (c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.
- B. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(16) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher

of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(17) Loans

Loans are recognized initially at fair value, net of transaction costs incurred. Loans are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the loans using the effective interest method.

(18) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(19) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision arising from the passage of time is recognized as interest expense. Provisions are not recognized for future operating losses.

(20) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees and should be recognized as expenses when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in the current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The discount rate is determined by using the interest rates of government

bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

ii. Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognized immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes an expense as it can no longer withdraw an offer of termination benefits, or it recognizes related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(21) Employee share-based payments

A. For equity-settled share-based payment arrangements, employee services received are measured at the fair value of the equity instruments awarded at the granting date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

B. For the cash-settled share-based payment arrangements, the cost of cash-settled transactions is measured initially at fair value at the grant date using an appropriate valuation model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in employee benefit expenses.

C. The entity settling a share-based payment transaction when another entity in the group receives the goods or services shall recognize the transaction as an equity-settled share-based payment transaction only if it is settled in the entity's own equity instruments. Otherwise, the transaction shall be recognized as a cash-settled share-based payment transaction.

D. Restricted shares:

(a) Restricted shares issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period.

- (b) For restricted shares where those shares do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognizes the fair value of the dividends received by employees who are expected to resign during the vesting period as a compensation cost at the date the dividends were declared.
- (c) For restricted stocks where employees do not need to pay to acquire those shares, if an employee resigns during the vesting period, the Group will recover and retire those shares at no cost.

(22) Income tax

- A. The income tax expense for the period comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the income tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% income tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(23) Capital stock

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options in net proceeds of tax are shown in equity as a deduction.
- B. Where the Company repurchases the Company's shares that have been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is

deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(24) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(25) Revenue recognition

A. The Group is primarily engaged in research, development, manufacturing, sale, assembling and testing of high-integration and high-precision integrated circuits. The criteria that the Group uses to determine when to recognize revenue are:

- (a) The entity has transferred the significant risks and rewards of ownership of the goods to the buyer;
- (b) The entity retains neither continuing managerial involvement nor effective control over the goods sold;
- (c) The amount of revenue can be measured reliably;
- (d) It is probable that the economic benefits associated with the transaction will flow to the entity;
- (e) The stage of completion of the transaction can be measured reliably;
- (f) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

B. The Group does not provide warranties to customers except in cases of deficiencies in the assembly and testing services provided. An appropriate sales allowance is recognized in the period during which the sale is recognized, and is estimated based on historical experience.

(26) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Group's chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chairman of the Board of Directors that makes strategic decisions.

(27) Capital reorganization

A. On October 31, 2016, the Company merged with its former parent company, ChipMOS Bermuda, through a share exchange and the transaction was accounted for as a capital reorganization within the Group. When presenting comparative financial statements, the Company presented it as if ChipMOS Bermuda had always been combined and the financial statements were restated retrospectively. The assets and liabilities acquired from ChipMOS Bermuda was measured using the book value method, and any differences between the consideration given by the Company and the aggregate book value of the assets and liabilities of ChipMOS Bermuda were first accounted for as addition (deduction) in capital surplus arising from share premiums, and if the share premium is insufficient, the remaining balance will be accounted for as a deduction from unappropriated retained earnings. In addition, on the effective date of the Merger, the Company reclassified its shares originally held by ChipMOS

Bermuda as treasury stock and cancelled those shares with deduction in capital surplus equal to the proportion of retired shares. If capital surplus is insufficient, the remaining balance will be accounted for as a deduction from unappropriated retained earnings. Transaction costs attributable to the Merger were accounted for as a deduction from capital surplus.

- B. Pursuant to the Interpretation (2012) No. 301 issued by the Accounting Research and Development Foundation, when presenting comparative financial statements, the Company presented it as if ChipMOS Bermuda had always been combined and the financial statements were restated retrospectively. Net income attributable to ChipMOS Bermuda prior to the Merger were presented as “Predecessors’ interests under common control”.

5. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of the accompanying consolidated financial statements requires management to make critical judgments in applying the Group’s accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgments in applying the Group’s accounting policies

Provisions for deficiency compensation

The Group is primarily engaged in the research, development, manufacturing, sale, and assembly and testing of high-integration and high-precision integrated circuits. In any cases where deficiencies in the assembly and testing services arise, the Group has to clarify the reason for deficiencies and attribute of responsibilities. The Group follows the guidance of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” to determine warranty provisions. Since the timing and amount of these warranties are based on assumptions and estimates it requires management to make critical judgments.

(2) Critical accounting estimates and assumptions

A. Revenue recognition

The Group estimates sales discounts and returns based on historical results and other known factors. Provisions for such liabilities are recorded as a deduction item to sales revenues when the sales are recognized. The Group reassesses the reasonableness of estimates of discounts and returns periodically.

B. Causes and effects of accounting estimate change

By considering the Group's experience on using similar property, plant and equipment in prior periods as well as by referring to the experience from peer industries, on November 10, 2016, the Board of Directors approved to change the estimated useful lives of certain properties from 11 years to 16 years and certain equipment from 2~6 years to 2~8 years effectively from November 1, 2016, in order to better reflect economic benefits from consumption of those property and equipment.

The impact on depreciation expenses of 2016 and future periods were expected as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Decrease in depreciation expenses	(\$ 119,737)	(\$ 605,259)	(\$ 389,972)	(\$ 164,824)

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand and petty cash	\$ 470	\$ 525
Checking accounts and demand deposits	4,151,630	4,106,384
Time deposits	<u>3,883,614</u>	<u>3,854,354</u>
	8,035,714	7,961,263
Less: Cash and cash equivalents of discontinued operations	<u>-</u>	<u>(389,897)</u>
	<u>\$ 8,035,714</u>	<u>\$ 7,571,366</u>

A. On November 30, 2016, the Company's Board of Directors approved its subsidiary ChipMOS BVI to sell 54.98% of ChipMOS Shanghai's equity, and the transaction was completed in March 2017. The cash and cash equivalents of ChipMOS Shanghai as of December 31, 2016 amounted to \$389,897 were reclassified and shown as "Non-current assets held for sale, net". Information is provided in Note 6(7).

B. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

C. No cash and cash equivalents of the Group were pledged to others.

(2) Accounts receivable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 4,013,705	\$ 4,138,580
Less: Allowance for doubtful accounts	<u>-</u>	<u>(87)</u>
	<u>\$ 4,013,705</u>	<u>\$ 4,138,493</u>

A. The Group's credit term granted to customers is 30~90 days. Receivables do not bear interest. The Group determines the recoverable amount based on any changes in the credit quality of the customers from initial recognition to the end of the reporting period. The allowance for doubtful accounts is determined based on the current financial condition of customers.

B. The Group's accounts receivable that were neither past due nor impaired were fully performed in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability.

C. The aging analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
≤ 1 month	\$ 10,482	\$ 24,141
1-2 months	477	728
2-3 months	426	183
3-4 months	1,431	245
> 4 months	<u>3,056</u>	<u>2,013</u>
	<u>\$ 15,872</u>	<u>\$ 27,310</u>

D. Movement analysis of financial assets that were impaired is as follows:

(a) As of December 31, 2017 and 2016, the Group's accounts receivable that were impaired amounted to \$0 and \$87, respectively.

(b) Movements in the provision for impairment of accounts receivable are as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Collective provision</u>	<u>Total</u>
January 1	\$ 87	\$ -	\$ 87
Reversal of allowance for impairment	(87)	-	(87)
December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>2016</u>		
	<u>Individual provision</u>	<u>Collective provision</u>	<u>Total</u>
January 1	\$ -	\$ -	\$ -
Provision for impairment	<u>87</u>	<u>-</u>	<u>87</u>
December 31	<u>\$ 87</u>	<u>\$ -</u>	<u>\$ 87</u>

E. No accounts receivable of the Group were pledged to others.

(3) Inventories

	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Allowance for impairment losses</u>	<u>Carrying amount</u>
Raw materials	\$ 1,769,917	(\$ 49,183)	\$ 1,720,734
Work in process	180,252	(4,163)	176,089
Finished goods	<u>32,784</u>	<u>(368)</u>	<u>32,416</u>
Total	<u>\$ 1,982,953</u>	<u>(\$ 53,714)</u>	<u>\$ 1,929,239</u>

	December 31, 2016		
	Cost	Allowance for impairment losses	Carrying amount
Raw materials	\$ 1,787,810	(\$ 140,463)	\$ 1,647,347
Work in process	190,823	(14,203)	176,620
Finished goods	54,190	(175)	54,015
Total	<u>\$ 2,032,823</u>	<u>(\$ 154,841)</u>	<u>\$ 1,877,982</u>

The cost of inventories recognized as an expense for the year:

	2017	2016
Cost of revenue	\$ 14,958,886	\$ 15,655,485
Loss on abandonment	38,460	9,567
(Reversal of) allowance for inventory valuation and obsolescence loss	(98,539)	66,424
	14,898,807	15,731,476
Less: Cost of revenue of discontinued operations	(195,078)	(986,004)
	<u>\$ 14,703,729</u>	<u>\$ 14,745,472</u>

A. Reversal of allowance for inventory valuation loss was recognized due to the change in market value of replacement costs.

B. No inventories of the Group were pledged to others.

(4) Non-current financial assets carried at cost

	December 31, 2017	December 31, 2016
Unlisted preferred stocks – domestic	\$ -	\$ 10
Unlisted stocks – domestic	-	41,336
Unlisted foreign stocks and partnerships	49,474	38,534
	49,474	79,880
Less: Allowance for impairment losses	(28,584)	(69,920)
	<u>\$ 20,890</u>	<u>\$ 9,960</u>

A. Based on the Group's intention, the investments should be classified as "available-for-sale financial assets". However, as these unlisted stocks are not traded in an active market, and no sufficient industry and financial information of companies similar to these unlisted stocks can be obtained, the fair value of the investment in unlisted stocks cannot be measured reliably. As a result, the Group classified the investments as "Financial assets carried at cost".

B. Due to the operation loss and accumulated deficit of VIGOUR TECHNOLOGY Corporation (“VIGOUR”), the Company has recognized full impairment loss of its investments on VIGOUR amounted to \$41,336 in prior years. Based on the Company’s assessment, considering VIGOUR is currently in liquidation process and no residual assets are expected to be available for distributions, the carrying amount of investments and accumulated impairment losses were reclassified to “Other receivables” in the fourth quarter of 2017.

C. No financial assets carried at cost held by the Group was pledged to others.

(5) Investments accounted for using equity method

<u>Associates</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
JMC ELECTRONICS CO., LTD. (“JMC”)	\$ 373,276	\$ 369,329
ChipMOS Shanghai	<u>3,060,056</u>	<u>-</u>
	<u>\$ 3,433,332</u>	<u>\$ 369,329</u>

A. On November 30, 2016, the Company’s Board of Directors adopted a resolution to authorize its subsidiary, ChipMOS BVI, to dispose 54.98% of ChipMOS Shanghai’s equity. The equity transfer was completed in March 2017, and subsequently, due to the loss of control but retention of significant influence, ChipMOS Shanghai was excluded from the consolidated financial statements and recorded as “Investments accounted for using equity method”. Information is provided in Note 6(7).

B. In June 2017, ChipMOS BVI participated in ChipMOS Shanghai’s increase of paid-in capital based on its shareholding amounted to \$1,373,486.

C. In January 2017, the Company did not participate in the capital increase of JMC, which reduced the Company’s ownership from 21.22% to 19.10%. Given that the Company still retains significant influence by holding two seats in JMC’s Board of Directors, JMC was still recognized as “Investments accounted for using equity method”. As a result of the change in shareholding, the Company recognized capital surplus from long-term investment amounted to \$16,929 for the year ended December 31, 2017.

D. JMC has quoted market prices. As of December 31, 2017 and 2016, the fair value was \$1,155,550 and \$706,318, respectively.

E. The Company’s investments accounted for using equity method are based on the audited financial statements of investees for the reporting periods. For the years ended December 31, 2017 and 2016, the Company recognized its share of profit (loss) of investments accounted for using equity method amounted to (\$179,491) and \$28,924, respectively.

F. The basic information and summarized financial information of the associates of the Group are as follows:

(a) Basic information

<u>Company name</u>	<u>Principal place of business</u>	<u>Shareholding ratio</u>		<u>Nature of relationship</u>	<u>Method of measurement</u>
		<u>December 31, 2017</u>	<u>December 31, 2016</u>		
JMC	Kaohsiung Taiwan	19.10%	21.22%	None	Equity method
ChipMOS Shanghai	Shanghai P.R.C.	45.02%	-	None	Equity method

(b) Summarized financial information

Balance sheets

	JMC	
	December 31, 2017	December 31, 2016
Current assets	\$ 833,914	\$ 904,571
Non-current assets	1,161,620	876,314
Current liabilities	(284,580)	(258,513)
Non-current liabilities	(1,756)	(2,491)
Total net assets	<u>\$ 1,709,198</u>	<u>\$ 1,519,881</u>
Share in associate's net assets	\$ 326,456	\$ 322,509
Goodwill	<u>46,820</u>	<u>46,820</u>
Carrying amount of the associate	<u>\$ 373,276</u>	<u>\$ 369,329</u>

Balance sheets

	ChipMOS Shanghai December 31, 2017
Current assets	\$ 3,380,641
Non-current assets	2,766,839
Current liabilities	(460,054)
Non-current liabilities	(489,097)
Total net assets	<u>\$ 5,198,329</u>
Share in associate's net assets	\$ 2,340,506
Depreciable assets	703,536
Goodwill	22,118
Inter-company transactions and amortization	(6,104)
Carrying amount of the associate	<u>\$ 3,060,056</u>

Statements of comprehensive income

	JMC	
	2017	2016
Revenue	<u>\$ 1,322,928</u>	<u>\$ 1,667,761</u>
Profit for the year from continuing operations	\$ 4,414	\$ 136,303
Other comprehensive income (loss), net of income tax	<u>2,903</u>	(627)
Total comprehensive income	<u>\$ 7,317</u>	<u>\$ 135,676</u>
Dividend received from the associate	<u>\$ 14,325</u>	<u>\$ 5,730</u>

Statements of comprehensive income

	ChipMOS Shanghai 2017
Revenue	\$ 1,141,415
Loss for the year from continuing operations	(\$ 348,472)
Other comprehensive income, net of income tax	-
Total comprehensive loss	(\$ 348,472)
Dividend received from associate	\$ -

According to IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, total comprehensive income of ChipMOS Shanghai for the three months ended March 31, 2017 is included in the Group’s consolidated statements of comprehensive income with the adjustments of ceasing to recognize depreciation and amortization expenses and the elimination of inter-companies’ transactions. Information about discontinued operations is provided in Note 6(7).

(6) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Tools	Others	Construction in progress and equipment to be inspected	Total
<u>January 1, 2017</u>							
Cost	\$ 452,738	\$ 11,183,278	\$ 47,002,228	\$ 3,999,894	\$ 3,353,413	\$ 1,627,816	\$ 67,619,367
Accumulated depreciation and impairment	-	(6,395,332)	(39,430,608)	(3,475,451)	(2,786,790)	-	(52,088,181)
	452,738	4,787,946	7,571,620	524,443	566,623	1,627,816	15,531,186
Less: Property, plant and equipment classified as non-current assets held for sale	-	(710,191)	(433,688)	(90,460)	(168,314)	(631,315)	(2,033,968)
	<u>\$ 452,738</u>	<u>\$ 4,077,755</u>	<u>\$ 7,137,932</u>	<u>\$ 433,983</u>	<u>\$ 398,309</u>	<u>\$ 996,501</u>	<u>\$ 13,497,218</u>
<u>2017</u>							
January 1	\$ 452,738	\$ 4,077,755	\$ 7,137,932	\$ 433,983	\$ 398,309	\$ 996,501	\$ 13,497,218
Additions	-	211,098	2,007,767	571,601	195,957	1,716,268	4,702,691
Disposals	-	-	(30,066)	(2,302)	(1,865)	-	(34,233)
Reclassifications	-	141,400	1,535,619	44,882	22,149	(1,744,050)	-
Depreciation expenses	-	(511,167)	(1,837,482)	(357,695)	(192,934)	-	(2,899,278)
Impairment losses	-	-	-	-	(956)	-	(956)
Exchange adjustment	-	-	(43)	-	(88)	-	(131)
December 31	<u>\$ 452,738</u>	<u>\$ 3,919,086</u>	<u>\$ 8,813,727</u>	<u>\$ 690,469</u>	<u>\$ 420,572</u>	<u>\$ 968,719</u>	<u>\$ 15,265,311</u>
<u>December 31, 2017</u>							
Cost	\$ 452,738	\$ 9,809,970	\$ 45,778,207	\$ 4,004,703	\$ 2,624,083	\$ 968,719	\$ 63,638,420
Accumulated depreciation and impairment	-	(5,890,884)	(36,964,480)	(3,314,234)	(2,203,511)	-	(48,373,109)
	<u>\$ 452,738</u>	<u>\$ 3,919,086</u>	<u>\$ 8,813,727</u>	<u>\$ 690,469</u>	<u>\$ 420,572</u>	<u>\$ 968,719</u>	<u>\$ 15,265,311</u>

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Tools</u>	<u>Others</u>	<u>Construction in progress and equipment to be inspected</u>	<u>Total</u>
<u>January 1, 2016</u>							
Cost	\$ 452,738	\$ 10,700,236	\$ 45,945,380	\$ 3,673,636	\$ 3,047,001	\$ 826,103	\$ 64,645,094
Accumulated depreciation and impairment	-	(5,863,556)	(38,602,675)	(3,323,862)	(2,643,441)	-	(50,433,534)
	<u>\$ 452,738</u>	<u>\$ 4,836,680</u>	<u>\$ 7,342,705</u>	<u>\$ 349,774</u>	<u>\$ 403,560</u>	<u>\$ 826,103</u>	<u>\$ 14,211,560</u>
<u>2016</u>							
January 1	\$ 452,738	\$ 4,836,680	\$ 7,342,705	\$ 349,774	\$ 403,560	\$ 826,103	\$ 14,211,560
Additions	-	255,916	934,913	358,413	351,850	2,789,903	4,690,995
Disposals	-	(51)	(8,624)	-	(351)	-	(9,026)
Reclassifications	-	372,448	1,509,798	22,882	37,373	(1,942,501)	-
Depreciation expenses	-	(631,233)	(2,188,976)	(201,755)	(206,477)	-	(3,228,441)
Impairment losses	-	-	-	-	(8,198)	-	(8,198)
Exchange adjustment	-	(45,814)	(18,196)	(4,871)	(11,134)	(45,689)	(125,704)
December 31	<u>\$ 452,738</u>	<u>\$ 4,787,946</u>	<u>\$ 7,571,620</u>	<u>\$ 524,443</u>	<u>\$ 566,623</u>	<u>\$ 1,627,816</u>	<u>\$ 15,531,186</u>
<u>December 31, 2016</u>							
Cost	\$ 452,738	\$ 11,183,278	\$ 47,002,228	\$ 3,999,894	\$ 3,353,413	\$ 1,627,816	\$ 67,619,367
Accumulated depreciation and impairment	-	(6,395,332)	(39,430,608)	(3,475,451)	(2,786,790)	-	(52,088,181)
	452,738	4,787,946	7,571,620	524,443	566,623	1,627,816	15,531,186
Less: Property, plant and equipment classified as non-current assets held for sale	-	(710,191)	(433,688)	(90,460)	(168,314)	(631,315)	(2,033,968)
	<u>\$ 452,738</u>	<u>\$ 4,077,755</u>	<u>\$ 7,137,932</u>	<u>\$ 433,983</u>	<u>\$ 398,309</u>	<u>\$ 996,501</u>	<u>\$ 13,497,218</u>

A. Amount of borrowing costs capitalized as part of property, plant and equipment and the range of the interest rates for such capitalization are as follows:

	<u>2017</u>	<u>2016</u>
Amount of interest capitalized	\$ 18,769	\$ 13,435
Range of the interest rates for capitalization	1.7624%	1.7456%~3.6166%

B. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(7) Non-current assets held for sale and discontinued operations

A. On November 30, 2016, the Company's Board of Directors approved its subsidiary, ChipMOS BVI, to dispose 54.98% of ChipMOS Shanghai's equity to Tibet Unigroup Guowei Investment Co., Ltd. and other strategic investors. As of December 31, 2016, the assets, liabilities and equity related to ChipMOS Shanghai have been reclassified as held for sale and presented as discontinued operations for satisfying the definition of discontinued operations. The equity transfer was completed in March 2017, and subsequently, due to the loss of control but

retention of significant influence, ChipMOS Shanghai was excluded from the consolidated financial statements and recorded as “Investments accounted for using equity method”. Information is provided in Note 6(5).

B. The cash flow information of the discontinued operations is as follows:

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities	(\$ 109,079)	(\$ 1,109,029)
Cash flows from investing activities	(272,925)	(1,331,564)
Cash flows from financing activities	461,312	1,463,664
Effect of foreign exchange rate changes	(19,874)	(61,336)
Net increase (decrease) in cash and cash equivalents	<u>\$ 59,434</u>	<u>(\$ 1,038,265)</u>

C. Assets of disposal group classified as held for sale:

	<u>December 31, 2016</u>
Cash and cash equivalents	\$ 389,897
Accounts receivable, net	230,523
Other receivables	202,909
Inventories	136,842
Prepayments	15,943
Other current financial assets	1,193
Property, plant and equipment	2,033,968
Refundable deposits	113
Long-term prepaid rents	82,291
Other non-current assets	<u>11,392</u>
	<u>\$ 3,105,071</u>

D. Liabilities of disposal group classified as held for sale:

	<u>December 31, 2016</u>
Accounts payable	\$ 98,973
Other payables	177,178
Receipts in advance	6,687
Long-term bank loans, current portion	7,614
Long-term lease obligations payable, current portion	27,702
Other current liabilities	34,276
Long-term bank loans	106,461
Long-term lease obligations payable	27,702
Long-term deferred revenue	100,395
Guarantee deposits	<u>651</u>
	<u>\$ 587,639</u>

E. Equity of disposal group classified as held for sale:

	<u>December 31, 2016</u>
Financial statements translation differences of foreign operations	<u>\$ 287,645</u>

F. Cumulative income or expense recognized in other comprehensive income relating to disposal group classified as held for sale:

	<u>2017</u>	<u>2016</u>
Financial statements translation differences of foreign operations	(\$ <u>287,645</u>)	(\$ <u>195,972</u>)

G. The result of discontinued operations is as follows:

	<u>2017</u>	<u>2016</u>
Revenue	\$ 227,095	\$ 1,005,166
Cost of revenue	(195,078)	(986,004)
Operating expenses	(58,840)	(179,178)
Other income (expenses), net	1,429	13,753
Non-operating income (expenses), net	(<u>2,887</u>)	<u>24,158</u>
Loss from discontinued operations before income tax	(28,281)	(122,105)
Income tax expense	<u>-</u>	<u>-</u>
Loss from discontinued operations after income tax	(28,281)	(122,105)
Gain on disposal of discontinued operations	<u>1,843,234</u>	<u>-</u>
Profit (loss) from discontinued operations	<u>\$ 1,814,953</u>	<u>(\$ 122,105)</u>

H. The transfer of ChipMOS Shanghai's equity was completed in March 2017. The analysis of disposal gain is as follows:

	<u>2017</u>
Gain on disposal of equity	\$ 999,630
Fair value gain on remeasurement of retained investment	<u>843,604</u>
Gain on disposal of discontinued operations	<u>\$ 1,843,234</u>

(8) Short-term bank loans

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<u>Bank loans</u>		
Unsecured bank loans	\$ <u>969,353</u>	\$ <u>-</u>
Interest rate range	<u>0.55%~1.71%</u>	<u>-</u>
Unused credit lines of short-term bank loans		
NT\$	\$ <u>3,028,357</u>	\$ <u>3,119,000</u>
US\$ (in thousands)	\$ <u>80,000</u>	\$ <u>80,000</u>

(9) Accounts payable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts payable	\$ 250,785	\$ 367,688
Estimated accounts payable	<u>437,175</u>	<u>457,374</u>
	\$ <u>687,960</u>	\$ <u>825,062</u>

(10) Other payables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Salaries and bonuses payable	\$ 601,239	\$ 443,993
Interest payable	2,854	1,059
Pension payable	32,402	29,930
Employees' compensation payable	371,912	70,553
Directors' remuneration payable	18,596	3,528
Payable to equipment suppliers	713,313	550,346
Other expense payable	<u>953,179</u>	<u>862,991</u>
	\$ <u>2,693,495</u>	\$ <u>1,962,400</u>

(11) Current provisions

A. Movements in provisions are as follows:

	<u>2017</u>		
	<u>Provisions for sales allowance</u>	<u>Provisions for deficiency compensation</u>	<u>Total</u>
January 1	\$ 66,065	\$ 14,654	\$ 80,719
Provision	117,234	119,318	236,552
Payment	(113,143)	(76,817)	(189,960)
December 31	\$ <u>70,156</u>	\$ <u>57,155</u>	\$ <u>127,311</u>

B. The Company's provisions include sales allowance and deficiency compensation. The details of these provisions are provided in Notes 5(1) and 5(2)A.

(12) Long-term bank loans

Type of loans	Period and payment term	December 31, 2017	December 31, 2016
Syndicated bank loan	Borrowing period is from June 30, 2016 to June 30, 2021; interest is repayable monthly; principal is repayable semi-annually from December 30, 2017.	\$ 9,675,301	\$ 10,800,000
Less: Fee on syndicated bank loan		(33,280)	(49,995)
Less: Current portion (fee included)		(2,143,168)	(1,062,285)
		<u>\$ 7,498,853</u>	<u>\$ 9,687,720</u>
Interest rate range		<u>1.7895%</u>	<u>1.7895%</u>
Unused credit lines of long-term bank loans			
NT\$		<u>\$ 2,400,000</u>	<u>\$ 2,400,000</u>

A. On May 16, 2016, the Company entered into a syndicated loan with ten banks in Taiwan, including Land Bank of Taiwan, in the amount of NT\$13,200 million with a term of five years. Funding from this syndicated loan was used to repay the prior syndicated loan in 2014 and broaden the Company's working capital. Pursuant to the syndicated loan agreement, the Group is required to maintain certain financial ratios including current ratio, interest protection multiples and debt to equity ratio during the loan periods.

B. Information about the items related to the long-term bank loans that are pledged to others as collaterals is provided in Note 8.

(13) Lease obligations payable

The Company leases equipment under finance lease and based on the terms of the lease contracts, the Company has the option to purchase the equipment at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable when the leases expire.

Future minimum lease payables and their present values as of December 31, 2017 and 2016 are as follows:

	December 31, 2017		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
Current	<u>\$ 12,266</u>	<u>(\$ 481)</u>	<u>\$ 11,785</u>
Non-current	<u>\$ 18,266</u>	<u>(\$ 209)</u>	<u>\$ 18,057</u>

	December 31, 2016		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
Current	\$ 12,000	(\$ 709)	\$ 11,291
Non-current	\$ 30,000	(\$ 689)	\$ 29,311

(14) Deferred revenue

	December 31, 2017	December 31, 2016
Current (Shown as “Receipts in advance”)	\$ 4,057	\$ -
Non-current (Shown as “Long-term deferred revenue”)	24,898	-
	<u>\$ 28,955</u>	<u>\$ -</u>

Deferred revenue represents the technology transfer and license agreement between the Company and ChipMOS Shanghai and is amortized to royalty income on a systematic basis over 10 years. Information is provided in Note 7(3)D.

(15) Pensions

A. Defined Benefit Plans

The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees’ service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees’ monthly salaries and wages to the pension fund deposited with the Bank of Taiwan, the trustee, under the name of the independent pension fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by March of following year.

(a) The amounts recognized in the balance sheets are as follows:

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	(\$ 838,543)	(\$ 894,163)
Fair value of plan assets	<u>360,017</u>	<u>347,195</u>
Net defined benefit liability	<u>(\$ 478,526)</u>	<u>(\$ 546,968)</u>

(b) Movements in net defined benefit liability are as follows:

	2017		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
January 1	(\$ 894,163)	\$ 347,195	(\$ 546,968)
Current service cost	(386)	-	(386)
Interest (expense) income	(13,236)	5,226	(8,010)
	(907,785)	352,421	(555,364)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(1,842)	(1,842)
Financial assumption movement effect	28,506	-	28,506
Experience adjustments	24,174	-	24,174
	52,680	(1,842)	50,838
Pension fund contribution	-	26,000	26,000
Paid pension	16,562	(16,562)	-
December 31	(\$ 838,543)	\$ 360,017	(\$ 478,526)

	2016		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
January 1	(\$ 844,166)	\$ 324,695	(\$ 519,471)
Current service cost	(321)	-	(321)
Interest (expense) income	(14,644)	5,768	(8,876)
	(859,131)	330,463	(528,668)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(3,413)	(3,413)
Financial assumption movement effect	(31,294)	-	(31,294)
Experience adjustments	(8,676)	-	(8,676)
	(39,970)	(3,413)	(43,383)
Pension fund contribution	-	25,083	25,083
Paid pension	4,938	(4,938)	-
December 31	(\$ 894,163)	\$ 347,195	(\$ 546,968)

(c) The Bank of Taiwan was commissioned to manage the fund of the Company's defined benefit pension plan in accordance with the fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the fund includes deposit in

domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the authority. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of the fair value of plan asset in accordance with IAS 19 “Employee Benefits” paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(d)The principal actuarial assumptions used were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	<u>1.75%</u>	<u>1.50%</u>
Future salary increases	<u>3.50%</u>	<u>3.50%</u>

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory.

Because the main actuarial assumption changed, the present value of defined benefit obligations is affected. The analysis was as follows:

	<u>Discount rate</u>		<u>Future salary increase</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>
December 31, 2017				
Effect on present value of defined benefit obligations	(\$ <u>27,192</u>)	<u>\$ 28,506</u>	<u>\$ 27,955</u>	(\$ <u>26,816</u>)
December 31, 2016				
Effect on present value of defined benefit obligations	(\$ <u>31,294</u>)	<u>\$ 32,893</u>	<u>\$ 32,174</u>	(\$ <u>30,787</u>)

The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated. The method of sensitivity analysis and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis remain unchanged from previous period.

(e)Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2018 amounts to \$26,910.

- (f) As of December 31, 2017, the weighted average duration of that retirement plan is 13.4 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	28,007
1-2 years		31,702
2-5 years		102,703
Over 5 years		<u>178,720</u>
	\$	<u>341,132</u>

B. Define Contribution Plans

- (a) Effective from July 1, 2005, the Company established a defined contribution pension plan (“New Plan”) under the Labor Pension Act, covering all regular employees with Republic of China (“R.O.C.”) nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2017 and 2016 were \$190,106 and \$174,096, respectively.
- (b) Before the equity transfer in March 2017, the Company’s subsidiary in the P.R.C., ChipMOS Shanghai, has a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the P.R.C. are based on certain percentage of employees’ monthly salaries and wages. The contribution percentage for the years ended December 31, 2017 and 2016, were both 21%. Other than the monthly contributions, ChipMOS Shanghai has no further obligations. The pension costs under defined contribution pension plans of ChipMOS Shanghai for the years ended December 31, 2017 and 2016 were \$14,743 and \$58,419, respectively, which are reclassified as “Profit (loss) from discontinued operations”.

(16) Share-based payments

Employee stock option plan / Share appreciation rights plan

- A. On October 31, 2016, the Company’s former parent company, ChipMOS Bermuda, was merged with and into the Company with the latter being the surviving entity and ChipMOS Bermuda being the dissolved entity.

- B. Before the Merger, the Group’s share-based payment arrangements were as follows:

<u>Types of arrangement</u>	<u>Grant date</u>	<u>Quantity granted (shares/units)</u>	<u>Contract period</u>	<u>Vesting conditions</u>
Employee stock option plan	2006 to 2015	3,952,711	2001 to 2024	As granted or certain % after first year
Share appreciation rights plan	2006 to 2016	1,908,314	2006 to 2022	

All outstanding stock options and share appreciation rights issued by ChipMOS Bermuda and received by the employees of the Company, whether vested or unvested, were settled in cash by ChipMOS Bermuda prior to the Merger in accordance with the terms of the merger agreement.

C. Details of the share-based payment arrangements before the Merger are as follows:

	Ten months ended October 30, 2016	
	Number of options	Weighted-average exercise price (in US\$)
<u>Employee stock option plan</u>		
Outstanding at January 1	1,062,250	13.57
Forfeited	(25,084)	15.35
Exercised	(97,715)	7.21
Expired	(49,500)	20.57
Early settled	(889,951)	13.83
Outstanding at the end of the period	=	-
Exercisable at the end of the period	=	-

	Ten months ended October 30, 2016	
	Number of rights	Weighted-average exercise price (in US\$)
<u>Stock appreciation rights plan</u>		
Outstanding at January 1	588,596	14.07
Granted	37,500	19.55
Forfeited	(9,785)	15.16
Exercised	(123,033)	11.26
Early settled	(493,278)	15.17
Outstanding at the end of the period	=	-
Exercisable at the end of the period	=	-

D. The weighted-average share price of stock options at exercise dates for the ten months ended October 30, 2016 were US\$18.10.

E. There are no outstanding stock options and share appreciation rights as of December 31, 2017 and 2016.

Restricted shares

A. On July 14, 2015, the Company's Board of Directors approved the issuance of restricted shares. The record dates for the shares issuance were July 21, 2015 and May 10, 2016. The relevant information is as follows:

Type of arrangement	Grant date	Share price on grant date (in dollars)	Number of shares (in thousands)	Number of shares returned due to employee resignation (in thousands)		Contract period	Vesting condition
				2017	2016		
Restricted shares award agreement	July 21, 2015	36.1	15,752	(558)	(707)	3 years	Meet service and performance conditions
Restricted shares award agreement	May 10, 2016	30.6	1,548	(137)	(220)	3 years	Meet service and performance conditions

The restricted shares issued by the Company cannot be transferred during the vesting period, but voting right and dividend right are not restricted. Employees are required to return the shares but not required to return the dividends received if they resign during the vesting period. When the employees accomplish the years of service and performance conditions, the received restricted shares will be vested based on the vesting ratio.

- B. The expenses incurred on share-based payment transactions for the years ended December 31, 2017 and 2016 were \$123,021 and \$356,463, respectively.

(17) Capital stock

- A. As of December 31, 2017, the Company's authorized capital was \$9,700,000, consisting of 970,000 thousand ordinary shares, and the paid-in capital was \$8,862,971 with a par value of \$10 (in dollars) per share, consisting of 886,297 thousand ordinary shares. All proceeds from shares issued have been collected.
- B. On October 31, 2016, the Company's former parent company, ChipMOS Bermuda was merged with and into the Company, with the latter being the surviving company. Please refer to Note 6(30) for details of the capital reorganization. Pursuant to the Merger, the Company issued 25,620,267 units of ADSs, which were listed on the NASDAQ Global Select Market, and each ADS represents 20 ordinary shares of the Company. As of December 31, 2017, the outstanding ADSs were 9,431,486 units representing 188,630 thousand ordinary shares of the Company. The major terms and conditions of the ADSs are summarized as follows:

(a) Voting rights:

ADS holders have no right to directly vote in shareholders' meetings with respect to the deposited shares. The depository bank shall vote on behalf of ADS holders or provide voting instruction to the designated person of the Company. The depository bank shall vote in the manner as instructed by ADS holders.

(b) Distribution of dividends:

ADS holders are deemed to have the same rights as holders of ordinary shares with respect to the distribution of dividends.

C. Movements in the number of the Company's ordinary shares outstanding are as follows:

	<u>Number of shares (in thousands)</u>	
	<u>2017</u>	<u>2016</u>
January 1	856,754	895,893
Restricted shares	-	1,548
Restricted shares – cancelled	(542)	(800)
Restricted shares – uncanceled	(153)	(127)
Repurchase of shares – uncanceled	-	(30,085)
Issuance of new shares for capital reorganization (Note 6(30))	-	512,405
Cancellations of shares for capital reorganization (Note 6(30))	-	(522,080)
December 31	<u>856,059</u>	<u>856,754</u>

D. Treasury stock

(a) The reasons for share repurchases and movements in the number of the Company's treasury stock are as follows:

		<u>December 31, 2017</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares (in thousands)</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	30,000	\$ 1,005,011
The Company	Dissenting shareholders	85	2,643
		<u>30,085</u>	<u>\$ 1,007,654</u>

		<u>December 31, 2016</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares (in thousands)</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	30,000	\$ 1,005,011
The Company	Dissenting shareholders	85	2,643
		<u>30,085</u>	<u>\$ 1,007,654</u>

(b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares repurchased as treasury stock may not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back may not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus.

(c) Pursuant to the R.O.C. Securities and Exchange Act, treasury stock may not be pledged as collateral and is not entitled to dividends before it is reissued.

(18) Capital surplus

Pursuant to the R.O.C. Company Act, any capital surplus arising from paid-in capital in excess of par value on issuance of ordinary shares and donations can be used to cover accumulated deficits or to issue new shares or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficits. Furthermore, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalized mentioned above may not exceed 10% of the paid-in capital each year. The capital surplus may not be used to cover accumulated deficits unless the legal reserve is insufficient.

	2017				
	Share premium	Employee restricted shares	Long-term investment	Employee stock options	Total
January 1	\$ 6,473,471	\$ 408,051	\$ 7,304	\$ -	\$ 6,888,826
Share-based payments	-	(17,650)	-	-	(17,650)
Cash distribution from capital surplus	(599,728)	-	-	-	(599,728)
Changes in shareholding of equity investment	-	-	16,929	-	16,929
December 31	<u>\$ 5,873,743</u>	<u>\$ 390,401</u>	<u>\$ 24,233</u>	<u>\$ -</u>	<u>\$ 6,288,377</u>

Information relating to capital surplus arising from long-term investment is provided in Note 6(5).

	2016				
	Share premium	Employee restricted shares	Long-term investment	Employee stock options	Total
January 1	\$ 2,501,767	\$ 397,296	\$ 7,304	\$ 849,482	\$ 3,755,849
Share-based payments	-	10,755	-	56,689	67,444
Capital reorganization	<u>3,971,704</u>	-	-	(906,171)	<u>3,065,533</u>
December 31	<u>\$ 6,473,471</u>	<u>\$ 408,051</u>	<u>\$ 7,304</u>	<u>\$ -</u>	<u>\$ 6,888,826</u>

(19) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as a legal reserve. The Company may then appropriate or reverse a certain amount as special reserve according to the relevant regulations. After the distribution of earnings, the remaining earnings and prior years' unappropriated retained earnings may be appropriated according to a proposal by the Board of Directors and approved in the shareholders' meeting.
- B. The Company's dividend policy is summarized here. As the Company operates in a volatile business environment, the issuance of dividends to be distributed takes into consideration the Company's financial structure, operating results and future expansion plans. The earnings distribution of the Company may be made by way of cash dividends or stock dividends, provided that cash dividends account for at least 10% of the total dividends distributed. The earnings distribution will be proposed by the Board of Directors and approved at the shareholders' meeting.

- C. Except for covering accumulated deficits or issuing new shares or cash to shareholders in proportion to their share ownership, the legal reserve may not be used for any other purpose. The use of the legal reserve for the issuance of shares or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. In accordance with the regulations, the Company must set aside a special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When the debit balance on other equity items is reversed subsequently, the reversed amount may be included in the distributable earnings.
- E. The appropriations of 2016 and 2015 earnings were resolved in the shareholders' meetings held on May 26, 2017 and May 31, 2016, respectively. The appropriations and dividends per share (including cash distribution from capital surplus) are as follows:

	2016		2015	
	Amount	Cash distribution per share (in dollars)	Amount	Cash distribution per share (in dollars)
Legal reserve	\$ 28,680		\$ 223,047	
Cash dividend	257,026	\$ 0.30	1,792,553	\$ 2.09
Cash distribution from capital surplus	599,728	0.70	-	-

- F. The information relating to employees' compensation and directors' and supervisors' remuneration is provided in Note 6(27).

(20) Other equity interest

	2017				
	Exchange differences on translation of foreign operations	Equity directly related to non-current assets held for sale	Unearned employee awards	Unrealized gain on valuation of available-for-sale financial assets	Total
January 1	\$ 10,600	\$ 287,645	(\$ 200,204)	\$ -	\$ 98,041
Currency translation differences					
- The Company	(232,652)	-	-	-	(232,652)
- Disposal of a subsidiary	287,645	(287,645)	-	-	-
Employee restricted shares					
- The Company	-	-	145,634	-	145,634
Evaluation adjustment					
- Associates	-	-	-	678	678
December 31	\$ 65,593	\$ -	(\$ 54,570)	\$ 678	\$ 11,701

	2016			
	Exchange differences on translation of foreign operations	Equity directly related to non-current assets held for sale	Unearned employee awards	Total
January 1	\$ 63,668	\$ -	(\$ 447,323)	(\$ 383,655)
Currency translation differences				
- The Company	(200,280)	-	-	(200,280)
- Reclassified as discontinued operations	(287,645)	287,645	-	-
Employee restricted shares				
- The Company	-	-	247,119	247,119
Capital reorganization	<u>434,857</u>	<u>-</u>	<u>-</u>	<u>434,857</u>
December 31	<u>\$ 10,600</u>	<u>\$ 287,645</u>	<u>(\$ 200,204)</u>	<u>\$ 98,041</u>

(21) Revenue

	2017	2016
Testing	\$ 4,895,289	\$ 4,864,803
Assembly	5,425,189	6,608,197
LCDD	4,792,472	4,920,302
Bumping	<u>3,055,000</u>	<u>2,999,457</u>
	18,167,950	19,392,759
Less: Revenue of discontinued operations	(<u>227,095</u>)	(<u>1,005,166</u>)
	<u>\$ 17,940,855</u>	<u>\$ 18,387,593</u>

(22) Other income (expenses), net

	2017	2016
Gain on disposal of property, plant and equipment	\$ 132,774	\$ 6,839
Impairment loss on property, plant and equipment (Note 6(6))	(956)	(8,198)
Gain on disposal of scrapped materials	28,811	34,233
Gain on disposal of items purchased on behalf of others	26,417	48,812
Royalty income	11,998	-
Insurance compensation income	486,858	7,033
Others	<u>8,361</u>	<u>15,340</u>
	694,263	104,059
Less: Other income (expenses) of discontinued operations	(<u>1,429</u>)	(<u>13,753</u>)
	<u>\$ 692,834</u>	<u>\$ 90,306</u>

(23) Other income

	<u>2017</u>	<u>2016</u>
Interest income	\$ 53,587	\$ 42,307
Rental income	<u>11,075</u>	<u>8,203</u>
	64,662	50,510
Less: Other income of discontinued operations	(<u>464</u>)	(<u>3,753</u>)
	<u>\$ 64,198</u>	<u>\$ 46,757</u>

(24) Other gains and losses

	<u>2017</u>	<u>2016</u>
Foreign exchange losses, net	(\$ 420,023)	(\$ 173,433)
Reimbursement of ADSs service charge	23,707	-
Gain on disposal of financial assets at fair value through profit or loss	637	621
Others	<u>3,713</u>	<u>-</u>
	(391,966)	(172,812)
Less: Other gains and losses of discontinued operations	<u>148</u>	(<u>21,893</u>)
	<u>(\$ 391,818)</u>	<u>(\$ 194,705)</u>

(25) Finance costs

	<u>2017</u>	<u>2016</u>
Interest expense		
Bank loans	\$ 211,401	\$ 158,374
Lease obligations payable	708	212
Less: Amounts capitalized in qualifying assets	(<u>19,270</u>)	(<u>13,435</u>)
	192,839	145,151
Finance expense	<u>27,647</u>	<u>35,453</u>
	220,486	180,604
Less: Finance costs of discontinued operations	(<u>3,203</u>)	(<u>1,488</u>)
	<u>\$ 217,283</u>	<u>\$ 179,116</u>

(26) Expenses by nature

	<u>2017</u>	<u>2016</u>
Changes in finished goods and work in process of inventories	\$ 26,301	(\$ 7,530)
Raw materials and supplies used	3,110,602	3,655,400
Employee benefit expenses	5,981,086	5,628,040
Depreciation and amortization	2,899,278	3,231,279
Others	<u>4,630,459</u>	<u>5,137,317</u>
	16,647,726	17,644,506
Less: Cost of revenue and operating expenses of discontinued operations	(<u>253,918</u>)	(<u>1,165,182</u>)
	<u>\$ 16,393,808</u>	<u>\$ 16,479,324</u>

(27) Employee benefit expenses

	<u>2017</u>	<u>2016</u>
Salaries	\$ 4,938,691	\$ 4,357,293
Labor and health insurance	390,788	351,232
Pension	213,245	241,712
Share-based payments	123,021	356,463
Other personnel expenses	<u>315,341</u>	<u>321,340</u>
	5,981,086	5,628,040
Less: Employee benefit expenses of discontinued operations	(<u>85,308</u>)	(<u>310,915</u>)
	<u>\$ 5,895,778</u>	<u>\$ 5,317,125</u>

- A. In accordance with the Company's Articles of Incorporation, employees' compensation is based on the current year's earnings, which should first be used to cover accumulated deficits, if any, and then 10% of the remaining balance distributed as employees' compensation, including distributions to certain qualifying employees in affiliate companies, and no more than 0.5% as directors' remuneration. Subject to the Board of Directors' approval, employees' compensation may be made by way of cash or share issuance. Distribution of employees' compensation and directors' remuneration shall be presented and reported in the subsequent shareholders' meeting.
- B. Based on profit distributable as of the end of reporting period, for the years ended December 31, 2017 and 2016, the employees' compensation were accrued at \$371,912 and \$70,553, respectively; the directors' remuneration were accrued at \$18,596 and \$3,528, respectively. The aforementioned amounts were recognized as salaries.
- C. For the year of 2016, employees' compensation and directors' remuneration recognized were consistent with the amounts resolved in the Board of Directors' meetings.

Information about the appropriation of employees' compensation and directors' remuneration by the Company as approved by the Board of Directors is posted in the "Market Observation Post System".

(28) Income tax expense

A. Income tax expense

(a) Components of income tax expense:

	<u>2017</u>	<u>2016</u>
Current income tax:		
Current income tax on profits for the period	\$ 125,376	\$ 331,144
Income tax on unappropriated retained earnings	109	-
Prior year income tax under estimation	<u>67,885</u>	<u>4,527</u>
Total current income tax	<u>193,370</u>	<u>335,671</u>
Deferred income tax:		
Relating to origination and reversal of temporary differences	<u>110,542</u>	<u>16,379</u>
Total deferred income tax	<u>110,542</u>	<u>16,379</u>
Income tax expense	<u>\$ 303,912</u>	<u>\$ 352,050</u>

(b) The income tax (charge) / credit relating to components of other comprehensive income is as follows:

	<u>2017</u>	<u>2016</u>
Remeasurement of defined benefit obligations	<u>\$ 8,642</u>	<u>(\$ 7,375)</u>

B. Reconciliation of income tax expense and the accounting profit:

	<u>2017</u>	<u>2016</u>
Tax calculated based on profit before tax and statutory tax rate	\$ 566,649	\$ 214,550
Expenses disallowed (added) by tax regulation	10,185	(2,190)
Tax exempted (income) expenses by tax regulation	(256,788)	12,057
Temporary difference not recognized as deferred tax assets	(85,168)	1,306
Taxable loss not recognized as deferred tax assets	-	54,012
Withholding tax	-	57,337
Prior year income tax under estimation	67,885	4,527
Income tax on unappropriated retained earnings	109	-
Effect of different tax rates in countries in which the Group operates	<u>1,040</u>	<u>10,451</u>
Income tax expense	<u>\$ 303,912</u>	<u>\$ 352,050</u>

Unappropriated retained earnings decreased by \$5,052,343 due to the capital reorganization, and accordingly the Company did not recognize an additional 10% tax on respective unappropriated retained earnings for the year 2015. Information about the capital reorganization for the year ended December 31, 2016 is provided in Note 6(30).

C. The amounts of deferred tax assets or liabilities resulting from temporary differences are as follows:

	2017			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
<u>Deferred tax assets</u>				
Loss on inventories	\$ 26,324	(\$ 17,192)	\$ -	\$ 9,132
Property, plant and equipment	80,869	(25,375)	-	55,494
Provisions	11,232	10,411	-	21,643
Deferred revenue	41,294	(1,809)	-	39,485
Net defined benefit liability	90,087	(2,994)	(8,642)	78,451
Unrealized exchange losses	-	8,167	-	8,167
Total	<u>\$ 249,806</u>	<u>(\$ 28,792)</u>	<u>(\$ 8,642)</u>	<u>\$ 212,372</u>
<u>Deferred tax liabilities</u>				
Property, plant and equipment	(\$ 78,388)	(\$ 95,905)	\$ -	(\$ 174,293)
Unrealized exchange gains	(14,155)	14,155	-	-
Total	<u>(\$ 92,543)</u>	<u>(\$ 81,750)</u>	<u>\$ -</u>	<u>(\$ 174,293)</u>
Information presented on balance sheet:				
Deferred tax assets	<u>\$ 249,806</u>			<u>(\$ 212,372)</u>
Deferred tax liabilities	<u>(\$ 92,543)</u>			<u>(\$ 174,293)</u>

	2016			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
<u>Deferred tax assets</u>				
Loss on inventories	\$ 14,823	\$ 11,501	\$ -	\$ 26,324
Property, plant and equipment	3,672	77,197	-	80,869
Provisions	16,473	(5,241)	-	11,232
Deferred revenue	50,423	(9,129)	-	41,294
Net defined benefit liability	86,719	(4,007)	7,375	90,087
Unrealized exchange losses	(5,843)	5,843	-	-
Total	<u>\$ 166,267</u>	<u>\$ 76,164</u>	<u>\$ 7,375</u>	<u>\$ 249,806</u>
<u>Deferred tax liabilities</u>				
Property, plant and equipment	\$ -	(\$ 78,388)	\$ -	(\$ 78,388)
Unrealized exchange gains	-	(14,155)	-	(14,155)
Total	<u>\$ -</u>	<u>(\$ 92,543)</u>	<u>\$ -</u>	<u>(\$ 92,543)</u>
Information presented on balance sheet:				
Deferred tax assets	<u>\$ 166,267</u>			<u>\$ 249,806</u>
Deferred tax liabilities	<u>\$ -</u>			<u>(\$ 92,543)</u>

- D. The Company has not recognized deductible and taxable temporary differences associated with investments as deferred tax assets and liabilities. As of December 31, 2017, the amounts of deductible and taxable temporary differences unrecognized as deferred tax assets and liabilities were \$28,584 and \$920,943, respectively. As of December 31, 2016, the amount of deductible temporary differences unrecognized as deferred tax assets was \$534,568.
- E. Please refer to Note 9 for the accrual of additional 10% tax on year 2016 unappropriated retained earnings.
- F. The Company's income tax return through 2015 have been assessed and approved by the Tax Authority.
- G. The Company's unappropriated retained earnings were all generated in and after 1998.
- H. The balance of the imputation tax credit account was \$1,192,119 as of December 31, 2016 and the creditable tax rate was 20.48%. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated in February 2018, the information on the balance of the imputation tax credit account as of December 31, 2017, is no longer disclosed. Please refer to Note 11.

(29) Earnings per share

	2017		
	Amount after income tax	Weighted-average number of ordinary shares outstanding (in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to:			
Equity holders of the Company			
- Continuing operations	\$ 1,211,575		\$ 1.43
- Discontinued operations	<u>1,814,953</u>		<u>2.14</u>
Equity holders of the Company	<u>\$ 3,026,528</u>	<u>846,686</u>	<u>\$ 3.57</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares:			
Employees' bonuses		14,034	
Restricted shares		<u>5,075</u>	
Profit attributable to:			
Equity holders of the Company			
- Continuing operations	\$ 1,211,575		\$ 1.40
- Discontinued operations	<u>1,814,953</u>		<u>2.10</u>
Equity holders of the Company	<u>\$ 3,026,528</u>	<u>865,795</u>	<u>\$ 3.50</u>

	2016		
	Amount after income tax	Weighted-average number of ordinary shares outstanding (in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit (loss) attributable to:			
Equity holders of the Company			
- Continuing operations	\$ 1,654,397		\$ 1.92
- Discontinued operations	(122,105)		(0.14)
Equity holders of the Company	1,532,292		1.78
Predecessors' interests under common control	(306,012)		(0.35)
	<u>\$ 1,226,280</u>	<u>859,644</u>	<u>\$ 1.43</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares:			
Employees' bonuses		3,035	
Restricted shares		<u>4,122</u>	
Profit (loss) attributable to:			
Equity holders of the Company			
- Continuing operations	\$ 1,654,397		\$ 1.90
- Discontinued operations	(122,105)		(0.14)
Equity holders of the Company	1,532,292		1.76
Predecessors' interests under common control	(306,012)		(0.35)
	<u>\$ 1,226,280</u>	<u>866,801</u>	<u>\$ 1.41</u>

(30) Capital reorganization

- A. To integrate resources, the Company's former parent company, ChipMOS Bermuda, was merged with and into the Company as of October 31, 2016, the record date of the Merger, with the latter being the surviving entity and ChipMOS Bermuda being the dissolved entity. Under the merger agreement, each shareholder of ChipMOS Bermuda is entitled to receive, with respect to each ChipMOS Bermuda share, 0.9355 units of the Company's newly-issued ADSs trading on the NASDAQ Global Select Market (each ADS unit represents 20 ordinary shares of the Company) and US\$3.71 in cash. The Company paid US\$101,657 thousand in cash (equivalent to \$3,208,310) and issued 25,620,267 units of ADSs (representing 512,405 thousand ordinary shares of the Company) as the total consideration. In addition, the Company paid \$133,311 in directly attributable transaction cost due to the Merger. As a result, the Company paid \$3,341,621 in cash for the capital reorganization.
- B. The Company issued 512,405 thousand shares for the capital reorganization, and reduced capital by cancelling 522,080 thousand shares originally held by ChipMOS Bermuda. After the Merger, the Company's shares net decreased by 9,675 thousand shares. When cancelling treasury stock, the Company deducted capital surplus equal to the proportion of cancelled shares. Due to the deficit in capital surplus, the Company deducted unappropriated retained earnings by \$5,052,343.

C. As of October 30, 2016, the ending balance of “Predecessors’ interests under common control” was \$1,692,918, which represents ChipMOS Bermuda’s net assets under the assumption it had always been combined. The amount has been eliminated as of the record date of the Merger.

(31) Operating lease commitments

A. The Company has entered into several operating lease contracts for land with Hsinchu and Southern Taiwan Science Park Bureaus. These renewable operating leases will expire by 2032 and 2034. In accordance with the lease contracts, Science Park Bureau reserves the right to adjust annual rents. Currently, the annual rents amount to \$32,265.

B. ChipMOS USA has entered into renewable operating lease contracts for its office. The renewable operating leases will expire by 2018 and 2019.

C. Future aggregate minimum lease obligations payable under the aforementioned leases are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Less than 1 year	\$ 39,342	\$ 39,929
1 to 5 years	130,182	140,328
More than 5 years	<u>139,899</u>	<u>176,897</u>
	<u>\$ 309,423</u>	<u>\$ 357,154</u>

(32) Supplemental cash flow information

Partial cash paid for investing and financing activities

A. Property, plant and equipment

	<u>2017</u>	<u>2016</u>
Purchase of property, plant and equipment	\$ 4,702,691	\$ 4,690,995
Add: Beginning balance of payable on equipment	550,346	523,962
Beginning balance of payable on lease	40,602	-
Less: Ending balance of payable on equipment	(713,313)	(647,486)
Ending balance of payable on lease	(29,842)	(96,006)
Transfer from prepaid equipment (shown as “Other non-current assets”)	(<u>139,304</u>)	<u>-</u>
Cash paid during the year	<u>\$ 4,411,180</u>	<u>4,471,465</u>

B. Capital reorganization:

	<u>2017</u>	<u>2016</u>
Net assets acquired from ChipMOS Bermuda	\$ -	\$ 12,987,736
Less: Issuance of new shares	<u>-</u>	(<u>9,779,426</u>)
Cash consideration	-	3,208,310
Directly attributable transaction assets	<u>-</u>	<u>133,311</u>
	<u>\$ -</u>	<u>\$ 3,341,621</u>

C. Disposal of a subsidiary:

	2017	2016
Disposal of a subsidiary	\$ 2,166,151	\$ -
Add: Ending balance of other payables	64,393	-
Cash received during the year	\$ 2,230,544	\$ -

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

On October 31, 2016, the Company's former parent company, ChipMOS Bermuda, was merged with and into the Company through a share exchange with the latter being the surviving entity and ChipMOS Bermuda being the dissolved entity. After the Merger, the Company has neither a parent company nor an ultimate controlling party. The transactions between the Company and its subsidiaries were eliminated in the accompanying consolidated financial statements and were not disclosed herein. The transactions between the Group and other related parties are as follows:

(2) Names of related parties and relationship

Name	Relationship
ChipMOS Shanghai	Associate
JMC	Associate

(3) Significant related party transactions

A. Subcontracting fee

	2017	2016
ChipMOS Shanghai	\$ 41,183	\$ -

B. Disposal of property, plant and equipment

	2017
	Selling price Gain on disposal
ChipMOS Shanghai	\$ 21,982 \$ 20,240

There were no disposal of property, plant and equipment to related parties for the year ended December 31, 2016.

C. Acquisition of financial assets

In June 2017, ChipMOS BVI participated in ChipMOS Shanghai's increase of paid-in capital based on its shareholding amounted to \$1,373,486, please refer to Note 6(5).

D. Patent licensing agreement

(a) In May 2016, the Company and ChipMOS Shanghai entered into a patent licensing agreement. Under the agreement, ChipMOS Shanghai paid the Company a licensing fee in the aggregate total of US\$2,500 thousand (amended to US\$1,000 thousand in January 2017) which was accounted for as receipts in advance and long-term deferred revenue, and recognized royalty income for 10 years from the effective date. In addition, ChipMOS

Shanghai shall pay the Company a running royalty for the foregoing license equivalent to 0.5% of the total revenue from the licensed products. Given that the related production lines of ChipMOS Shanghai have begun its operations in April 2017, the Company recognized royalty income henceforth. The Company recognized deferred revenue amounted to \$27,916 as of December 31, 2017, and royalty income amounted to \$2,828 for the nine months then ended.

- (b) In October 2011, ChipMOS Bermuda and ChipMOS Shanghai entered into a patent licensing agreement which has a term of 10 years starting from August 1, 2012. Under the agreement, ChipMOS Shanghai will pay ChipMOS Bermuda a royalty in the aggregate total of RMB 27,400 thousand, which was accounted as receipts in advance and payable in 40 quarterly installments of RMB 685 thousand. The rights and obligations of this agreement have been transferred to the Company on October 31, 2016. In March 2017, ChipMOS Shanghai was derecognized from the consolidated financial statements and recorded as “Investment accounted for using equity method”, therefore, royalty income for the three months ended March 31, 2017 were eliminated on a consolidated basis. The Company recognized deferred revenue amounted to \$1,039 as of December 31, 2017 and royalty income amounted to \$9,170 for the year then ended.

(4) Key management personnel compensation

	2017	2016
Short-term employee benefits	\$ 188,565	\$ 153,519
Post-employment compensation	5,622	3,335
Share-based payments	18,736	109,255
	212,923	266,109
Less: Key management personnel compensation of discontinued operations	(460)	(1,200)
	<u>\$ 212,463</u>	<u>\$ 264,909</u>

8. PLEDGED ASSETS

		Carrying amount	
Pledged assets	Purpose	December 31, 2017	December 31, 2016
Property, plant and equipment			
- Land	Bank loan	\$ 452,738	\$ 452,738
- Buildings	Bank loan	3,919,086	4,077,755
- Machinery and equipment	Bank loan	2,792,265	3,490,412
Other non-current financial assets	Lease and bank loan	70,241	70,677
		<u>\$ 7,234,330</u>	<u>\$ 8,091,582</u>

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

- (1) As described in Note 6(30), as of October 31, 2016, the Company merged with its former parent company, ChipMOS Bermuda and as a result, the Company deducted unappropriated retained earnings by \$5,052,343. The Company has filed an application to the National Taxation Bureau of the Northern Area, Ministry of Finance to apply the accumulated deficit amount, resulted from subtracting the aforementioned amount, as a deduction in the calculation of years 2016 and 2015 additional 10% tax on unappropriated retained earnings.
- (2) For information relating to operating leases, please refer to Note 6(31).
- (3) Information relating to royalty transaction with related parties, please refer to Note 7(3)D.
- (4) A letter of guarantee was issued by the Bank of Taiwan to the Tariff Bureau of the Ministry of Finance for making payment of customs-duty deposits when importing. As of December 31, 2017 and 2016, the amount of \$97,500 and \$131,000, respectively, were guaranteed by the Bank of Taiwan.
- (5) Capital expenditures that are contracted for, but not provided for, are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Property, plant and equipment	<u>\$ 2,178,262</u>	<u>\$ 1,615,460</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

- (1) The amendment to the Income Tax Act has been approved and promulgated in February 2018 raising the profit-seeking enterprise income tax rate from 17% to 20%, decrease the tax rate on unappropriated retained earnings from 10% to 5%, and abandon the imputation tax credit account effective from fiscal year starting January 1, 2018.
- (2) In January 2018, ChipMOS BVI participated in ChipMOS Shanghai's increase of paid-in capital based on its shareholding amounted to \$794,694.
- (3) In order to adjust capital structure and increase returns of equity, the Company's Board of Directors adopted a resolution on March 15, 2018 to reduce capital stock and return cash of \$1.5 (in dollars) per share to shareholders. The proposal will be further discussed in shareholders' meeting.

12. OTHERS

- (1) As resolved during the special shareholders' meeting on January 28, 2016, the Company decided to invite strategic funding and agreed that the investor should be an entity which Tsinghua Unigroup Ltd. has substantial control over. Investment in the Company would be through a private placement in cash involving no more than 299,252 thousand shares of the Company. However, both parties subsequently agreed to terminate the aforementioned transaction after an amicable negotiation. On November 30, 2016, the Board of Directors of the Company approved

the termination of the transaction as well as reported the matter to the general shareholders' meeting on May 26, 2017.

(2) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the liabilities to assets ratio. Total capital is shown as "equity" in the consolidated balance sheet, which is also equal to total assets minus total liabilities.

The liabilities to assets ratio at December 31, 2017 and 2016 were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total liabilities	\$ 14,866,606	\$ 15,022,446
Total assets	<u>33,259,942</u>	<u>31,295,960</u>
Liabilities to assets ratio	<u>44.70%</u>	<u>48.00%</u>

Compared to December 31, 2016, the liabilities to assets ratio decreased as of December 31, 2017 due to the acquisition of production equipment and the payment of long-term bank loans.

(3) Financial instruments

A. The Group's carrying amount of financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, other financial assets, guarantee deposits, bank loans, accounts payable and other payables) are approximate to their fair values. The fair value of the financial instruments carried at cost cannot be measured reliably. Information about the financial instruments carried at cost is provided in Note 6(4).

The detailed information of financial instruments is provided in the respective notes to the financial statements.

B. Financial risk management policies

The Group's risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant financial transactions, a due approval process must be carried out by the Board of Directors based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

In order to minimize and manage financial risks, the Group's overall risk management programme focuses on analyzing, identifying, and evaluating financial risk factors that may potentially have adverse effects on the Group's financial position, and provide feasible solutions to avoid those factors.

C. Significant financial risks and degrees of financial risks

(a) Market risk

The Group's market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise foreign currency risk, interest rate risk, and other price risks.

In practice, the risk variable rarely changes individually, and the change of each risk variable is usually correlative. The following sensitivity analysis did not consider the interaction of each risk variable.

Foreign exchange risk

- i. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Company's and its subsidiaries' functional currency) and the Group's net investments in foreign subsidiaries.
- ii. The Group applies natural hedges by using accounts receivable and accounts payable denominated in the same currency. However, this natural hedge does not concur with the requirement for hedge accounting. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.
- iii. The Group's foreign currency exposure gives rise to market risks associated with exchange rate movements against the NT dollar for cash and cash equivalents, accounts receivable, other receivables, bank loans, accounts payable and other payables.
- iv. The Group's businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2017		
	Foreign currency (in thousands)	Exchange rate	Carrying amount (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 208,066	29.7600	\$ 6,192,044
JPY:NTD	798,254	0.2642	210,899
RMB:NTD	167,484	4.5650	764,564
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 16,036	29.7600	\$ 477,231
JPY:NTD	1,071,432	0.2642	283,072

December 31, 2016			
	Foreign currency (in thousands)	Exchange rate	Carrying amount (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 178,201	32.2500	\$ 5,746,982
JPY:NTD	517,114	0.2756	142,517
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 7,802	32.2500	\$ 251,615
JPY:NTD	550,456	0.2756	151,706

- v. The total exchange gain (loss), including realized and unrealized gains (losses) arising from significant foreign exchange variations on monetary items held by the Group for the years ended December 31, 2017 and 2016, amounted to (\$420,023) and (\$173,433), respectively, including foreign exchange gains (losses) of discontinued operations which amounted to (\$1,053) and \$21,893, respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variations:

2017			
	Change in exchange rate	Effect on profit (loss)	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	5%	\$ 309,602	\$ -
JPY:NTD	5%	10,545	-
RMB:NTD	5%	38,228	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	5%	\$ 23,862	\$ -
JPY:NTD	5%	14,154	-

	2016		
	Change in exchange rate	Effect on profit (loss)	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	5%	\$ 287,349	\$ -
JPY:NTD	5%	7,126	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	5%	\$ 12,581	\$ -
JPY:NTD	5%	7,585	-

Interest rate risk

- i. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate bank loans. The Group reassesses the hedge management periodically to make sure it complies with the cost effectiveness.
- ii. The sensitivity analysis depends on the exposure of interest rate risk at the end of the reporting period.
- iii. Analysis of debt with floating interest rates is based on the assumption that the outstanding debt at the end of the reporting period is outstanding throughout the period. The degree of variation the Group used to report to internal management is increase or decrease of 1% in interest rates which is assessed as the reasonable degree of variation by the management.
- iv. As of December 31, 2017 and 2016, it is estimated that a general increase or decrease of 1% in interest rates, with all other variables held constant, would decrease or increase the Group's profit approximately by \$106,447 and \$108,000, respectively, mainly due to the Group's floating rate on bank loans.

(b) Credit risk

- i. Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. As of December 31, 2017 and 2016, the Group is exposed to credit risk arises from the carrying amount of the financial assets recognized in the consolidated balance sheet.
- ii. The Group is exposed to credit risk from its operating activities (primarily notes and accounts receivable) and from its financing activities (primarily deposits with banks and financial instruments).

- iii. Each business unit performs ongoing credit evaluations of its debtors' financial conditions according to the Group's established policies, procedures and controls relating to customer credit risk management. The Group maintains an account for allowance for doubtful receivables based upon the available facts and circumstances, history of collection and write-off experiences of all trade and other receivables which consequently minimize the Group's exposure to bad debts.
- iv. Credit risk from balances with banks and financial institutions is managed by the Group's finance unit in accordance with the Group's policies. The counterparty of the Group is determined through its internal controls policy. For banks and financial institutions, only parties rated above BBB+ by Taiwan Ratings are accepted. The probability of counterparty default is remote, so there is no significant credit risk.

(c) Liquidity risk

- i. The Group manages and maintains adequate cash and cash equivalents to finance the Group's operations, and minimize the impact from cash flow fluctuations. The Group also monitors its debt financing plans to ensure it is in compliance with the financial covenants required under its loan agreements.
- ii. The primary source of liquidity for the Group is from bank loans. See Notes 6(8) and (12) for details of the unused credit lines of the Group as of December 31, 2017 and 2016.
- iii. The table below summarizes the maturity profile of the Group's non-derivative financial liabilities based on the earliest repayment dates and contractual undiscounted payments, including principal and interest. The Group does not consider the probability of early repayments requested by the banks.

	December 31, 2017				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
<u>Non-derivative financial liabilities</u>					
Short-term bank loans	\$ 971,813	\$ -	\$ -	\$ -	\$ 971,813
Accounts payable					
(including related parties)	688,186	-	-	-	688,186
Other payables					
(including related parties)	2,693,531	-	-	-	2,693,531
Long-term bank loans					
(including current portion)	2,321,459	5,876,483	1,863,784	-	10,061,726
Lease obligations payable	12,266	18,266	-	-	30,532
Guarantee deposits	-	-	-	1,371	1,371
	<u>\$ 6,687,255</u>	<u>\$ 5,894,749</u>	<u>\$ 1,863,784</u>	<u>\$ 1,371</u>	<u>\$ 14,447,159</u>

	December 31, 2016				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
<u>Non-derivative financial liabilities</u>					
Accounts payable	\$ 825,062	\$ -	\$ -	\$ -	\$ 825,062
Other payables	1,962,400	-	-	-	1,962,400
Long-term bank loans (including current portion)	1,272,266	4,605,936	5,504,353	-	11,382,555
Lease obligations payable	12,000	30,000	-	-	42,000
Guarantee deposits	-	-	-	1,404	1,404
	<u>\$ 4,071,728</u>	<u>\$ 4,635,936</u>	<u>\$ 5,504,353</u>	<u>\$ 1,404</u>	<u>\$ 14,213,421</u>

The difference between the floating interest rates and estimated interest rates will affect the non-derivative financial assets and liabilities stated above.

(4) Fair value information

There were no financial instruments and non-financial instruments measured at fair value as of December 31, 2017 and 2016.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Financings provided: None.

B. Endorsements and guarantees provided: There were no endorsements and guarantees provided by the Company. For information related to the Company's letter of guarantee for duty, please refer to Note 9(4).

C. Marketable securities held at the end of the period (not including subsidiaries, associates and joint ventures):

Held company name	Marketable securities type and name	Relationship with the company	General ledger account	As of December 31, 2017				
				Number of shares	Carrying amount	Ownership (%)	Fair value	Note
The Company	RYOWA CO., LTD.	N/A	Non-current financial assets carried at cost	420	\$ 9,950	18.12	N/A	
The Company	CONNECTEC JAPAN Corporation	N/A	Non-current financial assets carried at cost	56,497	-	4.28	N/A	
ChipMOS BVI	Shanghai Zuzhu Business Consulting Partnership (Limited Partnership) ("Zuzhu")	N/A	Non-current financial assets carried at cost	-	4,376	5.10	N/A	
ChipMOS BVI	Shanghai Zuzhan Business Consulting Partnership (Limited Partnership) ("Zuzhan")	N/A	Non-current financial assets carried at cost	-	2,188	13.42	N/A	
ChipMOS BVI	Shanghai Zuchen Business Consulting Partnership (Limited Partnership) ("Zuchen")	N/A	Non-current financial assets carried at cost	-	2,188	11.34	N/A	
ChipMOS BVI	Shanghai Guizao Business Consulting Partnership (Limited Partnership) ("Guizao")	N/A	Non-current financial assets carried at cost	-	2,188	11.85	N/A	

D. Marketable securities acquired or disposed of with accumulated amount exceeding the lower of \$300 million or 20% of the paid-in capital:

Investor	Marketable securities type and name	General ledger account	Counterparty	Relationship with the investor	Balance as of January 1, 2017		Addition		Disposal				Balance as of December 31, 2017	
					Number of shares/units (in thousands)	Amount	Number of shares/units (in thousands)	Amount	Number of shares/units (in thousands)	Selling price	Book value	Gain (loss) on disposal	Number of shares/units (in thousands)	Amount
The Company	Cathay Taiwan Money Market Fund	Note 1	N/A	N/A	-	\$ -	36,372	\$ 450,000	36,372	\$ 450,136	\$ 450,000	\$ 136	-	\$ -
The Company	UPAMC James Bond Money Market Fund	Note 1	N/A	N/A	-	-	27,126	450,000	27,126	450,226	450,000	226	-	-
ChipMOS BVI	ChipMOS Shanghai's equity	Investments accounted for using equity method	Tibet Unigroup Guowei Investment Co., Ltd. and other strategic investors	N/A	Note 2	2,440,884	Note 2	1,373,486	Note 2	2,166,151	1,166,521	999,630	Note 2	3,066,160

Note 1: Accounted for as “Financial assets at fair value through profit and loss”.

Note 2: Limited company, hence does not issue common stock.

E. Acquisition of real estate properties with amount exceeding the lower of \$300 million or 20% of the paid-in capital: None.

F. Disposal of real estate properties with amount exceeding the lower of \$300 million or 20% of paid-in capital: None.

G. Purchases from or sales to related parties with amount exceeding the lower of \$100 million or 20% of paid-in capital or more: None.

H. Receivables from related parties with amount exceeding the lower of \$100 million or 20% of paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods:

Number	Company name	Counterparty	Relationship	General ledger account	Transaction			Percentage of consolidated total revenues or total assets (%)
					Amount	Transaction terms		
0	The Company	ChipMOS USA	Note	Service expense	\$ 35,892	-		-
0	The Company	ChipMOS Shanghai	Note	Gain on disposal of property, plant and equipment	55,330	-		-

Note: Represents the transactions from parent company to subsidiary.

(2) Information on investees

Names, locations and related information of investees (excluding information on investments in the P.R.C.):

Investor	Investee	Location	Main business activities	Original investment amount		Shares held as of December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognized for the year ended December 31, 2017	Note
				Ending balance	Beginning balance	Number of shares	Ownership (%)	Carrying amount			
The Company	ChipMOS USA	San Jose, USA	Research, development and marketing of semiconductors, circuits, electronic related products	\$ 217,918	\$ 217,918	3,550,000	100	\$ 227,573	\$ 2,790	\$ 2,790	
The Company	JMC	Kaohsiung Taiwan	Manufacturing, processing and trading of high-end flexible IC substrates for display driver ICs	315,164	315,164	19,100,000	19.10	373,276	4,413	789	Note
The Company	ChipMOS BVI	British Virgin Islands	Holding company	2,983,432	2,983,432	2,370,242,975	100	3,826,308	1,524,242	1,524,429	

Note: Company's associate accounted for using the equity method.

(3) Information on investments in the P.R.C.

A. Basic information:

Investee in P.R.C.	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to P.R.C. as of January 1, 2017	Amount remitted from Taiwan to P.R.C./ Amount remitted back to Taiwan for the year ended December 31, 2017		Accumulated amount of remittance from Taiwan to P.R.C. as of December 31, 2017	Net income (loss) of investee for the year ended December 31, 2017	Ownership (%) held by the Company (directly or indirectly)	Investment income (loss) recognized for the year ended December 31, 2017	Carrying amount of investments in P.R.C. as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan through December 31, 2017	Note
					Remitted to P.R.C.	Remitted back to Taiwan							
ChipMOS Shanghai	Semiconductor assembling and testing services	\$ 9,051,779	Note 1	\$ 2,885,586	\$ -	\$ -	\$ 2,885,586	(\$ 348,472)	45.02	(\$ 265,859)	\$3,066,160	\$ -	Notes 2, 3
Zuzhu	Business consulting services	87,139	Note 1	-	-	-	-	12	5.10	-	4,376	-	
Zuzhan	Business consulting services	16,606	Note 1	-	-	-	-	(9)	13.42	-	2,188	-	
Zuchen	Business consulting services	19,673	Note 1	-	-	-	-	10	11.34	-	2,188	-	
Guizao	Business consulting services	18,810	Note 1	-	-	-	-	10	11.85	-	2,188	-	

Note 1: Through investing in an existing company (ChipMOS BVI) in the third area, which then invested in the investee in P.R.C..

Note 2: The financial statements that are audited by the Company's independent accountants.

Note 3: On November 30, 2016, the Company's Board of Directors approved ChipMOS BVI's disposal of 54.98% interests of its subsidiary, ChipMOS Shanghai. The transaction was completed in March 2017. Detailed information is provided in Notes 6(5) and 6(7).

Company name	Accumulated amount of remittance from Taiwan to P.R.C. as of December 31, 2017	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs ("MOEA")	Limit on investments in P.R.C. imposed by the Investment Commission of MOEA
The Company	\$2,885,586	\$2,885,586	\$11,036,002

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the P.R.C.: None.

14. SEGMENT INFORMATION

(1) General information

The Group engages mainly in the assembly and testing of semiconductors, memory modules and investing. In accordance with IFRS 8 “Operating Segments”, the Group’s segments include Testing, Assembly, Testing and Assembly for Liquid Crystal Display and other Flat-Panel Display Driver Semiconductors (“LCDD”), Bumping and others as the five reportable segments.

(2) Measurement of segment information

The Group’s reportable segments are strategic business units which provide different products and services. The accounting policies adopted by the operating segments are the same as the accounting policies described in Note 4.

(3) Information about segment profit or loss

The segment information provided to the chief operating decision maker for the reportable segments is as follows:

	2017							Discontinued operations	Total
	Testing	Assembly	LCDD	Bumping	Others	Elimination			
Revenue:									
External customers	\$4,895,289	\$ 5,425,189	\$ 4,792,472	\$ 3,055,000	\$ -	\$ -	(\$ 227,095)		\$ 17,940,855
Inter-segment	-	-	452	60	35,808	(36,320)	-		-
Total revenue	<u>\$4,895,289</u>	<u>\$ 5,425,189</u>	<u>\$ 4,792,924</u>	<u>\$ 3,055,060</u>	<u>\$ 35,808</u>	<u>(\$ 36,320)</u>	<u>(\$ 227,095)</u>		<u>\$ 17,940,855</u>
Operating profit (loss)	<u>\$1,471,244</u>	<u>(\$ 36,557)</u>	<u>\$ 1,244,148</u>	<u>(\$ 364,191)</u>	<u>(\$ 100,545)</u>	<u>\$ 388</u>	<u>\$ 25,394</u>		<u>\$ 2,239,881</u>
Depreciation and amortization	<u>(\$ 673,393)</u>	<u>(\$ 597,500)</u>	<u>(\$ 1,048,587)</u>	<u>(\$ 579,605)</u>	<u>(\$ 503)</u>	<u>\$ 310</u>	<u>\$ -</u>		<u>(\$ 2,899,278)</u>
Share of profit of associates	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,347,851</u>	<u>(\$ 1,527,342)</u>	<u>\$ -</u>		<u>(\$ 179,491)</u>
Interest income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,587</u>	<u>\$ -</u>	<u>(\$ 464)</u>		<u>\$ 53,123</u>
Interest expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 192,839)</u>	<u>\$ -</u>	<u>\$ 2,414</u>		<u>(\$ 190,425)</u>
Expenditure for segment assets	<u>\$ 836,894</u>	<u>\$ 655,879</u>	<u>\$ 2,615,153</u>	<u>\$ 594,765</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 4,702,691</u>

	2016							Total
	Testing	Assembly	LCDD	Bumping	Others	Elimination	Discontinued operations	
Revenue:								
External customers	\$ 4,864,803	\$ 6,608,197	\$ 4,920,302	\$ 2,999,457	\$ -	\$ -	(\$ 1,005,166)	\$ 18,387,593
Inter-segment	-	1,103	-	510	41,670	(43,283)	-	-
Total revenue	<u>\$ 4,864,803</u>	<u>\$ 6,609,300</u>	<u>\$ 4,920,302</u>	<u>\$ 2,999,967</u>	<u>\$ 41,670</u>	<u>(\$ 43,283)</u>	<u>(\$ 1,005,166)</u>	<u>\$ 18,387,593</u>
Operating profit (loss)	<u>\$ 1,366,488</u>	<u>\$ 61,081</u>	<u>\$ 892,461</u>	<u>(\$ 391,526)</u>	<u>(\$ 68,578)</u>	<u>(\$ 7,614)</u>	<u>\$ 146,263</u>	<u>\$ 1,998,575</u>
Depreciation and amortization	<u>(\$ 718,117)</u>	<u>(\$ 716,619)</u>	<u>(\$ 1,174,635)</u>	<u>(\$ 629,590)</u>	<u>(\$ 565)</u>	<u>\$ 8,247</u>	<u>\$ 141,375</u>	<u>(\$ 3,089,904)</u>
Share of profit of associates	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 128,866)</u>	<u>\$ 157,790</u>	<u>\$ -</u>	<u>\$ 28,924</u>
Interest income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,509</u>	<u>(\$ 13,202)</u>	<u>(\$ 3,753)</u>	<u>\$ 38,554</u>
Interest expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 158,002)</u>	<u>\$ 12,851</u>	<u>\$ 606</u>	<u>(\$ 144,545)</u>
Expenditure for segment assets	<u>\$ 973,345</u>	<u>\$ 735,375</u>	<u>\$ 1,856,565</u>	<u>\$ 1,325,442</u>	<u>\$ 49</u>	<u>(\$ 199,781)</u>	<u>(\$ 1,567,683)</u>	<u>\$ 3,123,312</u>

(4) Reconciliation for segment income (loss)

Revenue from external customers and segment income (loss) reported to the chief operating decision maker are measured using the same method as for revenue and operating profit in the financial statements. Thus, no reconciliation is needed.

(5) Information on products and services

	2017		2016	
	Revenue	%	Revenue	%
Testing	\$ 4,895,289	27	\$ 4,864,803	26
Assembly	5,425,189	30	6,608,197	36
LCDD	4,792,472	27	4,920,302	27
Bumping	<u>3,055,000</u>	<u>17</u>	<u>2,999,457</u>	<u>16</u>
	18,167,950	101	19,392,759	105
Less: Revenue of discontinued operations	(<u>227,095</u>)	(<u>1</u>)	(<u>1,005,166</u>)	(<u>5</u>)
	<u>\$ 17,940,855</u>	<u>100</u>	<u>\$ 18,387,593</u>	<u>100</u>

(6) Geographical information

	2017		2016	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 13,360,459	\$ 15,390,343	\$ 13,644,392	\$ 13,768,181
Japan	2,258,538	-	1,861,147	-
Singapore	1,798,585	-	3,087,835	-
P.R.C.	173,783	-	239,618	2,127,764
Others	<u>576,585</u>	<u>2,025</u>	<u>559,767</u>	<u>2,727</u>
	18,167,950	15,392,368	19,392,759	15,898,672
Less: Discontinued operations	(<u>227,095</u>)	-	(<u>1,005,166</u>)	(<u>2,127,764</u>)
	<u>\$ 17,940,855</u>	<u>\$ 15,392,368</u>	<u>\$ 18,387,593</u>	<u>\$ 13,770,908</u>

(7) Major customer information

The information on the major customers which constituted more than 10% of the Group's total revenue for the years ended December 31, 2017 and 2016 is as follows:

Company name	2017		2016	
	Amount	%	Amount	%
Customer A	\$ 3,434,873	19	\$ 3,370,285	18
Customer K	2,742,882	15	2,633,431	14
Customer I	1,798,111	10	3,085,190	17
Customer C	1,530,209	9	1,870,675	10