

**CHIEFTEK PRECISION CO., LTD.**  
**PARENT COMPANY ONLY FINANCIAL**  
**STATEMENTS AND REPORT OF INDEPENDENT**  
**ACCOUNTANTS**  
**DECEMBER 31, 2017 AND 2016**

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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.

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

### **Opinion**

We have audited the accompanying parent company only balance sheets of CHIEFTEK PRECISION CO., LTD. (the “Company”) as at December 31, 2017 and 2016, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

### **Basis for opinion**

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

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Company's financial statements of the current period are stated as follows:

**The adequacy of allowance for valuation loss on individually recognized obsolete or damaged inventories**

Description

Refer to Note 4(8) for description of accounting policy on inventory, Note 5 for accounting estimates and assumption uncertainty in relation to inventory valuation, and Note 6(3) for description of allowance for inventory valuation losses. As of December 31, 2017, the balances of inventories and allowance for inventory valuation losses were NT\$315,670 thousand and NT\$22,491 thousand, respectively.

The Company is primarily engaged in the manufacture and sales of linear slide and slide base. As users have high-level quality requirement, there is risk of inventory valuation losses or obsolescence. The Company measures its inventories at the lower of cost and net realizable value. For inventories age over a certain period, the net realizable value was calculated based on the inventory clearance and historical data of discounts. The allowance for valuation loss mainly arise from individually recognized obsolete inventories. As the basis for individual recognition of inventory obsolescence involves subjective judgment resulting in high degree of estimation uncertainty, and considering that the Company's inventory and the allowance for inventory valuation losses were material to the financial statements, we identified the adequacy of the allowance for inventory and inventory valuation losses a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

- A. We obtained understanding of the Company's operations and its industry to assess the reasonableness of policies and procedures on allowance for inventory valuation losses, including the historical data of inventory usage and discount range and the method of determining whether the inventory was deemed obsolete.
- B. We verified whether the date used in the inventory aging reports that the Company applied to value inventories were accurate and complete. We recalculated and evaluated the reasonableness of allowance for inventory valuation losses in order to confirm that the reported information was in line with the Company's policies.
- C. We selected samples from inventory items by each sequence number to verify its realizable value and

to evaluate the reasonableness of allowance for inventory valuation loss.

### **Cut off of operating revenue from exports sales**

#### Description

Refer to Note 4(23) for the accounting policies on revenue recognition.

The Company sells in both domestic and foreign countries, and export sales is significant to the Company. Based on the Company's accounting policy, revenue is recognized when the significant risks and rewards of ownership have been transferred to the customers. The terms and conditions of transactions vary from different export customers, and manual process of obtaining evidence of ownership transferred after delivery and judging the timing of revenue recognition are essential. As export sales involve manual process, daily transaction amounts are significant, timing of revenue recognition may not be in the proper period, and the transaction amounts around balance sheet date are material, we consider the cut-off of export sales revenue a key audit matter.

#### How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

- A. We obtained an understanding and evaluated the effectiveness of internal controls relevant to cut-off of revenue, and tested the internal controls of goods delivery and customer billing process.
- B. We selected samples from details of export sales revenue around the balance sheet date, confirmed data completeness, performed cut-off tests on a sampling basis, including checking the terms and conditions of contracts, verifying the evidence of ownership transferred, and examining and analysing the returns of goods of export sales after the balance sheet date to check export whether revenue, changes in inventories and cost of goods sold were recorded in the appropriate period.

## **Responsibilities of management and those charged with governance for the parent company only financial statements**

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including supervisors, are responsible for overseeing the Company’s financial reporting process.

## **Auditor’s responsibilities for the audit of the parent company only financial statements**

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

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

- A. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- B. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- D. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- E. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- F. Obtain sufficient appropriate audit evidence regarding the parent company only financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Lin, Yung-Chih

Independent Accountants

Liu, Tzu-Shu

PricewaterhouseCoopers, Taiwan

Republic of China

March 9, 2018

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The accompanying parent company only 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 parent company only 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.  
PARENT COMPANY ONLY BALANCE SHEETS  
DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 345,051	14	\$ 365,370	17
1150	Notes receivable, net		23,933	1	18,846	1
1170	Accounts receivable, net	6(2)	209,939	9	173,666	8
1180	Accounts receivable - related parties	7	215,744	9	151,266	7
1200	Other receivables		4,028	-	1,488	-
1210	Other receivables - related parties	7	45,033	2	77	-
130X	Inventory	5 and 6(3)	293,179	12	208,578	10
1410	Prepayments		8,223	-	5,658	-
11XX	<b>Total current assets</b>		<u>1,145,130</u>	<u>47</u>	<u>924,949</u>	<u>43</u>
<b>Non-current assets</b>						
1550	Investments accounted for under equity method	6(4)	306,036	13	234,266	11
1600	Property, plant and equipment	6(5)(6) and 8	814,135	34	872,944	41
1780	Intangible assets	6(7)(8)	42,907	2	51,132	2
1840	Deferred income tax assets	6(21)	16,552	1	21,286	1
1915	Prepayments for equipment		11,561	-	5,837	-
1920	Guarantee deposits paid		1,561	-	1,973	-
1980	Other financial assets - non-current	8	1,445	-	1,430	-
1990	Other non-current assets	7	73,185	3	37,514	2
15XX	<b>Total non-current assets</b>		<u>1,267,382</u>	<u>53</u>	<u>1,226,382</u>	<u>57</u>
1XXX	<b>Total assets</b>		<u>\$ 2,412,512</u>	<u>100</u>	<u>\$ 2,151,331</u>	<u>100</u>

(Continued)



CHIEFTEK PRECISION CO., LTD.  
PARENT COMPANY ONLY BALANCE SHEETS  
DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
<b>Liabilities</b>						
<b>Current liabilities</b>						
2100	Short-term borrowings	6(9)	\$ 125,000	5	\$ 125,000	6
2150	Notes payable		115,672	5	65,774	3
2170	Accounts payable		90,645	4	42,868	2
2200	Other payables	6(10)	113,081	5	65,177	3
2230	Current income tax liabilities	6(21)	21,642	1	5,951	-
2310	Advance receipts		727	-	258	-
2320	Long-term liabilities, current portion	6(11), 8 and 9	58,533	2	58,533	3
21XX	<b>Total current liabilities</b>		<u>525,300</u>	<u>22</u>	<u>363,561</u>	<u>17</u>
<b>Non-current liabilities</b>						
2540	Long-term borrowings	6(11), 8 and 9	332,100	14	390,633	18
2570	Deferred income tax liabilities	6(21)	8,697	-	2,614	-
2640	Net defined benefit liabilities	6(12)	5,674	-	4,625	-
2670	Other non-current liabilities	6(4)	10,825	1	31,605	2
25XX	<b>Total non-current liabilities</b>		<u>357,296</u>	<u>15</u>	<u>429,477</u>	<u>20</u>
2XXX	<b>Total liabilities</b>		<u>882,596</u>	<u>37</u>	<u>793,038</u>	<u>37</u>
<b>Equity</b>						
<b>Share capital</b>						
3110	Share capital - common stock	6(13)(15)	620,455	26	620,455	29
<b>Capital reserves</b>						
3200	Capital surplus	6(14)	463,051	19	463,051	21
<b>Retained earnings</b>						
3310	Legal reserve	6(13)(15)(21)	73,463	3	64,905	3
3320	Special reserve		5,928	-	-	-
3350	Unappropriated retained earnings		497,930	21	334,354	16
3400	<b>Other equity interest</b>		( 12,367)	( 1)	( 5,928)	-
3500	<b>Treasury stocks</b>	6(13)	( 118,544)	( 5)	( 118,544)	( 6)
3XXX	<b>Total equity</b>		<u>1,529,916</u>	<u>63</u>	<u>1,358,293</u>	<u>63</u>
<b>Significant Contingent Liabilities and Unrecognized Contract Commitments</b>						
<b>Significant Events After The Balances Sheet Date</b>						
3X2X	<b>Total liabilities and equity</b>		<u>\$ 2,412,512</u>	<u>100</u>	<u>\$ 2,151,331</u>	<u>100</u>

The accompanying notes are an integral part of these parent company only financial statements.

CHIEFTEK PRECISION CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)

Items	Notes	Year ended December 31				
		2017		2016		
		AMOUNT	%	AMOUNT	%	
4000	<b>Sales revenue</b>	7	\$ 1,198,518	100	\$ 784,654	100
5000	<b>Operating costs</b>	6(3)(7)(12)(19)(20)(23)	( 788,524)	( 66)	( 556,953)	( 71)
5900	<b>Gross profit</b>		409,994	34	227,701	29
5910	Unrealized gain from inter-affiliate accounts	6(4)	( 52,500)	( 4)	( 61,186)	( 8)
5920	Realized gain from inter-affiliate accounts	6(4)	61,186	5	76,292	10
5950	<b>Net operating margin</b>		418,680	35	242,807	31
	<b>Operating expenses</b>	6(6)(7)(12)(19)(20)				
6100	Selling expenses		( 39,451)	( 3)	( 31,632)	( 4)
6200	General and administrative expenses		( 74,813)	( 6)	( 59,666)	( 8)
6300	Research and development expenses		( 65,382)	( 6)	( 43,593)	( 5)
6000	<b>Total operating expenses</b>		( 179,646)	( 15)	( 134,891)	( 17)
6900	<b>Operating profit</b>		239,034	20	107,916	14
	<b>Non-operating income and expenses</b>					
7010	Other income	6(2)(16) and 7	7,694	1	10,121	1
7020	Other gains and losses	6(7)(8)(17) and 12	( 34,328)	( 3)	( 7,851)	( 1)
7050	Finance costs	6(18)	( 9,043)	( 1)	( 11,602)	( 1)
7070	Share of profit of subsidiaries, associates and joint ventures accounted for under equity method	6(4)	75,133	6	1,224	-
7000	<b>Total non-operating income and expenses</b>		39,456	3	( 8,108)	( 1)
7900	<b>Profit before income tax</b>		278,490	23	99,808	13
7950	Income tax expense	6(21)	( 40,319)	( 3)	( 14,225)	( 2)
8200	<b>Profit for the year</b>		\$ 238,171	20	\$ 85,583	11
	<b>Other comprehensive income (loss) (Net)</b>					
	<b>Components of other comprehensive income (loss) that will not be reclassified to profit or loss</b>					
8311	Other comprehensive loss, before tax, actuarial loss on defined benefit plans	6(12)	( \$ 1,281)	-	( \$ 906)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(21)	217	-	154	-
	<b>Components of other comprehensive income (loss) that will be reclassified to profit or loss</b>					
8361	Financial statements translation differences of foreign operations		( 6,439)	( 1)	( 17,952)	( 2)
8300	<b>Total other comprehensive loss for the year</b>		( \$ 7,503)	( 1)	( \$ 18,704)	( 2)
8500	<b>Total comprehensive income for the year</b>		\$ 230,668	19	\$ 66,879	9
	<b>Earnings per share (in dollars)</b>	6(22)				
9750	<b>Basic</b>		\$ 4.03		\$ 1.45	
9850	<b>Diluted</b>		\$ 4.01		\$ 1.44	

The accompanying notes are an integral part of these parent company only financial statements.

CHIEFTEK PRECISION CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	Notes	Share capital - common stock	Capital reserve	Retained Earnings			Financial statements translation differences of foreign operations	Treasury stocks	Total
				Legal reserve	Special reserve	Unappropriated retained earnings			
<u>For the year ended December 31, 2016</u>									
Balance at January 1, 2016		\$ 592,338	\$463,051	\$57,827	\$ -	\$ 312,835	\$ 12,024	(\$118,544)	\$ 1,319,531
Distribution of earnings for 2015 net income (Note):									
Legal reserve		-	-	7,078	-	( 7,078)	-	-	-
Cash dividends	6(15)	-	-	-	-	( 28,117)	-	-	( 28,117)
Stock dividends	6(13)(15)	28,117	-	-	-	( 28,117)	-	-	-
Profit for the year		-	-	-	-	85,583	-	-	85,583
Other comprehensive loss for the year		-	-	-	-	( 752)	( 17,952)	-	( 18,704)
Balance at December 31, 2016		<u>\$ 620,455</u>	<u>\$463,051</u>	<u>\$64,905</u>	<u>\$ -</u>	<u>\$ 334,354</u>	<u>(\$ 5,928)</u>	<u>(\$118,544)</u>	<u>\$ 1,358,293</u>
<u>For the year ended December 31, 2017</u>									
Balance at January 1, 2017		\$ 620,455	\$463,051	\$64,905	\$ -	\$ 334,354	(\$ 5,928)	(\$118,544)	\$ 1,358,293
Distribution of earnings for 2016 net income (Note):									
Legal reserve		-	-	8,558	-	( 8,558)	-	-	-
Special reserve	6(15)	-	-	-	5,928	( 5,928)	-	-	-
Cash dividends	6(15)	-	-	-	-	( 59,045)	-	-	( 59,045)
Profit for the year		-	-	-	-	238,171	-	-	238,171
Other comprehensive loss for the year		-	-	-	-	( 1,064)	( 6,439)	-	( 7,503)
Balance at December 31, 2017		<u>\$ 620,455</u>	<u>\$463,051</u>	<u>\$73,463</u>	<u>\$ 5,928</u>	<u>\$ 497,930</u>	<u>(\$ 12,367)</u>	<u>(\$118,544)</u>	<u>\$ 1,529,916</u>

(Note)The employees' compensation were \$6,850 and \$8,975 and the directors' and supervisors' remuneration were \$2,569 and \$3,366 in 2015 and 2016, respectively. which had been deducted from net income for the year.

The accompanying notes are an integral part of these parent company only financial statements.

CHIEFTEK PRECISION CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 278,490	\$ 99,808
Adjustments			
Adjustments to reconcile profit (loss)			
Reversal of allowance for doubtful accounts	6(2)(16)	( 1,176 )	( 3,516 )
Loss on inventory market price decline	6(3)	9,119	2,532
Share of profit of subsidiaries, associates and joint ventures accounted for under equity method	6(4)	( 75,133 )	( 1,224 )
Unrealized gain from inter-affiliate accounts	6(4)	52,500	61,186
Realized gain from inter-affiliate accounts	6(4)	( 61,186 )	( 76,292 )
Depreciation	6(5)(19)	98,067	113,427
Loss on disposal of property, plant and equipment	6(17)	( 2,027 )	92
Amortization	6(7)(19)	1,962	1,279
Loss on disposal of intangible assets	6(17)	-	18
Impairment loss	6(7)(8)(17)	10,162	4,298
Interest income	6(16)	( 775 )	( 507 )
Interest expense	6(18)	9,043	11,602
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		( 5,087 )	( 4,899 )
Accounts receivable		( 35,097 )	( 11,095 )
Accounts receivable - related parties		( 64,478 )	( 29,320 )
Other receivables		( 2,540 )	( 354 )
Other receivables - related parties		( 4,525 )	3,862
Inventories		( 93,720 )	( 4,294 )
Prepayments		( 2,565 )	2,998
Changes in operating liabilities			
Notes payable		46,615	19,432
Accounts payable		47,777	19,432
Other payables		46,356	10,409
Advance receipts		469	244
Net defined benefit liabilities		( 232 )	( 231 )
Cash inflow generated from operations		252,019	218,887
Interest received		521	331
Interest paid		( 9,075 )	( 11,835 )
Income tax received		-	13,042
Income tax paid		( 13,594 )	( 12,730 )
Net cash flows from operating activities		<u>229,871</u>	<u>207,695</u>

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CHIEFTEK PRECISION CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
(Increase) decrease in other non-operating receivables due			
from related parties		(\$ 40,431 )	\$ 46,992
Interest received from borrowings and lending among			
related parties		254	176
Cash paid for acquisition of investments accounted for			
under equity method-subsiaries		( 15,170 )	( 726 )
Cash paid for acquisition of property, plant and equipment	6(24)	( 31,934 )	( 11,361 )
Interest paid for acquisition of property, plant and	6(5)(18)(24)		
equipment		-	( 370 )
Proceeds from disposal of property, plant and equipment		2,600	-
Cash paid for acquisition of intangible assets	6(7)	( 3,899 )	( 3,711 )
Increase in prepayment for equipment		( 8,758 )	( 2,604 )
Decrease (increase) in guarantee deposits paid		412	( 1,684 )
(Increase) decrease in other financial assets - non-current		( 15 )	2
Increase in other non-current assets		( 35,671 )	( 35,147 )
Net cash flows used in investing activities		( 132,612 )	( 8,433 )
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Decrease in short-term borrowings		-	( 79,803 )
Increase in long-term borrowings		-	100,000
Decrease in long-term borrowings		( 58,533 )	( 213,944 )
Payment of cash dividends	6(15)	( 59,045 )	( 28,117 )
Net cash flows used in financing activities		( 117,578 )	( 221,864 )
Net decrease in cash and cash equivalents		( 20,319 )	( 22,602 )
Cash and cash equivalents at beginning of year	6(1)	365,370	387,972
Cash and cash equivalents at end of year	6(1)	<u>\$ 345,051</u>	<u>\$ 365,370</u>

The accompanying notes are an integral part of these parent company only financial statements.

CHIEFTEK PRECISION CO., LTD.

NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

**1. HISTORY AND ORGANIZATION**

- (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 is primarily engaged in the 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 PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION**

These parent company only financial statements were authorized for issuance by the Board of Directors on March 9, 2018.

**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”)

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board ("IASB")
Amendments to IAS 27, 'Equity method in separate financial statements'	January 1, 2016
Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'	January 1, 2014
Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting'	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and operating results based on the Company'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 used and key assumptions.

Based on the Company's assessment, the amendments will result in an increase in 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 Company

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</u>
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealized losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of 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 Company's financial condition and financial performance based on the Company's assessment.

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 company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

B. 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.

(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 7 are as follows:



<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</u>
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

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 parent company only 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 parent company only financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

##### (2) Basis of preparation

A. Except for the following item, the parent company only financial statements have been prepared under the historical cost convention:

Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

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 Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5, ‘Critical accounting judgements, estimates and key sources of assumption uncertainty’.

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The parent company only financial statements are presented in New Taiwan dollars, which is the Company’s functional and presentation currency.

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’.

(4) 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.

(5) Loans and receivables

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

(6) Impairment of financial assets

A. The Company 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 Company 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 Company, 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;

(e) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered.

C. When the Company 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.

(7) Derecognition of financial assets

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

(8) 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.

(9) Investments accounted for using equity method / subsidiaries

A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company 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.

B. Unrealized gains or losses resulting from inter-company transactions with subsidiaries are eliminated. Necessary adjustments are made to the accounting policies of subsidiaries, to be consistent with the accounting policies of the Company.

- C. After acquisition of subsidiaries, the Company recognizes proportionately the share of profit and loss and other comprehensive income in the income statement as part of the Company's profit and loss and other comprehensive income, respectively. When the share of loss from a subsidiary exceeds the carrying amount of Company's interest in that subsidiary, the Company continues to recognize its share in the subsidiary's loss proportionately.
- D. According to "Regulations Governing the Preparation of Financial Statements by Securities Issuers", "Profit for the year" and "Other comprehensive income for the year" reported in an entity's non-consolidated statement of comprehensive income, shall equal to "profit for the year" and "Other comprehensive income" attributable to owners of the parent reported in that entity's consolidated statement of comprehensive income. Total equity reported in an entity's non-consolidated financial statements, shall equal to equity attributable to owners of parent reported in that entity's consolidated financial statements.

(10) 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 Company 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 ~ 12 years
Transportation equipment	5 ~ 8 years
Office equipment	1 ~ 8 years
Other equipment	2 ~ 10 years

(11) 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.

(12) Investment property

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

(13) 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. 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.

(14) Impairment of non-financial assets

The Company 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.

(15) 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 drawdown, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(16) 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.

(17) 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.

(18) 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.

(19) 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 plan

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 plan

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

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 Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(20) 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. 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 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 Company 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.

(21) 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.

(22) 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.

(23) 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 Company's activities. Revenue arising from the sales of goods is recognized when the Company 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 Company 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.

(24) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Company will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes expenses for the related costs for which the grants are intended to compensate.

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

The preparation of these financial statements requires management to make critical judgements in applying the Company'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:

Evaluation of inventories

- (1) As inventories are stated at the lower of cost and net realizable value, the Company must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company 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.
- (2) As of December 31, 2017, the carrying amount of inventories was \$293,179.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash:		
Cash on hand	\$ 953	\$ 800
Checking accounts and demand deposits	<u>344,098</u>	<u>364,570</u>
	<u>\$ 345,051</u>	<u>\$ 365,370</u>

A. The Company 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 Company's cash and cash equivalents pledged to others as collateral as of December 31, 2017 and 2016 are provided in Note 8, 'Pledged assets'.

(2) Accounts receivable, net

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 211,100	\$ 176,003
Less: Allowance for doubtful accounts	<u>( 1,161)</u>	<u>( 2,337)</u>
	<u>\$ 209,939</u>	<u>\$ 173,666</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Within 30 days	\$ 2,848	\$ 7,944
31 to 90 days	13,196	11,037
91 to 180 days	2,700	10,049
181 to 365 days	1,483	14,436
	<u>\$ 20,227</u>	<u>\$ 43,466</u>

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

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

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>Group provision</u>	<u>Group provision</u>
At January 1	\$ 2,337	\$ 5,853
Reversal of allowance for doubtful accounts (Note)	( 1,176)	( 3,516)
At December 31	<u>\$ 1,161</u>	<u>\$ 2,337</u>

(Note) Listed as 'Other income'.

C. The Company's accounts receivable that were neither past due nor impaired were from the customers who have good credit quality.

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

### (3) Inventories

	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Allowance for market price decline</u>	<u>Book value</u>
Raw materials	\$ 44,081	(\$ 295)	\$ 43,786
Supplies	56,945	( 3,380)	53,565
Work in progress	171,935	( 14,530)	157,405
Finished goods	42,709	( 4,286)	38,423
	<u>\$ 315,670</u>	<u>(\$ 22,491)</u>	<u>\$ 293,179</u>
	<u>December 31, 2016</u>		
	<u>Cost</u>	<u>Allowance for market price decline</u>	<u>Book value</u>
Raw materials	\$ 27,365	(\$ 498)	\$ 26,867
Supplies	28,166	( 1,875)	26,291
Work in progress	140,857	( 9,995)	130,862
Finished goods	25,562	( 1,004)	24,558
	<u>\$ 221,950</u>	<u>(\$ 13,372)</u>	<u>\$ 208,578</u>

The cost of inventories recognized as expense for the year:

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Cost of goods sold	\$ 780,990	\$ 554,938
Provision for inventory market price decline	9,119	2,532
Gain on physical inventory	( 1,355)	( 413)
Revenue from sale of scraps	( 230)	( 104)
	<u>\$ 788,524</u>	<u>\$ 556,953</u>

(4) Investments accounted for under equity method

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Debit balance of investment accounted for under equity method:		
CHIEFTEK PRECISION HOLDING CO., LTD.	\$ 294,636	\$ 233,774
CHIEFTEK PRECISION INTERNATIONAL LLC	11,400	-
CSM Maschinen GmbH	-	492
	<u>\$ 306,036</u>	<u>\$ 234,266</u>
Credit balance of investment accounted for under equity method (recorded as 'Other non-current liabilities'):		
cpc Europa GmbH	10,107	31,605
CSM Maschinen GmbH	718	-
	<u>\$ 10,825</u>	<u>\$ 31,605</u>

A. For more information regarding the subsidiaries of the Company, please refer to Note 4(3), 'Basis of consolidation' of the 2017 consolidated financial statements.

B. For the years ended December 31, 2017 and 2016, the share of profit of subsidiaries, associates and joint ventures accounted for under equity method amounted to \$75,133 and \$1,224, respectively.

C. For the years ended December 31, 2017 and 2016, the realized (unrealized) gain from downstream sales to subsidiaries is as follows:

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Unrealized gain from downstream sales	(\$ 52,500)	(\$ 61,186)
Realized gain from downstream sales	61,186	76,292
	<u>\$ 8,686</u>	<u>\$ 15,106</u>

D. As of December 31, 2017 and 2016, no Investments accounted for under equity method held by the Company were pledged to others.

(5) Property, plant and equipment

		Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>At January 1, 2017</u>								
Cost	\$ 316,864	\$ 462,353	\$ 792,526	\$ 3,469	\$ 13,083	\$ 118,518	\$ 2,837	\$ 1,709,650
Accumulated depreciation	-	( 91,795)	( 626,200)	( 3,369)	( 12,589)	( 102,753)	-	( 836,706)
	<u>\$ 316,864</u>	<u>\$ 370,558</u>	<u>\$ 166,326</u>	<u>\$ 100</u>	<u>\$ 494</u>	<u>\$ 15,765</u>	<u>\$ 2,837</u>	<u>\$ 872,944</u>
<u>2017</u>								
At January 1	\$ 316,864	\$ 370,558	\$ 166,326	\$ 100	\$ 494	\$ 15,765	\$ 2,837	\$ 872,944
Additions	-	722	11,061	790	715	8,165	15,344	36,797
Transferred from prepayments for equipment	-	-	-	-	-	-	3,034	3,034
Transferred after acceptance inspection	-	801	-	-	-	3,034	( 3,835)	-
Depreciation charge	-	( 13,534)	( 75,324)	( 119)	( 399)	( 8,691)	-	( 98,067)
Disposals—Cost	-	( 296)	( 30,462)	( 890)	( 284)	( 1,785)	-	( 33,717)
— Accumulated depreciation	-	296	29,889	890	284	1,785	-	33,144
At December 31	<u>\$ 316,864</u>	<u>\$ 358,547</u>	<u>\$ 101,490</u>	<u>\$ 771</u>	<u>\$ 810</u>	<u>\$ 18,273</u>	<u>\$ 17,380</u>	<u>\$ 814,135</u>
<u>At December 31, 2017</u>								
Cost	\$ 316,864	\$ 463,580	\$ 773,125	\$ 3,369	\$ 13,514	\$ 127,932	\$ 17,380	\$ 1,715,764
Accumulated depreciation	-	( 105,033)	( 671,635)	( 2,598)	( 12,704)	( 109,659)	-	( 901,629)
	<u>\$ 316,864</u>	<u>\$ 358,547</u>	<u>\$ 101,490</u>	<u>\$ 771</u>	<u>\$ 810</u>	<u>\$ 18,273</u>	<u>\$ 17,380</u>	<u>\$ 814,135</u>

		Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Other equipment	Construction in progress and equipment before acceptance inspection	Total
<hr/>								
At January 1, 2016	Land							
Cost	\$ -	\$ 447,810	\$ 772,325	\$ 3,320	\$ 13,243	\$ 111,338	\$ 18,541	\$ 1,366,577
Accumulated depreciation	-	( 78,604)	( 536,634)	( 3,320)	( 12,029)	( 94,172)	-	( 724,759)
	<u>\$ -</u>	<u>\$ 369,206</u>	<u>\$ 235,691</u>	<u>\$ -</u>	<u>\$ 1,214</u>	<u>\$ 17,166</u>	<u>\$ 18,541</u>	<u>\$ 641,818</u>
<hr/>								
2016								
At January 1	\$ -	\$ 369,206	\$ 235,691	\$ -	\$ 1,214	\$ 17,166	\$ 18,541	\$ 641,818
Additions	-	1,862	5,329	149	-	4,407	830	12,577
Transferred from investment property	316,864	-	-	-	-	-	-	316,864
Transferred from prepayments for equipment	-	-	-	-	-	-	15,204	15,204
Transferred after acceptance inspection	-	12,681	15,931	-	-	3,126	( 31,738)	-
Depreciation charge	-	( 13,191)	( 90,533)	( 49)	( 720)	( 8,934)	-	( 113,427)
Disposals – Cost	-	-	( 1,059)	-	( 160)	( 353)	-	( 1,572)
– Accumulated depreciation	-	-	967	-	160	353	-	1,480
At December 31	<u>\$ 316,864</u>	<u>\$ 370,558</u>	<u>\$ 166,326</u>	<u>\$ 100</u>	<u>\$ 494</u>	<u>\$ 15,765</u>	<u>\$ 2,837</u>	<u>\$ 872,944</u>
<hr/>								
At December 31, 2016								
Cost	\$ 316,864	\$ 462,353	\$ 792,526	\$ 3,469	\$ 13,083	\$ 118,518	\$ 2,837	\$ 1,709,650
Accumulated depreciation	-	( 91,795)	( 626,200)	( 3,369)	( 12,589)	( 102,753)	-	( 836,706)
	<u>\$ 316,864</u>	<u>\$ 370,558</u>	<u>\$ 166,326</u>	<u>\$ 100</u>	<u>\$ 494</u>	<u>\$ 15,765</u>	<u>\$ 2,837</u>	<u>\$ 872,944</u>

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

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Amount capitalized	\$ -	\$ 370
Interest rate	-	1.65%

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

(6) 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 year ended December 31, 2017, there is no investment property.

For the year ended December 31, 2016, details of movements in investment property are as follows:

<u>2016</u>	<u>Land</u>
Cost at January 1	\$ 316,864
Transferred to property, plant and equipment	( 316,864)
Cost at December 31	\$ -

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

	<u>For the year ended December 31, 2016</u>
Rental income from investment property	\$ -
Direct operating expenses arising from the investment property that did not generate rental income during the year	\$ 989

(7) Intangible assets

For the years ended December 31, 2017 and 2016, reconciliation chart of the initial cost, accumulated amortization amount and carrying amount at beginning and end of year of intangible assets is as follows:

	<u>Trademarks</u>	<u>Patents</u>	<u>Software</u>	<u>Others</u>	<u>Total</u>
<u>At January 1, 2017</u>					
Cost	\$ 578	\$ 9,146	\$ 5,359	\$ 60,000	\$ 75,083
Accumulated amortization	( 578)	( 1,363)	( 4,212)	( 13,500)	( 19,653)
Accumulated impairment	-	-	-	( 4,298)	( 4,298)
Net value	<u>\$ -</u>	<u>\$ 7,783</u>	<u>\$ 1,147</u>	<u>\$ 42,202</u>	<u>\$ 51,132</u>
<u>2017</u>					
At January 1	\$ -	\$ 7,783	\$ 1,147	\$ 42,202	\$ 51,132
Additions – acquired separately	-	85	3,814	-	3,899
Amortization	-	( 582)	( 1,380)	-	( 1,962)
Impairment loss	-	-	-	( 10,162)	( 10,162)
At December 31	<u>\$ -</u>	<u>\$ 7,286</u>	<u>\$ 3,581</u>	<u>\$ 32,040</u>	<u>\$ 42,907</u>
<u>At December 31, 2017</u>					
Cost	\$ 578	\$ 9,231	\$ 9,173	\$ 60,000	\$ 78,982
Accumulated amortization	( 578)	( 1,945)	( 5,592)	( 13,500)	( 21,615)
Accumulated impairment	-	-	-	( 14,460)	( 14,460)
Net value	<u>\$ -</u>	<u>\$ 7,286</u>	<u>\$ 3,581</u>	<u>\$ 32,040</u>	<u>\$ 42,907</u>



	<u>Trademarks</u>	<u>Patents</u>	<u>Software</u>	<u>Others</u>	<u>Total</u>
<u>At January 1, 2016</u>					
Cost	\$ 578	\$ 6,497	\$ 4,321	\$ 60,000	\$ 71,396
Accumulated amortization	( 578)	( 87)	( 3,431)	( 13,500)	( 18,380)
Net value	<u>\$ -</u>	<u>\$ 5,625</u>	<u>\$ 890</u>	<u>\$ 46,500</u>	<u>\$ 53,016</u>
<u>2016</u>					
At January 1	\$ -	\$ 5,626	\$ 890	\$ 46,500	\$ 53,016
Additions – acquired separately	-	2,673	1,038	-	3,711
Disposals-cost	-	( 24)	-	-	( 24)
-accumulated amortization	-	6	-	-	6
Amortization	-	( 498)	( 781)	-	( 1,279)
Impairment loss	-	-	-	( 4,298)	( 4,298)
At December 31	<u>\$ -</u>	<u>\$ 7,783</u>	<u>\$ 1,147</u>	<u>\$ 42,202</u>	<u>\$ 51,132</u>
<u>At December 31, 2016</u>					
Cost	\$ 578	\$ 9,146	\$ 5,359	\$ 60,000	\$ 75,083
Accumulated amortization	( 578)	( 1,363)	( 4,212)	( 13,500)	( 19,653)
Accumulated impairment	-	-	-	( 4,298)	( 4,298)
Net value	<u>\$ -</u>	<u>\$ 7,783</u>	<u>\$ 1,147</u>	<u>\$ 42,202</u>	<u>\$ 51,132</u>

A. For the years ended December 31, 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 years ended December 31,	
	2017	2016
Manufacturing overhead	\$ 104	\$ 167
General and administrative expenses	222	79
Research and development expenses	1,636	1,033
	<u>\$ 1,962</u>	<u>\$ 1,279</u>

C. Impairment information about the intangible assets is provided in Note 6(8).

(8) Impairment of non-financial assets

A. The Company recognized impairment loss for the years ended December 31, 2017 and 2016 was \$10,162 and \$4,298, respectively (Listed as ‘Other gains and losses’). Details of such loss are as follows:

	For the years ended December 31,			
	2017		2016	
	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in profit or loss	Recognized in other comprehensive income
Impairment loss – intangible assets	<u>\$ 10,162</u>	<u>\$ -</u>	<u>\$ 4,298</u>	<u>\$ -</u>

B. The Company has assessed that the recoverable amount of the special technology (shown as ‘intangible assets – other intangible assets’) acquired by the Company was impaired based on the residual life of the patent. For the years ended December 31, 2017 and 2016, the Company recognized impairment loss of \$10,162 and \$4,298, respectively. The recoverable amount was assessed based on the use right of the intangible assets. For the years ended December 31, 2017 and 2016, the discount rates were 6.68% and 4.08%, respectively.

(9) Short-term borrowings

Nature	December 31, 2017	Interest rate range	Collateral
Bank unsecured borrowings	<u>\$ 125,000</u>	1.03% ~ 1.05%	None

  

Nature	December 31, 2016	Interest rate range	Collateral
Bank unsecured borrowings	<u>\$ 125,000</u>	1.05% ~ 1.18%	None

(10) Other payables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accrued salaries and bonuses	\$ 51,775	\$ 32,311
Employees' compensation and directors' and supervisors' remuneration payable	29,687	12,383
Equipment payable	6,746	3,455
Dividends payable	5,236	3,656
Others	19,637	13,372
	<u>\$ 113,081</u>	<u>\$ 65,177</u>

(11) Long-term borrowings

<u>Nature</u>	<u>Expiry date</u>	<u>December 31, 2017</u>	<u>Interest rate range</u>	<u>Collateral</u>
Long-term bank borrowings				
Secured borrowings	February 17, 2019 ~ September 23, 2021	\$ 376,050	1.27% ~ 2.01%	Time deposits (Note), land, buildings and structures, machinery and equipment
Unsecured borrowings	September 23, 2019	<u>14,583</u>	1.27%	None
		390,633		
Less: Current portion		( 58,533)		
		<u>\$ 332,100</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		( 58,533)		
		<u>\$ 390,633</u>		

(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.

(12) 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) The amounts recognized in the balance sheet are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligation	(\$ 9,821)	(\$ 8,437)
Fair value of plan assets	<u>4,147</u>	<u>3,812</u>
Net defined benefit liability	<u>(\$ 5,674)</u>	<u>(\$ 4,625)</u>

(c) Movements in net defined benefit liabilities are as follows:

<u>Year ended December 31, 2017</u>	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
Balance at January 1	(\$ 8,437)	\$ 3,812	(\$ 4,625)
Interest (expense) income	<u>( 118)</u>	<u>53</u>	<u>( 65)</u>
	<u>( 8,555)</u>	<u>3,865</u>	<u>( 4,690)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	( 15)	( 15)
Change in financial assumptions	( 294)	-	( 294)
Experience adjustments	<u>( 972)</u>	<u>-</u>	<u>( 972)</u>
	<u>( 1,266)</u>	<u>( 15)</u>	<u>( 1,281)</u>
Pension fund contribution	<u>-</u>	<u>297</u>	<u>297</u>
Balance at December 31	<u>(\$ 9,821)</u>	<u>\$ 4,147</u>	<u>(\$ 5,674)</u>

Year ended December 31, 2016	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Balance at January 1	(\$ 7,433)	\$ 3,483	(\$ 3,950)
Interest (expense) income	( 126)	59	( 67)
	( 7,559)	3,542	( 4,017)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	( 28)	( 28)
Change in financial assumptions	( 253)	-	( 253)
Experience adjustments	( 625)	-	( 625)
	( 878)	( 28)	( 906)
Pension fund contribution	-	298	298
Balance at December 31	(\$ 8,437)	\$ 3,812	(\$ 4,625)

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.
- (e) The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2017	2016
Discount rate	1.10%	1.40%
Future salary increases	3.25%	3.25%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with Taiwan Life Insurance Industry 5th Mortality Table.

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

	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	(\$ 246)	\$ 258	\$ 228	(\$ 219)
	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ 211)	\$ 222	\$ 197	(\$ 188)

The sensitivity analysis above was based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

- (f) Expected contributions to the defined benefit pension plan of the Company for the year ending December 31, 2018 amount to \$297.
- (g) As of December 31, 2017, the weighted average duration of the retirement plan is 11 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$ 573
2-5 years	4,947
Over 6 years	<u>5,535</u>
	<u>\$ 11,055</u>

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 pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2017 and 2016 were \$9,525 and \$7,622, respectively.

(13) Share capital-common stock

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

	For the years ended December 31,	
	2017	2016
At January 1	59,046	56,234
Stock dividends	-	2,812
Buy-back of treasury shares	-	-
At December 31	<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):

Reason for reacquisition	For the year ended December 31, 2017			
	Shares at beginning of year	Increase	Decrease	Shares at end of year
To be reissued to employees	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>

Reason for reacquisition	For the year ended December 31, 2016			
	Shares at beginning of year	Increase	Decrease	Shares at end of year
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 Law, 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 December 31, 2017 and 2016, the treasury shares amounted to \$118,544.

(c) Pursuant to the R.O.C. Securities and Exchange Law, 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 Law, 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 December 31, 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.

(14) Capital reserves

2017	Share premium	Others	Total
Balances at beginning and end of year	\$ 462,937	\$ 114	\$ 463,051

  

2016	Share premium	Others	Total
Balances at beginning and end of year	\$ 462,937	\$ 114	\$ 463,051

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.

(15) 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 for 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 distributed to owners amounting to \$59,045 (\$1.0 (in dollars) per share) and \$28,117 (\$0.5 (in dollars) per share) and stock dividends amounting to \$- and \$28,117 (\$0.5 (in dollars) per share) for the years ended December 31, 2017 and 2016, respectively. On March 9, 2018, the Board of Directors has not yet adopted a resolution to distribute dividends. Information about the distribution of dividends 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.

(16) Other income

	For the years ended December 31,	
	2017	2016
Revenue from management services	\$ 4,311	\$ 4,560
Government grant income	1,150	1,150
Interest income:		
Interest income from bank deposits	518	331
Other interest income	257	176
Other income:		
Reversal of allowance for doubtful accounts	1,176	3,516
Others	282	388
	<u>\$ 7,694</u>	<u>\$ 10,121</u>

(17) Other gains and losses

	For the years ended December 31,	
	2017	2016
Net currency exchange loss	(\$ 26,193)	(\$ 3,443)
Gain (loss) on disposal of property, plant, and equipment	2,027	( 92)
Loss on disposal of intangible asset	-	( 18)
Impairment loss	( 10,162)	( 4,298)
	<u>(\$ 34,328)</u>	<u>(\$ 7,851)</u>

(18) Finance costs

	For the years ended December 31,	
	2017	2016
Interest expense on bank borrowings	\$ 9,043	\$ 11,972
Less: capitalization of qualifying assets	-	( 370)
	<u>\$ 9,043</u>	<u>\$ 11,602</u>

(19) Expenses by nature

	For the year ended December 31, 2017		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expense	\$ 202,469	\$ 99,220	\$ 301,689
Depreciation	89,911	8,156	98,067
Amortization	104	1,858	1,962
	<u>\$ 292,484</u>	<u>\$ 109,234</u>	<u>\$ 401,718</u>

	For the year ended December 31, 2016		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expense	\$ 136,315	\$ 70,368	\$ 206,683
Depreciation	104,640	8,787	113,427
Amortization	167	1,112	1,279
	<u>\$ 241,122</u>	<u>\$ 80,267</u>	<u>\$ 321,389</u>

(20) Employee benefit expense

	For the year ended December 31, 2017		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 174,493	\$ 88,402	\$ 262,895
Labor and health insurance expense	16,000	5,540	21,540
Pension costs	6,688	2,902	9,590
Other personnel expenses	5,288	2,376	7,664
	<u>\$ 202,469</u>	<u>\$ 99,220</u>	<u>\$ 301,689</u>

	For the year ended December 31, 2016		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 114,939	\$ 61,639	\$ 176,578
Labor and health insurance expense	11,722	4,413	16,135
Pension costs	5,280	2,409	7,689
Other personnel expenses	4,374	1,907	6,281
	<u>\$ 136,315</u>	<u>\$ 70,368</u>	<u>\$ 206,683</u>

- A. As of December 31, 2017 and 2016, the Company had 476 and 343 employees, respectively.
- B. 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.
- C. For the years ended December 31, 2017 and 2016, the Company's employees' compensation was accrued at 24,687 and \$9,006, respectively; while directors' and supervisors' remuneration was accrued at \$5,000 and \$3,377, respectively. The aforementioned amounts were recognized in salary expenses.

The expenses recognized for 2017 were accrued based on the earnings of current year and the percentage specified in the Articles of Incorporation of the Company. The employees' compensation and directors' and supervisors' remuneration for 2017 as resolved by the Board of Directors was \$24,654 and \$7,087, respectively. The employees' compensation will be distributed in the form of cash.

The employees' compensation and directors' and supervisors' remuneration for 2016 as resolved by the Board of Directors was \$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 year ended December 31, 2017. The employees' compensation will be distributed in the form of cash.

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

(21) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the years ended December 31,	
	2017	2016
Current income tax:		
Income tax incurred in current year	\$ 28,320	\$ 11,702
10% tax on unappropriated earningion	1,130	432
Prior year's income tax over estimation	( 165)	( 19)
Total current income tax	<u>29,285</u>	<u>12,115</u>
Deferred income tax:		
Origination and reversal of temporary differences	<u>11,034</u>	<u>2,110</u>
Income tax expense	<u>\$ 40,319</u>	<u>\$ 14,225</u>

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

	For the years ended December 31,	
	2017	2016
Remeasurement of defined benefit obligations	(\$ <u>217</u> )	(\$ <u>154</u> )

B. Reconciliation between income tax expense and accounting profit

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Tax calculated based on profit before tax and statutory tax rate	\$ 47,343	\$ 16,967
Effect of items disallowed by tax regulation	( 29)	682
Effect from investment tax credits	( 7,960)	( 3,837)
10% tax on unappropriated earnings	1,130	432
Prior year income tax over estimate	( 165)	( 19)
Income tax expense	<u>\$ 40,319</u>	<u>\$ 14,225</u>

Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	<u>2017</u>			
	<u>January 1</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>December 31</u>
Temporary differences:				
Deferred tax assets:				
Loss on inventory market value decline	\$ 2,273	\$ 1,550	\$ -	\$ 3,823
Investment loss	5,909	( 5,909)	-	-
Unused compensated absences	1,545	884	-	2,429
Unrealized gain on inter affiliates	10,401	( 1,476)	-	8,925
Pensions	1,158	-	217	1,375
	<u>\$ 21,286</u>	<u>(\$ 4,951)</u>	<u>\$ 217</u>	<u>\$ 10,552</u>
Deferred tax liabilities:				
Investment gain	\$ -	(\$ 6,864)	\$ -	(\$ 6,864)
Depreciation	( 1,747)	44	-	( 1,703)
Unrealized gain on foreign currency exchange	( 867)	737	-	( 130)
	<u>(\$ 2,614)</u>	<u>(\$ 6,083)</u>	<u>\$ -</u>	<u>(\$ 8,697)</u>
	<u>\$ 18,672</u>	<u>\$ 11,034</u>	<u>\$ 217</u>	<u>\$ 7,855</u>

	2016			
	<u>January 1</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>December 31</u>
Temporary differences:				
Deferred tax assets:				
Allowance for doubtful accounts	\$ 535	(\$ 535)	\$ -	\$ -
Loss on inventory market value decline	1,843	430	-	2,273
Investment loss	6,117	( 208)	-	5,909
Unused compensated absences	1,077	468	-	1,545
Unrealized gain on inter affiliates	12,969	( 2,568)	-	10,401
Pensions	1,004	-	154	1,158
	<u>\$ 23,545</u>	<u>(\$ 2,413)</u>	<u>\$ 154</u>	<u>\$ 21,286</u>
Deferred tax liabilities:				
Depreciation	(\$ 1,791)	\$ 44	\$ -	(\$ 1,747)
Unrealized gain on foreign currency exchange	( 1,126)	259	-	( 867)
	<u>(\$ 2,917)</u>	<u>\$ 303</u>	<u>\$ -</u>	<u>(\$ 2,614)</u>
	<u>\$ 20,628</u>	<u>(\$ 2,110)</u>	<u>\$ 154</u>	<u>\$ 18,672</u>

- D. 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 March 9, 2018.
- E. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.
- F. As of December 31, 2017, the unappropriated retained earnings listed were generated after 1998.
- G. As of December 31, 2016, the balance of the imputation tax credit account was \$59,918. The creditable tax rate was 19.65%. On June 22, 2017, the shareholders of the Company resolved to distribute retained earnings in the annual general meeting, the effective date is August 2, 2017.

(22) Earnings per share (“EPS”)

	<u>For the year ended December 31, 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	<u>\$ 238,177</u>	<u>59,046</u>	<u>\$ 4.03</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 238,177	59,046	
Assumed conversion of all dilutive potential ordinary shares Employees’ compensation	<u>-</u>	<u>336</u>	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 238,177</u>	<u>59,382</u>	<u>\$ 4.01</u>

	<u>For the year ended December 31, 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	<u>\$ 85,583</u>	<u>59,046</u>	<u>\$ 1.45</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 85,583	59,046	
Assumed conversion of all dilutive potential ordinary shares Employees’ compensation	<u>-</u>	<u>315</u>	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 85,583</u>	<u>59,361</u>	<u>\$ 1.44</u>

(23) Operating leases

The Company 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 Company will be adjusted accordingly on the following month. The Company may have to pay additional rent or get a refund on its last rental payment because of such adjustment. The rent expense of \$6,833 and \$6,833 was recognized in profit or loss for the years ended December 31, 2017 and 2016, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Within one year	\$ 7,594	\$ 7,175
Later than one year but not exceeding five years	30,375	28,700
Exceeding five years	<u>660</u>	<u>7,798</u>
	<u>\$ 38,629</u>	<u>\$ 43,673</u>

(1) Supplemental cash flow information

A. Investing activities with partial cash payments

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Purchase of property, plant and equipment	\$ 36,797	\$ 12,577
Add: Opening balance of notes payable	1,575	3,281
Opening balance of payable for equipment	3,656	1,104
Less: Ending balance of notes payable	( 4,858)	( 1,575)
Ending balance of payable for equipment	( 5,236)	( 3,656)
Capitalization for interest	<u>-</u>	<u>( 370)</u>
Cash paid during the year	<u>\$ 31,934</u>	<u>\$ 11,361</u>

B. Investing activities with no cash flow effects

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
a. Investment property reclassified to property, plant and equipment	<u>\$ -</u>	<u>\$ 316,864</u>
b. Prepayments for equipment reclassified to property, plant and equipment	<u>\$ 3,034</u>	<u>\$ 15,204</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
cpc Europa GmbH	A subsidiary of the company
CSM Maschinen GmbH	A subsidiary of the company
CHIEFTEK PRECISION INTERNATIONAL LLC	A subsidiary of the company
CHIEFTEK PRECISION USA CO., Ltd.	A subsidiary of the company
Chieftek Machinery (Kunshan) Co., Ltd.	A subsidiary of the company

(2) Significant transactions and balances with related parties

A. Sales of goods and services

	For the years ended December 31,	
	2017	2016
Chieftek Machinery (Kunshan) Co., Ltd.	\$ 382,199	\$ 229,741
Subsidiaries	179,105	122,115
	<u>\$ 561,304</u>	<u>\$ 351,856</u>

Prices of goods sold to related parties are determined based on mutual agreement at each time, and the credit term is 180 days after monthly-closing, T/T. For third parties, the credit terms range from 15 days after monthly-closing to 150 days after next monthly-closing.

B. Other income

	For the years ended December 31,	
	2017	2016
CHIEFTEK PRECLSION USA CO., LTD.	\$ 4,311	\$ 4,560

C. Receivables from related parties

	December 31, 2017		December 31, 2016	
Accounts receivable:				
Chieftek Machinery (Kunshan) Co., Ltd.	\$ 160,910	\$ 89,940		
cpc Europa GmbH	32,777	40,111		
Other subsidiaries	22,057	21,215		
	<u>\$ 215,744</u>	<u>\$ 151,266</u>		
Other receivables:				
Subsidiaries	\$ 4,602	\$ 77		

The receivables from related parties arise mainly from sale transactions and sales of property.

The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

D. Long-term prepayment (Listed as 'Other non-current assets')

	December 31, 2017	December 31, 2016
CSM Maschinen GmbH	<u>\$ 69,805</u>	<u>\$ 35,675</u>



E. Loans to related parties

Loans to related parties:

(a) Outstanding balance:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
CHIEFTEK PRECISION INTERNATIONAL LLC	\$ 29,760	\$ -
CSM Maschinen GmbH	10,671	-
	<u>\$ 40,431</u>	<u>\$ -</u>

(b) Interest income

	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
CHIEFTEK PRECISION INTERNATIONAL LLC	\$ 227	\$ -
Other subsidiaries	27	-
cpc Europa GmbH	-	176
	<u>\$ 254</u>	<u>\$ 176</u>

The loans to subsidiaries are repayable upon expiration and carry interest at 1.5%~ 2.0% and 1.5% per annum for the years ended December 31, 2017 and 2016, respectively.

F. Endorsements and guarantees provided to subsidiaries

	<u>Nature</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
cpc Europa GmbH	Guarantee for financing	\$ 142,280	\$ 128,820
CHIEFTEK PRECISION INTERNATIONAL LLC	Guarantee for financing	59,520	-
		<u>\$ 201,800</u>	<u>\$ 128,820</u>

As of December 31, 2017 and 2016, the subsidiaries have drawn from the endorsements and guarantees, which are provided by the Company, in the amount of \$115,839 and \$62,715, respectively.

(3) Key management compensation

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Salaries and other short-term employee benefits	<u>\$ 17,097</u>	<u>\$ 12,611</u>

## 8. PLEDGED ASSETS

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

<u>Asset pledged</u>	<u>Book value</u>		<u>Purpose of collateral</u>
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	
Land (Note 1)	\$ 316,864	\$ 316,864	Guarantee for long-term borrowings
Buildings and structures-net (Note 1)	318,581	325,831	Guarantee for long-term borrowings
Machinery and equipment-net (Note 1)	8,749	24,984	Guarantee for long-term borrowings
Pledged demand and time deposits (Note 2)	<u>1,445</u>	<u>1,430</u>	Guarantee for long-term borrowings
	<u>\$ 645,639</u>	<u>\$ 669,109</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) For details of endorsements and guarantees provided to others by the Company, please refer to Note 7(2) F. 'Endorsements and guarantees provided to subsidiaries'.

(2) As of December 31, 2017 and 2016, the Company's remaining balance due for construction in progress and prepayments for equipment were \$30,854 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. 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 December 31, 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 creditline of \$1,200,000 with 9 financial institutions including E.Sun Commercial Bank, Ltd.. The creditterm is 5 years. Under the terms of the syndicated loan, the Company agree that:

A. 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 ratios 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 December 31, 2017, the Company did not withdraw from aforementioned credit line.

(5) For the details of operating lease agreements, please refer to Note 6(23), 'Operating leases'.

#### 10. SIGNIFICANT DISASTER LOSS

None.

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

The Company's board of directors on February 9, 2018, approved the capital reduction through cancelling 3 million shares which were acquired during November 12, 2014 to January 9, 2015, and the shares were acquired to be distributed to employees. The date of reduction was decided to be February 9, 2018.

#### 12. OTHERS

##### (1) Capital management

The Company's objectives when managing capital are to safeguard the Company'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 Company 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 Company's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable (including related parties), other receivables (including related parties), guarantee deposits paid, other financial assets - non-current, short-term borrowings, 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 Company'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 Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance.

- (b) Risk management is carried out by a central treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks closely with the Company'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 Company 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 the Company to manage its foreign exchange risk against its functional currency. The Company is required to hedge its entire foreign exchange risk exposure with the Company 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 Company 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 Company 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 Company does not hedge the investments.
- (v) The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2017			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 18,754	29.76	\$ 558,116
JPY:NTD	55,770	0.2642	14,734
EUR:NTD	1,841	35.57	65,502
<u>Investments accounted for under equity method</u>			
USD:NTD	10,283	29.76	306,036
EUR:NTD	( 304)	35.57	( 10,825)
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	204	29.76	6,076
JPY:NTD	29,683	0.2642	7,842
EUR:NTD	1,174	35.57	41,776

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	\$ 10,377	32.25	\$ 334,672
JPY:NTD	7,721	0.2756	2,128
EUR:NTD	1,451	33.90	49,200
<u>Investments accounted for under equity method</u>			
USD:NTD	7,249	32.25	233,774
EUR:NTD	( 918)	33.90	( 31,113)
<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

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 Company's net profit (loss) after tax for the years ended December 31, 2017 and 2016 would increase/decrease by \$4,874 and \$4,601, respectively.

(vi) The total exchange loss, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2017 and 2016 amounted to \$26,193 and \$3,443, respectively.

## II. Price risk

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

## III. Interest rate risk

(i) The Company analyses its interest rate exposure on a dynamic basis. Thus, the interest rate of the Company's liabilities fluctuates accordingly with the market interest rate, creating divergence in the Company'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 years ended December 31, 2017 and 2016 would decrease/increase by \$751 and \$994, 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 Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, the Company 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 utilization 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 Company also transacts with many different financial institutions to diversify credit risk.

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

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 Finance division of the Company. Finance division monitors rolling forecasts of the Company'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 Company 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 Company treasury. Company 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 Company is expected to readily generate cash inflows for managing liquidity risk.

III. The Company has the following undrawn borrowing facilities:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Floating rate:		
Expiring within one year	\$ 879,160	\$ 1,007,875
Expiring beyond one year	<u>1,608,200</u>	<u>373,000</u>
	<u>\$ 2,487,360</u>	<u>\$ 1,380,875</u>

IV. The table below analyses the Company'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>December 31, 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	\$ 125,454	\$ -	\$ -	\$ -
Notes payable	115,672	-	-	-
Accounts payable	90,645	-	-	-
Other payables	113,081	-	-	-
Long-term borrowings (including current portion)	64,846	308,701	26,575	-
<u>December 31, 2016</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	\$ 125,334	\$ -	\$ -	\$ -
Notes payable	65,774	-	-	-
Accounts payable	42,868	-	-	-
Other payables	65,177	-	-	-
Long-term borrowings (including current portion)	65,869	230,501	166,930	-

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

Company's investment property measured at cost are provided in Note 6(6), 'Investment property, net'.

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

### 13. SUPPLEMENTARY DISCLOSURES

Information related to the year ended December 31, 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 Company'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

Not applicable.



CHIEFTEK PRECISION CO., LTD.

Loans to others

For the year ended December 31, 2017

Table 1

Expressed in thousands of NTD

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding	Balance at December 31, 2017	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance	Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 2)	Footnote
					for doubtful accounts							Item	Value				
0	CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Other receivables	Y	\$ 53,385	\$ 53,355	\$ 10,671	1.5%	Short-term financing	\$ -	Operational use	\$ -	-	\$ -	\$ 611,966	\$ 611,966	-
0	CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	Other receivables	Y	90,780	29,760	29,760	2%	Short-term financing	-	Operational use	-	-	-	611,966	611,966	-

(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.

Provision of endorsements and guarantees to others

For the year ended December 31, 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 December 31, 2017	Outstanding endorsement/ guarantee amount at December 31, 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	\$ 764,958	\$ 159,345	\$ 142,280	\$ 56,319	\$ -	9%	\$ 764,958	Y	N	N	—
0	CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	1	764,958	60,520	59,520	59,520	-	4%	764,958	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.

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

For the year ended December 31, 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	\$ 169,300	\$ 169,300	Genmore Corporation, Inc.	—	—	—	—	\$ -	Negotiation	Building for operation use	—

(Note) Foreign currencies were translated into New Taiwan Dollars using the exchange rate (USD:NTD 1:29.76) as at December 31, 2017.

CHIEFTEK PRECISION CO., LTD.

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

For the year ended December 31, 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.	cpc Europa GmbH	Subsidiary	(Sales)	\$ 103,172)	(9%)	(Note 1)	\$ -	(Note 2)	\$ 32,777	7%	—
	Chieftek Machinery (Kunshan) Co., Ltd.	Subsidiary	(Sales)	( 382,199)	(32%)	(Note 1)		(Note 2)	160,910	36%	—
cpc Europa GmbH	CHIEFTEK PRECISION CO., LTD.	The Company	Purchases	103,172	100%	(Note 1)	-	(Note 3)	( 32,777)	(98%)	—
Chieftek Machinery (Kunshan) Co., Ltd.	CHIEFTEK PRECISION CO., LTD.	The Company	Purchases	382,199	100%	(Note 1)		(Note 3)	( 160,910)	(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.

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

For the year ended December 31, 2017

Table 5

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 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	\$ 160,910	3.05	\$ -	—	\$ 81,932	\$ -

CHIEFTEK PRECISION CO., LTD.

Significant inter-company transactions during the reporting period

For the year ended December 31, 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	(\$ 103,172)	180 days after monthly-closing, T/T	(7%)	
				Accounts receivable	32,777	—	1%	
				Endorsements and guarantees	142,280	—	5%	
			CSM Maschinen GmbH	1	Long-term prepayment	69,805	—	3%
					Other receivables	10,699	—	—
			CHIEFTEK PRECISION USA CO., LTD.	1	Sales revenue	(\$ 75,933)	180 days after monthly-closing, T/T	(5%)
					Other revenue	4,311	—	—
					Accounts receivable	22,057	—	1%
					Other receivables	4,349	—	—
			Chieftek Machinery (Kunshan) Co., Ltd.	1	Sales revenue	(\$ 382,199)	180 days after monthly-closing, T/T	(26%)
Accounts receivable	160,910				—	6%		
Interest revenue	227				—	—		
Other receivables	29,985				—	1%		
Endorsements and guarantees	59,520				—	2%		
1	cpc Europa GmbH	CSM Maschinen GmbH	3	Sales revenue	(\$ 417)	60 days, T/T	—	
				Accounts receivable	173	—	—	
2	CHIEFTEK PRECISION USA CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	3	Lease payment	735	—	—	
				Refundable deposit	1,488	—	—	

(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.

Information on investees

For the year ended December 31, 2017

Table 7

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognized by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 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	\$ 294,636	\$ 61,767	\$ 61,767	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	( 10,107)	18,117	18,117	Subsidiary
CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Germany	Research, manufacture and sale of machineries	726	726	-	80	( 718)	( 1,492)	( 1,194)	Subsidiary
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	America	Lease of real estate property	15,170	-	-	100	11,400	( 3,557)	( 3,557)	Subsidiary
CHIEFTEK PRECISION HOLDING CO., LTD.	Chieftek Precision (Hong Kong) Co., Limited	Hong Kong	Professional investment	151,776	151,776	5,100,000	100	269,711	55,137	-	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	49,402	49,402	1,660,000	100	59,331	5,257	-	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 1:29.76) as at December 31, 2017.

CHIEFTEK PRECISION CO., LTD.

Information on investments in Mainland China

For the year ended December 31, 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 to Taiwan for the year ended December 31, 2017		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Net income of investee for the year ended December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2017 (Note 2)	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 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	\$ 151,776	Note 1	\$ 151,776	\$ -	\$ -	\$ 151,776	\$ 55,029	100%	\$ 55,029	\$ 269,709	\$ -	-

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 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.	\$ 151,776	\$ 151,776	\$ 917,950

(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 year ended December 31, 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 1:29.76) as at December 31, 2017.



CHIEFTEK PRECISION CO., LTD.

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

For the year December 31, 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 year ended December 31,	
	Amount	%	Amount	%	Balance at December 31, 2017	%	Balance at December 31, 2017	Purpose	Maximum balance during the year ended December 31, 2017	Balance at December 31, 2017	Interest rate	2017	Others	
Chieftek Machinery (Kunshan) Co., Ltd	\$ 382,199	32%	\$ -	-	\$ 160,910	36%	\$ -	-	\$ -	\$ -	-	\$ -	\$ -	