

**CHIEFTEK PRECISION CO., LTD. AND
SUBSIDIARIES**

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

DECEMBER 31, 2018 AND 2017

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 Stockholders of CHIEFTEK PRECISION CO., LTD.

Opinion

We have audited the accompanying consolidated balance sheets of CHIEFTEK PRECISION CO.,LTD. and its subsidiaries (collectively referred herein as the “Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee Interpretations, and Standing Interpretations Committee Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (R.O.C GAAS). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

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

Adequacy of allowance for valuation loss on individually recognized obsolete or damaged inventories

Description

Refer to Note 4(10) 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 inventory. As of December 31, 2018, the balances of inventories and allowance for inventory valuation losses were NT\$738,388 thousand and NT\$54,844 thousand, respectively.

The Group 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 loss or obsolescence. The Group measures its inventories at the lower of cost and net realizable value. For inventories aged over a certain period, the net realizable value is calculated based on the inventory clearance and historical data of discounts. The allowance for valuation loss mainly arises 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 Group's inventory and the allowance for inventory valuation loss are material to the financial statements, we identified the adequacy of the allowance for inventory valuation loss 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 Group's operations and its industry to assess the reasonableness of policies and procedures on allowance for inventory valuation loss.
- B. We verified whether the date used in the inventory aging reports that the Group applied to value inventories were accurate and complete. We recalculated and evaluated the reasonableness of allowance for inventory valuation loss in order to confirm whether the reported information was in line with the Group'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 export sales

Description

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

The Group sells in both domestic and foreign countries, and export sales is significant to the Group. Based on the Group'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 the manual process of obtaining evidence of ownership transfer 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 cutoff 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 analyzing the returns of goods of export sales after the balance sheet date to check whether export revenue, changes in inventories and cost of goods sold were recorded in the appropriate period.

Other matter – Parent company only financial statements

We have audited and expressed an unqualified opinion on the parent company only financial statements of CHIEFTEK PRECISION CO., LTD. as at and for the years ended December 31, 2018 and 2017.

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

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

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

Those charged with governance, including supervisors, are responsible for overseeing the Group’s

financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- E. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- F. Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, 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 consolidated 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

Lin, Tzu-Shu

PricewaterhouseCoopers, Taiwan

Republic of China

March 12, 2019

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

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 797,400	25	\$ 651,824	25
1150	Notes receivable, net	6(2) and 12	50,722	2	26,540	1
1170	Accounts receivable, net	6(2) and 12	432,443	13	400,091	15
1200	Other receivables		12,371	-	4,522	-
130X	Inventories	5 and 6(3)	683,544	21	374,046	14
1410	Prepayments		21,825	1	22,598	1
11XX	Total current assets		1,998,305	62	1,479,621	56
Non-current assets						
1600	Property, plant and equipment	6(4)(5) and 8	1,035,570	32	999,260	38
1780	Intangible assets	6(5)(6)	124,977	4	123,173	5
1840	Deferred income tax assets	6(20)	27,076	1	16,552	1
1915	Prepayments for equipment	6(4)	52,737	1	11,561	-
1920	Guarantee deposits paid		5,076	-	5,161	-
1980	Other financial assets - non-current	8	-	-	1,445	-
1990	Other non-current assets		3,643	-	2,046	-
15XX	Total non-current assets		1,249,079	38	1,159,198	44
1XXX	Total assets		\$ 3,247,384	100	\$ 2,638,819	100

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CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			December 31, 2018		December 31, 2017	
Notes			AMOUNT	%	AMOUNT	%
Liabilities						
Current liabilities						
2100	Short-term borrowings	6(7)(25)	\$ 210,407	6	\$ 214,755	8
2130	Current contract liabilities	6(14) and 12	1,828	-	-	-
2150	Notes payable		154,647	5	115,672	4
2170	Accounts payable		68,940	2	91,689	4
2200	Other payables	6(8)	196,074	6	140,970	5
2230	Current income tax liabilities	6(20)	83,397	3	27,276	1
2310	Advance receipts	12	1,781	-	3,422	-
2320	Long-term liabilities, current portion	6(9)(25), 8 and 9	57,208	2	69,935	3
21XX	Total current liabilities		774,282	24	663,719	25
Non-current liabilities						
2540	Long-term borrowings	6(9)(25), 8 and 9	503,976	15	430,993	17
2570	Deferred income tax liabilities	6(20)	25,827	1	8,697	-
2640	Net defined benefit liabilities	6(10)	7,444	-	5,674	-
25XX	Total non-current liabilities		537,247	16	445,364	17
2XXX	Total liabilities		1,311,529	40	1,109,083	42
Equity						
Share capital						
3110	Share capital - common stock	6(11)(13)	738,069	23	620,455	23
Capital reserves						
3200	Capital surplus	6(11)(12)	440,667	14	463,051	18
Retained earnings						
3310	Legal reserve	6(11)(13)(22)	97,280	3	73,463	3
3320	Special reserve		12,367	-	5,928	-
3350	Unappropriated retained earnings		664,519	20	497,930	19
3400	Other equity interest		(17,047)	-	(12,367)	-
3500	Treasury stocks	6(11)	-	-	(118,544)	(5)
31XX	Equity attributable to owners of the parent		1,935,855	60	1,529,916	58
36XX	Non-controlling interest		-	-	(180)	-
3XXX	Total equity		1,935,855	60	1,529,736	58
Significant Contingent Liabilities and Unrecognized Contract Commitments						
3X2X	Total liabilities and equity		\$ 3,247,384	100	\$ 2,638,819	100

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

			Year ended December 31			
Items		Notes	2018		2017	
			AMOUNT	%	AMOUNT	%
4000	Sales revenue	6(14)	\$ 2,078,901	100	\$ 1,488,259	100
5000	Operating costs	6(3)(5)(10)(18)(19)(23)	(1,090,575)	(53)	(865,292)	(58)
5900	Net operating margin		988,326	47	622,967	42
	Operating expenses	6(5)(10)(18)(19) and 7				
6100	Selling expenses		(122,653)	(6)	(97,879)	(7)
6200	General and administrative expenses		(168,236)	(8)	(127,189)	(9)
6300	Research and development expenses		(87,175)	(4)	(65,382)	(4)
6450	Expected credit impairment loss	12	(5,368)	-	-	-
6000	Total operating expenses		(383,432)	(18)	(290,450)	(20)
6900	Operating profit		604,894	29	332,517	22
	Non-operating income and expenses					
7010	Other income	6(15) and 12	9,292	-	8,672	1
7020	Other gains and losses	6(5)(6)(16) and 12	11,327	1	(29,093)	(2)
7050	Finance costs	6(7)(9)(17)	(15,676)	(1)	(11,972)	(1)
7000	Total non-operating income and expenses		4,943	-	(32,393)	(2)
7900	Profit before income tax		609,837	29	300,124	20
7950	Income tax expense	6(20)	(138,585)	(7)	(62,252)	(4)
8200	Profit for the year		\$ 471,252	22	\$ 237,872	16
	Other comprehensive income (loss)(Net)					
	Components of other comprehensive income (loss) that will not be reclassified to profit or loss					
8311	Actuarial loss on defined benefit plans	6(10)	(\$ 2,005)	-	(\$ 1,281)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(20)	583	-	217	-
	Components of other comprehensive income (loss) that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		(4,666)	-	(6,443)	(1)
8300	Total other comprehensive loss for the year		(\$ 6,088)	-	(\$ 7,507)	(1)
8500	Total comprehensive income for the year		\$ 465,164	22	\$ 230,365	15
	Profit (loss) attributable to:					
8610	Owners of the parent		\$ 472,717	22	\$ 238,171	16
8620	Non-controlling interest		(1,465)	-	(299)	-
			\$ 471,252	22	\$ 237,872	16
	Comprehensive income (loss) attributable to:					
8710	Owners of the parent		\$ 466,615	22	\$ 230,668	15
8720	Non-controlling interest		(1,451)	-	(303)	-
			\$ 465,164	22	\$ 230,365	15
	Earnings per share (in dollars)	6(21)				
9750	Basic		\$ 6.40		\$ 3.23	
9850	Diluted		\$ 6.35		\$ 3.21	

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Share capital - common stock	Equity attributable to owners of the parent							Non-controlling interest	Total equity
			Retained Earnings			Other Equity Interest					
			Capital reserve	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Treasury stocks	Total		
For the year ended December 31, 2017											
		\$ 620,455	\$ 463,051	\$ 64,905	\$ -	\$ 334,354	(\$ 5,928)	(\$ 118,544)	\$1,358,293	\$ 123	\$1,358,416
		-	-	-	-	238,171	-	-	238,171	(299)	237,872
		-	-	-	-	(1,064)	(6,439)	-	(7,503)	(4)	(7,507)
		-	-	-	-	237,107	(6,439)	-	230,668	(303)	230,365
		-	-	8,558	-	(8,558)	-	-	-	-	-
6(13)		-	-	-	5,928	(5,928)	-	-	-	-	-
6(13)		-	-	-	-	(59,045)	-	-	(59,045)	-	(59,045)
		\$ 620,455	\$ 463,051	\$ 73,463	\$ 5,928	\$ 497,930	(\$ 12,367)	(\$ 118,544)	\$1,529,916	(\$ 180)	\$1,529,736
For the year ended December 31, 2018											
		\$ 620,455	\$ 463,051	\$ 73,463	\$ 5,928	\$ 497,930	(\$ 12,367)	(\$ 118,544)	\$1,529,916	(\$ 180)	\$1,529,736
		-	-	-	-	472,717	-	-	472,717	(1,465)	471,252
		-	-	-	-	(1,422)	(4,680)	-	(6,102)	14	(6,088)
		-	-	-	-	471,295	(4,680)	-	466,615	(1,451)	465,164
		-	-	23,817	-	(23,817)	-	-	-	-	-
6(13)		-	-	-	6,439	(6,439)	-	-	-	-	-
6(13)		-	-	-	-	(59,045)	-	-	(59,045)	-	(59,045)
6(11)(13)		147,614	-	-	-	(147,614)	-	-	-	-	-
6(11)(12)		(30,000)	(22,384)	-	-	(66,160)	-	118,544	-	-	-
		-	-	-	-	(1,631)	-	-	(1,631)	1,631	-
		\$ 738,069	\$ 440,667	\$ 97,280	\$ 12,367	\$ 664,519	(\$ 17,047)	\$ -	\$1,935,855	\$ -	\$1,935,855

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
(Expressed in thousands of New Taiwan dollars)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 609,837	\$ 300,124
Adjustments			
Adjustments to reconcile profit (loss)			
Expected credit impairment loss	12	5,368	-
Reversal of allowance for doubtful accounts	6(15) and 12	-	(2,300)
Reversal of inventory market price decline	6(3)	(3,712)	(14,424)
Depreciation	6(4)(5)(18)	84,158	101,951
Loss (gain) on disposal of property, plant and equipment	6(16)	41	(2,027)
Amortization	6(5)(18)	2,753	2,036
Impairment loss	6(5)(6)(16)	10,117	10,162
Interest income	6(15)	(5,333)	(2,170)
Interest expense	6(17)	15,676	11,972
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(24,182)	5,655
Accounts receivable		(37,433)	(73,903)
Other receivables		(7,849)	(2,597)
Inventories		(305,750)	(40,760)
Prepayments		773	(6,090)
Changes in operating liabilities			
Current contract liabilities		1,828	-
Notes payable		40,200	46,615
Accounts payable		(22,749)	48,995
Other payables		44,813	60,739
Advance receipts		(1,641)	2,450
Net defined benefit liabilities		(235)	(232)
Cash inflow generated from operations		406,680	446,196
Interest received		5,333	2,170
Interest paid		(14,970)	(11,767)
Income tax received		-	254
Income tax paid		(75,275)	(30,147)
Net cash flows from operating activities		<u>321,768</u>	<u>406,706</u>

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CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
(Expressed in thousands of New Taiwan dollars)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of property, plant and equipment	6(24)	(\$ 63,607)	(\$ 205,337)
Interest paid for acquisition of property, plant and equipment	6(4)(17)(24)	(845)	-
Proceeds from disposal of property, plant and equipment		522	2,600
Acquisition of intangible assets	6(5)	(16,282)	(63,361)
Increase in prepayment for equipment		(84,228)	(8,758)
Decrease (increase) in guarantee deposits paid		85	(1,164)
Decrease (increase) in other financial assets - non-current		1,445	(15)
(Increase) decrease in other non-current assets		(1,597)	1,568
Net cash flows used in investing activities		(164,507)	(274,467)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
(Decrease) increase in short-term borrowings	6(25)	(5,516)	27,040
Increase in long-term borrowings	6(25)	460,000	114,189
Decrease in long-term borrowings	6(25)	(402,426)	(61,446)
Payments of cash dividends	6(13)	(59,045)	(59,045)
Change in non-controlling interest		-	(4)
Net cash flows (used in) from financing activities		(6,987)	20,734
Effect of foreign exchange rate changes on cash and cash equivalents		(4,698)	(7,579)
Net increase in cash and cash equivalents		145,576	145,394
Cash and cash equivalents at beginning of year	6(1)	651,824	506,430
Cash and cash equivalents at end of year	6(1)	\$ 797,400	\$ 651,824

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(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 and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in research, development, manufacture and sale of miniature linear guide, miniature ball screw, miniature linear modules, electro-optics equipment and semiconductor process equipment.
- (2) The common shares of the Company have been listed on the Taipei Exchange since December 28, 2012.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 12, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standard Board (“IASB”)
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 International Accounting Standards (“IAS”) 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealized losses’	January 1, 2017

New Standards, Interpretations and Amendments	Effective date by International Accounting Standard Board ("IASB")
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
International Financial Reporting Interpretations Committee ("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

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

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

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
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 Group's financial condition and financial performance based on the Group'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.

The Group expects to recognize the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that right-of-use asset and

lease liability will be both increased by \$136,168.

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</u>
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IAS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint ventures'	To be determined by IASB
IFRS 17, 'Insurance contracts'	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

- A. Except for the defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation, these consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5, critical accounting judgements, estimates and key sources of assumption uncertainty.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with IAS 39, IAS 11, IAS 18 and related financial reporting

interpretations. Please refer to Note 12(4), 'Effects on initial application of IFRS 9, and information on application of IAS 39 and Note 12(5), 'Effects of initial application of IFRS 15 and information on application of IAS 18 for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

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

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Business activities	Ownership (%)		Note
			December 31, 2018	December 31, 2017	
CHIEFTEK PRECISION CO., LTD. ("CHIEFTEK PRECISION")	CHIEFTEK PRECISION HOLDING CO., LTD.	Professional investment	100	100	-
CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH ("cpc Europa")	Sale of high precision linear motion components and rendering after-sales service	100	100	-
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	Lease of real estate property	100	100	-
CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Research, manufacture and sale of machineries	100	80	Note
CHIEFTEK PRECISION HOLDING CO., LTD.	Chieftek Precision (Hong Kong) Co., Limited	Professional investment	100	100	-
CHIEFTEK PRECISION HOLDING CO., LTD.	CHIEFTEK PRECISION USA CO., LTD. ("cpc USA")	Sale of high precision linear motion components and rendering after-sales service	100	100	-
Chieftek Precision (Hong Kong) Co., Limited	Chieftek Machinery (Kunshan) Co., Ltd. ("Chieftek (Kunshan)")	Production, processing and sale of high precision linear motion components and after-sales service	100	100	-

(Note) In October, 2018, the Group acquired remaining 20% of shares of its subsidiary with non-controlling interest. Please refer to Note 6(22) for the information of transactions with non-controlling interest.

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

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

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interest that are material to the Group: None.

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

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

retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realized within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle 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 settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

(7) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

For debt instruments measured as financial assets at amortized cost, at each reporting date, the Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for

the lifetime expected credit losses (“ECLs”) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognizes the impairment provision for lifetime ECLs.

(9) Derecognition of financial assets

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

(10) Inventories

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

(11) Property, plant and equipment

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

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

(12) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(13) Intangible assets

A. Trademarks and patents

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

B. Computer software

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

C. Internally generated intangible assets—research and development expenditures

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

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

- i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- ii. An entity intends to complete the intangible asset and use or sell it;
- iii. An entity has the ability to use or sell the intangible asset;
- iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;
- v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- vi. The expenditure attributable to the intangible asset during its development can be reliably measured.

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

D. Turn-key professional technique

The subsidiary, CSM Maschinen GmbH, was commissioned to develop and design linear guide, robotic arm and equipment for exhibition which are stated initially at cost and amortized on the economic life of Turn-key professional technique.

E. 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 Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(15) Borrowings

- A. Borrowings comprise long-term and short-term banks loans. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.
- B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a other non-current assets for liquidity services and amortized over the period of the facility to which it relates.

(16) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(17) Derecognition of financial liabilities

A financial liability is derecognized when the obligation specified in the contract is either 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

expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

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

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(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 in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the

consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(21) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- 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

Sales of goods

- A. The Group manufactures and sells linear guide, ball screw and linear modules. Sales are recognized when control of the products has transferred, being when the products are delivered to the external customer, and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- B. Sales revenue is recognized based on the contract price, net of output tax and sales returns and discounts. The sales are made with a credit term of 30 ~ 180 days after monthly closing. As the time interval between the transfer of committed goods and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.
- C. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(24) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group 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 Group recognizes expenses for the related costs for which the grants are intended to compensate.

(25) Operating segments

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

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

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

Evaluation of inventories

- A. As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such an evaluation of inventories is calculated

based on the inventory clearance and historical data of discounts. Therefore, there might be material changes to the evaluation.

B. As of December 31, 2018, the carrying amount of inventories was \$683,544.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash:		
Cash on hand	\$ 1,397	\$ 1,051
Checking accounts and demand deposits	<u>764,082</u>	<u>649,244</u>
	<u>765,479</u>	<u>650,295</u>
Cash equivalents:		
Time deposits	<u>31,921</u>	<u>1,529</u>
	<u>\$ 797,400</u>	<u>\$ 651,824</u>

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

B. Details of the Group's cash and cash equivalents pledged to others as collateral as of December 31, 2018 and 2017 are provided in Note 8, 'Pledged assets'.

(2) Notes and accounts receivable, net

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	<u>\$ 50,722</u>	<u>\$ 26,540</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	\$ 448,328	\$ 410,895
Less: Allowance for doubtful accounts	(15,885)	(10,804)
	<u>\$ 432,443</u>	<u>\$ 400,091</u>

A. The ageing analysis of accounts receivable and notes receivable that were past due is as follows:

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	\$ 339,115	\$ 50,605	\$ 339,738	\$ 25,486
Less than 30 days	27,273	117	23,282	187
31 to 90 days	43,293	-	26,369	-
91 to 180 days	19,308	-	6,111	456
Over 180 days	<u>19,339</u>	<u>-</u>	<u>15,395</u>	<u>411</u>
	<u>\$ 448,328</u>	<u>\$ 50,722</u>	<u>\$ 410,895</u>	<u>\$ 26,540</u>

The above ageing analysis was based on past due date.

B. Without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were its book value.

C. As of December 31, 2018 and 2017, the Group does not hold any collateral as security for accounts receivable.

D. Information relating to credit risk is provided in Note 12(2), 'Financial instruments'.

E. Credit risk information for the year ended December 31, 2017 is provided in Note 12(4), 'Effects on initial application of IFRS 9 and information on application of IAS 39 for the year ended December 31, 2017'.

(3) Inventories

December 31, 2018			
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 110,259	\$ -	\$ 110,259
Supplies	80,502	(3,434)	77,068
Work in progress	321,450	(9,962)	311,488
Finished goods	226,177	(41,448)	184,729
	<u>\$ 738,388</u>	<u>(\$ 54,844)</u>	<u>\$ 683,544</u>

December 31, 2017			
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 44,081	(\$ 295)	\$ 43,786
Supplies	60,453	(3,920)	56,533
Work in progress	173,786	(14,562)	159,224
Finished goods	154,318	(39,815)	114,503
	<u>\$ 432,638</u>	<u>(\$ 58,592)</u>	<u>\$ 374,046</u>

The cost of inventories recognized as expense for the year:

For the years ended December 31,			
	2018	2017	
Cost of goods sold	\$ 1,094,210	\$ 881,572	
Reversal of allowance for inventory market price decline (Note)	(3,712)	(14,424)	
Loss (gain) on physical inventory	698	(1,626)	
Revenue from sale of scraps	(621)	(230)	
	<u>\$ 1,090,575</u>	<u>\$ 865,292</u>	

(Note) The Group reversed a previous inventory write-down which was accounted for as reduction of cost of goods sold as certain inventory items which were previously provided with allowance were subsequently sold and scrapped in 2018 and 2017.

(4) Property, plant and equipment

	January 1, 2018	Buildings and structures					Machinery and equipment			Office equipment	Leasehold improvements and other equipment	Construction in progress and equipment before acceptance inspection	Total
Cost	\$ 414,740	\$ 535,004	\$ 800,132	\$ 5,282	\$ 18,060	\$ 133,253	\$ 17,380	\$ 1,923,851					
Accumulated depreciation	-	(105,777)	(685,013)	(4,061)	(16,576)	(113,164)	-	(924,591)					
	<u>\$ 414,740</u>	<u>\$ 429,227</u>	<u>\$ 115,119</u>	<u>\$ 1,221</u>	<u>\$ 1,484</u>	<u>\$ 20,089</u>	<u>\$ 17,380</u>	<u>\$ 999,260</u>					
2018													
At January 1	\$ 414,740	\$ 429,227	\$ 115,119	\$ 1,221	\$ 1,484	\$ 20,089	\$ 17,380	\$ 999,260					
Additions	-	4,615	13,353	547	1,440	6,381	46,476	72,812					
Transferred from prepayments for equipment	-	-	-	-	-	-	-	-					
Transferred after acceptance inspection	-	-	51,204	-	-	1,871	(53,075)	-					
Reclassifications	(46,001)	46,001	-	-	-	-	-	-					
Depreciation (Note)	-	(18,312)	(55,809)	(456)	(889)	(8,729)	-	(84,195)					
Disposals — Cost	-	-	(2,468)	(349)	(764)	(487)	-	(4,068)					
— Accumulated depreciation	-	-	2,188	349	522	446	-	3,505					
Net currency exchange differences	2,326	3,052	(141)	(4)	(7)	(22)	-	5,204					
At December 31	<u>\$ 371,065</u>	<u>\$ 464,583</u>	<u>\$ 123,446</u>	<u>\$ 1,308</u>	<u>\$ 1,786</u>	<u>\$ 19,549</u>	<u>\$ 53,833</u>	<u>\$ 1,035,570</u>					
December 31, 2018													
Cost	\$ 371,065	\$ 594,260	\$ 862,353	\$ 5,444	\$ 18,722	\$ 140,948	\$ 53,833	\$ 2,046,625					
Accumulated depreciation	-	(129,677)	(738,907)	(4,136)	(16,936)	(121,399)	-	(1,011,055)					
	<u>\$ 371,065</u>	<u>\$ 464,583</u>	<u>\$ 123,446</u>	<u>\$ 1,308</u>	<u>\$ 1,786</u>	<u>\$ 19,549</u>	<u>\$ 53,833</u>	<u>\$ 1,035,570</u>					

	January 1, 2017	Buildings				Machinery and Transportation		Office equipment	Leasehold improvements and other equipment		Construction in progress and equipment before acceptance inspection	Total
		Land	Buildings and structures	equipment	equipment	equipment	equipment		improvements and other equipment	before acceptance inspection		
Cost		\$ 316,864	\$ 462,353	\$ 818,978	\$ 5,384	\$ 17,470	\$ 123,646		\$ 2,837	\$ 1,747,532		
Accumulated depreciation		-	(91,795)	(637,144)	(4,449)	(16,421)	(105,704)		-	(855,513)		
	2017	\$ 316,864	\$ 370,558	\$ 181,834	\$ 935	\$ 1,049	\$ 17,942		\$ 2,837	\$ 892,019		
At January 1		\$ 316,864	\$ 370,558	\$ 181,834	\$ 935	\$ 1,049	\$ 17,942		\$ 2,837	\$ 892,019		
Additions		100,014	73,706	11,197	790	984	8,165		15,344	210,200		
Transferred from prepayments for equipment		-	-	-	-	-	-		3,034	3,034		
Transferred after acceptance inspection		-	801	-	-	-	3,034		(3,835)	-		
Depreciation (Note)		-	(14,294)	(77,870)	(498)	(563)	(9,129)		-	(102,354)		
Disposals — Cost		-	(296)	(30,626)	(890)	(382)	(1,785)		-	(33,979)		
— Accumulated depreciation		-	296	30,053	890	382	1,785		-	33,406		
Net currency exchange differences		(2,138)	(1,544)	531	(6)	14	77		-	(3,066)		
At December 31		\$ 414,740	\$ 429,227	\$ 115,119	\$ 1,221	\$ 1,484	\$ 20,089		\$ 17,380	\$ 999,260		
	December 31, 2017	\$ 414,740	\$ 535,004	\$ 800,132	\$ 5,282	\$ 18,060	\$ 133,253		\$ 17,380	\$ 1,923,851		
Cost		\$ 414,740	\$ 535,004	\$ 800,132	\$ 5,282	\$ 18,060	\$ 133,253		\$ 17,380	\$ 1,923,851		
Accumulated depreciation		-	(105,777)	(685,013)	(4,061)	(16,576)	(113,164)		-	(924,591)		
		\$ 414,740	\$ 429,227	\$ 115,119	\$ 1,221	\$ 1,484	\$ 20,089		\$ 17,380	\$ 999,260		

(Note) Depreciation of certain machinery and equipment was capitalized as intangible assets as it met the criteria for capitalization. Please refer to Note 6(5), 'Intangible assets'.

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

	For the years ended December 31,	
	2018	2017
Amount capitalized	\$ <u>845</u>	\$ <u>-</u>
Interest rate for capitalization	<u>1.51%</u>	<u>-</u>

- B. Information about the property, plant and equipment that were pledged to others as collateral as of December 31, 2018 and 2017 is provided in Note 8, 'Pledged assets'.

(5) Intangible assets

	Trademarks	Patents	Software	Internally generated intangible assets	Turn key professional technique	Others	Total
<u>At January 1, 2018</u>							
Cost	\$ 578	\$ 9,231	\$ 10,067	\$ 79,865	\$ -	\$ 60,000	\$ 159,741
Accumulated amortization	(578)	(1,945)	(6,085)	-	-	(13,500)	(22,108)
Accumulated impairment	-	-	-	-	-	(14,460)	(14,460)
Net value	\$ -	\$ 7,286	\$ 3,982	\$ 79,865	\$ -	\$ 32,040	\$ 123,173
<u>At January 1, 2018</u>							
Net value at January 1, 2018	\$ -	\$ 7,286	\$ 3,982	\$ 79,865	\$ -	\$ 32,040	\$ 123,173
Additions — acquired separately	-	57	2,737	-	-	-	2,794
Additions — from internal development	-	-	-	13,488	-	-	13,488
Additions — depreciation reclassified	-	-	-	37	-	-	37
Additions — amortization reclassified	-	-	-	17	-	-	17
Amortization	-	(583)	(2,187)	-	-	-	(2,770)
Impairment loss	-	-	-	-	-	(10,117)	(10,117)
Transfer	-	-	-	(91,779)	91,779	-	-
Net currency exchange differences	-	-	(17)	(1,628)	-	-	(1,645)
Net value at December 31, 2018	\$ -	\$ 6,760	\$ 4,515	\$ -	\$ 91,779	\$ 21,923	\$ 124,977
<u>At December 31, 2018</u>							
Cost	\$ 578	\$ 9,288	\$ 12,777	\$ -	\$ 91,779	\$ 60,000	\$ 174,422
Accumulated amortization	(578)	(2,528)	(8,262)	-	-	(13,500)	(24,868)
Accumulated impairment	-	-	-	-	-	(24,577)	(24,577)
Net value	\$ -	\$ 6,760	\$ 4,515	\$ -	\$ 91,779	\$ 21,923	\$ 124,977

	Trademarks	Patents	Software	Internally generated intangible assets	Others	Total
<u>At January 1, 2017</u>						
Cost	\$ 578	\$ 9,146	\$ 6,156	\$ 16,987	\$ 60,000	\$ 92,867
Accumulated amortization	(578)	(1,363)	(4,421)	-	(13,500)	(19,862)
Accumulated impairment	-	-	-	-	(4,298)	(4,298)
Net value	\$ -	\$ 7,783	\$ 1,735	\$ 16,987	\$ 42,202	\$ 68,707
 Net value at January 1, 2017	\$ -	\$ 7,783	\$ 1,735	\$ 16,987	\$ 42,202	\$ 68,707
Additions — acquired separately	-	85	3,870	-	-	3,955
Additions — from internal development	-	-	-	59,406	-	59,406
Additions — depreciation reclassified	-	-	-	403	-	403
Additions — amortization reclassified	-	-	-	191	-	191
Amortization	-	(582)	(1,645)	-	-	(2,227)
Impairment loss	-	-	-	-	(10,162)	(10,162)
Net currency exchange differences	-	-	22	2,878	-	2,900
Net value at December 31, 2017	\$ -	\$ 7,286	\$ 3,982	\$ 79,865	\$ 32,040	\$ 123,173
<u>At December 31, 2017</u>						
Cost	\$ 578	\$ 9,231	\$ 10,067	\$ 79,865	\$ 60,000	\$ 159,741
Accumulated amortization	(578)	(1,945)	(6,085)	-	(13,500)	(22,108)
Accumulated impairment	-	-	-	-	(14,460)	(14,460)
Net value	\$ -	\$ 7,286	\$ 3,982	\$ 79,865	\$ 32,040	\$ 123,173

A. For the years ended December 31, 2018 and 2017, 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,	
	2018	2017
Manufacturing overhead	\$ -	\$ 104
General and administrative expenses	435	251
Research and development expenses	2,335	1,872
	<u>\$ 2,770</u>	<u>\$ 2,227</u>

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

(6) Impairment of non-financial assets

A. The Group recognized impairment loss of \$10,117 and \$10,162, for the years ended December 31, 2018 and 2017, respectively (listed as “other gains and losses”). Details of such loss are as follows:

	For the years ended December 31,			
	2018		2017	
	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>\$ 10,117</u>	<u>\$ -</u>	<u>\$ 10,162</u>	<u>\$ -</u>

B. The impairment loss reported by operating segments is as follows:

	For the years ended December 31,			
	2018		2017	
	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in profit or loss	Recognized in other comprehensive income
The Company	<u>\$ 10,117</u>	<u>\$ -</u>	<u>\$ 10,162</u>	<u>\$ -</u>

C. The recoverable amount of the special technology (shown as ‘intangible assets – other intangible assets’) acquired by the Group was assessed to be impaired based on the residual life of the patent. For the years ended December 31, 2018 and 2017, the Group recognized impairment loss of \$10,117 and \$10,162, respectively. The recoverable amount was assessed based on the use right of the intangible assets. For the years ended December 31, 2018 and 2017, the discount rates were 7% and 6.68%, respectively.

(7) Short-term borrowings

Nature	December 31, 2018	Interest rate range	Collateral
Bank unsecured borrowings	\$ 120,000	0.99%~1.03%	None
Bank secured borrowings	90,407	1.15%~3.42%	Endorsements and guarantees by the Company
	<u>\$ 210,407</u>		
Nature	December 31, 2017	Interest rate range	Collateral
Bank unsecured borrowings	\$ 125,000	1.03%~1.05%	None
Bank secured borrowings	89,755	1.20%~3.03%	Endorsements and guarantees by the Company
	<u>\$ 214,755</u>		

For more information about interest expense recognized by the Group for the years ended December 31, 2018 and 2017, please refer to Note 6(17), "Finance costs".

(8) Other payables

	December 31, 2018	December 31, 2017
Accrued salaries and bonuses	\$ 60,606	\$ 55,278
Employees' compensation and directors' and supervisors' remuneration payable	61,248	29,687
Equipment payable	14,821	5,236
Miscellaneous payable	8,433	6,746
Others	50,966	44,023
	<u>\$ 196,074</u>	<u>\$ 140,970</u>

(9) Long-term borrowings

Nature	Expiry date	December 31, 2018	Interest rate range	Collateral
Long-term bank borrowings				
Secured borrowings	September 23, 2021 ~ August 25, 2024	\$ 501,184	1.35%~4.43%	Land, buildings and structures, and endorsed and guaranteed by the Company
Unsecured borrowings	November 1, 2020 ~ October 5, 2022	60,000	1.29%~1.80%	None
		<u>561,184</u>		
Less: Current portion		<u>(57,208)</u>		
		<u>\$ 503,976</u>		

Nature	Expiry date	December 31, 2017	Interest rate range	Collateral
Long-term bank borrowings				
Secured borrowings	February 17, 2019~ August 25, 2024	\$ 486,345	1.27%~ 4.43%	Time deposits (Note), land, buildings and structures, machinery and equipment and endorsed and guaranteed by the Company
Unsecured borrowings	September 23, 2019	14,583	1.27%	None
		500,928		
Less: Current portion		(69,935)		
		<u>\$ 430,993</u>		

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

For more information about interest expense recognized by the Group for the years ended December 31, 2018 and 2017, please refer to Note 6(17), "Finance costs".

(10) 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:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	(\$ 12,050)	(\$ 9,821)
Fair value of plan assets	4,606	4,147
Net defined benefit liability	<u>(\$ 7,444)</u>	<u>(\$ 5,674)</u>

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2018</u>			
Balance at January 1	(\$ 9,821)	\$ 4,147	(\$ 5,674)
Interest (expense) income	(107)	45	(62)
	(9,928)	4,192	(5,736)
Remeasurements:			
Return on plan assets	-	117	117
Change in financial assumptions	(211)	-	(211)
Experience adjustments	(1,911)	-	(1,911)
	(2,122)	117	(2,005)
Pension fund contribution	-	297	297
Balance at December 31	(\$ 12,050)	\$ 4,606	(\$ 7,444)
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2017</u>			
Balance at January 1	(\$ 8,437)	\$ 3,812	(\$ 4,625)
Interest (expense) income	(118)	53	(65)
	(8,555)	3,865	(4,690)
Remeasurements:			
Return on plan assets	-	(15)	(15)
Change in financial assumptions	(294)	-	(294)
Experience adjustments	(972)	-	(972)
	(1,266)	(15)	(1,281)
Pension fund contribution	-	297	297
Balance at December 31	(\$ 9,821)	\$ 4,147	(\$ 5,674)

- (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 utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation 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 utilisation 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 assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	For the years ended December 31,	
	2018	2017
Discount rate	0.90%	1.10%
Future salary increases	3.25%	3.25%

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

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
<u>December 31, 2018</u>				
Effect on present value of defined benefit obligation	(\$ 262)	\$ 274	\$ 237	(\$ 228)
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	(\$ 246)	\$ 258	\$ 228	(\$ 219)

The sensitivity analysis above is 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, 2019 amount to \$297.

(g) As of December 31, 2018, the weighted average duration of the retirement plan is 10 years.

The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	1,204
2-5 years		5,848
Over 6 years		6,045
	\$	13,097

B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The other subsidiaries are subject to local government sponsored

defined contribution plan. In accordance with the related laws of the respective local government, the independent pension fund of employees is administered by the government. Other than the monthly contributions, these subsidiaries do not have further obligations. The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017 were \$17,296 and \$12,625, respectively.

(11) 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,	
	2018	2017
At January 1	59,046	59,046
Stock dividends	14,761	-
At December 31	<u>73,807</u>	<u>59,046</u>

B. On May 28, 2018, the Company's stockholders adopted a resolution to issue shares of common stock due to capitalization of retained earnings of \$147,614 and obtained approval from the SFC. The effective date of capitalization was set on August 5, 2018.

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, 2018			
	Shares at beginning of year	Increase	Decrease	Shares at end of year
To be reissued to employees	<u>3,000</u>	<u>-</u>	<u>(3,000)</u>	<u>-</u>

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>

(b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. As of December 31, 2018 and 2017, the treasury shares amounted to \$— and \$118,544, respectively.

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

(d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the

employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.

D. The Company acquired a total of 3 million treasury shares during the period from November 2014 to January 2015. On February 9, 2018, the shares were retired as resolved by the Board of Directors. The capital reduction became effective on the same date and the registration has been approved by the Southern Taiwan Science Park Bureau, Ministry of Science and Technology. The Company debited 'share capital – common stock' and 'capital surplus–share premium' in the amounts of \$30,000 and \$22,384, respectively, and 'unappropriated retained earnings' was offset by the remaining amount of \$66,160.

E. As of December 31, 2018, the Company's authorized capital was \$1,200,000 (including \$30,000 reserved for employee stock options), and the paid-in capital was \$738,069 (73,807 thousand shares) with par value of \$10 (in dollars) per share.

(12) Capital reserve

2018	Share premium	Others	Total
At January 1	\$ 462,937	\$ 114	\$ 463,051
Retirement of treasury shares	(22,384)	-	(22,384)
At December 31	<u>\$ 440,553</u>	<u>\$ 114</u>	<u>\$ 440,667</u>
2017	Share premium	Others	Total
Balances at beginning and end of year	<u>\$ 462,937</u>	<u>\$ 114</u>	<u>\$ 463,051</u>

A. 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 Law 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.

B. Information relating to capital surplus offset by the retirement of treasury shares is provided in Note 6(11), 'Share capital – common stock'.

(13) 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. As of December 31, 2017, pursuant to the regulations for the deduction amount to stockholders' equity from other equity items, the Company has set aside special reserve of \$12,367 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 \$59,045 (\$1.0 (in dollars) per share) and stock dividends amounting to \$147,614 (\$2.5 (in dollars) per share) and \$— for the years ended December 31, 2018 and 2017, respectively. The Board of Directors has not yet adopted a resolution to distribute dividends as of March 12, 2019. 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.
- E. Information relating to retained earnings offset by the retirement of treasury shares is provided in Note 6(11), 'Share capital – common stock'.
- F. For the year ended December 31, 2018, the change in retained earnings resulted from the difference between the proceeds and the carrying amount for the acquisition of subsidiary. Please refer to Note 6(22) for the information on transactions with non-controlling interest.

(14) Operating revenue

	For the year ended December 31, 2018
Revenue from contracts with customers	\$ 2,078,901

- A. The Group derives revenue from the transfer of goods at a point in time in segments. Please refer to Note 14, 'Segment information' for details.
- B. The Group has recognized revenue-related contract liabilities amounting to \$1,828.

C. Revenue recognized that was included in the contract liability balance at January 1, 2018 was \$718 for the year ended December 31, 2018.

D. Related disclosures on operating revenue for the year ended December 31, 2017 are provided in Note 12(5), 'Effects of initial application of IFRS 15 and information on application of IAS 18 for the year ended December 31, 2017'.

(15) Other income

	For the years ended December 31,	
	2018	2017
Interest income:		
Interest income from bank deposits	\$ 5,322	\$ 2,165
Other interest income	11	5
Government grants income	-	1,150
Other income		
Reversal of allowance for doubtful accounts	-	2,300
Other income – others	3,959	3,052
	<u>\$ 9,292</u>	<u>\$ 8,672</u>

(16) Other gains and losses

	For the years ended December 31,	
	2018	2017
Currency exchange gain (loss)	\$ 21,498	(\$ 20,933)
Loss on disposal of property, plant, and equipment	(41)	2,027
Impairment loss	(10,117)	(10,162)
Other losses	(13)	(25)
	<u>\$ 11,327</u>	<u>(\$ 29,093)</u>

(17) Finance costs

	For the years ended December 31,	
	2018	2017
Interest expense on bank borrowings	\$ 16,521	\$ 11,972
Less: Capitalization of qualifying assets	(845)	-
	<u>\$ 15,676</u>	<u>\$ 11,972</u>

(18) Expenses by nature

For the year ended December 31, 2018			
	Operating cost	Operating expense	Total
Employee benefit expense	\$ 300,813	\$ 212,300	\$ 513,113
Depreciation	68,236	15,922	84,158
Amortization	-	2,753	2,753
	<u>\$ 369,049</u>	<u>\$ 230,975</u>	<u>\$ 600,024</u>
For the year ended December 31, 2017			
	Operating cost	Operating expense	Total
Employee benefit expense	\$ 214,411	\$ 156,069	\$ 370,480
Depreciation	90,341	11,610	101,951
Amortization	104	1,932	2,036
	<u>\$ 304,856</u>	<u>\$ 169,611</u>	<u>\$ 474,467</u>

(19) Employee benefit expense

For the year ended December 31, 2018			
	Operating cost	Operating expense	Total
Wages and salaries	\$ 258,312	\$ 189,270	\$ 447,582
Labor and health insurance expense	23,774	12,011	35,785
Pension costs	10,958	6,400	17,358
Other personnel expenses	7,769	4,619	12,388
	<u>\$ 300,813</u>	<u>\$ 212,300</u>	<u>\$ 513,113</u>
For the year ended December 31, 2017			
	Operating cost	Operating expense	Total
Wages and salaries	\$ 184,015	\$ 136,272	\$ 320,287
Labor and health insurance expense	16,685	9,961	26,646
Pension costs	7,541	5,149	12,690
Other personnel expenses	6,170	4,687	10,857
	<u>\$ 214,411</u>	<u>\$ 156,069</u>	<u>\$ 370,480</u>

- A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, 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. On May 28, 2018, the Company's stockholders adopted a resolution to amend the Articles of Incorporation of the Company. The ratio shall be 3% to 15% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.
- B. For the years ended December 31, 2018 and 2017, the Company's employees' compensation was accrued at \$48,000 and \$24,687, respectively; while directors' and supervisors' remuneration

was accrued at \$13,013 and \$5,000, respectively. The aforementioned amounts were recognized in salary expenses.

The expenses recognized for 2018 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 2018 as resolved by the Board of Directors was \$48,000 and \$13,013, respectively. The employees' compensation will be distributed in the form of cash.

The employees' compensation and directors' and supervisors' remuneration for 2017 as resolved by the Board of Directors was \$31,741, which was different from the estimated amount of \$24,687 and \$5,000 recognized in the 2017 financial statements by \$2,054. Such difference was recognized in profit and loss for the year ended December 31, 2018. 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 by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(20) Income tax

A. Income tax expense:

(a) Components of income tax expense:

	For the years ended December 31,	
	2018	2017
Current income tax:		
Income tax incurred in current year	\$ 125,091	\$ 49,694
Tax on unappropriated earnings	19	1,130
Prior year's income tax under estimation	6,286	394
Total current income tax	<u>131,396</u>	<u>51,218</u>
Deferred income tax:		
Origination and reversal of temporary differences	\$ 8,393	\$ 11,034
Impact of change in tax rate	(1,204)	-
Total deferred tax	<u>7,189</u>	<u>11,034</u>
Income tax expense	<u>\$ 138,585</u>	<u>\$ 62,252</u>

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

	For the years ended December 31,	
	2018	2017
Remeasurement of defined benefit obligations	(\$ 401)	(\$ 217)
Impact of change in tax rate	(182)	-
	<u>(\$ 583)</u>	<u>(\$ 217)</u>

B. Reconciliation between income tax expense and accounting profit:

	For the years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate	\$ 141,334	\$ 68,717
regulation	1,979	(29)
Effect from investment tax credits	(9,829)	(7,960)
Tax on unappropriated earnings	19	1,130
Prior year's income tax under estimation	6,286	394
Impact of change in tax rate	(1,204)	-
Income tax expense	<u>\$ 138,585</u>	<u>\$ 62,252</u>

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

2018				
	January 1	Recognized in		December 31
		Recognized in profit or loss	other comprehensive income	
Temporary differences:				
Deferred tax assets:				
Loss on inventory market value decline	\$ 3,823	(\$ 1,063)	\$ -	\$ 2,760
Unused compensated absences	2,429	926	-	3,355
Unrealized gain on inter affiliates	8,925	10,017	-	18,942
Pensions	1,375	61	583	2,019
	<u>\$ 16,552</u>	<u>\$ 9,941</u>	<u>\$ 583</u>	<u>\$ 27,076</u>
Deferred tax liabilities:				
Investment income	(\$ 6,864)	(\$ 16,772)	\$ -	(\$ 23,636)
Depreciation	(1,703)	(250)	-	(1,953)
Unrealized gain on foreign currency exchange	(130)	(108)	-	(238)
	<u>(\$ 8,697)</u>	<u>(\$ 17,130)</u>	<u>\$ -</u>	<u>(\$ 25,827)</u>
	<u>\$ 7,855</u>	<u>(\$ 7,189)</u>	<u>\$ 583</u>	<u>\$ 1,249</u>
2017				
	January 1	Recognized in		December 31
		Recognized in profit or loss	other comprehensive income	
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>\$ 16,552</u>
Deferred tax liabilities:				
Investment income	\$ -	(\$ 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>

D. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority. There were no disputes existing between the Company and the Authority as of March 12, 2019.

E. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate and reflected in current profit or loss or other comprehensive income for the origination and reversal of temporary differences.

(21) Earnings per share ("EPS")

	For the year ended December 31, 2018		
	Amount after tax	Weighted average number of shares outstanding (shares in thousands)	EPS (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 472,717	73,807	\$ 6.40
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 472,717	73,807	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	651	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 472,717	74,458	\$ 6.35

For the year ended December 31, 2017			
	Amount after tax	Weighted average number of shares outstanding (shares in thousands)	EPS (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 238,171	73,807	\$ 3.23
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 238,171	73,807	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	420	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 238,171	74,227	\$ 3.21

The abovementioned weighted average number of ordinary shares outstanding to conversion has been adjusted to unappropriated retained earnings as proportional increase in capital for the year ended December 31, 2017.

(22) Transactions with non-controlling interest

During October, 2018, the Group acquired remaining 20% of shares of its subsidiary—CSM Maschinen GmbH for a total cash consideration of \$—. The carrying amount of non-controlling interest was (\$1,631) at the acquisition date. This transaction resulted in a decrease in the non-controlling interest by \$1,631 and a decrease in the equity attributable to owners of the parent by \$1,631. The capital surplus—difference between proceeds on actual acquisition of or disposal of equity interest in a subsidiary and its carrying amount is insufficient which resulted in a decrease in retained earnings.

The Group did not conduct any transaction with non-controlling interest in 2017.

(23) Operating leases

The Group entered into a non-cancellable operating lease agreement for the periods from January 1, 2003 to December 31, 2022 and from August 28, 2014 to August 27, 2034 for the land in Southern Taiwan Science Park. The lease agreement is renewable at the end of the lease term. The Company pays monthly rent. If the announced land values, state-owned land rent rate, or other factors change, the monthly rent paid by the Group will be adjusted accordingly on the following month. The Group may have to pay additional rent or get a refund on its last rental payment because of such adjustment. The rent expense of \$7,232 and \$6,833 was recognized in profit or loss for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-

cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Within one year	\$ 7,594	\$ 7,594
Later than one year but not exceeding five years	22,838	30,375
Exceeding five years	603	660
	<u>\$ 31,035</u>	<u>\$ 38,629</u>

(24) Supplemental cash flow information

A. Investing activities with partial cash payments

	For the years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 72,812	\$ 210,200
Add: Opening balance of notes payable	4,858	1,575
Opening balance of payable for equipment	5,236	3,656
Less: Ending balance of notes payable	(3,633)	(4,858)
Ending balance of payable for	(14,821)	(5,236)
Capitalization of interest	(845)	-
Cash paid during the year	<u>\$ 63,607</u>	<u>\$ 205,337</u>

B. Investing and financing activities with no cash flow effects

	For the years ended December 31,	
	2018	2017
a. Write-offs of allowance for bad debts	<u>\$ -</u>	<u>\$ 73</u>
b. Prepayments for equipment reclassified to property, plant and equipment	<u>\$ 43,052</u>	<u>\$ 3,034</u>

(25) Changes in liabilities from financing activities

	Short-term borrowings	Long-term borrowings	Liabilities from financing activities-gross
January 1, 2018	\$ 214,755	\$ 500,928	\$ 715,683
Changes in cash flow from financing activities	(5,516)	57,574	52,058
Impact of changes in foreign exchange rate	1,168	2,682	3,850
December 31, 2018	<u>\$ 210,407</u>	<u>\$ 561,184</u>	<u>\$ 771,591</u>

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

None.

(2) Key management compensation

	For the years ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	\$ 40,987	\$ 25,458

8. PLEDGED ASSETS

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

Asset pledged	Book value		Purpose of collateral
	December 31, 2018	December 31, 2017	
Land (Note 1)	\$ 371,065	\$ 414,740	Guarantee for long-term borrowings
Buildings and structures-net (Note 1)	427,078	389,261	Guarantee for long-term borrowings
Machinery and equipment-net (Note 1)	-	8,749	Guarantee for long-term borrowings
Pledged time deposits (Note 2)	-	1,445	Guarantee for long-term borrowings
	<u>\$ 798,143</u>	<u>\$ 814,195</u>	

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

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

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

- (1) As of December 31, 2018 and 2017, the endorsements and guarantees provided by the Company to the subsidiary, cpc Europa GmbH, amounted to \$200,640 and \$142,280, respectively, and the actual amount drawn down was \$12,320 and \$56,319, respectively; to the subsidiary, CSM Maschinen GmbH, amounted to \$123,200 and \$—, respectively, and the actual amount drawn down was \$32,014 and \$—, respectively; to the subsidiary, CHIEFTEK PRECISION INTERNATIONAL LLC, amounted to \$92,145 and \$59,520, respectively, and the actual amount drawn down was \$46,073 and \$59,520, respectively.
- (2) As of December 31, 2018 and 2017, the Group's remaining balance due for construction in progress and prepayments for equipment were \$168,110 and \$30,854, respectively.
- (3) On July 5, 2017, the Company entered into a mid-term secured syndicated loan contract for a credit line of \$1,200,000 with 9 financial institutions including E. Sun Commercial Bank, Ltd.. The credit term is 5 years. Under the terms of the syndicated loan, the Company agrees that:
 - A. Under the terms of the syndicated loan, the financial ratios stated in the Company's semi-annual reviewed financial statements and annual audited financial statements shall comply with the

following financial ratios and will be assessed semi-annually:

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

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

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

B. If the Company violates the above financial covenants, the Company should improve within nine months after fiscal year or half fiscal year. It will not be considered to default, if the audited or reviewed financial rates comply with the covenants after the improvement period. During the improvement period, 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, 2018, the Company has not violated any of the above covenants.

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Details of the Group's financial instruments by category are provided in Notes 6 and 12(4).

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

(b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

I. Foreign exchange risk

- (i) The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries denominated in various functional currency, primarily with respect to USD, EUR and JPY. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.
- (ii) Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury.
- (iii) The Group treasury's risk management policy is to hedge anticipated cash flows (mainly sale export and purchase of inventory) in the major foreign currency in the future so as to decrease the risk exposure in the major foreign currency.
- (iv) The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. However, as the objective of the net investments in foreign operations is for strategic purposes, the Group does not hedge the investments.
- (v) The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD, the subsidiaries' functional currency: USD, EUR and CNY). 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, 2018			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 11,666	30.715	\$ 358,315
JPY:NTD	46,827	0.2782	13,027
EUR:NTD	1,400	35.20	49,287
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	98	30.715	3,013
JPY:NTD	5,316	0.2782	1,479
EUR:NTD	1,071	35.20	37,713

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	\$ 11,452	29.76	\$ 340,815
JPY:NTD	55,770	0.2642	14,734
EUR:NTD	618	35.57	21,968
<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

Sensitivity analysis of foreign exchange risk is primarily for foreign currency monetary items at financial reporting date. If the exchange rate of NTD to other currencies had appreciated/depreciated by 1% with all other factors remaining constant, the Group's net profit (loss) after tax for the years ended December 31, 2018 and 2017 would increase/decrease by \$3,008 and \$2,691, respectively.

- (vi) The total exchange gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017 amounted to \$21,498 and (\$20,933), respectively.

II. Price risk

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

III. Cash flow and fair value interest rate risk

- (i) The Group's main interest rate risk arises from short-term and long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. However, partial interest rate risk is offset by cash and cash equivalents held at variable rates. For the years ended December 31, 2018 and 2017, the Group's borrowings at variable rate were mainly denominated in NTD, USD and EUR.
- (ii) The Group's borrowings are measured at amortized cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.
- (iii) If the borrowing interest rate had increased/decreased by 10% with all other variables held constant, profit, net of tax for the years ended December 31, 2018 and 2017 would have decreased/increased by \$1,254 and \$994, respectively. The main factor is that changes in interest expense result from floating rate borrowings.

(b) Credit risk

- I. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- II. The Group manages their credit risk taking into consideration the entire group's concern. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.
- III. The Company manages their credit risk, if the contract payments are past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition and the impairment is assessed when the contract payments are past due over certain days.
- IV. The Group classifies customers' accounts receivable in accordance with credit rating of customer and credit risk on trade. The Group applies the simplified approach using forecastable consideration to adjust historical and timely information to estimate expected credit loss. Movements in relation to the Group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	For the year ended December 31, 2018
	Accounts receivable
At January 1	\$ 10,804
Provision for impairment	5,368
Effect of foreign exchange	(287)
At December 31	\$ 15,885

- V. Credit risk information for the year ended December 31, 2017 is provided in Note 12(4), 'Effects on initial application of IFRS 9 and information on application of IAS 39 for the years ended December 31, 2017'.

(c) Liquidity risk

- I. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.
- II. Surplus cash held by the operating entities over and above balance required for working

capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. The Group is expected to readily generate cash inflows for managing liquidity risk.

III. The Group has the following undrawn borrowing facilities:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Floating rate:		
Expiring within 1 year	\$ 1,316,080	\$ 923,623
Expiring beyond 1 year	<u>942,800</u>	<u>1,647,327</u>
	<u>\$ 2,258,880</u>	<u>\$ 2,570,950</u>

IV. The table below analyzes the Group's non-derivative financial liabilities and relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

<u>December 31, 2018</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	\$ 212,427	\$ -	\$ -	\$ -
Notes payable	154,647	-	-	-
Accounts payable	68,940	-	-	-
Other payables	196,074	-	-	-
Long-term borrowings (including current portion)	68,861	85,150	375,126	75,750
<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	\$ 216,411	\$ -	\$ -	\$ -
Notes payable	115,672	-	-	-
Accounts payable	91,689	-	-	-
Other payables	140,970	-	-	-
Long-term borrowings (including current portion)	80,286	324,006	50,699	79,089

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

(3) Fair value information

A. As of December 31, 2018 and 2017, the Group had no fair value financial instruments.

B. Financial instruments not measured at fair value

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

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 for the year ended December 31, 2017

A. Summary of significant accounting policies adopted for the year ended December 31, 2017:

(a) Receivables

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

(b) Impairment of financial assets

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

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

(i) Significant financial difficulty of the issuer or debtor;

(ii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(iii) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(iv) 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;

III. When the Group assesses that there has been objective evidence of impairment and an

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

B. Credit risk information for the year ended December 31, 2017 is as follows:

- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, the Group is responsible for managing and analysing the credit risk for each of their new clients. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding receivables and committed transactions. For financial institutions, the Group also transacts with many different financial institutions to diversify credit risk.
- (b) The ageing analysis of the Group's accounts receivable that were past due but not impaired is as follows:

	December 31, 2017
Up to 30 days	\$ 23,282
31 to 90 days	26,012
91 to 180 days	5,890
181 to 365 days	5,343
	<u>\$ 60,527</u>

The above ageing analysis was based on past due date.

(c) Movement analysis of the Group's financial assets that were impaired is as follows:

	For the year ended December 31, 2017	
	Group provision	
At January 1	\$	13,205
Reversal of allowance for doubtful accounts (Note)	(	2,300)
Reverse the uncollectible account	(	73)
Effect of foreign exchange rate changes	(	28)
At December 31	\$	10,804

(Note) Listed as 'other income'.

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

(5) Effects of initial application of IFRS 15 and information on application of IAS 18 for the year ended December 31, 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below:

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

B. The effects and description of current balance sheet and comprehensive income statement if the Group continues adopting above accounting policies are as follows:

(a) Effects and description of balance sheet:

Balance sheet items	December 31, 2018		
	Balance by using IFRS 15	Balance by using previous accounting policies	Effects from change in accounting policy
Contract liabilities— Current	\$ 1,828	\$ -	\$ 1,828
Advance sales receipts	-	1,828	(1,828)

Explanation:

Advance sales receipts in relation to the contract were previously presented in accordance with previous R.O.C. GAAP. Under IFRS 15 'Revenue from contracts with customers', the advance sales receipts are recognized as contract liabilities.

- (b) There is no significant impact on current comprehensive income statement if the Group continues adopting above accounting policies.

13. SUPPLEMENTARY DISCLOSURES

(According to the regulatory requirement, only information for the year ended December 31, 2018 is disclosed.)

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Group's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- 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 3.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.
- I. Trading in derivative instruments undertaken during the reporting period: None.
- J. Significant inter-company transactions during the reporting period: Please refer to table 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 6.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 7.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 8.

14. SEGMENT INFORMATION

(1) General information

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

(2) Measurement of segment information

The chief operating decision-maker evaluates the performance of operating segments based on pretax income excluding non-recurring income. For details of operating segments' accounting

policies, please refer to Note 4.

(3) Information about segment profit or loss, assets and liabilities

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

For the year ended December 31, 2018						
	CHIEFTEK PRECISION	Chieftek (Kunshan)	cpc Europa	cpc USA	Others	Total
Segment revenue	\$ 1,836,489	\$ 602,004	\$ 340,975	\$ 187,422	\$ 14,173	\$ 2,981,063
Inter-segment revenue	887,965	-	24	-	14,173	902,162
Revenue from external	948,524	602,004	340,951	187,422	-	2,078,901
Interest income	2,718	2,422	-	84	109	5,333
Depreciation and amortization	77,971	747	2,557	1,556	4,080	86,911
Interest expense	8,602	-	660	-	6,414	15,676
Segment pre-tax income	587,460	79,335	7,776	18,806	(5,736)	687,641
Segment assets	2,333,410	447,626	141,320	101,001	224,027	3,247,384
For the year ended December 31, 2017						
	CHIEFTEK PRECISION	Chieftek (Kunshan)	cpc Europa	cpc USA	Others	Total
Segment revenue	\$ 1,198,518	\$ 483,452	\$ 215,460	\$ 152,550	\$ -	\$ 2,049,980
Inter-segment revenue	561,304	-	417	-	-	561,721
Revenue from external customers	637,214	483,452	215,043	152,550	-	1,488,259
Interest income	521	1,644	-	5	-	2,170
Depreciation and amortization	100,029	917	2,151	9	881	103,987
Interest expense	9,043	-	908	-	2,021	11,972
Segment pre-tax income	278,490	72,159	18,118	11,376	(4,885)	375,258
Segment assets	1,774,559	419,998	97,284	71,324	275,654	2,638,819

(4) Reconciliation for segment income

Sales between segments are carried out at arm's length. The revenue from external customers reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income. A reconciliation of reportable segments pre-tax income to profit before income tax from continuing operations is provided as follows:

	For the years ended December 31,	
	2018	2017
Reportable segments pre-tax income	\$ 693,377	\$ 380,143
Other segments pre-tax loss	(5,736)	(4,885)
Inter segments (gain) loss	(77,804)	(75,134)
Profit before income tax	<u>\$ 609,837</u>	<u>\$ 300,124</u>

(5) Information on products and services

The Group is engaged solely in research and development, manufacture and sale of miniature linear guide, miniature ball screw, and miniature linear modules; therefore, disclosure is not required.

(6) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Revenue (Note)	Non-current assets	Revenue (Note)	Non-current assets
China	\$ 602,004	\$ 2,042	\$ 483,453	\$ 2,808
Taiwan	421,983	1,006,444	321,904	870,648
Germany	340,951	36,049	215,043	93,950
Japan	205,873	-	27	-
USA	187,422	172,392	152,550	168,634
Others	320,668	-	315,282	-
	<u>\$ 2,078,901</u>	<u>\$ 1,216,927</u>	<u>\$ 1,488,259</u>	<u>\$ 1,136,040</u>

(Note) The revenue is classified based on the location of the customer's country.

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

	For the year ended December 31, 2018		For the year ended December 31, 2017	
Client	Revenue	Segment	Revenue	Segment
A	\$ 175,096	CHIEFTEK PRECISION	\$ 8,186	CHIEFTEK PRECISION

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Loans to others

For the year ended December 31, 2018

Table 1

Expressed in thousands of NTD

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 2)	Footnote
													Item	Value			
0	CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Other receivables	Y	\$	54,360	\$	-	1.5%	Short-term financing	- Operational use	\$	-	\$	-	774,342	-
0	CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	Other receivables	Y	30,460	-	-	-	2.0%	Short-term financing	- Operational use	-	-	-	774,342	774,342	-

(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:

The limit on total amount of loan granted to certain entities with short-term financing need is set at 40% of the Company's net assets; the limit on an amount of loan granted to a single entity could not exceed 40% of the Company's net assets.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others

For the year ended December 31, 2018

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, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	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	I	\$ 967,928	\$ 200,640	\$ 200,640	\$ 12,320	\$ -	10%	\$ 967,928	Y	N	N	-
0	CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	I	967,928	123,200	123,200	32,014	-	6%	967,928	Y	N	N	-
0	CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	I	967,928	92,865	92,145	46,073	-	5%	967,928	Y	N	N	-

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

(1) Parent company is '0'.

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

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

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

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

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

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, 2018

Table 3

Expressed in thousands of NTD

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction		Discription 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.	epc Europa GmbH	Subsidiary	(Sales)	\$ 256,591	(14%)	(Note 1)	\$ -	(Note 2)	\$ 133,813	24%
	CHIEFTEK PRECISION USA CO.,LTD.	Subsidiary	(Sales)	(113,915)	(6%)	(Note 1)	-	(Note 2)	42,233	8%
	Chieftek Machinery (Kunshan) Co., Ltd.	Subsidiary	(Sales)	(517,459)	(28%)	(Note 1)	-	(Note 2)	155,330	28%
epc Europa GmbH	CHIEFTEK PRECISION CO., LTD.	The Company	Purchases	256,591	100%	(Note 1)	-	(Note 3)	(133,813)	(96%)
CHIEFTEK PRECISION USA CO.,LTD.	CHIEFTEK PRECISION CO., LTD.	The Company	Purchases	113,915	100%	(Note 1)	-	(Note 3)	(42,233)	(100%)
Chieftek Machinery (Kunshan) Co., Ltd.	CHIEFTEK PRECISION CO., LTD.	The Company	Purchases	517,459	100%	(Note 1)	-	(Note 3)	(155,330)	(100%)

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

(Note 2) The collection periods for third parties are from 30 to 180 days after monthly-closing.

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Receivables from related parties reaching NTS100 million or 20% of paid-in capital or more

December 31, 2018

Table 4

Expressed in thousands of NTD									
Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts	
					Amount	Action taken			
CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	Subsidiary	\$ 133,813	3.08	-	-	\$ 36,963	\$ -	-
CHIEFTEK PRECISION CO., LTD.	Chieftek Machinery (Kunshan) Co., Ltd.	Subsidiary	155,330	3.27	-	-	23,889	-	-

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Significant inter-company transactions during the reporting period

For the year ended December 31, 2018

Table 5

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	(\$ 256,591)	180 days after monthly-closing, T/T		(12%)
				Accounts receivable	133,813	—		4%
				Endorsements and guarantees	200,640	—		6%
		CSM Maschinen GmbH	1	Endorsements and guarantees	123,200	—		4%
	CHIEFTEK PRECISION USA CO., LTD.		1	Sales revenue	(113,915)	180 days after monthly-closing, T/T		(5%)
		Chieftek Machinery (Kunshan) Co., Ltd.	1	Accounts receivable	42,233	—		1%
			1	Sales revenue	(517,459)	180 days after monthly-closing, T/T		(25%)
		CHIEFTEK PRECISION INTERNATIONAL LLC	1	Accounts receivable	155,330	—		5%
			1	Endorsements and guarantees	92,145	—		3%
1	CHIEFTEK PRECISION USA CO., LTD.		3	Lease payable	14,173	—		1%
				Refundable deposits	1,536	—		—
2	Chieftek Precision (Hong Kong) Co., Limited.	Chieftek Machinery (Kunshan) Co., Ltd.	3	Dividend revenue	(61,698)	—		(3%)
				Dividend receivable	62,792	—		2%

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

(1) Parent company is '0'.

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

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

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Names, locations and other information of investee companies (not including investees in Mainland China)

For the year ended December 31, 2018

Table 6

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018		Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)				
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION HOLDING CO., LTD.	Samoa	Professional investment	\$ 202,290	\$ 202,290	6,760,000	100%	\$ 343,745	\$ 74,450	\$ 74,450	Subsidiary
CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	Germany	Sale of high precision linear motion components and rendering after -sale services	98,695	98,695	-	100%	(24,075)	7,776	7,776	Subsidiary
CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Germany	Research, manufacture and sale of machineries	726	726	-	80%	(9,329)	(8,534)	(7,069)	Subsidiary
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	America	Lease of real estate property	61,551	15,170	-	100%	60,532	2,647	2,647	Subsidiary
CHIEFTEK PRECISION HOLDING CO., LTD.	Chieftek Precision (Hong Kong) Co., Limited	Hong Kong	Professional investment	156,647	156,647	5,100,000	100%	322,367	60,587	-	Subsidiary (Note 1)
CHIEFTEK PRECISION HOLDING CO., LTD.	CHIEFTEK PRECISION USA CO., LTD.	America	Sale of high precision linear motion components and rendering after -sale services	50,987	50,987	1,660,000	100%	76,418	15,183	-	Subsidiary (Note 1)

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

(Note 2) Foreign currencies were translated into New Taiwan Dollars using the exchange rate (USD:NTD 1:30.715) as at December 31, 2018.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES
Information on investments in Mainland China - Basic information
For the year ended December 31, 2018

Table 7

Expressed in thousands of NTD

Investee in Mainland China	Main business activities	Investment method	Amount remitted from Taiwan to Mainland China/			Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
			Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018					
Chieftek Machinery (Kunshan) Co., Ltd	Production, processing and sale of high precision linear motion components and rendering after-sale services	Note 1	\$ 156,647	\$ -	\$ -	100%	\$ 60,588	\$ 259,575	\$ -	-

Company name	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)	
	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Commission of MOEA (Note 3)
CHIEFTEK PRECISION CO., LTD.	\$ 156,647	\$ 156,647	\$ 156,647	1,161,513

(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 audited by parent company's accountant for the year ended December 31, 2018.
(Note 3) The ceiling amount is 60% of the higher of net worth or consolidated net worth.
(Note 4) Foreign currencies were translated into New Taiwan Dollars using the exchange rate (USD:NTD 1:30.715) as at December 31, 2018.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China - Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area

For the year ended December 31, 2018

Table 8

Expressed in thousands of NTD

	Sales (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing		Interest during the year ended December 31, 2018	
	Amount	%	Amount	%	Balance at December 31, 2018	%	Balance at December 31, 2018	Purpose	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018	Interest rate	Others
Investee in Mainland China	\$	28%	\$	-	\$	28%	\$	-	\$	-	-	\$
Chieftek Machinery (Kunshan) Co., Ltd	517,459	28%	-	-	155,330	28%	-	-	-	-	-	-