

**CHIEFTEK PRECISION CO., LTD. AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REVIEW REPORT OF INDEPENDENT  
ACCOUNTANTS  
SEPTEMBER 30, 2017 AND 2016**

---

For the convenience of readers and for information purpose only, the auditors' report and the accompanying 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 auditors' report and financial statements shall prevail.

## REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Stockholders of CHIEFTEK PRECISION CO., LTD.

We have reviewed the accompanying consolidated balance sheets of CHIEFTEK PRECISION CO., LTD. and its subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2017 and 2016, and the consolidated statements of changes in equity and of cash flows for the nine-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Except as discussed in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36, "Review of Financial Statements" in the Republic of China. A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical procedures to financial data, and making inquiries of Company personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 4(3), the financial statements and related information disclosed in Note 13 of certain non-significant subsidiaries were consolidated based on their unreviewed financial statements as of and for the three-month and nine-month periods ended September 30, 2017 and 2016. Total assets of these subsidiaries amounted to \$358,712 thousand and \$76,904 thousand, representing 14% and 3% of the related consolidated totals, and total liabilities amounted to \$124,181 thousand and \$307 thousand, representing 11% and — % of the related consolidated totals, as of September 30, 2017 and 2016, respectively. Total comprehensive income of these subsidiaries amounted to \$3,845 thousand, (\$2,299) thousand, \$8,275 thousand and \$6,014 thousand, constituting 5%, (107%), 6% and 13% of the related consolidated totals for the three-month and nine-month periods ended September 30, 2017 and 2016, respectively.

Based on our reviews, except for the effect of such adjustments, if any, as might have been determined to be necessary had the financial statements and related information disclosed in Note 13 of certain non-significant subsidiaries been reviewed by independent accountants as described in the preceding paragraph, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above in order for them to be in conformity with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission of the Republic of China.

Lin, Yung-Chih

Independent Accountants

Lin, Tzu-Shu

PricewaterhouseCoopers, Taiwan

Republic of China

October 31, 2017

-----  
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.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

**CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2017, DECEMBER 31, 2016 AND SEPTEMBER 30, 2016**  
(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2017 and 2016 are reviewed, not audited)

Assets	Notes	September 30, 2017		December 31, 2016		September 30, 2016		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 646,301	25	\$ 506,430	23	\$ 518,233	23
1150	Notes receivable, net		48,496	2	32,195	1	28,389	1
1170	Accounts receivable, net	6(2)	366,711	14	323,860	15	337,583	15
1200	Other receivables		3,082	-	1,925	-	2,156	-
1220	Current income tax assets	6(20)	-	-	-	-	1,172	-
130X	Inventory	5(1) and 6(3)	348,042	13	318,565	15	331,461	15
1410	Prepayments		25,777	1	16,508	1	19,408	1
11XX	<b>Total current assets</b>		<u>1,438,409</u>	<u>55</u>	<u>1,199,483</u>	<u>55</u>	<u>1,238,402</u>	<u>55</u>
<b>Non-current assets</b>								
1600	Property, plant and equipment	6(4) and 8	1,000,321	39	892,019	41	909,123	41
1780	Intangible assets	5(2) and 6(6)	114,860	4	68,707	3	61,288	3
1840	Deferred income tax assets	6(20)	14,013	1	21,286	1	20,956	1
1915	Prepayments for equipment	6(4)	17,308	1	5,837	-	9,125	-
1920	Guarantee deposits paid		5,358	-	3,997	-	3,890	-
1980	Other financial assets - non-current	8	1,445	-	1,430	-	1,430	-
1990	Other non-current assets		2,219	-	3,614	-	1,402	-
15XX	<b>Total non-current assets</b>		<u>1,155,524</u>	<u>45</u>	<u>996,890</u>	<u>45</u>	<u>1,007,214</u>	<u>45</u>
1XXX	<b>Total assets</b>		<u>\$ 2,593,933</u>	<u>100</u>	<u>\$ 2,196,373</u>	<u>100</u>	<u>\$ 2,245,616</u>	<u>100</u>

(Continued)

**CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2017, DECEMBER 31, 2016 AND SEPTEMBER 30, 2016**  
(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2017 and 2016 are reviewed, not audited)

Liabilities and Equity	Notes	September 30, 2017		December 31, 2016		September 30, 2016		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>								
2100	Short-term borrowings	6(7)	\$ 234,845	9	\$ 187,715	8	\$ 221,128	10
2110	Short-term notes and bills payable	6(8)	30,000	1	-	-	-	-
2150	Notes payable		108,001	4	65,774	3	63,715	3
2170	Accounts payable		77,010	3	42,694	2	44,397	2
2200	Other payables	6(9)	140,514	5	78,446	4	101,823	4
2230	Current income tax liabilities	6(20)	13,795	1	5,951	-	534	-
2310	Advance receipts		5,808	-	972	-	69	-
2320	Long-term liabilities, current portion	6(10), 8 and 9	69,990	3	58,533	3	49,998	2
21XX	<b>Total current liabilities</b>		<u>679,963</u>	<u>26</u>	<u>440,085</u>	<u>20</u>	<u>481,664</u>	<u>21</u>
<b>Non-current liabilities</b>								
2540	Long-term borrowings	6(10), 8 and 9	458,852	18	390,633	18	420,373	19
2570	Deferred income tax liabilities	6(20)	4,667	-	2,614	-	1,758	-
2640	Net defined benefit liabilities	6(11)	4,402	-	4,625	-	3,727	-
25XX	<b>Total non-current liabilities</b>		<u>467,921</u>	<u>18</u>	<u>397,872</u>	<u>18</u>	<u>425,858</u>	<u>19</u>
2XXX	<b>Total liabilities</b>		<u>1,147,884</u>	<u>44</u>	<u>837,957</u>	<u>38</u>	<u>907,522</u>	<u>40</u>
<b>Share capital</b>								
3110	Share capital - common stock	6(12)(14)	620,455	24	620,455	28	620,455	28
<b>Capital reserves</b>								
3200	Capital surplus	6(13)	463,051	18	463,051	21	463,051	20
<b>Retained earnings</b>								
		6(12)(14)(20)						
3310	Legal reserve		73,463	3	64,905	3	64,905	3
3320	Special reserve		5,928	-	-	-	-	-
3350	Unappropriated retained earnings		414,383	16	334,354	15	313,023	14
3400	<b>Other equity interest</b>		( 12,573)	-	( 5,928)	-	( 4,598)	-
3500	<b>Treasury stocks</b>	6(12)	( 118,544)	( 5)	( 118,544)	( 5)	( 118,544)	( 5)
31XX	<b>Equity attributable to owners of the parent</b>		<u>1,446,163</u>	<u>56</u>	<u>1,358,293</u>	<u>62</u>	<u>1,338,292</u>	<u>60</u>
36XX	<b>Non-controlling interest</b>		( 114)	-	123	-	( 198)	-
3XXX	<b>Total equity</b>		<u>1,446,049</u>	<u>56</u>	<u>1,358,416</u>	<u>62</u>	<u>1,338,094</u>	<u>60</u>
<b>Significant Contingent Liabilities and Unrecognized Contract Commitments</b>								
3X2X	<b>Total liabilities and equity</b>		<u>\$ 2,593,933</u>	<u>100</u>	<u>\$ 2,196,373</u>	<u>100</u>	<u>\$ 2,245,616</u>	<u>100</u>

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



**CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)  
(REVIEWED, NOT AUDITED)

Notes	Equity attributable to owners of the parent										
	Share capital - common stock	Capital reserve	Retained Earnings			Other Equity Interest		Treasury stocks	Total	Non- controlling interest	Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations					
<b>For the nine-month period ended September 30, 2016</b>											
Balance at January 1, 2016	\$ 592,338	\$ 463,051	\$ 57,827	\$ -	\$ 312,835	\$ 12,024	(\$ 118,544)	\$ 1,319,531	\$ -	\$ 1,319,531	
Distribution of earnings for 2015 net income:											
Legal reserve	-	-	7,078	-	( 7,078 )	-	-	-	-	-	
Cash dividends	6(14)(23)	-	-	-	( 28,117 )	-	-	( 28,117 )	-	( 28,117 )	
Stock dividends	6(12)(14)	28,117	-	-	( 28,117 )	-	-	-	-	-	
Profit for the period	-	-	-	-	63,500	-	-	63,500	( 384 )	63,116	
Other comprehensive loss for the period	-	-	-	-	-	( 16,622 )	-	( 16,622 )	4	( 16,618 )	
Non-controlling interest	-	-	-	-	-	-	-	-	182	182	
Balance at September 30, 2016	<u>\$ 620,455</u>	<u>\$ 463,051</u>	<u>\$ 64,905</u>	<u>\$ -</u>	<u>\$ 313,023</u>	<u>(\$ 4,598)</u>	<u>(\$ 118,544)</u>	<u>\$ 1,338,292</u>	<u>(\$ 198)</u>	<u>\$ 1,338,094</u>	
<b>For the nine-month period ended September 30, 2017</b>											
Balance at January 1, 2017	\$ 620,455	\$ 463,051	\$ 64,905	\$ -	\$ 334,354	(\$ 5,928)	(\$ 118,544)	\$ 1,358,293	\$ 123	\$ 1,358,416	
Distribution of earnings for 2016 net income:											
Legal reserve	-	-	8,558	-	( 8,558 )	-	-	-	-	-	
Special reserve	6(14)	-	-	5,928	( 5,928 )	-	-	-	-	-	
Cash dividends	6(14)(23)	-	-	-	( 59,045 )	-	-	( 59,045 )	-	( 59,045 )	
Profit for the period	-	-	-	-	153,560	-	-	153,560	( 232 )	153,328	
Other comprehensive loss for the period	-	-	-	-	-	( 6,645 )	-	( 6,645 )	( 5 )	( 6,650 )	
Balance at September 30, 2017	<u>\$ 620,455</u>	<u>\$ 463,051</u>	<u>\$ 73,463</u>	<u>\$ 5,928</u>	<u>\$ 414,383</u>	<u>(\$ 12,573)</u>	<u>(\$ 118,544)</u>	<u>\$ 1,446,163</u>	<u>(\$ 114)</u>	<u>\$ 1,446,049</u>	

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

**CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)  
(REVIEWED, NOT AUDITED)

	Notes	For the nine-month periods ended	
		September 30,	
		2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 193,712	\$ 74,926
Adjustments			
Adjustments to reconcile profit (loss)			
Reversal of allowance for doubtful accounts	6(2)(15)	( 2,897 )	( 3,889 )
Reversal of inventory market price decline	6(3)	( 7,345 )	( 1,425 )
Depreciation	6(4)(6)(18)	80,262	88,957
Loss on disposal of property, plant and equipment	6(16)	14	92
Amortization	6(6)(18)	1,504	951
Loss on disposal of intangible assets	6(16)	-	18
Interest income	6(15)	( 1,417 )	( 859 )
Interest expense	6(17)	8,203	10,013
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		( 16,301 )	( 3,693 )
Accounts receivable		( 39,924 )	( 8,651 )
Other receivables		( 1,157 )	( 652 )
Inventories		( 22,613 )	37,715
Prepayments		( 9,269 )	( 3,944 )
Changes in operating liabilities			
Notes payable		42,362	16,815
Accounts payable		34,316	20,915
Other payables		63,899	12,057
Advance receipts		4,836	( 728 )
Net defined benefit liabilities		( 223 )	( 223 )
Cash inflow generated from operations		327,962	238,395
Interest received		1,417	859
Interest paid		( 7,888 )	( 10,280 )
Income tax received		-	13,042
Income tax paid		( 23,214 )	( 17,573 )
Net cash flows from operating activities		298,277	224,443

(Continued)



**CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)  
(REVIEWED, NOT AUDITED)

	Notes	For the nine-month periods ended September 30,	
		2017	2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash paid for acquisition of property, plant and equipment	6(23)	(\$ 189,389 )	(\$ 10,751 )
Proceeds from disposal of property, plant and equipment		200	-
Cash paid for acquisition of intangible assets	6(6)	( 44,349 )	( 9,148 )
Increase in prepayment for equipment		( 14,139 )	( 1,134 )
Increase in guarantee deposits paid		( 1,361 )	( 1,632 )
(Increase) decrease in other financial assets - non-current		( 15 )	2
Decrease in other non-current assets		<u>1,395</u>	<u>965</u>
Net cash flows used in investing activities		<u>( 247,658 )</u>	<u>( 21,698 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in short-term borrowings		47,130	16,325
Increase in short-term notes and bills payable		30,000	-
Increase in long-term borrowings		114,194	36,831
Decrease in long-term borrowings		( 35,166 )	( 168,800 )
Payment of cash dividends	6(23)	( 59,045 )	-
Change in non-controlling interest		<u>-</u>	<u>182</u>
Net cash flows from (used in) financing activities		<u>97,113</u>	<u>( 115,462 )</u>
Effect of foreign exchange rate changes on cash and cash equivalents		<u>( 7,861 )</u>	<u>( 18,899 )</u>
Net increase in cash and cash equivalents		139,871	68,384
Cash and cash equivalents at beginning of period	6(1)	<u>506,430</u>	<u>449,849</u>
Cash and cash equivalents at end of period	6(1)	<u>\$ 646,301</u>	<u>\$ 518,233</u>

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

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

(REVIEWED, NOT AUDITED)

**1. HISTORY AND ORGANIZATION**

(1) CHIEFTEK PRECISION CO., LTD. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) on October 19, 1998. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in research, development, manufacture and sale of miniature linear guide, miniature ball screw, miniature linear modules, electro-optics equipment and semiconductor process equipment.

(2) The common shares of the Company have been listed on the Taipei Exchange since December 28, 2012.

**2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION**

These consolidated financial statements were reported to the Board of Directors on October 31, 2017.

**3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS**

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board  (“IASB”)</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and International Accounting Standards (“IAS”) 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortization (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board ("IASB")
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
International Financial Reporting Interpretations Committee ("IFRIC") 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

A. Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'

The amendments remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment. When a material impairment loss has been recognized or reversed for an individual asset, including goodwill, or a CGU, it is required to disclose the recoverable amount of the asset or CGU. If the recoverable amount is fair value less costs of disposal, it is required to disclose the level of the fair value hierarchy, the valuation techniques(s) used and key assumptions.

Based on the Group's assessment, the amendments will result in an increase of disclosure information for asset impairment.

B. Amendments to IAS 1, 'Disclosure initiative'

This amendment clarifies the presentation of materiality, aggregation and subtotals, the framework of financial report, and the guide for accounting disclosure.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

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

New Standards, Interpretations and Amendments	Effective date by IASB
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</u>
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealized losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	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 interests 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

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group 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. 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.

C. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' 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 steps:

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognize revenue when the performance obligation is satisfied.

Further, 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.

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</u>
Prepayment features with negative compensation (amendments to IFRS 9)	January 1, 2019
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by IASB
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Long-term interests in associates and joint ventures (amendments to IAS 28)	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. 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 stays the same for lessors, which is to 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 consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, 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" and IAS 34, 'Interim financial reporting' endorsed by the FSC.

(2) Basis of preparation

- A. Except for the defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation, these consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “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, ‘Critical accounting judgments, estimates and key sources of assumption uncertainty’.

(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 all entities (including structured 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) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within 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 the non-controlling interests having a deficit balance.
  - (d) Changes in a parent’s ownership interest 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 Subsidiary	Business activities	Percentage owned by the Company		Note
			September 30, 2017	December 31, 2016	
CHIEFTEK PRECISION CO., LTD. (“CHIEFTEK PRECISION”)	CHIEFTEK PRECISION HOLDING CO., LTD.	Professional investment	100	100	-
CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH (“cpc Europa”)	Sale of high precision linear motion components and rendering after-sales service	100	100	-
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	Lease of real estate property	100	-	Note 1 Note 2
CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Research, manufacture and sale of machineries	80	80	Note 1
CHIEFTEK PRECISION HOLDING CO., LTD.	Chieftek Precision (Hong Kong) Co., Limited	Professional investment	100	100	-
CHIEFTEK PRECISION HOLDING CO., LTD.	CHIEFTEK PRECISION USA CO., LTD. (“cpc USA”)	Sale of high precision linear motion components and rendering after-sales service	100	100	Note 1

Name of Investor	Name of Subsidiary	Business activities	Percentage owned by the Company		Note
			September 30, 2017	December 31, 2016	
Chieftek Precision (Hong Kong) Co., Limited	Chieftek Machinery (Kunshan) Co., Ltd. (“Chieftek (Kunshan)”) )	Production, processing and sale of high precision linear motion components and after-sales service	100	100	-

Name of Investor	Name of Subsidiary	Business activities	Percentage owned by the Company		Note
			September 30, 2016		
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION HOLDING CO., LTD.	Professional investment	100		-
CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	Sale of high precision linear motion components and rendering after-sales service	100		-
CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Research, manufacture and sale of machineries	80		Note 1
CHIEFTEK PRECISION HOLDING CO., LTD.	Chieftek Precision (Hong Kong) Co., Limited	Professional investment	100		-
CHIEFTEK PRECISION HOLDING CO., LTD.	CHIEFTEK PRECISION USA CO., LTD.	Sale of high precision linear motion components and rendering after-sales service	100		Note 1



<u>Name of Investor</u>	<u>Name of Subsidiary</u>	<u>Business activities</u>	<u>Percentage owned by the Company</u>	
			<u>September 30, 2016</u>	<u>Note</u>
Chieftek Precision (Hong Kong) Co., Limited	Chieftek Machinery (Kunshan) Co., Ltd.	Production, processing and sale of high precision linear motion components and after-sales service	100	-

Note 1: The financial statements of the entity as of and for the nine months ended September 30, 2017 and 2016 were not reviewed by the independent auditors as the entity did not meet the definition of significant subsidiary.

Note 2: Newly established company in July, 2017.

The financial statements of certain non-significant subsidiaries were consolidated based on their unreviewed financial statements as of and for the nine-month periods ended September 30, 2017 and 2016. Total assets of these subsidiaries amounted to \$358,712 and \$76,904, representing 14% and 3% of the related consolidated totals, and total liabilities amounted to \$124,181 and \$307, representing 11% and —% of the related consolidated totals, as of September 30, 2017 and 2016, respectively. Total comprehensive income (loss) of these subsidiaries amounted to \$3,845, (\$2,299), \$8,275 and \$6,014, constituting 5%, (107%), 6% and 13% of the related consolidated totals for the three-month and nine-month periods ended September 30, 2017 and 2016, respectively.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interest 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, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

- (b) 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 at the balance sheet date are recognized in profit or loss.
- (c) 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 translation 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 translation 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 dates of the initial transactions.
- (d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within 'other gains and losses'.

#### B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
  - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
  - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
  - iii. All resulting exchange differences are recognized in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, if the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

#### (5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-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 twelve 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 twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

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

(6) Cash equivalents

A. Cash equivalents refer to short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

B. Time deposits that meet the above criteria and are held for the purpose of meeting short-term cash commitment in operations are classified as cash equivalents.

(7) Receivables

Accounts receivable are 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.

(8) 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 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 is as follows:

- (a) Significant financial difficulty of the issuer or debtor;
- (b) 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;
- (c) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (d) 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;

C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made according of financial assets. 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.

(9) Derecognition of financial assets

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

(10) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying 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 cost of completion and applicable variable selling expenses. When the cost of inventory is lower than net realizable value, a write-down is provided and recognized in operating costs. If the circumstances that caused the write-down cease to exist, such that all or part of the write-down is no longer needed, it should be reversed to that extent and recognized as deduction of operating costs.

(11) 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, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

<u>Assets</u>	<u>Useful lives</u>
Buildings and structures	3 ~ 50 years
Machinery and equipment	2 ~ 15 years
Transportation equipment	3 ~ 10 years
Office equipment	1 ~ 10 years
Leasehold improvements	2 ~ 15 years
Other equipment	2 ~ 10 years

(12) Leases (lessee)

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.

(13) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model.

(14) Intangible assets

A. Trademarks and patents

Separately acquired trademarks of corporate identity system and patents are stated initially at cost. Trademarks and patents have a finite useful life and are amortized on a straight-line basis over their estimated useful lives of 10 to 20 years.

B. Computer software

Computer software is stated initially at cost and amortized on a straight-line basis over its estimated useful life of 3 years.

C. Internally generated intangible assets — research and development expenditures

(a) Research expenditures are recognized as an expense as incurred.

(b) Development expenditures that do not meet the following criteria are recognized as expenses as incurred, but are recognized as intangible assets when the following criteria are met:

- i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- ii. An entity intends to complete the intangible asset and use or sell it;
- iii. An entity has the ability to use or sell the intangible asset;
- iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;

- v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- vi. The expenditure attributable to the intangible asset during its development can be reliably measured.

(c) Upon being available for use, internally generated intangible assets are amortized on a straight-line basis over their estimated useful life.

#### D. Other intangible assets

Technology contribution is stated initially at cost, and regarded as having an indefinite useful life as it was assessed to generate continuous net cash inflow in the foreseeable future. Technology contribution is not amortized, but is tested annually for impairment.

#### (15) 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.

#### (16) Borrowings

A. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings 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 borrowings using the effective interest method.

B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a other non-current assets for liquidity services and amortized over the period of the facility to which it relates.

#### (17) 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 insignificant.

#### (18) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(19) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(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 in a period and should be recognized as expenses in that period 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 the 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 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 rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurement arising on defined benefit plans is recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. Also, the related information is disclosed accordingly.

C. 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 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. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(21) Income tax

- A. The tax expense for the period comprises current and deferred tax. 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 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% 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 balance sheet 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 goodwill or 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, 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 by 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. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.



G. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

(22) Share capital

A. Ordinary shares are classified as equity.

B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is resolved 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.

(23) 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.

(24) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account sales tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(25) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

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

The preparation of these consolidated financial statements requires management to make critical judgements 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) Evaluation of inventories

- A. As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.
- B. As of September 30, 2017, the carrying amount of inventories was \$348,042.

(2) Impairment assessment of tangible and intangible assets (excluding goodwill)

- A. The Group assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilized and industrial characteristics. Any changes of economic circumstances or estimates due to the change of Group strategy might cause material impairment on assets in the future.
- B. As of September 30, 2017, the Group recognized intangible assets, net of impairment loss, amounting to \$114,860.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Cash:			
Cash on hand	\$ 1,030	\$ 852	\$ 723
Checking accounts and demand deposits	<u>643,734</u>	<u>504,120</u>	<u>516,002</u>
	<u>644,764</u>	<u>504,972</u>	<u>516,725</u>
Cash Equivalents:			
Time deposits	<u>1,537</u>	<u>1,458</u>	<u>1,508</u>
	<u>\$ 646,301</u>	<u>\$ 506,430</u>	<u>\$ 518,233</u>

- A. The Group associates 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.
- B. Details of the Group's cash and cash equivalents pledged to others as collateral as of September 30, 2017, December 31, 2016 and September 30, 2016 are provided in Note 8, 'Pledged assets'.

(2) Accounts receivable, net

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Accounts receivable	\$ 376,989	\$ 337,065	\$ 350,594
Less: Allowance for doubtful accounts	( 10,278)	( 13,205)	( 13,011)
	<u>\$ 366,711</u>	<u>\$ 323,860</u>	<u>\$ 337,583</u>

A. The ageing analysis of the Group's accounts receivable that were past due but not impaired is as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Up to 30 days	\$ 27,251	\$ 30,547	\$ 52,573
31 to 90 days	7,391	38,511	37,291
91 to 180 days	9,598	15,301	29,469
181 to 365 days	5,701	14,718	24,415
	<u>\$ 49,941</u>	<u>\$ 99,077</u>	<u>\$ 143,748</u>

The above ageing analysis was based on invoice past due date.

B. Movement analysis of the Group's financial assets that were impaired is as follows:

	<u>For the nine-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
	<u>Group provision</u>	<u>Group provision</u>
At January 1	\$ 13,205	\$ 17,514
Reversal of allowance for doubtful accounts (Note)	( 2,897)	( 3,889)
Effect of foreign exchange rate changes	( 30)	( 614)
At September 30	<u>\$ 10,278</u>	<u>\$ 13,011</u>

(Note) Listed as 'Other income'.

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

D. As of September 30, 2017, December 31, 2016 and September 30, 2016, the Group does not hold any collateral as security for accounts receivable.

(3) Inventories

September 30, 2017			
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 35,408	(\$ 242)	\$ 35,166
Supplies	55,204	( 4,343)	50,861
Work in process	167,986	( 10,314)	157,672
Finished goods	155,893	( 51,550)	104,343
	<u>\$ 414,491</u>	<u>(\$ 66,449)</u>	<u>\$ 348,042</u>

December 31, 2016			
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 27,365	(\$ 498)	\$ 26,867
Supplies	30,742	( 3,402)	27,340
Work in process	148,618	( 13,498)	135,120
Finished goods	185,153	( 55,915)	129,238
	<u>\$ 391,878</u>	<u>(\$ 73,313)</u>	<u>\$ 318,565</u>

September 30, 2016			
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 24,665	(\$ 365)	\$ 24,300
Supplies	31,477	( 3,029)	28,448
Work in process	144,916	( 12,190)	132,726
Finished goods	203,032	( 57,045)	145,987
	<u>\$ 404,090</u>	<u>(\$ 72,629)</u>	<u>\$ 331,461</u>

The cost of inventories recognized as expense for the period:

	For the three-month periods ended September 30,	
	2017	2016
Cost of goods sold	\$ 238,854	\$ 150,482
Provision for inventory market price decline	-	2,133
Reversal of allowance for inventory market price decline (Note)	( 2,285)	-
Gain on physical inventory	( 420)	( 497)
Revenue from sale of scraps	( 49)	( 20)
	<u>\$ 236,100</u>	<u>\$ 152,098</u>

	<u>For the nine-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Cost of goods sold	\$ 630,650	\$ 466,583
Reversal of allowance for inventory market price decline (Note)	( 7,345)	( 1,425)
Gain on physical inventory	( 1,284)	( 353)
Revenue from sale of scraps	( 103)	( 57)
	<u>\$ 621,918</u>	<u>\$ 464,748</u>

(Note) The Group reversed a previous inventory write-down which was accounted for as reduction of cost of goods sold as certain inventory items which were previously provided with allowance were subsequently sold and scrapped in 2016.

(4) Property, plant and equipment

		Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Leasehold improvements and other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>January 1, 2017</u>								
Cost	\$ 316,864	\$ 462,353	\$ 818,978	\$ 5,384	\$ 17,470	\$ 123,646	\$ 2,837	\$ 1,747,532
Accumulated depreciation	-	( 91,795)	( 637,144)	( 4,449)	( 16,421)	( 105,704)	-	( 855,513)
	<u>\$ 316,864</u>	<u>\$ 370,558</u>	<u>\$ 181,834</u>	<u>\$ 935</u>	<u>\$ 1,049</u>	<u>\$ 17,942</u>	<u>\$ 2,837</u>	<u>\$ 892,019</u>
<u>For the nine-month period ended September 30, 2017</u>								
At January 1	\$ 316,864	\$ 370,558	\$ 181,834	\$ 935	\$ 1,049	\$ 17,942	\$ 2,837	\$ 892,019
Additions	100,343	73,705	7,907	790	853	1,636	1,874	187,108
Transferred from prepayments for equipment	-	-	-	-	-	-	2,668	2,668
Transferred after acceptance inspection	-	-	-	-	-	3,034	( 3,034)	-
Depreciation charge (Note)	-	( 10,194)	( 62,308)	( 350)	( 498)	( 7,171)	-	( 80,521)
Disposals – Cost	-	-	( 5,283)	( 890)	( 248)	( 852)	-	( 7,273)
– Accumulated depreciation	-	-	5,069	890	248	852	-	7,059
Net currency exchange differences	( 823)	( 600)	508	( 7)	96	86	1	( 739)
At September 30	<u>\$ 416,384</u>	<u>\$ 433,469</u>	<u>\$ 127,727</u>	<u>\$ 1,368</u>	<u>\$ 1,500</u>	<u>\$ 15,527</u>	<u>\$ 4,346</u>	<u>\$ 1,000,321</u>
<u>September 30, 2017</u>								
Cost	\$ 416,384	\$ 535,458	\$ 822,151	\$ 5,278	\$ 17,999	\$ 127,676	\$ 4,346	\$ 1,929,292
Accumulated depreciation	-	( 101,989)	( 694,424)	( 3,910)	( 16,499)	( 112,149)	-	( 928,971)
	<u>\$ 416,384</u>	<u>\$ 433,469</u>	<u>\$ 127,727</u>	<u>\$ 1,368</u>	<u>\$ 1,500</u>	<u>\$ 15,527</u>	<u>\$ 4,346</u>	<u>\$ 1,000,321</u>

		Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Leasehold improvements and other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>January 1, 2016</u>								
Cost	\$ -	\$ 447,810	\$ 795,195	\$ 5,385	\$ 17,282	\$ 116,728	\$ 18,541	\$ 1,400,941
Accumulated depreciation	-	( 78,604)	( 544,552)	( 4,068)	( 15,605)	( 96,805)	-	( 739,634)
	<u>\$ -</u>	<u>\$ 369,206</u>	<u>\$ 250,643</u>	<u>\$ 1,317</u>	<u>\$ 1,677</u>	<u>\$ 19,923</u>	<u>\$ 18,541</u>	<u>\$ 661,307</u>
<u>For the nine-month period ended September 30, 2016</u>								
At January 1	\$ -	\$ 369,206	\$ 250,643	\$ 1,317	\$ 1,677	\$ 19,923	\$ 18,541	\$ 661,307
Additions	-	1,438	5,185	149	530	1,071	346	8,719
Transferred from investment property	316,864	-	-	-	-	-	-	316,864
Transferred from prepayments for equipment	-	-	-	-	-	-	12,110	12,110
Transferred after acceptance inspection	-	12,680	12,838	-	-	1,330	( 26,848)	-
Depreciation charge (Note)	-	( 9,759)	( 70,919)	( 339)	( 831)	( 7,293)	-	( 89,141)
Disposals—Cost	-	-	( 1,059)	-	( 128)	( 328)	-	( 1,515)
— Accumulated depreciation	-	-	967	-	128	328	-	1,423
Net currency exchange differences	-	-	( 491)	( 58)	( 27)	( 68)	-	( 644)
At September 30	<u>\$ 316,864</u>	<u>\$ 373,565</u>	<u>\$ 197,164</u>	<u>\$ 1,069</u>	<u>\$ 1,349</u>	<u>\$ 14,963</u>	<u>\$ 4,149</u>	<u>\$ 909,123</u>
<u>September 30, 2016</u>								
Cost	\$ 316,864	\$ 461,928	\$ 811,300	\$ 5,421	\$ 17,517	\$ 118,639	\$ 4,149	\$ 1,735,818
Accumulated depreciation	-	( 88,363)	( 614,136)	( 4,352)	( 16,168)	( 103,676)	-	( 826,695)
	<u>\$ 316,864</u>	<u>\$ 373,565</u>	<u>\$ 197,164</u>	<u>\$ 1,069</u>	<u>\$ 1,349</u>	<u>\$ 14,963</u>	<u>\$ 4,149</u>	<u>\$ 909,123</u>

(Note) Depreciation of certain research and development equipment was capitalized as intangible assets as it met the criteria for capitalization. Please refer to Note 6(6), 'Intangible assets'.

A. For the three-month and nine-month periods ended September 30, 2017 and 2016, no borrowing costs were capitalized as part of property, plant and equipment.

B. Information about the property, plant and equipment that were pledged to others as collateral as of September 30, 2017, December 31, 2016 and September 30, 2016 is provided in Note 8, 'Pledged assets'.

(5) Investment property, net

Due to future operational development, the Board of Directors on August 10, 2016, authorized the transfer of the investment property to property, plant and equipment for construction of new factory. For the nine-month period ended September 30, 2017, there is no investment property. For the nine-month period ended September 30, 2016, details of movements in investment property are as follows:

<u>For the nine-month period ended September 30, 2016</u>	<u>Land</u>
Cost at January 1	\$ 316,864
Transferred to property, plant and equipment	( 316,864)
Cost at September 30	<u>\$ -</u>

A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	<u>For the three-month period ended September 30, 2016</u>
Rental income from investment property	<u>\$ -</u>
Direct operating expenses arising from the investment property that did not generate rental income during the period	<u>\$ 180</u>

	<u>For the nine-month period ended September 30, 2016</u>
Rental income from investment property	<u>\$ -</u>
Direct operating expenses arising from the investment property that did not generate rental income during the period	<u>\$ 989</u>



(6) Intangible assets

For the nine-month periods ended September 30, 2017 and 2016, reconciliation of the initial cost, accumulated amortization amount and carrying amount at beginning and end of period of intangible assets is as follows:

	For the nine-month period ended September 30, 2017					
	Trademarks	Patents	Software	Internally generated intangible assets	Others	Total
<u>At January 1, 2017</u>						
Cost	\$ 578	\$ 9,146	\$ 6,156	\$ 16,987	\$ 60,000	\$ 92,867
Accumulated amortization	( 578)	( 1,363)	( 4,421)	-	( 13,500)	( 19,862)
Accumulated impairment	-	-	-	-	( 4,298)	( 4,298)
Net value	<u>\$ -</u>	<u>\$ 7,783</u>	<u>\$ 1,735</u>	<u>\$ 16,987</u>	<u>\$ 42,202</u>	<u>\$ 68,707</u>
Net value at January 1, 2017	\$ -	\$ 7,783	\$ 1,735	\$ 16,987	\$ 42,202	\$ 68,707
Additions – acquired separately	-	85	2,675	41,589	-	44,349
Additions – depreciation reclassified	-	-	-	259	-	259
Additions – amortization reclassified	-	-	-	124	-	124
Amortization	-	( 436)	( 1,192)	-	-	( 1,628)
Net currency exchange differences	-	-	26	3,023	-	3,049
Net value at September 30, 2017	<u>\$ -</u>	<u>\$ 7,432</u>	<u>\$ 3,244</u>	<u>\$ 61,982</u>	<u>\$ 42,202</u>	<u>\$ 114,860</u>
<u>At September 30, 2017</u>						
Cost	\$ 578	\$ 9,231	\$ 8,877	\$ 61,982	\$ 60,000	\$ 140,668
Accumulated amortization	( 578)	( 1,799)	( 5,633)	-	( 13,500)	( 21,510)
Accumulated impairment	-	-	-	-	( 4,298)	( 4,298)
Net value	<u>\$ -</u>	<u>\$ 7,432</u>	<u>\$ 3,244</u>	<u>\$ 61,982</u>	<u>\$ 42,202</u>	<u>\$ 114,860</u>

For the nine-month period ended September 30, 2016

	Trademarks	Patents	Software	Internally generated intangible assets	Others	Total
<u>At January 1, 2016</u>						
Cost	\$ 578	\$ 6,497	\$ 4,613	\$ -	\$ 60,000	\$ 71,688
Accumulated amortization	( 578)	( 871)	( 3,635)	-	( 13,500)	( 18,584)
Net value	<u>\$ -</u>	<u>\$ 5,626</u>	<u>\$ 978</u>	<u>\$ -</u>	<u>\$ 46,500</u>	<u>\$ 53,104</u>
Net value at January 1, 2016	\$ -	\$ 5,626	\$ 978	\$ -	\$ 46,500	\$ 53,104
Additions – acquired separately	-	2,277	1,386	5,485	-	9,148
Additions – depreciation reclassified	-	-	-	184	-	184
Additions – amortization reclassified	-	-	-	68	-	68
Disposals – cost	-	( 24)	( 148)	-	-	( 172)
Disposals – accumulated amortization	-	6	148	-	-	154
Amortization	-	( 358)	( 661)	-	-	( 1,019)
Net currency exchange differences	-	-	( 9)	( 170)	-	( 179)
Net value at September 30, 2016	<u>\$ -</u>	<u>\$ 7,527</u>	<u>\$ 1,694</u>	<u>\$ 5,567</u>	<u>\$ 46,500</u>	<u>\$ 61,288</u>
<u>At September 30, 2016</u>						
Cost	\$ 578	\$ 8,750	\$ 5,839	\$ 5,567	\$ 60,000	\$ 80,734
Accumulated amortization	( 578)	( 1,223)	( 4,145)	-	( 13,500)	( 19,446)
Net value	<u>\$ -</u>	<u>\$ 7,527</u>	<u>\$ 1,694</u>	<u>\$ 5,567</u>	<u>\$ 46,500</u>	<u>\$ 61,288</u>

A. For the nine-month periods ended September 30, 2017 and 2016, no borrowing costs were capitalized as part of intangible assets.

B. Details of amortization on intangible assets are as follows:

	For the three-month periods ended September 30,	
	2017	2016
Manufacturing overhead	\$ 24	\$ 42
General and administrative expenses	57	31
Research and development expenses	492	324
	<u>\$ 573</u>	<u>\$ 397</u>

  

	For the nine-month periods ended September 30,	
	2017	2016
Manufacturing overhead	\$ 105	\$ 125
General and administrative expenses	194	96
Research and development expenses	1,329	798
	<u>\$ 1,628</u>	<u>\$ 1,019</u>

(7) Short-term borrowings

Nature	September 30, 2017	Interest rate range	Collateral
Unsecured borrowings	\$ 135,000	1.05% ~ 1.12%	None
Secured borrowings	<u>99,845</u>	1.20% ~ 2.98%	Endorsed and guaranteed by the Company
	<u>\$ 234,845</u>		

Nature	December 31, 2016	Interest rate range	Collateral
Unsecured borrowings	\$ 125,000	1.05% ~ 1.18%	None
Secured borrowings	<u>62,715</u>	1.20% ~ 1.51%	Endorsed and guaranteed by the Company
	<u>\$ 187,715</u>		

Nature	September 30, 2016	Interest rate range	Collateral
Unsecured borrowings	\$ 165,000	1.12% ~ 1.33%	None
Secured borrowings	<u>56,128</u>	1.25% ~ 1.55%	Endorsed and guaranteed by the Company
	<u>\$ 221,128</u>		

(8) Short-term notes and bills payable

	September 30, 2017	Interest rate range	Collateral
Commercial paper payable	<u>\$ 30,000</u>	0.46%	None

There is no short-term notes and bills payable as of December 31, 2016 and September 30, 2016.

The above commercial paper was issued and secured by Union Bank of Taiwan for short-term financing.

(9) Other payables

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Accrued salaries and bonuses	\$ 54,689	\$ 32,311	\$ 30,775
Employees' compensation and directors' and supervisors' remuneration payable	34,496	12,383	15,285
Equipment payable	1,510	3,656	459
Dividends payable	-	-	28,117
Others	49,819	30,096	27,187
	<u>\$ 140,514</u>	<u>\$ 78,446</u>	<u>\$ 101,823</u>

(10) Long-term borrowings

<u>Nature</u>	<u>Expiry date</u>	<u>September 30, 2017</u>	<u>Interest rate range</u>	<u>Collateral</u>
Long-term bank borrowings				
Secured borrowings	February 17, 2019 ~ August 25, 2024	\$ 512,175	1.27% ~ 4.43%	Time deposits (Note), land, buildings and structures, machinery and equipment and endorsed and guaranteed by the Company
Unsecured borrowings	September 23, 2019	<u>16,667</u>	1.27%	None
		528,842		
Less: Current portion		<u>( 69,990)</u>		
		<u>\$ 458,852</u>		

<u>Nature</u>	<u>Expiry date</u>	<u>December 31, 2016</u>	<u>Interest rate range</u>	<u>Collateral</u>
Long-term bank borrowings				
Secured borrowings	February 17, 2018 ~ September 23, 2021	\$ 426,250	1.37% ~ 2.01%	Time deposits (Note), land, buildings and structures, machinery and equipment
Unsecured borrowings	September 23, 2019	<u>22,916</u>	1.37%	None
		449,166		
Less: Current portion		<u>( 58,533)</u>		
		<u>\$ 390,633</u>		

Nature	Expiry date	September 30, 2016	Interest rate range	Collateral
Long-term bank borrowings				
Secured borrowings	February 17, 2018~ September 23, 2021	\$ 470,371	1.37%~ 2.01%	Time deposits (Note), land, buildings and structures, machinery and equipment, and endorsed and guaranteed by the Company
Less: Current portion		( 49,998)		
		\$ 420,373		

(Note) Listed as ‘Other financial assets – non-current’.

As of March 31, 2017, the Company has extended the credit contract with Chang Hwa Commercial Bank, Ltd. to February 17, 2019.

(11) Pensions

A.(a) 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 retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by next March.

(b) No pension cost was recognized under the aforementioned defined benefit pension plan of the Company for the three-month and nine-month periods ended September 30, 2017 and 2016.

(c) Expected contributions to the defined benefit pension plan of the Company for the next annual reporting period as at September 30, 2017 is \$297.

B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with 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 other subsidiaries are subject to local government sponsored defined contribution plan. In accordance with the related laws of the respective local government,

the independent pension fund of employees is administered by the government. Other than the monthly contributions, these subsidiaries do not have further obligations. The pension costs under the defined contribution pension plans of the Group for the three-month and nine-month periods ended September 30, 2017 and 2016 were \$3,342, \$2,650, \$9,012 and \$7,673, respectively.

(12) Share capital - common stock

A. Movements in the number of the Company's ordinary shares outstanding are as follows (in thousands of shares):

	<u>For the nine-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Balance at beginning of period	59,046	56,234
Stock dividends	-	2,812
Balance at end of peiod	<u>59,046</u>	<u>59,046</u>

B. On June 16, 2016, the Company's stockholders adopted a resolution to issue shares of common stock due to capitalization of retained earnings of \$28,117 and obtained approval from the SFC. The effective date of capitalization was set on August 31, 2016.

C. Treasury shares

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows (in thousands of shares):

<u>Reason for reacquisition</u>	<u>For the nine-month period ended September 30, 2017</u>			
	<u>Shares at beginning of period</u>	<u>Increase</u>	<u>Decrease</u>	<u>Shares at end of period</u>
To be reissued to employees	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>

  

<u>Reason for reacquisition</u>	<u>For the nine-month period ended September 30, 2016</u>			
	<u>Shares at beginning of period</u>	<u>Increase</u>	<u>Decrease</u>	<u>Shares at end of period</u>
To be reissued to employees	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>

(b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. As of September 30, 2017, December 31, 2016 and September 30, 2016, the treasury shares amounted to \$118,544.

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

(d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.

D. As of September 30, 2017, the Company's authorized capital was \$1,200,000 (including \$30,000 reserved for employee stock options), and the paid-in capital was \$620,455 (62,046 thousand shares) with par value of \$10 (in dollars) per share.

(13) Capital reserve

<u>For the nine-month period ended September 30, 2017</u>	<u>Share premium</u>	<u>Others</u>	<u>Total</u>
Balances at beginning and end of period	<u>\$ 462,937</u>	<u>\$ 114</u>	<u>\$ 463,051</u>

<u>For the nine-month period ended September 30, 2016</u>	<u>Share premium</u>	<u>Others</u>	<u>Total</u>
Balances at beginning and end of period	<u>\$ 462,937</u>	<u>\$ 114</u>	<u>\$ 463,051</u>

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

(14) Retained earnings

- A. The legal reserve shall be exclusively used to cover accumulated deficit, to issue new stocks, or to distribute cash to shareholders in proportion to their share ownership. The use of legal reserve for the issuance of stocks or cash dividends to shareholders in proportion to their share ownership is permitted provided that the balance of such reserve exceeds 25% of the Company's paid-in capital.
- B. According to the Company's Articles of Incorporation, the Company's dividend policy is to distribute the current year's earnings, if any, in the following order:
- (1) pay all taxes and dues;
  - (2) offset any loss of prior years;
  - (3) set aside 10% as legal reserve;
  - (4) set aside or reverse special reserve as required by regulations or the Competent Authority;
  - (5) The appropriation of the remaining amount after deducting items (1) to (4), along with the unappropriated retained earnings of prior years can be distributed in accordance with a resolution passed during a meeting of the Board of Directors and approved at the shareholders' meeting. However, the distribution of dividends shall not be lower than 20% of the current year's profit after deducting items (1) to (4). In order to continually expand the scale of operation, increase competitiveness as well as cooperate with the Company's long-term development, future capital requirements and long-term financial plan, the dividend policy

is to distribute stock dividends and partially as cash dividends. Cash dividends shall not be less than 10% of the total dividends distributed to shareholders.

C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings. Pursuant to the regulations as the deduction amount to stockholders' equity from other equity items, the Company has set aside special reserve of \$5,928 which cannot be distributed to shareholders.

D. The Company recognized cash dividends amounting to \$28,117 (\$0.5 (in dollars) per share) and stock dividends amounting to \$28,117 (\$0.5 (in dollars) per share) distributed to owners for the year ended December 31, 2016. On June 22, 2017, the Company's stockholders adopted a resolution to distribute cash dividends for 2016 of \$59,045 (\$1.0 (in dollars) per share).

(15) Other income

	<u>For the three-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Interest income:		
Interest income from bank deposits	\$ 578	\$ 187
Other income:		
Reversal of allowance for doubtful accounts	445	( 2,252)
Others	636	317
	<u>\$ 1,659</u>	<u>(\$ 1,748)</u>

	<u>For the nine-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Government grants income	\$ -	\$ -
Interest income:		
Interest income from bank deposits	\$ 1,417	\$ 859
Other income:		
Reversal of allowance for doubtful accounts	2,897	3,889
Others	1,910	912
	<u>\$ 6,224</u>	<u>\$ 5,660</u>

(16) Other gains and losses

	<u>For the three-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Net currency exchange gain (loss)	\$ 982	(\$ 15,495)



	<u>For the nine-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Net currency exchange loss	(\$ 16,010)	(\$ 18,957)
Loss on disposal of property, plant, and equipment	( 14)	( 92)
Loss on disposal of intangible assets	-	( 18)
	<u>(\$ 16,024)</u>	<u>(\$ 19,067)</u>

(17) Finance costs

	<u>For the three-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Interest expense on bank borrowings	<u>\$ 3,211</u>	<u>\$ 3,036</u>

	<u>For the nine-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Interest expense on bank borrowings	<u>\$ 8,203</u>	<u>\$ 10,013</u>

(18) Expenses by nature

	<u>For the three-month period ended September 30, 2017</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expense	\$ 59,767	\$ 41,621	\$ 101,388
Depreciation	21,934	2,755	24,689
Amortization	24	515	539
	<u>\$ 81,725</u>	<u>\$ 44,891</u>	<u>\$ 126,616</u>

	<u>For the three-month period ended September 30, 2016</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expense	\$ 36,898	\$ 27,575	\$ 64,473
Depreciation	25,446	2,989	28,435
Amortization	42	326	368
	<u>\$ 62,386</u>	<u>\$ 30,890</u>	<u>\$ 93,276</u>

	<u>For the nine-month period ended September 30, 2017</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expense	\$ 151,069	\$ 120,561	\$ 271,630
Depreciation	71,998	8,264	80,262
Amortization	105	1,399	1,504
	<u>\$ 223,172</u>	<u>\$ 130,224</u>	<u>\$ 353,396</u>

	<u>For the nine-month period ended September 30, 2016</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expense	\$ 108,262	\$ 85,428	\$ 193,690
Depreciation	80,015	8,942	88,957
Amortization	125	826	951
	<u>\$ 188,402</u>	<u>\$ 95,196</u>	<u>\$ 283,598</u>

(19) Employee benefit expense

	<u>For the three-month period ended September 30, 2017</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 51,755	\$ 37,638	\$ 89,393
Labor and health insurance expense	4,491	1,530	6,021
Pension costs	2,014	1,328	3,342
Other personnel expenses	1,507	1,125	2,632
	<u>\$ 59,767</u>	<u>\$ 41,621</u>	<u>\$ 101,388</u>

	<u>For the three-month period ended September 30, 2016</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 31,071	\$ 24,910	\$ 55,981
Labor and health insurance expense	3,151	1,206	4,357
Pension costs	1,516	1,134	2,650
Other personnel expenses	1,160	325	1,485
	<u>\$ 36,898</u>	<u>\$ 27,575</u>	<u>\$ 64,473</u>

	<u>For the nine-month period ended September 30, 2017</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 129,880	\$ 106,840	\$ 236,720
Labor and health insurance expense	11,833	7,229	19,062
Pension costs	5,353	3,659	9,012
Other personnel expenses	4,003	2,833	6,836
	<u>\$ 151,069</u>	<u>\$ 120,561</u>	<u>\$ 271,630</u>

	<u>For the nine-month period ended September 30, 2016</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 91,445	\$ 74,923	\$ 166,368
Labor and health insurance expense	8,955	5,140	14,095
Pension costs	4,436	3,237	7,673
Other personnel expenses	3,426	2,128	5,554
	<u>\$ 108,262</u>	<u>\$ 85,428</u>	<u>\$ 193,690</u>

A. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, after covering accumulated losses, shall be distributed as employees' compensation

and directors' and supervisors' remuneration. The ratio shall be 3% to 8% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.

B. For the three-month and nine-month periods ended September 30, 2017 and 2016, the Company's employees' compensation was accrued at \$8,425, \$746, \$16,113 and \$6,060, respectively; while directors' and supervisors' remuneration was accrued at \$3,159, \$280, \$6,042 and \$2,273, respectively. The aforementioned amounts were recognized in salary expenses that were estimated and accrued based on the profit as of the end of reporting period and the percentage specified in the Articles of Incorporation of the Company.

The employees' compensation and directors' and supervisors' remuneration for 2016 as resolved by the Board of Directors were \$12,341, which was different from the estimated amount of \$9,006 and \$3,377 recognized in the 2016 financial statements by \$42. Such difference was recognized in profit and loss for the nine-month period ended September 30, 2017. The employees' compensation will be distributed in the form of cash. The employees' compensation and directors' and supervisors' remuneration for 2016 has not yet been distributed.

Information about the appropriation of employees' compensation and directors' and supervisors' remuneration by the Company as proposed by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(20) Income tax

A. Components of income tax expense:

	<u>For the three-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Current income tax:		
Income tax incurred in current period	\$ 16,078	\$ 5,979
Deferred income tax:		
Origination and reversal of temporary differences	3,014	( 1,889)
Income tax expense	<u>\$ 19,092</u>	<u>\$ 4,090</u>
	<u>For the nine-month periods ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Current income tax:		
Income tax incurred in current period	\$ 30,093	\$ 9,968
10% tax on unappropriated earnings	1,130	432
Prior year's income tax over estimation	( 165)	( 20)
Total current income tax	<u>31,058</u>	<u>10,380</u>
Deferred income tax:		
Origination and reversal of temporary differences	9,326	1,430
Income tax expense	<u>\$ 40,384</u>	<u>\$ 11,810</u>

B. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority, except for the 2014 income tax return which is currently under examination. There were no disputes existing between the Company and the Authority as of October 31, 2017.

C. Unappropriated retained earnings:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Earnings generated in and after 1998	\$ 414,383	\$ 334,354	\$ 313,023

D. As of September 30, 2017, December 31, 2016 and September 30, 2016, the balance of the imputation tax credit account was \$51,254, \$59,918 and \$53,735, respectively. As dividends were approved at the stockholders' meeting on June 22, 2017 and June 16, 2016 with the dividend distribution date set by the Board of Directors on August 2, 2017 and August 31, 2016, the creditable tax rate for the unappropriated retained earnings for 2016 and 2015 is 19.65% and 21.53%, respectively.

(21) Earnings per share ("EPS")

	<u>For the three-month period ended September 30, 2017</u>		
	<u>Amount after tax</u>	<u>Weighted average number of shares outstanding (shares in thousands)</u>	<u>EPS (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 80,720	59,046	\$ 1.37
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 80,720	59,046	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	—	185	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 80,720	59,231	\$ 1.36

For the three-month period ended September 30, 2016

	<u>Amount after tax</u>	<u>Weighted average number of shares outstanding (shares in thousands)</u>	<u>EPS (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 10,750	59,046	\$ 0.18
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 10,750	59,046	
Assumed conversion of all dilutive potential ordinary shares Employees' compensation	—	165	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 10,750</u>	<u>59,211</u>	<u>\$ 0.18</u>

For the nine-month period ended September 30, 2017

	<u>Amount after tax</u>	<u>Weighted average number of shares outstanding (shares in thousands)</u>	<u>EPS (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 153,560	59,046	\$ 2.60
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 153,560	59,046	
Assumed conversion of all dilutive potential ordinary shares Employees' compensation	—	257	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 153,560</u>	<u>59,303</u>	<u>\$ 2.59</u>

	<u>For the nine-month period ended September 30, 2016</u>		
	<u>Amount after tax</u>	<u>Weighted average number of shares outstanding (shares in thousands)</u>	<u>EPS (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 63,500	59,046	\$ 1.08
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 63,500	59,046	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	222	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 63,500	59,268	\$ 1.07

(22) Operating leases

The Group entered into a non-cancellable operating lease agreement for the periods from January 1, 2003 to December 31, 2022 and from August 28, 2014 to August 27, 2034 for the land in Tainan Science Park. The lease agreement is renewable at the end of the lease term. The Company pays monthly rent. If the announced land values, state-owned land rent rate, or other factors change, the monthly rent paid by the Group will be adjusted accordingly on the following month. The Group may have to pay additional rent or get a refund on its last rental payment because of such adjustment. The rent expense of \$1,708, \$1,776, \$5,125 and \$5,328 was recognized in profit or loss for the three-month and nine-month periods ended September 30, 2017 and 2016, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Within one year	\$ 7,175	\$ 7,175	\$ 7,459
Later than one year but not exceeding five years	28,700	28,700	29,837
Exceeding five years	2,417	7,798	9,972
	<u>\$ 38,292</u>	<u>\$ 43,673</u>	<u>\$ 47,268</u>

(23) Supplemental cash flow information

A. Investing activities with partial cash payments

	For the nine-month periods ended September 30,	
	2017	2016
Purchase of property, plant and equipment	\$ 187,108	\$ 8,719
Add: Opening balance of notes payable	1,575	3,281
Opening balance of payable for equipment	3,656	1,343
Less: Ending balance of notes payable	( 1,440)	( 2,133)
Ending balance of payable for equipment	( 1,510)	( 459)
Cash paid during the period	<u>\$ 189,389</u>	<u>\$ 10,751</u>

B. Investing and financing activities with no cash flow effects

	For the nine-month periods ended September 30,	
	2017	2016
a. Cash dividends distribution	\$ 59,045	\$ 28,117
Less: Ending balance of payable on cash dividends (other payable)	-	( 28,117)
Cash paid for cash dividends distribution	<u>\$ 59,045</u>	<u>\$ -</u>
b. Investment property reclassified to property, plant and equipment	<u>\$ -</u>	<u>\$ 316,864</u>
c. Prepayments for equipment reclassified to property, plant and equipment	<u>\$ 2,668</u>	<u>\$ 12,110</u>

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

None.

(2) Key management compensation

	For the three-month periods ended September 30,	
	2017	2016
Salaries and other short-term employee benefits	<u>\$ 8,755</u>	<u>\$ 4,090</u>

	For the nine-month periods ended September 30,	
	2017	2016
Salaries and other short-term employee benefits	<u>\$ 20,885</u>	<u>\$ 14,626</u>

## 8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Asset pledged	Book value			Purpose of collateral
	September 30, 2017	December 31, 2016	September 30, 2016	
Land (Note 1)	\$ 416,384	\$ 316,864	\$ 316,864	Guarantee for long — term borrowings
Buildings and structures -net (Note 1)	393,139	325,831	327,338	Guarantee for long — term borrowings
Machinery and equipment-net (Note 1)	12,229	24,984	30,041	Guarantee for long — term borrowings
Pledged time deposits (Note 2)	1,445	1,430	1,430	Guarantee for long — term borrowings
	<u>\$ 823,197</u>	<u>\$ 669,109</u>	<u>\$ 675,673</u>	

(Note 1) Listed as 'Property, plant and equipment'.

(Note 2) Listed as 'Other financial assets - non-current'.

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

- (1) As of September 30, 2017, December 31, 2016 and September 30, 2016, the endorsements and guarantees provided by the Company to the subsidiary, cpc Europa GmbH, amounted to \$143,000, \$128,820 and \$133,304, respectively, and the actual amount drawn down was \$67,925, \$62,715 and \$73,668, respectively; and provided to the subsidiary, CHIEFTEK PRECISION INTERNATIONAL LLC, amounted to \$60,520, \$— and \$—, respectively, and the actual amount drawn down was \$60,520, \$— and \$—, respectively.
- (2) As of September 30, 2017, December 31, 2016 and September 30, 2016, the Group's remaining balance due for construction in progress and prepayments for equipment were \$22,707, \$12,682 and \$12,682, respectively.
- (3) On November 14, 2014, the Company entered into a mid-term secured syndicated loan contract for a credit line of \$560,000 with 6 financial institutions including Mega International Commercial Bank. The credit term is 5 years. Under the terms of the syndicated loan, the Company agreed that:
  - A. Under the terms of the syndicated loan, the financial ratios stated in the Company's semi-annual reviewed financial statements and annual audited financial statements shall comply with the following financial ratios and will be assessed semi-annually:
    - (a) Current ratio (current assets/current liabilities): At least 100%.
    - (b) Liability ratio (total liabilities/net equity): Less than 150%.
    - (c) Tangible net value (shareholders' equity less intangible assets): At least \$1,000,000.
  - B. If the Company violates the above financial covenants, its financing rate shall be increased by an additional 0.25% per annum from the following June 1, after the earlier of the date of notification by the management bank or the latest financial year end, to the date prior to the completion of improvement.

As of September 30, 2017, the Company has not violated any of the above covenants.



(4) On July 5, 2017, the Company entered into a mid-term secured syndicated loan contract for a credit line of \$1,200,000 with 9 financial institutions including E.Sun Commercial Bank, Ltd.. The credit term is 5 years. Under the terms of the syndicated loan, the Company agree that:

A. Under the terms of the syndicated loan, the financial ratios stated in the Company's semi-annual reviewed financial statements and annual audited financial statements shall comply with the following financial ratios and will be assessed semi-annually:

(a) Current ratio (current assets/current liabilities): At least 100%.

(b) Liability ratio (total liabilities/net equity): Less than 150%.

(c) Tangible net value (shareholders' equity less intangible assets): At least \$1,000,000.

B. If the Company violates the above financial covenants, the Company should improve within nine months after fiscal year or half fiscal year. It will not seem to default, if the audited or reviewed financial rates are met with covenants after improved. Before the improvement is completed, the credit line which has not been withdrawn will be frozen, until the financial covenants are met. In addition, for withdrawn credit, its financing rate shall be increased by an additional 0.125% per annum from the date after the notification by the management bank to the date after the completion of improvement.

As of September 30, 2017, the Company did not withdraw from aforementioned credit line.

(5) For the details of operating lease agreements, please refer to Note 6(22), 'Operating leases'.

#### 10. SIGNIFICANT DISASTER LOSS

None.

#### 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

#### 12. OTHERS

##### (1) 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.

##### (2) Financial instruments

###### A. Fair value information of financial instruments

The Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid, other financial assets - non-current, short-term borrowings, short-term notes and bills payable, notes payable, accounts payable, other payables and long-term borrowings (including current portion)) are based on their book value as book value approximates fair value.

## B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks closely with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

## C. Significant financial risks and degrees of financial risks

### (a) Market risk

#### I. Foreign exchange risk

- (i) The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, EUR and JPY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- (ii) Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The Group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.
- (iii) The Group treasury's risk management policy is to hedge anticipated cash flows (mainly export sales and purchase of inventory) in the major foreign currency in the future so as to decrease the risk exposure in the major foreign currency.
- (iv) The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. However, as the objective of the net investments in foreign operations is for strategic purposes, the Group does not hedge the investments.
- (v) The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD, the subsidiaries' functional currency: USD, EUR and CYN). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

September 30, 2017			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 10,510	30.26	\$ 318,019
JPY:NTD	16,174	0.2691	4,352
EUR:NTD	439	35.75	15,707
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	214	30.26	6,461
JPY:NTD	35,096	0.2691	9,444
EUR:NTD	703	35.75	25,124
December 31, 2016			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 6,928	32.25	\$ 223,441
JPY:NTD	7,721	0.2756	2,128
EUR:NTD	268	33.90	9,089
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	59	32.25	1,888
JPY:NTD	12,161	0.2756	3,352
EUR:NTD	729	33.90	24,707
September 30, 2016			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 13,458	31.36	\$ 422,051
JPY:NTD	6,881	0.3109	2,139
EUR:NTD	608	35.08	21,330
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	66	31.36	2,077
JPY:NTD	13,558	0.3109	4,215
EUR:NTD	562	35.08	19,705

Sensitivity analysis of foreign exchange risk is primarily for foreign currency monetary items at financial reporting date. If the exchange rate of NTD to other currencies had appreciated/depreciated by 1% with all other factors remaining constant, the Group's net profit (loss) after tax for the nine-month periods ended September 30, 2017 and 2016 would increase/decrease by \$2,443 and \$3,442, respectively.

(vi)The total exchange gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three-month and nine-month periods ended September 30, 2017 and 2016 amounted to \$982, (\$15,495), (\$16,010) and (\$18,957), respectively.

## II. Price risk

The Group is not engaged in any financial instruments with price variations, thus, the Group does not expect market risk arising from variations in the market prices.

## III. Interest rate risk

(i)The Group analyses its interest rate exposure on a dynamic basis. Thus, the interest rate of the Group's liabilities fluctuates accordingly with the market interest rate, creating divergence in the Group's future cash flow. However, partial interest rate risk is offset by cash and cash equivalents at variable rates.

(ii)If interest rates on borrowings had been 10% higher/lower with all other variables held constant, net profit (loss) after tax for the nine-month periods ended September 30, 2017 and 2016 would decrease/increase by \$681 and \$831, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

## (b) Credit risk

I. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, the Group is responsible for managing and analysing the credit risk for each of their new clients. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding receivables and committed transactions. For financial institutions, the Group also transacts with many different financial institutions to diversify credit risk.

II.For the credit ratings of the Group's financial assets, please refer to Note 6, 'Financial assets'.

III.For the ageing analysis of financial assets that were past due but not impaired, please refer to Note 6(2), 'Accounts receivable, net'.

(c) Liquidity risk

- I. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.
- II. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. The Group is expected to readily generate cash inflows for managing liquidity risk.
- III. The table below analyses the Group's non-derivative financial liabilities and relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

<u>September 30, 2017</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
Non-derivative financial liabilities:				
Short-term borrowings	\$ 236,801	\$ -	\$ -	\$ -
Short-term notes and bills payable	30,000	-	-	-
Notes payable	108,001	-	-	-
Accounts payable	77,010	-	-	-
Other payables	140,514	-	-	-
Long-term borrowings (including current portion)	80,717	245,930	156,653	81,969

December 31, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 188,230	\$ -	\$ -	\$ -
Notes payable	65,774	-	-	-
Accounts payable	42,694	-	-	-
Other payables	78,446	-	-	-
Long-term borrowings (including current portion)	65,869	230,501	166,930	-
September 30, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 221,687	\$ -	\$ -	\$ -
Notes payable	63,715	-	-	-
Accounts payable	44,397	-	-	-
Other payables	101,823	-	-	-
Long-term borrowings (including current portion)	57,827	268,780	159,457	-

IV. The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2), 'Financial instruments'.

B. As of September 30, 2017, December 31, 2016 and September 30, 2016, the Group had no fair value financial instruments.

13. SUPPLEMENTARY DISCLOSURES

Information related to the nine-month period ended September 30, 2017 will be disclosed.

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Group's paid-in capital: None.

- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: Please refer to table 3.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- I. Trading in derivative instruments undertaken during the reporting period: None.
- J. Significant inter-company transactions during the reporting period: Please refer to table 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 9.

14. SEGMENT INFORMATION

(1) General information

The management of the Group has identified the operating segments based on how the Group's chief operating decision maker regularly reviews information in order to make decisions.

(2) Segment information

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

	For the nine-month period ended September 30, 2017					
	CHIEFTEK PRECISION	Chieftek (Kunshan)	cpc Europa	cpc USA	Others	Total
Segment revenue	\$ 824,310	\$ 337,367	\$ 150,431	\$ 106,656	\$ -	\$ 1,418,764
Revenue from internal customers	376,771	-	413	-	-	377,184
Revenue from external customers	447,539	337,367	150,018	106,656	-	1,041,580
Interest income	298	1,114	1	4	-	1,417
Depreciation and amortization	79,386	683	1,629	22	46	81,766
Interest expense	6,842	-	693	-	668	8,203
Income from segment pre-tax income	178,910	48,811	4,478	15,320	( 2,198)	245,321
Segment assets	1,773,935	367,400	93,877	84,265	274,456	2,593,933

For the nine-month period ended September 30, 2016

	CHIEFTEK PRECISION	Chieftek (Kunshan)	cpc Europa	cpc USA	Others	Total
Segment revenue	\$ 567,929	\$ 199,036	\$ 119,620	\$ 90,156	\$ -	\$ 976,741
Revenue from internal customers	251,693	-	76	-	-	251,769
Revenue from external customers	316,236	199,036	119,544	90,156	-	724,972
Interest income	190	666	-	3	-	859
Depreciation and amortization	87,250	738	1,833	87	-	89,908
Interest expense	9,225	-	788	-	-	10,013
Income from segment pre-tax income	70,664	7,650	( 665)	8,392	( 1,923)	84,118
Segment assets	1,786,640	294,198	87,862	59,980	16,936	2,245,616

(3) Reconciliation for segment income

The sales between segments were under the arms' length principle. The external revenues reported to the chief operating decision maker adopt the same measurement for revenues in statement of comprehensive income. The reconciliations of pre-tax income between reportable segments and continuing operations were as follows:

	For the nine-month periods ended September 30,	
	2017	2016
Reportable segments profit before income	\$ 247,519	\$ 86,041
Other segments loss before income tax	( 2,198)	( 1,923)
Inter segments loss	( 51,609)	( 9,192)
Profit before income tax	<u>\$ 193,712</u>	<u>\$ 74,926</u>



CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Loans to others

For the nine-month period ended September 30, 2017

Table 1

Expressed in thousands of NTD

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the nine-month period ended September 30, 2017	Balance at September 30, 2017	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts		Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 2)	Footnote
														Item	Value			
0	CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	Other receivables	Y	\$ 90,780	\$ 90,780	\$ 30,260	2%	Short-term financing	\$ -	Operational use	\$ -	-	\$ -	\$ -	\$ 578,465	\$ 578,465	-

(Note 1) The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

(Note 2) Calculation of limit on loans granted to a single party and ceiling on total loans granted are as follows:

Short-term financing: The maximum loan amount is 40% of the Company's net assets and the maximum amount for short-term financing is 40% of its assets.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others

For the nine-month period ended September 30, 2017

Table 2

Expressed in thousands of NTD

No. (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of September 30, 2017	Outstanding endorsement/ guarantee amount at September 30, 2017	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
		Company name	Relationship with the endorser/ guarantor (Note 2)											
0	CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	1	\$ 723,082	\$ 159,345	\$ 143,000	\$ 67,925	\$ -	10%	\$ 723,082	Y	N	N	—
0	CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	1	723,082	60,520	60,520	60,520	-	4%	723,082	Y	N	N	—

(Note 1) The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

(Note 2) The following code represents the relationship with the Company:

(1) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(Note 3) (1) The total endorsements/guarantees provided shall not exceed 50% of the Company's net assets, and the amount provided for each counterparty shall not exceed 20% of the Company's paid-in capital. However, the limitation is not applied to subsidiaries that the Company directly or indirectly holds more than 50% of the voting shares.

(2) For trading partner, except for the abovementioned limit, the maximum amount for individual trading partner shall not exceed the higher of total purchase and sale transactions during the most recent year.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more

For the nine-month period ended September 30, 2017

Table 3

Expressed in thousands of NTD

If the counterparty is a related party, information as to the last  
transaction of the real estate is disclosed below:

Real estate acquired by	Real estate acquired	Date of the event	Trade amount	Status of payment	Counterparty	Relationship with the counterparty	Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer	Date of the original transaction	Amount	Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
CHIEFTEK PRECISION INTERNATIONAL LLC	Land and factory	August 9, 2017	\$ 172,144	\$ 172,144	Genmore Corporation, Inc.	—	—	—	—	\$ -	Negotiation	Building for operation use	—

(Note) Foreign currencies were translated into New Taiwan Dollars using the exchange rate (USD:NTD 1:30.26) as at September 30, 2017.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more

For the nine-month period ended September 30, 2017

Table4

Expressed in thousands of NTD

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction			Description and reasons for difference in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote	
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance		Percentage of total notes/accounts receivable (payable)
CHIEFTEK PRECISION CO., LTD.	Chieftek Machinery (Kunshan) Co., Ltd.	Subsidiary	(Sales)	(\$ 241,788)	(29%)	(Note 1)	\$ —	(Note 2)	\$ 121,082	29%	—
Chieftek Machinery (Kunshan) Co., Ltd.	CHIEFTEK PRECISION CO., LTD.	The Company	Purchases	241,788	100%	(Note 1)	—	(Note 3)	( 121,082)	(100%)	—

(Note 1) 180 days after monthly-closing, T/T.

(Note 2) The collection periods for third parties are from 15 days after monthly-closing to 150 days after next monthly-closing.

(Note 3) The company had no purchases from other suppliers.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more

September 30, 2017

Table 5

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at September 30, 2017	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
CHIEFTEK PRECISION CO., LTD.	Chieftek Machinery (Kunshan) Co., Ltd.	Subsidiary	\$ 121,082	3.06	\$ -	—	\$ 35,986	\$ -

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES  
Significant inter-company transactions during the reporting period  
For the nine-month period ended September 30, 2017

Table 6

Expressed in thousands of NTD

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)		
				General ledger account	Amount	Transaction terms			
0	CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	1	Sales revenue	(\$ 79,802)	180 days after monthly-closing, T/T	(8%)		
				Accounts receivable	32,188	—	1%		
				Endorsements and guarantees	143,000	—	6%		
				CSM Maschinen GmbH	1	Long-term prepayment	69,805	—	3%
				CHIEFTEK PRECISION USA CO., LTD.	1	Sales revenue	( 55,181)	180 days after monthly-closing, T/T	(5%)
						Accounts receivable	38,234	—	1%
				Chieftek Machinery (Kunshan) Co., Ltd.	1	Sales revenue	( 241,788)	180 days after monthly-closing, T/T	(23%)
						Accounts receivable	121,082	—	5%
				CHIEFTEK PRECISION INTERNATIONAL LLC	1	Interest revenue	( 76)	—	—
						Other receivables	30,336	—	1%
				Endorsements and guarantees	60,520	—	2%		
1	cpc Europa GmbH	CSM Maschinen GmbH	3	Sales revenue	( 413)	60 days, T/T	—		
				Accounts receivable	448	—	—		
2	CHIEFTEK PRECISION USA CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	3	Other receivables	4,890	—	—		

(Note 1) The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

(Note 2) Relationship between transaction company and counterparty is classified into the following three categories:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

(Note 3) Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Information on investees

For the nine-month period ended September 30, 2017

Table 7

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2017			Net profit (loss) of the investee for the nine-month period ended September 30, 2017	Investment income (loss) recognized by the Company for the nine-month period ended September 30, 2017	Footnote
				Balance as at September 30, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value			
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION HOLDING CO., LTD.	Samoa	Professional investment	\$ 202,290	\$ 202,290	6,760,000	100	\$ 286,357	\$ 49,262	\$ 49,262	Subsidiary
CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	Germany	Sale of high precision linear motion components and rendering after-sale services	98,695	98,695	-	100	( 24,786)	4,478	4,478	Subsidiary
CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Germany	Research, manufacture and sale of machineries	726	726	-	80	( 456)	( 1,161)	( 929)	Subsidiary
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	America	Lease of real estate property	15,170	-	-	100	13,938	( 1,202)	( 1,202)	Subsidiary
CHIEFTEK PRECISION HOLDING CO., LTD.	Chieftek Precision (Hong Kong) Co., Limited	Hong Kong	Professional investment	154,326	154,326	5,100,000	100	251,063	38,253	-	Subsidiary (Note 1)
CHIEFTEK PRECISION HOLDING CO., LTD.	CHIEFTEK PRECISION USA CO., LTD.	America	Sale of high precision linear motion components and rendering after-sale services	50,232	50,232	1,660,000	100	65,534	10,551	-	Subsidiary (Note 1)

(Note 1) Not required to disclose income (loss) recognized by the Company.

(Note 2) Foreign currencies were translated into New Taiwan Dollars using the exchange rate (USD:NTD 1:30.26) as at September 30, 2017.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

For the nine-month period ended September 30, 2017

Table 8

Expressed in thousands of NTD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Amount remitted from Taiwan to Mainland China/ Amount remitted back		Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2017	Net income of investee for the nine-month period ended September 30, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the nine-month period ended September 30, 2017 (Note 2)	Book value of investments in Mainland China as of September 30, 2017	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2017	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Chieftek Machinery (Kunshan) Co., Ltd	Production, processing and sale of high precision linear motion components and rendering after-sale services	\$ 154,326	Note 1	\$ 154,326	\$ -	\$ -	\$ 154,326	\$ 38,144	100%	\$ 38,144	\$ 251,062	\$ -	-

  

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2017	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 3)
CHIEFTEK PRECISION CO., LTD.	\$ 154,326	\$ 154,326	\$ 867,698

(Note 1) Through investing in an existing company in the third area (Chieftek Precision (Hong Kong) Co., Ltd.) which then invested in the investee in Mainland China.

(Note 2) The investment income (loss) is recognized based on the investees' financial statements that were reviewed and attested by R.O.C. parent company's CPA for the nine-month period ended September 30, 2017.

(Note 3) The ceiling amount is 60% of the higher of net worth or consolidated net worth.

(Note 4) Foreign currencies were translated into New Taiwan Dollars using the exchange rate (USD:NTD 1:30.26) as at September 30, 2017.



CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

For the nine-month period ended September 30, 2017

Table 9

Expressed in thousands of NTD

Investee in Mainland China	Sales (purchases)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals			Financing			Interest during the nine-month period ended September 30, 2017	Others
	Amount	%	Amount	%	Balance at September 30, 2017	%	Balance at September 30, 2017	Purpose	Maximum balance during the nine-month period ended September 30, 2017	Balance at September 30, 2017	Interest rate			
Chieftek Machinery (Kunshan) Co., Ltd	\$ 241,788	29%	\$ -	-	\$ 121,082	29%	\$ -	-	\$ -	\$ -	-	\$ -	-	\$ -