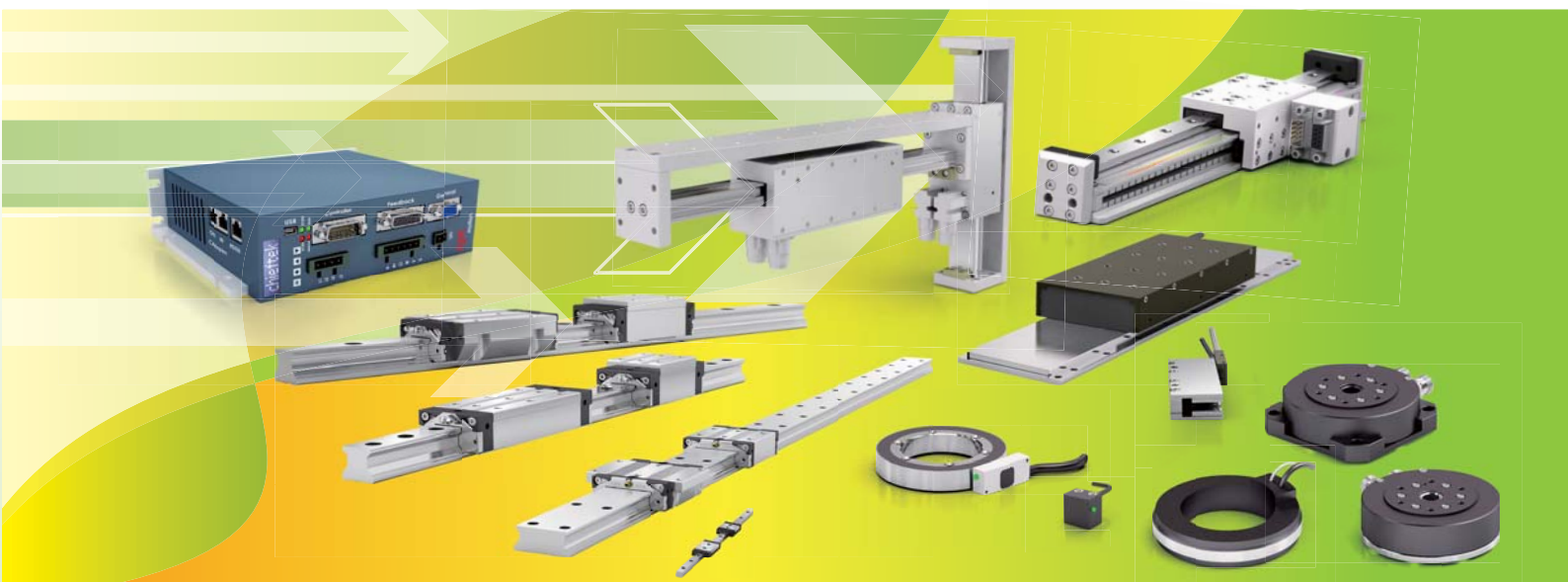


# 2017 Annual Report

Stock Code: 1597



Mechatronics in Linear Motion Technology



**CHIEFTEK PRECISION CO., LTD.**

Taiwan Stock Exchange Market Observation Post System:  
<http://mops.twse.com.tw/mops/web/index>  
cpc Annual Report is available at: <http://www.chieftek.com>  
Printed on Apr 27, 2018

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TRADING PLACES OF OVERSEAS NEGOTIABLE SECURITIES FLOTATION AND MODE OF INQUIRY INFORMATION ON OVERSEAS NEGOTIABLE SECURITIES: NONE.

6. Company website: <http://www.chieftek.com>

**CHIEFTEK PRECISION CO., LTD.**  
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## 1. Letter of Shareholders

Distinguished shareholders, ladies and gentleman:

Thanks all the shareholder for your encouragement and support to CHIEFTEK PRECISION CO., LTD. (**cpc** for short). Standing in the wave of industry 4.0, all **cpc** members follow the global economic recovery, which keep supporting the automation machine related industry grow up. In addition, China, American, Japan, those country keep investing to develop the automation industry. Also, Taiwan wafer semi-conduct manufacturer keep expending new factories. Result in the increasing new orders of the tool machine manufacturer in global, the order of Japan machine tool manufacturer is especially growing up for more than 1 year. This shows the requirement of elements in the linear products related to motor system is keep increasing. The desired requirement for automation equipment and industrial robot while the enterprise transform and upgrade brings increasing requirement of linear products in the market. As a result, the operating income of **cpc** keep growing and making the new record. The capacity utilization ratio is also increase due to cpc consistent efforts and the significant efficiency of inventory regulation. In 2017, consolidated operating income is as high as NT\$1,488,259 thousand. Compared with NT\$982,536 of 2016, it is great increased by NT\$ 505,723 thousand, with grow ratio as high as 51.47%. In 2017, Net profit before tax is up to NT\$ 300,124 thousand. Compared with NT\$105,408 thousand, it is increased by NT\$ 194,716thousand, with grow ratio as high as 184.73% ◦

Hereby I will report with regard to the operating results of 2017 and operating of 2018.

### 1. Operating results of last year (2017)

#### (I) Results of operating plan in last year.

Comparison table of consolidated comprehensive profit/loss of the company and the product sale by type in the last two years is as follows:

#### 1. Comparison table of consolidated comprehensive profit/loss in the last two years

Unit: NT\$ in thousand

Item	2017	2016	Increase (decrease)
Net operating income	1,488,259	982,536	505,723
Operating cost	(865,292)	(627,819)	(237,473)
Operating gross profit	622,967	354,717	268,250
Operating expense	(290,450)	(230,384)	(60,066)
Operating profit	332,517	124,333	208,184
Net non-operating income (expense)	(32,393)	(18,925)	(13,468)
Net profit before tax	300,124	105,408	194,716
Net profit after tax	237,872	85,534	152,338
Other Comprehensive income/loss	(7,507)	(18,714)	11,207
Comprehensive income/loss for the year	230,365	66,820	163,545

#### 2. Product sale by type in the last two years: Please refer to Operation Proportion under V. Operating Overview.

Unit: NT\$ in thousand

Product type	2017		2016		Increase (decrease)	
	Amount	%	Amount	%	Amount	%
Micro type	920,838	61.87%	636,792	64.81%	284,046	44.61%
Large type	513,376	34.50%	320,047	32.57%	193,329	60.41%
Linear motor	52,502	3.53%	25,431	2.59%	27,071	106.45%
Other	1,543	0.10%	266	0.03%	1,277	480.08%
Total	1,488,259	100.00%	982,536	100.00%	505,723	51.47%

The table above shows :

(1) Turnover

- A. In 2017, the consolidated operating income is NT\$1,488,259 thousand. Compared with NT\$982,536 thousand of 2016, it is increased by NT\$505,723 thousand with increase ratio of 51.47%.
- B. Compared by regions, China mainland region grows by 80.50%, European region grows by 38.01%, American region grows by 21.00%, Taiwan domestic sales grows by 44.66%, other regions grow by 49.97%.

(2) Surplus

A. In 2017 consolidated operating gross profit is NT\$ 622,967 thousand. Compared with NT\$354,717 thousand of 2016 it is increased by NT\$ 268,250 thousand with growth ratio of 75.62%. Moreover, the operating profit in 2017 is increased from 36.10% of 2016 to 41.86%, with increase ratio reaching as high as 5.76%. It is due to the great growth in operating income of micro type, large type linear products and linear motors, moreover, mainly due to the greatly growth of large type linear product, as explained below:

- (A) The proportion of micro linear products with high profit is decreased from 64.81% to 61.87%. However, the profit margin of this type is increased from 42.57% of previous period to 48.80%.
- (B) The proportion of large linear products is increased from 32.57% to 34.50%. Moreover, the profit margin of large linear products if increased from 22.24% of pervious to 27.53%.
- (C) The proportion of linear motor is increased from 2.59% to 3.53%. Moreover, the profit margin of linear motor is greatly increased from 47.83% of previous period to 58.53%.

B. In 2017, before-tax profit is NT\$ 300,124 thousand. Compared with NT\$105,408 thousand of 2016, it is increased by NT\$ 194,716 thousand with growth ratio of 184.73%. The main reasons include:

- (A) The operating income of micro linear products, large linear products are significantly growing.
- (B) The de-stocking of consolidate inventory achieves significant effectiveness through years' efforts. The turnover needs to be supplied by the output of current period. Follows the flourish develop in the industry, the capacity utilization ratio is increased, the profit margin and profitability are both increased as well.

C. In 2017, earning per share (EPS) after tax is NT\$4.03.

(II) Situation of budget enforcement

Financial forecasting was not published in 2017, so there is no budget achievement.

(III) Analysis of financial revenue/expenditure and profitability

Item		2017	2016
Financial structure (%)	Ratio of liabilities to assets	42.03	38.15
	Ratio of long-term funds to real property, factory and equipment	197.66	196.89
Debt paying ability (%)	Current ratio	222.93	272.56
	Quick ratio	163.17	196.42
	Interest coverage ratio	26.07	9.10

Profit structure (%)	Return on assets (ROA)	10.25	4.29	
	Return on equity (ROE)	16.47	6.39	
	Ratio on paid-in capital	Operating profit	53.59	20.04
		Net profit before tax	48.37	16.99
	Net profit ratio	15.98	8.71	
Basic EPS (\$)	4.03	1.45		

#### (IV) R&D situation

Following the trend of worldwide industrial automation, **cpc** adhere to input basic machinery of related business continuously, ensure MIT standing on the world brand base in world brand. Since 2017, **cpc** actively develop the process optimization. Forming the market distinction from competitor with improve process reliability of high precision component product, in the long term to increase operating profit. The mechanical precision of industrial robot and linear motor stage are improved, due to the upgrade of component precision level. Gain the quality recognition from well-known manufacturer in the industry.

In the new product development, successfully develop new large 45 roller-type linear product to apply high capacity and smooth working machine tool in the field of machine tool. In addition, extent machine tool market from micro type to large type by develop MXL series extended high capacity linear guide. Furthermore, develop the motor product of large external diameter DD motor and water-cooled linear motor, which is the essential product required by opening the market of dividing plate, 5-bearings processing machine, mechanical arm and high-precision processing machine manufacturer.

To improve the reliability of all linear system, **cpc** develop communicate type encoder system for the encoder product. It is not only the enhanced signal receiving and transmitting, but encode with special encoding procedure to avoid mis-understanding which is due to interface. Collocate present driver to develop anti-interface module, which helps clients to suppress interface accrued in motor system. Moreover, drive is start to support the function of absolute encoder, which provides various encoding system for different application. For the controller, it is focus in software development. Construct real-time 1 ms cycle time communication function based in Linux operation system, also including path optimized algorithm. Build stable foundation of smart control for the company.

In 2017, the company input NTNT\$65,382 thousand R&D expense. Compared with NT\$43,775 thousand of 2016, it is increased by NT\$21,607 thousand with gross increased ratio of 49.36%.

## II. Summary of operating plans in this year (2018)

### (I) Management principles (corporate social responsibility policy)

1. Implement information transparency, practice honest operation
  - (1) Implement information transparency, practice corporate governance
  - (2) Stick to honesty, integrity and sustainable operation, achieve **cpc** leading brand of the world.
  - (3) Cultivate a filial team with mercy, international view, professional skills and high sense honor.
2. Strengthen the awareness of environmental safety, implement environmental protection.
  - (1) Provide a working environment with high quality and available for maintaining physical and psychological health, and reach the goal of no disaster, no accident.
  - (2) Protect the environment, maintain the natural ecology, and realize the energy

conservation and waste reduction.

- (3) In accordance with the laws, implement the risk management, prevent the pollution, and carry out 6S activities.
  - (4) The environmental protection safety is an uninterrupted activity of the entire personnel.
3. Education in morality-rooted, create a peaceful society.
- (1) Plant widely with Chinese cultural root and establish a righteous corporation.
  - (2) Cultivate a team with normally and skills, become a model of corporation operation.
  - (3) Fulfill corporate social responsibility, co-create a sunny and peaceful society.

(II) Expected sales volume and its basis

The company sets the most appropriate estimation of the nest year according to industrial prosperity, economic environment and other factors, considering current actual operating situation of the company and forecast of the future operating environment. The expected sales volume and amount should continuously keep increasing.

(III) Important production and marketing policies

1. Marketing policy

- (1) Marketing with private brand **cpc** in the world, so as to improve brand awareness and value.
- (2) Strengthen management of existing clients, and establish good interaction.
- (3) Continuously enhance operating function of each area, so as to increase overall operating income.
- (4) Actively expand market, increase market share.

2. Manufacturing policy

- (1) Quality is the result of design, manufacture and management.
- (2) Receive, manufacture and distribute no non-performing product.
- (3) Quality improvement is an uninterrupted activity of the entire personnel.

III. Company's future development strategy

Combined with the prospect of **cpc** from market, **cpc** plans the company development in future as followings:

- (I) Precision machine: Continuously expand specification scope of linear guide. Provide integrated production line service with exquisite technology.
- (II) Direct drive motor: set plated Iron core, ironless linear motor as the main development item to develop larger size of dimension specification. DD motor will scheme the external diameter up to 290mm larger hollow rotation motor.
- (III) Industrial robot and DD stage: Except to provide standard product, also design and manufacture electromechanical product according to required condition of client's system, to enhance competition ability of client's equipment.
- (IV) Sensor : In the automation industry, sensor is as the eye of machine, which helps machine perform sensing inspection. Therefore, sensor is the essential component to perform higher precision automation. In the future, **cpc** will extend the technology to power, distance, even the angle related sensor development except the encoder.
- (V) Drive: To develop the hardware of low-voltage high currency driver, to design firmware of special function and application of humanize interface.
- (VI) Controller: The best path algorithm of mechanical arm, real-time control bottom layer development, structure optimization of cross-core data transmission.

Now, **cpc** reserve capacity to provide automatic welfare system integration service while achieve the constant basic-technology. This is also sincerely expected by Taiwan automation industry.

IV. Influence of external competitive environment, regulatory environment and overall business



environment

(I) External competitive environment

US president announce to apply 25% import tariff against to steel product which import to America in March. This makes industry concern whether will detonate the trading war, and constitute the shadow of international economic dynamic development in 2018. Also occur more uncertain situation for future economic.

There is no affection for company product export to America. will consistently observe the sequence movement and the change of economic and market environment. Scheme the adaptive plan to avoid suffering unfavorable affection.

(II) Regulatory environment and overall business environment

The company is slightly affected by regular environment due to industrial property. However, in the term of allover economic environment, industry 4.0 and automatic machine manufacture is the key point of industry development. In addition to extend advantage product market share of miniature linear guide, **cpc** take the opportunity to expand the scale of standard-type linear guide and linear motor.

**cpc** operating amount, net profit ratio, net profit after tax, EPS and others are create new high record in 2017 since over the counter. Therefore, it has obvious effect due to company devote to reduce inventory and improve product competitive ability.

Our corporate will still stick “honest operation principle”, will continuously improve international competitiveness of the group, maximize the benefits for shareholders and customers, create the best career welfare for all colleagues, return the public with virtuous and skilled achievements, bring along social goodness, make everyone safe and happy and satisfied with their work and life. It is worth it definitely.

Hereby I wish all the shareholders

In good health and have a happy family!

Chairman: CHEN LI-FEN

## II. Company Profile

**I.Date of establishment:** October 19, 1998

### II.Company History

#### (I) Company History

Year	Important historical evolution
1998	Approved by Ministry of Economic Affairs (MOEA) and set up corporate license with paid-in capital of NT\$5,000 thousand.
1999	Put forward “ R&D plan of Miniature Linear Guide” and got project grants from Industrial Technology Research Institute. Applied for “Linear motion bearings” patent to Taiwan, America, Germany and Japan. Moved into incubation center of National Cheng Kung University and carry out Industry-University collaboration with National Cheng Kung University. Apply for increased capital by cash in October, paid-in capital was increased to NT\$25,000 thousand.
2000	Moved to Rede factory and began pilot mass production. Beginning of MR9M Miniature Linear Guide mass production. Applied for increased capital by cash in April, paid-in capital was increased to NT\$41,200 thousand. Apply for increased capital by cash in September, paid-in capital was increased to NT\$99,000 thousand.
2001	Made negotiations with agents and distributors on development of domestic clients and overseas clients in USA, Germany, the UK, Italy, Benelux, Switzerland, Israel, Singapore, Malaysia and other countries. Entered Korean market and signed the contract with Korean agent. Establishment of factory in southern science industrial park was approved by National Science Council (NSC). “Linear motion bearings” was approved by American patent. Apply for increased capital by cash in July, paid-in capital was increased to NT\$ 150,000 thousand.
2002	Entered Singaporean market and signed the contract with Singaporean agent. ° Applied for increased capital by cash in July, paid-in capital was increased to NT\$ 210,000 thousand (Tech stock was NT\$ 60,000 thousand).
2003	Started building Phase I project of the factory in Southern Taiwan Science Park. Apply for increased capital by cash in August, paid-in capital was increased to NT\$ 270,000 thousand. Apply for increased capital by cash in October, paid-in capital was increased to NT\$ 290,000 thousand. Exhibited all series of Miniature Linear Guide in Shanghai in December.
2004	Beginning of Size3 Miniature Linear Guide mass production. Apply for increased capital by cash in January, paid-in capital was increased to NT\$ 340,000 thousand. Apply for increased capital by cash in March, paid-in capital was increased to NT\$ 360,000 thousand.
2005	Factory in Southern Taiwan Science Park was completed and began official mass production. Official mass production of standard Linear Guide.

2007	<p>Mass production of AR/HR Roller type Linear Guide. Passed the ISO9001 quality certification. Carried out university-industry collaboration with mechanical engineering department of National Chung Cheng University. Applied for “R&amp;D subsidy to early design and development of linear motor” and approved by Southern Taiwan Science Park Authority. Approved by the Ministry of National Defense and applied for personnel who serviced national defense, to cultivate R&amp;D talents coordinating national policy. Beginning of Ultra-fast miniature linear guide mass production. Beginning of Self-lubricating miniature linear guide mass production.</p>
2008	<p>Set up <b>cpc</b> subsidiaries in the United States with paid-in capital of US\$300 thousand. Set up <b>cpc</b> subsidiaries in Kunshan city with paid-in capital of US\$ 300 thousand.</p>
2009	<p>Beginning of Ironless Series linear motor producing. Apply for increased capital by cash in December, paid-in capital was increased to NT\$ 360,560 thousand.</p>
2010	<p>Set up <b>cpc</b> subsidiaries in Germany with paid-in capital of EU\$ 69 thousand. cpc Kunshan applied for increased capital by cash, paid-in capital was increased to US\$1,000 thousand. Increased capital by surplus was NT\$18,028 thousand, paid-in capital was increased to NT\$ 378,588 thousand.</p>
2011	<p>Public issuance was approved on Jan. 17<sup>th</sup> and stocks were registered on the Emerging Stock Market on Mar. 10<sup>th</sup>. Increased capital by surplus was NT\$ 30,287 thousand, paid-in capital was increased to NT\$ 408,875 thousand. cpc Kunshan subsidiaries applied for increased capital by cash, paid-in capital was increased to US\$ 3,000 thousand. Apply for increased capital by cash in December, paid-in capital was increased to NT\$ 433,875 thousand.</p>
2012	<p>Purchased land of Tree Valley Park as future preparation for extension construction of plants. Employee stock warrant issued new shares of NT\$ 6,204 thousand, paid-in capital was increased to NT\$ 440,079 thousand. Increased capital by surplus was NT\$ 44,008 thousand, paid-in capital was increased to NT\$ 484,087 thousand. Finished development plan of leading new product in “High Thrust Density Ironless-core Linear Motor” approved by Ministry of Economic Affairs (MOEA). cpc USA applied for increased capital by cash, paid-in capital was increased to US\$ 1,000 thousand. Increased capital by cash was NT\$46,330 thousand, paid-in capital was increased to NT\$530,417 thousand. Buying and selling in foundation GreTai Securities Market (GTSM) since Dec. 28<sup>th</sup>.</p>
2013	<p>Employee stock warrant issued new shares of NT\$2,556 thousand, paid-in capital was increased to NT\$532,973 thousand. cpc USA applied for increased capital by cash, paid-in capital was increased to US\$1,660 thousand. cpc Germany applied for increased capital by cash, paid-in capital was</p>

	<p>increased to US\$1,660 thousand.</p> <p>Increased capital by surplus was NT\$26,649 thousand, paid-in capital was increased to NT\$559,622 thousand.</p> <p>Official mass production of wide Roller-type Linear Guide.</p>
2014	<p>Employee stock warrant issued new shares of NT\$2,464 thousand, paid-in capital was increased to NT\$562,086 thousand.</p> <p>cpc Kunshan applied for increased capital by cash, paid-in capital was increased to US\$5,100 thousand.</p> <p>Increased capital by surplus was NT\$28,104 thousand, paid-in capital was increased to NT\$590,190 thousand.</p> <p>Employee stock warrant issued new shares of NT\$2,148 thousand, paid-in capital was increased to NT\$592,338 thousand.</p> <p>ISO14001 Environment Management System, OHSAS 18001 TOSHMS and CNS 15506 TOSHMS in Taiwan certificated.</p> <p>Passed tobacco hazard control label of healthy occupational certificate after assessed by National Health Service(NHS) of Ministry of Health and Welfare(MHW).</p> <p>Implemented treasury stock approach for the first time and expected to transfer to employees to encourage them and retain excellent talents.</p> <p>Comprehensive mass production of LM-CORE series Iron core Linear Motor.</p> <p>Official mass production of CLS-Compact Linear Motor Stage.</p> <p>Released ARR/HRR/LRR Standard 4-Row Roller-type Linear Guide.</p>
2015	<p>New products such as Roller-type Linear Guide, Iron core Linear Motor, CLS-Linear Motor stage, Linear Motor servo drives were released for the first time in Taipei International Machine Tool Show (TIMTOS) of 2015.</p> <p>Official mass production of TC1 AC-Linear Motor server and driver.</p> <p>Official mass production of CLMS-Iron core Linear Motor Stage.</p>
2016	<p>Official mass production of MMLS-Linear Motor Stage.</p> <p>Established CSM Maschinen GmbH with paid-in capital of EU\$25 thousand, <b>cpc</b> holding 80% shares.</p> <p>Capital increase from earnings NT\$28,117 thousand, amount of paid-in capital increased to NT\$620,455 thousand.</p>
2017	<p>Product presentation for “Direct-drive Linear Motor Introduction and Application”, “Driving System Introduction and Application”, and “Linear Guide Introduction and Application” in TIMTOS 2017.</p> <p>Obtained the construction license of Phase-I Plant Construction Project in Tree Valley Park.</p> <p>Ranked in the top 20% in the third corporate governance assessment, and won the “Improvement Award” for encouragement.</p> <p>Established Chieftek Precision International LLC with paid-in capital of US\$ 500 thousand with stockholding ratio of 100%</p> <p>Passed Quality Management System of ISO 9001:2015 version, Environment Management System of ISO14001:2015version, Occupational Safety and Health Management System of OHSAS 18001:2007 version and Taiwan Occupational Safety and Health of CNS15506 revised version certification in August 2017.</p> <p>Passed Health Workplace Certification-Health Boot Budge by National Health Service(NHS) of Ministry of Health and Welfare(MHW).</p>
2018	<p>Applied for Treasury Stock Retired of NT\$30,000 thousand, paid-in capital was decreased to NT\$ 590,455 thousand.</p>

(II) Situation of corporate merger and acquisition, Enterprises which are established with transferred investment and reforming in the most recent fiscal year and by the printing date of annual report:

1. In 2017 and by the date of printing annual report, there is no plan to merger or acquisition of other corporates. If any in the future, we will take it cautiously, considering concrete effects brought for our corporate to ensure rights and interests of original shareholders.

2. Enterprises which are established with transferred investment in 2017 and by the date of printing annual report:

For business and profit continuous growth in US region, our corporate has already approved by board of directors in July 11, 2017 to establish Chieftek Precision International LLC subsidiaries in US with stockholding ratio of 100%.

3. Reforming in 2017 and by the date of printing annual report: None.

(III) Mass transfer or changes of shares of directors, supervisors and shareholders with more than 10% shares, changes of business rights, important changes of operation modes or business content, and other important matters that can influence shareholders' equity or company, and other information of previous year that can influence corporate development, all these above shall be disclosed :

1. Mass transfer or changes of shares of directors, supervisors and shareholders with more than 10% shares:

(1) There are no shareholders with more than 10% shares in our corporate by the printing date of annual report.

(2) All the directors and supervisors of our corporate are supporters of corporate operation, so, there is no mass transfer of share and major influence to corporate finances or businesses in 2015 and by the date of printing annual report.

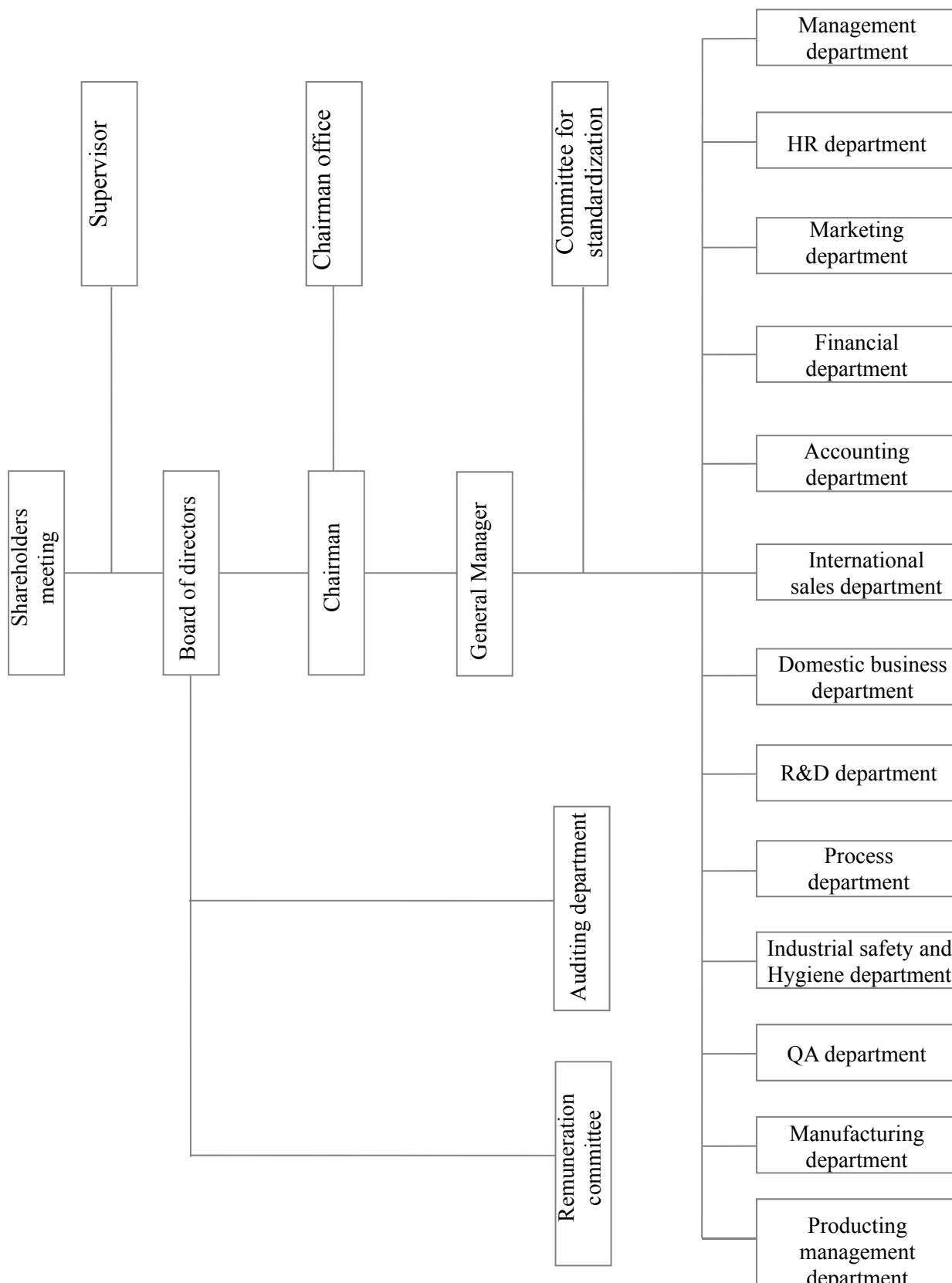
2. Changes of business rights, important changes of operation modes or business content: None.

3. Other important matters that can influence shareholders' equity or company: None.

### III. Corporate Governance Report

#### I. Organization System

##### (I) Organization Structure



(II) The business of each major department

Major department	Main Business
Chairman dept.	<ol style="list-style-type: none"> <li>1.To set up outstanding <b>cpc</b> international brand management.</li> <li>2.To integrate friendly relationship among matching manufacturers in international market.</li> <li>3.To fulfill the righteous social responsibility and environmental humanistic responsibility.</li> <li>4.To promote social responsibility and honest operation of the corporate.</li> <li>5.To pursue the maximum benefit for all shareholders and corporate permanent development.</li> </ol>
Auditing dept.	<ol style="list-style-type: none"> <li>1. To draft and implement each auditing policy and procedure of the company.</li> <li>2. To draft annual overall auditing plan.</li> <li>3.To audit and check the implementation of internal control in each department, to provide improvement suggestion, to track defects and recheck.</li> </ol>
Compensation committee	<ol style="list-style-type: none"> <li>1.To draft recommendation of salary and compensation for board directors, supervisors and managers and regular assessment report.</li> <li>2.To draft and review regularly the performance evaluation of board directors, supervisors and managers.</li> <li>3.To draft and review regularly salary and compensation policy, system, standard and structure of our company.</li> </ol>
Standardization committee	<ol style="list-style-type: none"> <li>1.To check if the format and content of standardization documents proposed by each application unit conform to ISO 9001 quality system, environmental system and other systems of the company or not.</li> <li>2.To review and discuss the content of standardization documents to make the standard accord with actual demand.</li> <li>3. Planning, adjustment, auditing, improvement and other activity management of ISO 9001 quality management system (QMS).</li> <li>4. To promote and manage quality objectives.</li> <li>5.To assist management representatives convene management examination meetings.</li> </ol>
Management dept.	<ol style="list-style-type: none"> <li>1. Purchasing section: <ol style="list-style-type: none"> <li>(1) To make purchasing plan.</li> <li>(2) Development, assessment and management of new subcontractor or outsourcing manufacturer.</li> <li>(3) Inquiry, price comparison, bargaining and contracting of purchasing.</li> <li>(4) Domestic and overseas purchasing.</li> <li>(5) Coordination with subcontractor or outsourcing manufacturer.</li> </ol> </li> <li>2. Information section: <ol style="list-style-type: none"> <li>(1) To maintain and plan network host of the company.</li> <li>(2) Planning, setting-up and basic maintenance of hardware circuit.</li> <li>(3) Planning and implementation of software.</li> <li>(4) To check system data and its use.</li> <li>(5) To backup data and maintain database regularly.</li> <li>(6) To coordinate and promote computerized operations.</li> <li>(7) Education and training of company informatization.</li> <li>(8) ERP system maintenance, development and design of report.</li> </ol> </li> <li>3. General affairs section: <ol style="list-style-type: none"> <li>(1) Management and handling of staff meals and general affairs.</li> <li>(2) Management of transactional fixed assets and tools.</li> </ol> </li> <li>4. Factory affairs section: <ol style="list-style-type: none"> <li>(1)To ensure normal water supply and quality of air-compressor and air-conditioner.</li> <li>(2)To ensure smooth operation of firefighting system, watering and foaming.</li> <li>(3)Wastewater system maintenance and wastewater treatment.</li> </ol> </li> </ol>

	<p>(4) To ensure supply and smooth operation of power system of the factor area.</p> <p>(5) Mechanical and electrical maintenance and improvement plan of the factory area.</p>
HR dept.	<p>1. To draft each related HR Management System and development.</p> <p>2. Personnel recruitment, selection, appointment, cultivation and retention and development.</p> <p>3. Planning and implementation of education and training.</p> <p>4. Salary management and welfare system.</p> <p>5. Performance assessment and evaluation.</p> <p>6. Management and improvement of harmonious labor-capital relations.</p>
Marketing dept.	<p>1. Design, maintenance and management of company website.</p> <p>2. Catalogue, advertising, propaganda and other graphic design.</p> <p>3. Arrangement and design of exhibition.</p> <p>4. Design of company overall image.</p> <p>5. Application and promotion of each product.</p>
Financial dept.	<p>1. Banking transactions handling.</p> <p>2. Safekeeping of cash, receipts, and negotiable securities, issuance and recording of income and expenses.</p> <p>3. Analysis of financial operating plan, capital budgeting, fund raising and procurement.</p> <p>4. To supervise and assist fund raising, procurement and management of subsidiaries.</p> <p>5. Planning and implementation of corporate governance related affairs</p>
Accounting dept.	<p>1. General accounting section:</p> <p>(1) Recording and voucher of accounting transaction, safekeeping of accounting documents.</p> <p>(2) Safekeeping of cash and receipts, issuance and recording of income and expenses.</p> <p>(3) Management of account receivable and payable and general ledger.</p> <p>(4) Management and control of company income and expenses.</p> <p>(5) Fixed assets management, tax treatment and Investment allowance handling.</p> <p>(6) Drafting and implementation of accounting statement.</p> <p>(7) Handling tax declaration.</p> <p>(8) withholding, reporting and paying of income tax</p> <p>(9) Handling and management of bounded affairs.</p> <p>(10) Handling the changes of industrial and commercial registration.</p> <p>(11) Financial management of subsidiaries.</p> <p>(12) Affairs of the board of directors and board of shareholders.</p> <p>(13) Cooperating work audited by accountant.</p> <p>2. Cost section:</p> <p>(1) Calculation and analysis of product cost.</p> <p>(2) Management of storing, purchasing and consumption of inventory.</p> <p>(3) Inventory checking of raw material, semi-finished products, WIP and finished products.</p> <p>(4) Analysis, budgeting and management of company operation plan.</p> <p>(5) Preparation and analysis of management report</p> <p>(6) Tax declaration of scraped products.</p> <p>(7) Cooperating work audited by accountant.</p>
International sales dept.	<p>1. Drafting and implementation of performance objectives.</p> <p>2. Business marketing.</p> <p>3. Deliberation of project contract</p> <p>4. Resolution, feedback and tracking of customer service.</p> <p>5. Drafting and Tracking of production and marketing prediction.</p> <p>6. Market research.</p> <p>7. Inventory control among subsidiaries.</p>



	8. Accounts receivable collection.
Domestic business dept.	<ol style="list-style-type: none"> <li>1. Drafting and implementation of marketing plan.</li> <li>2. Resolution and feedback of customer service.</li> <li>3. Review and control of contract and order.</li> <li>4. Drafting and tracking of production and marketing prediction.</li> <li>5. Drafting and implementation of advertisement marketing strategy.</li> <li>6. Information collection and analysis of the market and the same industry.</li> <li>7. Accounts receivable collection.</li> </ol>
R&D dept.	<ol style="list-style-type: none"> <li>1. Search and analysis of products and patents of competitors.</li> <li>2. Development, design and patent application of new products.</li> <li>3. To plan new rules for new products and analyze R&amp;D technology of new products.</li> <li>4. Function improvement of current products.</li> <li>5. Audit and recognition of outsourcing components.</li> <li>6. Sample making and functional testing, design of testing machine and measuring tools.</li> <li>7. Introduction of trial production of new products.</li> <li>8. Testing and application of product safety and other regulations.</li> </ol>
Process dept.	<ol style="list-style-type: none"> <li>1. Technological development section: <ol style="list-style-type: none"> <li>(1) Development of production technology.</li> <li>(2) Capacity planning and standard labor time making.</li> <li>(3) Processing and mechanical equipment SOP making.</li> <li>(4) Cost analysis.</li> <li>(5) Development and maintenance of machineries and fixtures.</li> </ol> </li> <li>2. Mechanical equipment section: <ol style="list-style-type: none"> <li>(1) Repair and maintenance of mechanical equipment.</li> <li>(2) Development and improvement of mechanical equipment.</li> <li>(3) Spare parts purchasing and standbys management.</li> </ol> </li> </ol>
Industrial safety and Hygiene dept.	<ol style="list-style-type: none"> <li>1. Establishment, promotion and maintenance of ISO14001 Environmental Management System, OHSAS18001 Occupational Safety and Health Management System (TOSHMS) and CNS15506 TOSHMS in Taiwan.</li> <li>2. Recognition, assessment and control of working environment or operation hazard.</li> <li>3. Management of machineries, equipment and appliance.</li> <li>4. Classification, marking, general knowledge and management of hazardous chemical.</li> <li>5. Strategic planning and monitoring of sampling in hazardous operation environment.</li> <li>6. Processing in dangerous workplace and construction safety assessment.</li> <li>7. Management of purchasing, contracting and change.</li> <li>8. Operation standard for safety and health.</li> <li>9. Regular check, emphasized check, operation check, site inspection and 6S management.</li> <li>10. Education and training of safety and health.</li> <li>11. Management of personal protective equipment.</li> <li>12. Health examination, management and improvement.</li> <li>13. Collection, sharing and application of safety and health information.</li> <li>14. Emergency Measures.</li> <li>15. Investigation, settlement and statistical analysis of occupational accidents, near misses and incidents that affect physical and psychological health.</li> <li>16. Management records and performance evaluation measures of safety and health.</li> <li>17. Other management measures of safety and health.</li> </ol>
QA dept.	<ol style="list-style-type: none"> <li>1. Implementation of quality policy, implementation and correction of quality system and operation procedure.</li> <li>2. To carry out and maintain related responsibilities regulated by quality</li> </ol>

	<p>system.</p> <ol style="list-style-type: none"> <li>3. To assist and solve customers' problems.</li> <li>4. Precautionary measures, reason analysis, countermeasures drafting, follow-up processing and tracking confirmation of abnormal quality incidents.</li> <li>5. Drafting of calibration plan, management of inspection and testing equipment, implementation of internal calibration and control of external calibration.</li> <li>6. Responding, handling and tracking of customers' complaints.</li> <li>7. Inspection and judgment of incoming material, processing, finished products before shipment.</li> </ol>
Manufacturing dept.	<ol style="list-style-type: none"> <li>1. Implementation and control of production line planning and scheduling.</li> <li>2. Improve production efficiency, technology and quality of finished products.</li> <li>3. Control and improvement of product yield.</li> <li>4. Quality abnormal reaction and implementation of improvement.</li> <li>5. Maintenance and adjustment of manufacturing equipment and instruments.</li> <li>6. Manpower training and employment plan and performance assessment.</li> </ol>
Product management dept.	<ol style="list-style-type: none"> <li>1. Product management section: <ol style="list-style-type: none"> <li>(1) Annual production and marketing planning.</li> <li>(2) Goal setting and MOC (management of change) of production planning.</li> <li>(3) Implementation of production planning, coordination of production, marketing and delivery.</li> <li>(4) Requirement, purchasing, allocation and control of production materials.</li> </ol> </li> <li>2. Warehouse management section: <ol style="list-style-type: none"> <li>(1) Inventory management (including finished products, semi-finished products, WIP, raw materials, accessories).</li> <li>(2) Receiving and dispatching of material and finished products.</li> <li>(3) Checking.</li> <li>(4) Requirement and control of material, improve inventory turnover ratio</li> <li>(5) Ensuring proper warehousing and shipping.</li> </ol> </li> </ol>

## II. Data of Board Directors, Supervisors, General Manager, Vice-General Manager, Assistant Manager and Directors of Each Department and Each Branch

### (I) Board directors and supervisors

#### 1. Data of board directors and supervisors

April 27, 2018

Job Title	Nationality or place of registry	Name	Gender	Date of Election	Tenure of First office	Date of First Election	Shareholdings during election		Present Shareholdings		Present Shareholdings of the Spouse and Minor Children		Shareholdings in Name of Others		Main Experience/ Education Background	Post concurrently occupied in the company and other companies at present	Other directors, board directors or supervisors with the relationship of spouse or that within the second degree of kinship		
							Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio			Job Title	Name	Relation
Chairman and Chief Strategy Officer	The Republic of China	CHEN LI-FEN	Female	June 22, 2017	3 years	October 14, 1998	2,655,805	4.50%	2,655,805	4.50%	4,057,701	6.87%	0	0	Art History of Universität Stuttgart	Chief Strategy Officer of Chieftek Precision CO., Ltd., Chairman of Deneng Sunshine Investment Co., Ltd, Chairman of Deyuan Management Consulting Co., Ltd, Board Director of Ever Advanced Precision Technologies Co., Ltd., Chairman of Zhenshanmeihui Investment Co., Ltd, Board Director of Sunshine Bio Technology Co., Ltd, Chairman of Situjia Food Co., Ltd., Vice Chairman of The Allied Association for Science Park Industries, Vice Chairman of Sino-German Cultural and Economic Association, Standing Director of Academia-Industry Consortium for Southern	Board Director, General Manager and R&D Supervisor	HSU MING-CHE	Spouse

Job Title	Nationality or place of registry	Name	Gender	Date of Election	Tenure of First office	Date of First Election	Shareholdings during election		Present Shareholdings		Present Shareholdings of the Spouse and Minor Children		Shareholdings in Name of Others		Main Experience/ Education Background	Post concurrently occupied in the company and other companies at present	Other directors, board directors or supervisors with the relationship of spouse or that within the second degree of kinship		
							Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio			Job Title	Name	Relation
															Taiwan Science Park, Founding President of National Cheng Kung University Innovation & Incubation Tainan Traditional Chinese Cultural College Foundation Alumini Association of The National Tainan Girls Senior High School (Note 2)				
Board Director, General Manager and R&D Supervisor	The Republic of China	HSU MING-CHE	Male	June 22, 2017	3 years	October 14, 1998	4,057,701	6.87%	4,057,701	6.87%	2,655,805	4.50%	0	0	Master of Mechanical Engineering of Universität Stuttgart	General Manager and R&D Supervisor of Chieftek Precision CO., Ltd.	Board Chairman and Chief Strategy Officer	CHEN LI-FEN	Spouse
Board Director	The Republic of China	LI AN	Female	June 22, 2017	1 year	June 16, 2016	782,030	1.32%	782,030	1.32%	0	0	0	0	Bachelor of Nutrition, Fu Jen Catholic University; Master of Nutrition, New York University; Master of Computer, University of Denver; NREL Computer Engineer; Senior Computer Engineer of US West Inc.; Information Chief of Motech Industries Inc.	Nil	Nil	Nil	Nil

Job Title	Nationality or place of registry	Name	Gender	Date of Election	Tenure of First office	Date of First Election	Shareholdings during election		Present Shareholdings		Present Shareholdings of the Spouse and Minor Children		Shareholdings in Name of Others		Main Experience/ Education Background	Post concurrently occupied in the company and other companies at present	Other directors, board directors or supervisors with the relationship of spouse or that within the second degree of kinship		
							Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio			Job Title	Name	Relation
Board Director	The Republic of China	CHENG SHENG-FEN	Male	June 22, 2017	3 years	December 30, 2004	375,445	0.64%	375,445	0.64%	775,505	1.31%	0	0	Master of Mechanical Engineering of National Taiwan University, Assistant Manager of Jianxing Electronics Co., Ltd and Vice-General Manager of A-OPTRONICS Co., Ltd.	Nil	Nil	Nil	
Board Director	The Republic of China	WANG CHEN-PI-HSIA	Female	June 22, 2017	3 years	December 30, 2004	450,350	0.76%	425,350	0.72%	60,243	0.10%	0	0	Provincial Tainan Girls' Senior High School	Chairman of Yucheng Starch Co., Ltd, Board Director of Deyuan Management Consulting Co., Ltd and Supervisor of ST&T Instrument Corp.	Nil	Nil	Nil
Independent Director	The Republic of China	WU CHUNG-JEN	Male	June 22, 2017	3 years	June 17, 2011	21,384	0.04%	21,384	0.04%	0	0	0	0	Doctor of Chemical Engineering of National Cheng Kung University, Researcher of Industrial Technology Research Institute Union Chemical Laboratories, Project Manager of National Cheng-kung University Business Incubation Center, Vice Director of Technology Transfer & Business Incubation Center of National Cheng Kung University, Executive Manager of Incubator Center of Southern Taiwan Science	Chairman of CHIH RO ENTERPRISE CO.,LTD, Chairman of YYC Material Technology CO.,LTD, Chairman of SUPLA Material Technology CO.,LTD, Jiangsu	Nil	Nil	Nil

Job Title	Nationality or place of registry	Name	Gender	Date of Election	Tenure of First office	Date of First Election	Shareholdings during election		Present Shareholdings		Present Shareholdings of the Spouse and Minor Children		Shareholdings in Name of Others		Main Experience/ Education Background	Post concurrently occupied in the company and other companies at present	Other directors, board directors or supervisors with the relationship of spouse or that within the second degree of kinship		
							Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio			Job Title	Name	Relation
															Park and Division Head of Legal & Intellectual Property General Division, ChungHwa Picture Tubes, LTD.				
Independent Director	The Republic of China	HO MING-YU	Male	June 22, 2017	3 years	June 22, 2017	0	0	0	0	0	0	0	0	Bachelor of National Cheng Kung University Department of Engineering Science, Master of Texas A&M University Department of Electrical Engineering, Assistant Professor of National Cheng Kung University Department of Engineering Science, Researcher of RITEK Technology Co., Ltd. Research Department, Vice-Professor of National Cheng Kung University Department of Engineering Science.	Vice-Professor of National Cheng Kung University Department of Engineering Science	Nil	Nil	Nil
Supervisor	The Republic of China	KUANG HSI-HUI	Female	June 22, 2017	3 years	December 30, 2004	164,343	0.28%	164,343	0.28%	0	0	0	0	Bachelor of Fu Jen Catholic University Department of Accounting	Supervisor of Deneng Sunshine Investment Co., Ltd, Deyuan Management Consulting Co., Ltd, Zhenshanmeihui Investment	Nil	Nil	Nil

Job Title	Nationality or place of registry	Name	Gender	Date of Election	Tenure of First office	Date of First Election	Shareholdings during election		Present Shareholdings		Present Shareholdings of the Spouse and Minor Children		Shareholdings in Name of Others		Main Experience/ Education Background	Post concurrently occupied in the company and other companies at present	Other directors, board directors or supervisors with the relationship of spouse or that within the second degree of kinship		
							Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio			Job Title	Name	Relation
																Co., Ltd and Sunshine Bio Technology Co., Ltd			
Supervisor	The Republic of China	LI MEI	Female	June 22, 2017	2 years	June 20, 2012	393,941	0.67%	375,941	0.64%	0	0	0	0	JRJJ Food Nutrition Department, Vice-General manager of Shida Tongyun Co., Ltd (General Agent of Lufthansa Cargo) and General Manager of SITA WORLD TRAVEL	Nil	Nil	Nil	Nil
Supervisor	The Republic of China	TSENG HSU-WEN	Male	June 22, 2017	3 years	June 17, 2011	45,649	0.08%	45,649	0.08%	0	0	0	0	Bachelor of National Cheng Kung University Department of Business Administration and Director of General Manager Room Planning Group of Teco Electric & Machinery Co., Ltd.	Nil	Nil	Nil	Nil

Note 1: Board directors and supervisors of the company didn't take office in CPA Firm or its affiliated enterprise during the past year.

Note 2: Posts concurrently occupied in the company and other companies at present by Chairman CHEN LI-FEN include: Board Director of subsidiary corporations like CHIEFTEK PRECISION HOLDING CO., LTD., cpc Europa GmbH, Chieftek Precision (Hong Kong) Co., Limited, CHIEFTEK PRECISION USA CO., LTD, CHIEFTEK Machinery (Kunshan) Co., Ltd., CSM Maschinen GmbH and Chieftek Precision International LLC.

2. Specialized knowledge and independence situation of board directors and supervisors:

April 27, 2018

Condition	Whether having work experience with over 5 years and the following professional qualifications			Independence situations (Note)										Number of independent director concurrently occupied in other public offering companies	
	Lecturer or above of public and private colleges and universities in academic department of business, legal affair, finance, accounting or that required by the company business.	Judge, procurator, lawyer, accountant or other special professions and technicians passing the national examination and obtaining certificates required by the company business.	Work experience of business, legal affair, finance, accounting or that required by the company business.	1	2	3	4	5	6	7	8	9	10		
Name															
CHEN LI-FEN			✓					✓	✓	✓		✓	✓	無	
HSU MING-CHE			✓					✓	✓	✓		✓	✓	無	
LI AN			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	無	
CHENG SHENG-FEN			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	無	
WANG CHEN PI-HSIA			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	無	
HO MING-YU	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	無	
WU CHUNG-JEN			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	無	
WEI NAI-CHANG			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	無	
KUANG HSI-HUI			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	無	
LI MEI			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	無	
TSENG HSU-WEN			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	無	

Notes: for each board director and supervisor meets the following conditions 2 years before election and during the tenure, tick “✓” in the box under the condition code:

- (1) Employees who don't belong to the company or its affiliated enterprises.
- (2) Board directors and supervisors who don't belong to the company or its affiliated enterprises (independent directors who belong to the company or its parent company, or the subsidiary for whom set according to the law or the law of local region not be subject to this limit).
- (3) Not the person, his/her spouse and minor children, or natural person shareholders who hold in the name of others over 1% of the issued shares of the company or whose shareholding ranks top 10.
- (4) Spouse and direct lineal relatives within the second degree of kinship or the third degree of kinship who don't belong to the personnel listed in the first three items.
- (5) Board directors, supervisors or employees of corporate shareholders who don't directly hold more than 5% of issued shares of the company or whose shareholding ranks top 5.
- (6) Board directors, supervisors, managers or shareholders holding over 5% of shares in specific companies or institutions who don't have financial or business transaction with the company.
- (7) Entrepreneurs, partner, board directors, supervisors, managers and his/her spouse in the sole or partnership company or institution and professionals who don't provide business, legal affair, finance, accounting and other services or consultations for the company or its affiliated enterprises. But the Compensation Committee members who perform duties according to Article 7 of Setting and Duties Execution Methods of Compensation Committee of Listed Companies or Companies Doing Transaction in Securities Dealer Business Place shall not be subject to this limit.
- (8) Do not have the relationship of spouse or the second degree of kinship with other board directors.



- (9) Do not have any of various situations in Article 30 of the Company Law.
- (10) Do not have the situation that government, legal person or his representative is elected as stipulated in Article 27 of the Company Law.

3. Principal shareholder of corporate shareholder: no such situation.

4. As to that principal shareholder of corporate shareholder is legal person, its principal shareholders: No such situation.

## (II) Data of general manager, vice-general manager, assistant manager and directors of each department and each branch

April 27, 2018

Job Title	Nationality	Name	Gender	Date of Election	Shareholdings		Shareholdings of the Spouse and Minor Children		Shareholdings in the Name of Others		Main Experience/Education Background	Post concurrently occupied in other companies at present	Manager with the relationship of spouse or that within the second degree of kinship		
					Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio			Job Title	Name	Relation
Chief Strategy Officer	The Republic of China	CHEN LI-FEN	Female	October 19, 1998	2,655,805	4.50%	4,057,701	6.87%	0	0	Art History of Universität Stuttgart	Chief Strategy Officer of Chieftek Precision CO., Ltd., Chairman of Deneng Sunshine Investment Co., Ltd, Chairman of Deyuan Management Consulting Co., Ltd, Board Director of Ever Advanced Precision Technologies Co., Ltd., Chairman of Zhenshanmeihui Investment Co., Ltd, Board Director of Sunshine Bio Technology Co., Ltd, Chairman of Situjia Food Co., Ltd., Vice Chairman of The Allied Association for Science Park Industries, Vice Chairman of Sino-German Cultural and Economic Association, Standing Director of Academia-Industry Consortium for Southern Taiwan Science Park, Founding President of National Cheng Kung University Innovation & Incubation Tainan Traditional Chinese Cultural College Foundation Alumni Association of The National Tainan Girls Senior High School (Note 2)	General Manager and R&D Supervisor	HSU MING-CHENG	Spouse
General Manager and R&D Supervisor	The Republic of China	HSU MING-CHENG	Male	October 19, 1998	4,057,701	6.87%	2,655,805	4.50%	0	0	Master of Mechanical Engineering of Universität Stuttgart	Nil	Chairman and Chief Strategy Officer	CHEN LI-FEN	Spouse
Vice-General Manager of Domestic Business Department	The Republic of China	CHEN MIN-CHANG	Male	March 12, 2014	46,921	0.08%	0	0	0	0	WYGL Textile Machinery Department; Manager of Domestic Business Department of Chieftek Precision CO., Ltd.	General Manager of CHIEFTEK Machinery (Kunshan) Co., Ltd	Nil	Nil	Nil
Assistant Manager of International Sales Department	The Republic of China	PENG CHIUNG-YIN	Female	December 17, 2010	370,936	0.63%	0	0	0	0	German Department of Universität Trier	Assistant Business Manager of cpc Europa GmbH	Nil	Nil	Nil
Chief Financial Officer	The Republic of China	LI PAI-TSANG	Male	June 8, 2012	1,615	0%	0	0	0	0	NCKU Department of Accountancy; Financial Manager of Univacco	Supervisor of CHIEFTEK Machinery(Kunshan) Co., Ltd	Nil	Nil	Nil

	China										Technology Inc.			
HR manager	The Republic of China	YEH CHING-CHING	Female	July 7, 2011	378,902	0.64%	0	0	0	0	German Language Teaching Department of Universität Trier	Nil	Nil	Nil
Manager of Linear Motor Product	The Republic of China	WU HSUAN-CHUN	Male	March 31, 2015	0	0%	0	0	0	0	National Cheng Kung University, Department of Mechanical Engineering; Linear Motor Section Manager of Chieftek Precision CO., Ltd.	Nil	Nil	Nil
R&D Manager of Electronic Control	The Republic of China	FANG SHAO-KUANG	Male	April 1, 2015	0	0%	0	0	0	0	Master of University of Queensland Engineering Science	Nil	Nil	Nil
Manager of Domestic Business Department	The Republic of China	Shen DONG-YI	Male	August 03, 2011	3,859	0.01%	0	0	0	0	Department of Business Administration, Far East University	Nil	Nil	Nil
Deputy Manager of Accounting Department	The Republic of China	WU CHIA-YU-NG	Female	March 1, 2018	0	0%	0	0	0	0	Shih Shien University of Department of Accounting Deputy of Deloitte & Touche	無	無	無
Audit Supervisor	The Republic of China	CHENG HSIU-YU-EH	Female	September 24, 2010	372	0%	0	0	0	0	Department of Accounting Information of Kun Shan University of Technology; Chief Accountant of Catcher Technology Co., Ltd.; Financial Attache of Xinshichang Metal Co., Ltd; Auditor of Haoji Certified Public Accountants	Nil	Nil	Nil

Note 1: General Manager, Vice-General Manager, Assistant Manager and Directors of Each Department and Each Branch of the company didn't take office in CPA Firm or its affiliated enterprise during the past year.

Note 2: Posts concurrently occupied in the company and other companies at present by Chairman CHEN LI-FEN include: Board Director of subsidiary corporations like CHIEFTEK PRECISION HOLDING CO., LTD., cpc Europa GmbH, Chieftek Precision (Hong Kong) Co., Limited, CHIEFTEK PRECISION USA CO., LTD, CHIEFTEK Machinery (Kunshan) Co., Ltd, CSM Maschinen GmbH and Chieftek Precision International LLC.

### (III) Remuneration paid to board director (independent director), supervisor, general manager and vice-general manager in the most recent fiscal year

#### 1. Remuneration paid to board directors (independent directors)

Unit: NT\$ In thousand/Share in thousand

Job Title	Name	Director's remuneration								Proportion of total amount of A, B, C and D in profit after tax (%)		Remuneration received by employee concurrently served								Proportion of total amount of the first seven items (A, B, C, D, E, F and G) in profit after tax (%)		Whether receiving the remuneration from re-invest ment career beyond the subsidiary company
		Remuneration (A)		Resignation retirement pay (B)		Director's remuneration (C)		Business execution cost (D)				Salary, bonus, extraneous charges, etc. (E)		Resignation retirement pay (F)		Employee rewards (G)						
		The company	All companies in the financial reports	The company	All companies in the financial reports	The company	All companies in the financial reports	The company	All companies in the financial reports	The company	All companies in the financial reports	The company	All companies in the financial reports	The Company	All companies in the financial reports		The company	All companies in the financial reports				
															Cash bonus amount	Stock bonus amount	Cash bonus amount	Stock bonus amount				
Chairman and Chief Strategy Officer	CHEN LI-FEN																					
Board Director, General Manager and R&D Supervisor	HSU MING-CHE																					
Board Director	LI AN																					
Board Director	CHENG SHENG-FEN																					
Board Director	CHEN LI-FEN	0	0	0	0	5,541	5,541	366	366	2.48%	2.48%	7,375	7,375	0	0	4,608	0	4,608	0	7.52%	7.52%	Nil
Independent Director (Note 6)	CHEN SHU																					
Independent Director (Note 6)	HO MING-YU																					
Independent Director	WU CHUNG-JEN																					
Independent Director	WEI NAI-CHAN G																					

Note 1: It refers to subscribed shares (excluding the executed part) on employee stock option certificates that board directors with additional post of employees (including general manager, vice-general manager, other managers and employees) gain as of the date of annual report print.

Note 2: The company provide a vehicle to HSU MING-CHE, board director and concurrently occupied of general manager and R&D supervisor. Annual rental cost paid in 2017 is 350 thousand, fuel expense is around 22 thousand.

Note 3: Proposed employee rewards and directors' remuneration in 2017 haven't been adopted by the decision of remuneration committee and board of directors' meeting.

Note 4: Remuneration and salary are calculated by salary and meal allowance.

Note 5: Business execution fee means traffic allowance.

Note 6: The tenure of MR. CHEN-SHU-Independent Director was not renewed, Mr. HO MING YU was appointed in the Board Meeting held on June 22, 2017 through supplement election.

## Remuneration Interval Table

Interval of remuneration paid to each board directors of the company	Names of board directors			
	The amount of remuneration of the first four items (A+B+C+D)		The amount of remuneration of the first seven items (A+B+C+D+E+F+G)	
	The company	All companies in the financial reports	The company	All companies in the financial reports
<NT\$2,000,000 dollars	CHEN LI-FEN, HSU MING-CHE, LI AN, CHENG SHENG-FEN, WANG CHEN PI-HSIA, CHEN SHU, WU CHUNG-JEN, WEI NAI-CHANG and HO MING-YU	CHEN LI-FEN, HSU MING-CHE, LI AN, CHENG SHENG-FEN, WANG CHEN PI-HSIA, CHEN SHU, WU CHUNG-JEN, WEI NAI-CHANG and HO MING-YU	LI AN, CHENG SHENG-FEN, WANG CHEN PI-HSIA, CHEN HSU. WU CHUNG-JEN, WEI NAI-CHANG and HO MING-YU	LI AN, CHENG SHENG-FEN, WANG CHEN PI-HSIA, CHEN HSU. WU CHUNG-JEN, WEI NAI-CHANG and HO MING-YU
NT\$2,000,000 dollars (included)~ NT\$5,000,000 dollars (excluding)	0	0	CHEN LI-FEN and HSU MING-CHE	CHEN LI-FEN and HSU MING-CHE
NT\$5,000,000 dollars (included)~ NT\$10,000,000 dollars (excluding)	0	0	0	0
NT\$10,000,000 dollars (included)~ NT\$15,000,000 dollars (excluding)	0	0	0	0
NT\$15,000,000 dollars (included)~ NT\$30,000,000 dollars (excluding)	0	0	0	0
NT\$30,000,000 dollars (included)~ NT\$50,000,000 dollars (excluding)	0	0	0	0
NT\$50,000,000 dollars (included)~ NT\$100,000,000 dollars (excluding)	0	0	0	0
>NT\$100,000,000 dollars	0	0	0	0
In total	9 persons	9 persons	9 persons	9 persons

## 2. Remuneration of supervisors

Unit: NT\$ on thousand

Job Title	Name	Remuneration of supervisors						Proportion of total amount of the first three items (A, B and C) in profit after tax (%)	Whether receiving the remuneration from re-investment career beyond the subsidiary company
		Remuneration (A)		Remuneration (B)		Business execution fee (C)			
		The company	All companies in the financial reports	The company	All companies in the financial reports	The company	All companies in the financial reports	The company	

Supervisor	KUAN HIS-HUI									
Supervisor with independent functions	TSENG HSU-WEN	0	0	1,546	1,546	120	120	0.70%	0.70%	Nil
Supervisor	LI MEI									

Note 1: Proposed board directors and supervisors' remuneration in 2017 haven't been adopted by the decision of remuneration committee and board direction's meeting.

Note 2: Business execution fee means traffic allowance.

### Remuneration Interval Table

Interval of remuneration paid to each supervisor of the company	Names of supervisors	
	Total amount of remuneration of the first three items (A+B+C)	
	The company	All companies in the financial reports (D)
<NT\$2,000,000 dollars	KUANG HSI-HUI, TSENG HSU-WEN and LI MEI	KUANG HSI-HUI, TSENG HSU-WEN and LI MEI
NT\$2,000,000 dollars (included) ~ NT\$5,000,000 dollars (excluding)	0	0
NT\$5,000,000 dollars (included) ~ NT\$10,000,000 dollars (excluding)	0	0
NT\$10,000,000 dollars (included) ~ NT\$15,000,000 dollars (excluding)	0	0
NT\$15,000,000 dollars (included) ~ NT\$30,000,000 dollars (excluding)	0	0
NT\$30,000,000 dollars (included) ~ NT\$50,000,000 dollars (excluding)	0	0
NT\$50,000,000 dollars (included) ~ NT\$100,000,000 dollars (excluding)	0	0
NT\$100,000,000 dollars (included) or above	0	0
<b>I n t o t a l</b>	<b>3 people</b>	<b>3 people</b>

### 3. Remuneration of general managers and vice-general managers

Unit: NT\$ in thousand

Job Title	Name	Salary (A)		Resignation retirement pay (B)		Bonus, extraneous charges, etc. (C)		Employee rewards (D)		Proportion of total amount of the first four items (A, B, C, D) in profit after tax (%)		Whether receiving the remuneration from re-investment
		The company	All companies in the	The company	All companies in the	The company	All companies in the	The company	All companies in the financial reports	The company	All companies in the	

			financial reports		financial reports		financial reports	Cash dividend amount	Stock dividend amount	Cash dividend amount	Stock dividend amount		financial reports	career beyond the subsidiary company
General manager	HSU MING-CHE													
Vice-General Manager of Domestic Business Department	CHEN MIN-CHANG	4,674	5,400	0	0	900	904	1,274	0	1,274	0	2.88%	3.19%	Nil

### Remuneration Interval Table

Interval of remuneration paid to each general manager and vice-general manager of the company	Names of general managers and vice-general managers	
	The company	All the companies in the Financial reports(E)
<NT\$2,000,000 dollars	0	0
NT\$2,000,000 dollars (included)~NT\$5,000,000 dollars (excluding)	HSU MING-CHE and CHEN MIN-CHANG	HSU MING-CHE and CHEN MIN-CHANG
NT\$5,000,000 dollars (included) ~ 10,000,000 dollars (excluding)	0	0
NT\$10,000,000 dollars (included) ~ 15,000,000 dollars (excluding)	0	0
NT\$15,000,000 dollars (included) ~ 30,000,000 dollars (excluding)	0	0
NT\$30,000,000 dollars (included) ~ 50,000,000 dollars (excluding)	0	0
NT\$50,000,000 dollars (included) ~ 100,000,000 dollars (excluding)	0	0
NT\$100,000,000 dollars or above	0	0
In Total	2 people	2 people

4. Name of managers distributing employee rewards and distribution situation

April 27, 2018; Unit: NT\$ in thousand

	Job Title	Name	Stock amount	Cash amount	In total	Proportion of total amount in profit after tax (%)
Manager	Chief Strategy Officer	CHEN LI-FEN	0	2,790	2,790	1.17%
	General Manager and R&D Supervisor	HSU MING-CHE				
	Vice-General Manager of Domestic Business Department	CHEN MIN-CHANG				
	Assistant Manager of International Sales Department	PENG CHIUNG-YIN				
	Chief Financial Officer (Financial and Accounting Manager)	LI PAI-TSANG				

(IV) Respectively compare and describe the analysis on proportion of the total amount of remuneration paid to board directors, supervisors, general manager and vice-general manager in recent two years by the company and all companies of consolidated statements in profit after tax of individual financial reports, and state the relevance among remuneration payment policy, standard and combination, procedure of remuneration setting and business performance and future risk:

1. Analysis on the proportion of total amount of remuneration paid to board directors, supervisors, general manager and vice-general manager in recent two years by the company and all companies of consolidated statement in profit after tax of individual reports:

Summary	2017		2016	
	Proportion in profit after tax (%)		Proportion in profit after tax (%)	
	The company	All companies in the Financial reports	The company	All companies in the Financial reports
Board Director	7.52%	7.52%	13.57%	13.57%
Supervisor	0.70%	0.70%	1.16%	1.16%
General Manager and Vice-general Manager	2.88%	3.19%	7.26%	8.18%



2.Relevance among remuneration payment policy, standard and combination, procedure of remuneration setting and business performance and future risk:

- (1) Remuneration of board directors and supervisors of the company is propounded to the board of directors for reference of decision-making by the Compensation Committee after related meeting and discussion are made, and is negotiated and discussed by the board of directors based on the participation degree and contribution of board directors and supervisors for the company operation as well as the level in the same business.
- (2) Appointment, dismissal and remuneration of general manager and vice-general manager of the company are handled according to relevant regulations of the company, remuneration payment standard is submitted to the Compensation Committee for review by HR Department in accordance with related regulations of personnel performance evaluation in the company, individual performance, contribution degree for the entire company operation as well as the level in the same business, then sent to the board of directors, and finally executed after passed through discussion.
- (3) Remuneration policy of the company:
  - A. Personal ability, contribution degree for the company and performance are positively correlated with the business performance, and future risk are considered, controlled and managed, so the relevance between remuneration policy and future risk is relatively low.
  - B. Overall salary combination mainly includes fixed salary, short-term incentive reward (such as performance bonus and employee stock bonus) and long-term incentive compensation (such as employee stock option certificates and transfer of treasury stock to employees)

### III. Company Management and Operation Situation

- (I) Information of operation and situation of the board of directors: 8 meetings (A) were held by the board of directors in 2017, and attendance situation of board directors and supervisors is as follows:

Job Title	Name	Actual attendance time (B)	Entrusted attendance time	Actual attendance ratio (%) [B/A]	Remark
Board Chairman	CHEN LI-FEN	8	0	100.00%	
Board Director	HSU MING-CHE	8	0	100.00%	
Board Director	CHENG SHENG-FEN	7	1	87.50%	
Board Director	WANG CHEN PI-HSIA	8	0	100.00%	
Board Director	LI AN	7	1	87.50%	
Independent Director	CHEN-SHU	2	1	66.67%	Note 1
Independent Director	HO MING-YU	5	0	100.00%	Note 1
Independent Director	WU CHUNG-JEN	6	2	75.00%	
Independent Director	WEI NAI-CHANG	8	0	100.00%	

Supervisor	KUANG HSI-HUI	8	0	100.00%	
Supervisor	LI MEI	8	0	100.00%	
Supervisor	TSENG HSU-WEN	4	0	50.00%	

Note 1: The tenure of MR. CHEN-SHU-Independent Director was not renewed, Mr. HO MINGYU was appointed in the Board Meeting held on June 22, 2017 through supplement election.

Other matters that shall be recorded:

I. Under one of the following situations occurs to the board operation, it shall detail the date of board meeting, term, proposal content, opinions of all independent directors and handling by the Company:

(I) Items listed under Item 3, Article 14 of Securities Exchange Act:

1. "2016 year-end bonus distribution plan for managerial personnel reviewed by the Remuneration Committee" was discussed in the Board Meeting held on January 20, 2017. All directors (including the independent directors) except for Director CHEN LI-FEN and Director HSU MING-CHE who didn't participate in discussion and voting due to avoidance of interests, unanimously agree to pass the proposal.
2. "Proposal of changing official vehicles for Chairman and General Manager reviewed by the Remuneration Committee" was discussed in the Board Meeting held on May 9, 2017. All directors (including the independent directors) except for Director CHEN LI-FEN and Director HSU MING-CHE who didn't participate in discussion and voting due to avoidance of interest, unanimously agree to pass the proposal.
3. "2016 annual staff remuneration proposal reviewed by the Remuneration Committee" was discussed in the Board Meeting held on August 9, 2017. All directors (including the independent directors) except for Director CHEN LI-FEN and Director HSU MING-CHE who didn't participate in discussion and voting due to avoidance of interests, unanimously agree to pass the proposal.
4. "2017 year-end bonus distribution plan for managerial personnel reviewed by the Remuneration Committee" was discussed in the Board Meeting held on February 9, 2018. All the directors (including independent directors) except for Director CHEN LI-FEN and Director HSU MING-CHE who didn't participate in discussion and voting due to avoidance of interests, unanimously agree to pass the proposal.

(II) Other resolution matters of the board of directors that independent directors hold the objection or reservations and have related record or written statement: Nil.

II. As for the execution situation that board directors avoid the proposal in which they have a stake, items like director name, proposal content, avoidance cause and voting participation situation shall be detailed: It shall refer to sub item 1 of the first item.

III. Objectives to enhance the function of the board of directors (such as setting audit committee and promoting information transparency) in the current year and in the most recent fiscal year and related execution situation evaluation:

- (I) The Company has set the Compensation Committee to assist in its responsibility execution of the board of directors;
- (II) It is stipulated in Article 13 of the articles of association that: the company shall set the audit committee according to the regulations of Securities Exchange Act; the audit committee shall be composed of the whole independent directors, whose number shall be not less than 3, besides, at least 1 person shall have the accounting or financial expertise; function and power execution, organizational rules and other observable matters of the audit committee shall be handled according to relevant decrees or the company regulations; the company is planning to set the audit committee in proper time, and further set various functional committees in accordance with Articles of Association, so as to perfect the decision-making function and strengthen the management mechanism.
- (III) Internal audit supervisor of the company shall regularly provide the independent directors with the internal audit reports and report the checking outcome of internal audit to the board directors and supervisors in the routine board of directors.
- (IV) Promotion of information transparency: after each board of directors is held, important decisions of the board of directors shall be handled for announcement and regularly updated in the company website according to relevant regulations.

(II) Operation situation of audit committee or operation situation of supervisors' participating in the board of directors:

1. Operation situation of audit committee: It is stipulated in the Articles of Association that the company shall set the audit committee; the audit committee shall be composed of the whole independent directors, whose number shall be not less than 3, besides, at least 1 person shall have the accounting or financial expertise; the company is planning to set the audit committee in proper time, and further set various functional committees in accordance with the Articles of Association, so as to perfect the decision-making function and strengthen the management mechanism.
2. Operation situation of supervisors' participating in the board of directors:  
8 meetings (A) were held by the board of directors in 2017, and attendance situation is as follows:

Job Title	Name	Actual attendance time (B)	Actual attendance ratio (%) [B/A]	Remark
Supervisor	KUANG HSI-HUI	8	100.00%	
Supervisor	LI MEI	8	100.00%	
Supervisor	TSENG HSU-WEN	4	50.00%	

Other matters that shall be recorded:

I. Composition and duties of supervisors:

(I) Communication situation of supervisors with employees and shareholders: the supervisors of the Company attend the board of directors, regularly check the audit report, review the financial statements and check the internal control system of the company; the communication channel with the company employees and shareholders shall be unblocked.

(II) Communication situation of supervisors with the internal audit supervisor and CPA:

1. Internal audit supervisor of the company regularly submits the internal audit reports, and supervisors have no objection;
2. Internal audit supervisor attends the board of directors, reports the checking outcome of internal audit to the board directors and supervisors, and supervisors have no objection;
3. Supervisors shall directly contact the CPA when considering necessary to communicate regarding the financial condition.

II. In case of any statement during attending the board of directors by supervisors, items like date, term, proposal contents and resolution results of the board of directors, and handling for supervisors' statement shall be specified: if there is no any significant abnormal situation, please refer to important resolutions of the board of directors related to the annual report.

(III) Operation situation of corporate governance and situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies

Item evaluated	Operation situation (Note)			Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO	Summary documentation	
I. Whether the company formulates and discloses the Corporate Governance Best Practice based on [Corporate Governance Best Practice Principles for Listed	V		The company has formulated the [Corporate Governance Codes] according to [Corporate Governance Best Practice Principles for Listed Companies], including the provisions of	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies

Item evaluated	Operation situation (Note)		Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO		
Companies]?			guaranteeing the shareholder's equity, enhancing of functions of the Board, taking advantages of supervisor's functions, respecting stakeholder's rights and benefits, and improving information transparency. For more details, please visit the corporate website ( <a href="http://www.chieftek.com">www.chieftek.com</a> ).	
II. Corporate equity structure and shareholders' equity				
(I) Whether the company formulates the internal operation procedure to handle shareholder proposal, doubt, dispute and litigation and implements it in accordance with the procedure?	V		(I) The company has formulated related internal operation procedures to handle the shareholders related matters. There are also spokesperson and agent spokesperson system, and the Chairman's Office and the Financial Department are in charge of the related matters, so as to guarantee the timely and proper information disclosure. In addition, the special mailbox is set up to handle shareholder's proposal, doubt, dispute and litigation affairs.	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies
(II) Whether the company masters the principal shareholders actually controlling the company and the final controller list of principal shareholders?	V		(II) Change situation of stock rights held by insiders including board directors, supervisors, managers and major shareholders holding 10% of shares is declared in the MOPS public as required by the competent authority.	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies
(III) Whether the company establishes and executes the risk control and firewall mechanism with the affiliated enterprise?	V		(III) Assets, finance and accounting of the Company and affiliated enterprise are operated independently, besides, the company formulates [Management on Transactions with Related Parties] and [Management Method on Subsidiary Corporations], handles related matters according to the regulations of the internal control system of the Company, and shall be able to really execute the risk control and firewall mechanism.	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies
(IV) Whether the company formulates the internal specification to prohibit the corporate insiders to buy or sell negotiable	V		(IV) The company formulates [Management Method to Prevent Insider Trading], [Ethics Codes] and other internal control methods	Meet the regulations of Corporate Governance Best Practice Principles

Item evaluated	Operation situation (Note)		Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO		
securities by using the information undisclosed in market?			to standardize all employees, managers, board directors, supervisors and all people knowing about the company information based on occupation or control relation and prohibit any behavior involving insider trading and irregularly makes internal training education and advocacy.	for Listed Companies
<p>III. Composition and duties of the board of directors</p> <p>(I) Whether the board of directors drafts the diversification policy and implements it in terms of the member composition?</p>	V		<p>1. The [Corporate Governance Codes] is carried out practically.</p> <p>2. Currently, all board members are specialists in various fields or personnel experienced in corporate businesses. It shall meet the diversification policy of composition of the Board and implement it in practice.</p> <p>3. As required in Article 20 of the [Corporate Governance Codes]: The Board of the Company shall provide instruction for the corporate strategic, and supervision management level, which shall report to the Company and the shareholder's meeting. In terms of various operations and arrangements related to corporate governance system, it shall ensure the Board to exercise rights based on the applicable laws, the regulations of the Articles of Association or the resolution of the shareholder's meeting.</p> <p>As for the structure of the Board, it shall consider the business development scale of the company and the shareholding of the major shareholders, as well as the practical demands of operation, which shall determine the appropriate number of members more than 5.</p> <p>The composition of the Board shall consider diversification. The number of directors concurrently serving as</p>	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies.

Item evaluated	Operation situation (Note)		Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO		
			<p>the manager shall not exceed one third of the total number. Moreover, it shall formulate appropriate diversification policies based on the business, operation pattern and development demands, including but not limited to the standards of the following two dimensions:</p> <ol style="list-style-type: none"> <li>(1) Basic conditions and values: gender, age, nationality, culture, and etc.</li> <li>(2) Professional knowledge and skills: professional background (such as law, accounting, industry, finance, marketing or technology), professional skills and industrial experience.</li> </ol> <p>The members of the Board shall acquire the knowledge, skills and character required to exercise the rights. To achieve the ideal goal of corporate governance, the overall Board shall possess the abilities as listed below:</p> <ol style="list-style-type: none"> <li>(1) Operating adjustment.</li> <li>(2) Accounting and financial analysis</li> <li>(3) Business management</li> <li>(4) Crisis handling</li> <li>(5) Industrial knowledge</li> <li>(6) International market view</li> <li>(7) Leadership</li> <li>(8) Decision-making</li> </ol> <p>The diversification policies of the board composition are disclosed on the official website of the Company and MOPS.</p> <p>4. The company amended articles of association through pass the board director meeting discussion on May 9, 2017: Since the company listed electronic method as one of voting execution, the candidate election of board director and supervisor perform through nomination election from candidate list by board of director.</p> <p>5. Review the members of 7<sup>th</sup> period of board director in the company, includes 3 females, 5 males;</p>	

Item evaluated	Operation situation (Note)		Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO		
(II) Whether the company voluntarily sets other functional committees apart from the Compensation Committee and Audit Committee?	V		<p>personnel list of supervisors includes 2 females, 1 male. This was considered about the balance policy between female and male. It was also obviously represent the rich experience in the field of leadership, operation determination, operation management, risk processing and others related field form the education and experience of board directors and supervisors, who also have the industry knowledge and international viewpoint.</p> <p>(II) To perfect the decision-making function and enhance the management mechanism, the company has set various functional committees in Articles of Association, and organizational rules of various committees are decided by the Board. Apart from setting the Compensation Committee according to law, the Company will also set other functional committees in proper time.</p>	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies.
(III) Whether the company formulates the performance evaluation method and evaluation way of the board of directors, and regularly carries out performance evaluation each year?	V		<p>(III) To implement company governance and promote board direction function of the company, establishing the efficiency objective for enhance operation performance of board director. The company made the “performance evaluation method of the Board” through pass board director meeting on February 9, 2018. In the future, perform the internal performance evaluation of the board at least once per year, and perform performance evaluation by external profession independent institution or external professional group every 3 years.</p>	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies.
(IV) Whether the company regularly evaluates the independence of certified public accountant?	V		<p>(IV) The Accounting Department of the Company regularly evaluates the independence of the CPA, and report the evaluation result to the</p>	Meet the regulations of Corporate Governance Best Practice Principles

Item evaluated	Operation situation (Note)		Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies																
	YES	NO																		
			<p>Board after obtaining the CPA's Absolute Independence Statement. Prior to appointing the accountant by the Board resolution each year, the Company shall first review his/her independence; the accountant appointment can be reviewed after the Company confirms that the accountant has no other financial interest and business relations with the company except for expenses of visa, fiscal and taxation cases, etc., and family members of the CPA also do not violate the independence requirement.</p> <ol style="list-style-type: none"> <li>To regulate the review of CPA appointment of the Company and build good corporate governance system, Article 29 of the [Corporate Governance Codes] of the Company shall be based to evaluate the independence of CPA and handle, enhance and promote financial report quality.</li> <li>The company proceeds with the review and evaluation on independence elements, independence operation, competence and so on related to CPA LIN TZU-YU and CPA LIUYONG-ZHI.</li> <li>All CPAs are appointed upon the resolution by the Board on December 14, 2017.</li> <li>The CPA review and evaluation content are listed as below:</li> </ol> <table border="1" data-bbox="710 1641 1184 2036"> <thead> <tr> <th colspan="2">I. Review of independence elements</th> <th>YES</th> <th>NO</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>The CPA, or the spouse or a minor child thereof, has invested in the Company, or shares in financial gains therewith.</td> <td>✓</td> <td></td> </tr> <tr> <td>2</td> <td>The CPA, or the spouse or a minor child thereof, has lent or borrowed funds to or from the Company. However, this does not apply if the client is a financial institution and the borrowing or lending is part of a normal business relationship.</td> <td>✓</td> <td></td> </tr> <tr> <td>3</td> <td>The accounting firm doesn't present the assurance service report for the</td> <td>✓</td> <td></td> </tr> </tbody> </table>	I. Review of independence elements		YES	NO	1	The CPA, or the spouse or a minor child thereof, has invested in the Company, or shares in financial gains therewith.	✓		2	The CPA, or the spouse or a minor child thereof, has lent or borrowed funds to or from the Company. However, this does not apply if the client is a financial institution and the borrowing or lending is part of a normal business relationship.	✓		3	The accounting firm doesn't present the assurance service report for the	✓		for Listed Companies.
I. Review of independence elements		YES	NO																	
1	The CPA, or the spouse or a minor child thereof, has invested in the Company, or shares in financial gains therewith.	✓																		
2	The CPA, or the spouse or a minor child thereof, has lent or borrowed funds to or from the Company. However, this does not apply if the client is a financial institution and the borrowing or lending is part of a normal business relationship.	✓																		
3	The accounting firm doesn't present the assurance service report for the	✓																		



Item evaluated	Operation situation (Note)			Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO			
				effective operation of the designed or assistive executing financial information system.	
			4	The CPA or the members of the Audit Service Team are not appointed as the director, or manager, or take up the post that has material influence on the audit case currently or in the last two years.	✓
			5	There is no key item of non-audit service provided by the Company that will show direct influence on the audit case.	✓
			6	The CPA or the members of the Audit Service Team is no engaged in the publicity or brokerage for the shares or other securities issued by the Company.	✓
			7	Except for the businesses permitted by laws, the CPA or the members of the Audit Service Team doesn't serve as the defender for the Company, or coordinate the conflict with a third party on behalf of the Company.	✓
			8	The CPA or the members of the Audit Service Team has relationship of spouse, direct kinship, direct affinity or sub blood kinship within two degrees with the personnel who are appointed as the director or manager of the Company or take up the post that shows material influence on the audit case.	✓
			9	A former partner of CPA doesn't serve as the director or manager of the Company or take up the post that shows material influence on the audit case within one year of the disappointment.	✓
			0	The CPA or the members of the Audit Service Team doesn't accept valuable gifts or preferential treatment from the Company, the director, manager, or major stockholder.	✓
			1	The CPA is not employed by the client or the audit subject to take up a regular post with fixed payment or is appointed as director or supervisor.	✓
			2	Publically listed companies: The CPA doesn't provide audit service for the Company for 7 consecutive years.	✓
				<b>II. Review of independence operation</b>	
			1	The CPA shall avoid and shall not accept the engagement when s/he may have involved in any direct or material indirect interests which may impair their impartiality and independence.	✓
			2	The CPA shall maintain Independence of Mind and in Appearance in the work of assurance services including an audit or review of financial statements, or a special audit case.	✓
			3	The members of audit team, the CPA partners or shareholders of corporate accounting firms, accounting firms, and any of affiliates, and network firms, must be always independence with the Company.	✓

Item evaluated	Operation situation (Note)			Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies																																
	YES	NO	Summary documentation																																	
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IV. Does the publically listed company set up special (concurrent) unit or personnel responsible for the corporate governance related affairs (including not limited to providing the data required by the directors and supervisors to implement business, dealing with the matters related to the board meeting and shareholders' meeting, handling the corporate registration and change registration, making minutes of board meeting and shareholders' meeting)?	V		<p>1. According to the discussion in the board meeting on March 23, 2017, the Financial Department is the special (concurrent) unit responsible for promoting corporate governance, which is in charge of the related affairs. At the meantime, the Chairman's Office and other departments shall provide necessary assistance to carry out the affairs related to corporate governance in practice, including:</p> <p>(1) Handle the registration of the Company and the corporate change.</p> <p>(2) Handle the affairs related to holding a board meeting and shareholders' meeting, and assist the Company comply with the laws related to the board meeting and the shareholders' meeting.</p> <p>(3) Make minutes of the board meeting and the shareholders' meeting.</p> <p>(4) Providing the data required by the directors and supervisors to</p>	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies																																

Item evaluated	Operation situation (Note)		Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO		
			<p>implement business, as well as the latest law development related to corporate operation, so as to assist the directors and supervisors in regulatory compliance.</p> <p>(5)Affairs related to investor's relationship.</p> <p>(6)Other items agreed based on the Articles of Association or the contract.</p> <p>2.The Financial Department shall work out and plan appropriate corporate systems and organizational architecture to promote the independence of the Board, the corporate transparency, and the regulatory compliance.</p>	
V. Whether the company establishes the communication channel with the interested parties (including but not limited to the shareholders, employees, customers and suppliers), sets the interested party zone on the corporate website, and properly responds the enterprise social responsibility issues concerned by the interested parties?	V		The company sets spokesperson and agent spokesperson according to law, and properly responds issues concerned by the interested parties. Moreover, it sets the interested party zone on the corporate website to disclose the channel information for the complaints made by others rather than the investors. Also, it properly responds the enterprise social responsibility issues concerned by the interested parties.	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies
VI. Whether the company entrusts the professional stock service agent to handle the affairs of shareholder meeting?	V		The company has entrusted the professional service agent- Fubon Securities Co., Ltd to handle the shareholders' meeting affairs and various share affairs of the company.	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies
VII. Information disclosure (I) Whether the company sets up the website, discloses the financial business and corporate governance information?	V		(I) The company has set website ( <a href="http://www.chieftek.com">www.chieftek.com</a> ) to introduce the company, related financial business and corporate governance information.	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies
(II) Whether the company implements other forms of information disclosure (for instance, setting English website, assigning special person to take charge of collection and disclosure of corporate information, implementing spokesperson system, placing	V		(II) The company website has Chinese, English and Japanese versions. It sets 1 spokesperson and 1 agent spokesperson and assigns special person to take charge of collection and disclosure of corporate information; related information of law explanation meeting held will be disclosed on the website.	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies

Item evaluated	Operation situation (Note)			Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO	Summary documentation	
the legal person explanation meeting on the corporate website)?				
VIII. Whether the company has other important information helping to understand the corporate governance operation situation (including but not limited to rights and interests of employees, employee caring, investor relations, supplier relationship, right of interested party, study situation of board directors and supervisors, execution situation of risk management policy and risk measurement standard, execution situation of customer policy, situation of liability insurance purchased by the company for board directors and supervisors)?	V		<p>(I) Rights and interests of employees: with the establishment of healthy and safe work environment as the duty, the company abides by the corporate social responsibility policy and environmental and occupational health and safety regulations, implements emission reduction and energy saving, guarantees employee benefit and operation safety, and safeguards legitimate interest of employees according to the Labor Standard Law.</p> <p>(II) Employee caring: Measures like tidying work environment, guaranteeing personal safety, regularly implementing employees' health examination, arranging consultation of occupational physician are adopted, besides, employee life is enriched by welfare system and excellent educational training system, finally establishing a good relation with mutual trust and interdependence.</p> <p>(III) Investor relations: The company honestly discloses the company information according to the related regulations to ensure basic rights and interests of investors, fulfills its duty to shareholders, handles the suggestions of shareholders through the company spokesperson and agent spokesperson, sets [investors zone] on the company website to help investors understand the financial and business situation of the company, replies the questions of shareholders in detail, increases the communication with investors of professional institutes and promotes transparency of the company operation.</p> <p>(IV) Supplier relationships: The company exchanges experience</p>	Meet the regulations of Corporate Governance Best Practice Principles for Listed Companies

Item evaluated	Operation situation (Note)		Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO		
			<p>with suppliers concerning environment, health, safety, enterprise social responsibility and other related issues, and maintain a smooth communication channel and good relationship with suppliers.</p> <p>(V) Rights of interested parties: The company discloses the company financial and business information according to regulations, besides, correspondent banks, creditors, employees, shareholders and other interested parties may understand the company operation situation through the company spokesperson and agent spokesperson. Moreover, it sets the “interested party zone” on the official website to disclose the channel and contact information for complaints made by others rather than the investors, and properly responds the enterprise social responsibility issues concerned by the interested parties.</p> <p>(VI) Study situation of board directors and supervisors: To implement the corporate governance system, the company actively notices board directors and supervisors of corporate governance information and study message, besides, the 6th session of board directors and supervisors have studied in accordance with [Practicable Main Points for Board Directors and Supervisors of Listed Companies]; please see the following table for detail.</p> <p>(VII) Execution situation of risk management policy and risk measurement standard: The company evaluates the response and solutions in consideration of suppliers, customers, manufacturing technology, demand of creditors, strategies of competitors, economic environment, manpower resource and other factors as well as</p>	

Item evaluated	Operation situation (Note)		Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO		
			<p>production and marketing meeting and reflecting channel, additionally, risk of the operation level is handled via internal audit system and annual audit plan, so as to ensure the smooth realization of various objectives.</p> <p>(VIII) Execution situation of customer policy: The company maintains a stable and good relation with clients, attaches great importance to the customer satisfaction and takes the promotion of client value and competitive power as target. Apart from mastering and checking the delivery situation at any time and conducting real-time improvement, the company also regularly conducts the satisfaction survey for clients, striving to become the long-term partner of clients' career and creating a win-win result.</p> <p>(IX) Situation of liability insurance purchased by the company for board directors and supervisors: The company has purchased liability insurance for board directors and supervisors.</p>	

Study situations of board directors, supervisors and managers of the company in 2017:

Job Title	Name	Sponsor	Refresher course	Study hours
Board Director	CHEN LI-FEN	Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
		Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
Board Director	HSU MING-CHE	Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
		Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
Board Director	CHENG SHENG-FEN	Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
		Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
Board Director	WANG CHEN PI-HSIA	Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
		Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
Board Director	Li An	Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
		Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
Independent Director	HO MING-YU	Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
		Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
		Taiwan Corporate Governance Association	Efficiency evaluation for board of	3

Item evaluated	Operation situation (Note)			Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO			
			Association	directors-exert the self-discipline spirit of board of directors, create value for enterprise	
			GreTai Securities Market	Insiders' shareholding compliance meeting of listed-companies and the companies traded in the emerging stock market	3
Independent Director	WU CHUNG-JEN		Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
			Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
Independent Director	WEI NAI-CHANG		Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
			Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
Supervisor	KUANG HIS-HUI		Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
			Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
Supervisor	LI MEI		Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
			Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
Supervisor	TSENG HSU-WEN		Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
			Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
Chief Financial Officer	LI PAI-TSANG		Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
			Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
			National Cheng Kung University	Advanced study for Accounting Supervisor	12
Audit Manager	ZHENG XIU-YUE		Taiwan Corporate Governance Association	Insiders' shareholding compliance meeting and related regulatory compliance	3
			Taiwan Corporate Governance Association	Corporate Governance and Practice of Tax Management	3
			The Institute of Internal Auditor-Chinese Taiwan	Experience sharing of procurement audit	6
			Securities and Futures Institute	Practice of procurement and produce cycle inspection process, and fraud audit food products	6

IX. Detail the improvement based on the corporate governance assessment result announced by the TWSE Corporate Governance Center in the latest year; propose the urgent matters and actions for the items not improved:

According to the 3rd corporate governance assessment result announced by the TWSE Corporate Governance Center in the latest year, the Company was ranked the top 20% for the first time, and the score obtained as much higher than that of the previous year. It won the "Improvement Award" for encouragement. It implies the efforts made by the Company in the field of corporate governance. Moreover, it has not been informed of any new item and action to the improved or takes the priority for enhancement.

In addition, the Company has been working on how to improve the assessment indicators without score, so as to improve the corporate governance and increase the assessment score, such as:

(I) Whether the company's drafts the diversification policy of board director, and disclose the implement situation of diversification policy in the yearly report and company website?

1. Diversification situation of the member in board director

Diversification Core Items	Gender	Operation Management	Leadership Decision Making	Industrial Knowledge	Financial Accounting	Law	Environmental Protection
Name of board direct							

Item evaluated	Operation situation (Note)			Summary documentation	Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies
	YES	NO			

							on
CHEN LI-FEN	Female	✓	✓	✓	✓		
HSU MING-CHE	Male	✓	✓	✓	✓		
CHENG SHENG-FEN	Male	✓	✓	✓	✓		
WANG CHEN PI-HSIA	Female	✓	✓	✓	✓		✓
LI AN	Female	✓	✓	✓	✓		
HO MING-YU	Male	✓	✓	✓			
WU CHUNG-JEN	Male	✓	✓	✓	✓		
WEI NAI-CHANG	Male	✓	✓	✓	✓		

2. Whether the company make the performance evaluation method of procedure of board director, and rule to implement external evaluation at least every 3 years?

“performance evaluation method of board director” passed through board director meeting on February 9, 2018, and which listed in article 3 of “performance evaluation of board director” as following: The execution of performance evaluation of board director should be performed by external profession independent institution or external professional group every 3 years, and execute the performance evaluation of present year by the end of the year.

(II) Whether the company establish audit committee which meet the regulation?

The company has amended “the Articles of Association” and finished the change registration procedure. In the future, it will set up the committee in proper time and put it into use as soon as possible.

(III) Whether the company disclose the communication situation of independent director, internal audit supervisor and accountant (for example, the method, items, results and etc. for company Financial report and financial business situation) on the company website?

1. Communication of independent director and accountant:

(1) Accountant attends board directors’ meeting to explain for necessary while issue the quarter statement of financial report, and communicate and discuss fulfill for whether there is significant adjustment of sub-article and significant impact of article amendment. Also plans the measure according. The abstracts of major communication items in 2017 are listed as following table:

Date	Major point of communication
March 23, 2017	Report the result of consolidated and individual financial report in 2016, and perform the discussion and communication which focus on portion of accounting processing and impact of latest amended article.
May 09, 2017	Review the result of consolidated financial report on 1 <sup>st</sup> quarter in 2017, and perform the discussion and communication which focus on portion of accounting processing and impact of latest amended article.
August 09, 2017	Review the result of consolidated financial report on 2 <sup>nd</sup> quarter in 2017, and perform the discussion and communication which focus on portion of accounting processing and impact of latest amended article.
October 31, 2017	Review the result of consolidated financial report on 3 <sup>rd</sup> quarter in 2017, and perform the discussion and communication which focus on portion of accounting processing and impact of latest amended article.
March 09, 2018	Report the result of consolidated and individual financial report in 2017, and perform the discussion and communication which focus on portion of accounting processing and impact of latest amended article.

(2) Items of communication with accountant and governance unit include independent director), includes the schemed audit field and time, also the significant reveal (includes identified significant defects of internal control in the audit procedure).

Accountant also provided the relative independence statement of the personnel who is a member of the accountant’s firm subject to the independence regulations having abided by the Norm of Professional Ethics for certified Public Accountant of the Republic of China, and any



Item evaluated	Operation situation (Note)			Situation and causes of its difference with Corporate Governance Best Practice Principles for Listed Companies																
	YES	NO	Summary documentation																	
<p>other relationships or issues of communication with the governance unit that might affect the independence of the accountant (including relevant protective measures).</p> <p>Through the items of communication between the accountant and the governance unit, the accountant may decide on the key audit issues of Chieftek Precision Co., Ltd.'s 2017 Financial Statement.</p> <p><b>2. Communication of independent director and internal audit supervisor</b></p> <p>(1) The communication situation of company independent director for implement situation and results of audit operation performs well.</p> <p>A. The monthly finished audit report, provide to each independent director with the implement situation for reviewing through e-mail.</p> <p>B. If there is question or instruction after independent director reviewed audit report, will inquire audit supervisor through e-mail or phone call. Audit supervisor will explain and make the essential adjustment and improvement.</p> <p>C. Tracking improve situation for defect and abnormality of internal control, making as tracking report quarterly to provide each independent director.</p> <p>D. Independent director should know operation situation of company through board meeting and audit report of implement situation which provided by audit unit in regularly.</p> <p>E. Major communication items in 2017 are abstract as following table:</p> <table border="1"> <thead> <tr> <th>Date</th> <th>Point of communication</th> </tr> </thead> <tbody> <tr> <td>January 20, 2017</td> <td>Board director meeting audit business report.</td> </tr> <tr> <td>March 23, 2017</td> <td>Board director meeting audit business report.</td> </tr> <tr> <td>May 09, 2017</td> <td>Board director meeting audit business report.</td> </tr> <tr> <td>July 11, 2017</td> <td>Board director meeting audit business report.</td> </tr> <tr> <td>August 09, 2017</td> <td>Board director meeting audit business report.</td> </tr> <tr> <td>October 31, 2017</td> <td>Board director meeting audit business report. Scheme audit plan of 2017.</td> </tr> <tr> <td>December 14, 2017</td> <td>Board director meeting audit business report.</td> </tr> </tbody> </table> <p>(I) Whether the company host general shareholder's meeting by the end of May? The company has settled general shareholder's meeting on May 28, 2018.</p> <p>(II) Whether the annual report of the company disclosed the amount and properties of the public expense which paid to CPA and related-onerprise belongs to CPA affair? Has complete the improvement, please refer to the annual report about the description of CPA public expense.</p> <p>(III) Whether the proposal devoting case by case on shareholders' meeting, and recording each resolution of the agreement, objective and abandon by shareholders in the meeting records? It is estimated to be listed as the first priority of improvement items.</p> <p>Summarized the above, the company has activelt improve and shows the results.</p>					Date	Point of communication	January 20, 2017	Board director meeting audit business report.	March 23, 2017	Board director meeting audit business report.	May 09, 2017	Board director meeting audit business report.	July 11, 2017	Board director meeting audit business report.	August 09, 2017	Board director meeting audit business report.	October 31, 2017	Board director meeting audit business report. Scheme audit plan of 2017.	December 14, 2017	Board director meeting audit business report.
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(IV) If the Compensation Committee is set, the company must disclose its composition, duties and operation situation:

To perfect the corporate governance, enhance the compensation management function of the board of directors, assist in executing and evaluating the remuneration of the company board directors and managers, the company set the Compensation Committee through the resolution of the board resolution on December 22, 2011, and passed the organizational rules of the Compensation Committee. Composition, duties and operation situation of the

Compensation Committee are and follows:

### 1. Members data of the Compensation Committee (3<sup>rd</sup> term)

Identity (Note 1)	Name	Whether having work experience with over 5 years and the following professional qualifications			Independence situation (Note 2)								Number of independent director concurrently occupied in other public offering companies	Remark (Note 3)
		Lecturer or above of public and private colleges and universities in academic department of business, legal affair, finance, accounting or that required by the company business.	Judge, procurator, lawyer, accountant or other special professions and technicians passing the national examination and obtaining certificates required by the company business	Work experience of business, legal affair, finance, accounting or that required by the company business.	1	2	3	4	5	6	7	8		
Independent Director	WEI NAI-CHANG			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Not Applicable
Independent Director	WU CHUNG-JEN			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Not Applicable
Independent Director	HO MING-YU	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Not Applicable

Note 1: please respectively fill in board director, independent director or other in the column of identity.

Note 2: for the member who meets the following conditions 2 years before election and during the tenure, tick “✓” in the box under the condition code.

- (1) Employees who don't belong to the company or its affiliated enterprises.
- (2) Board directors and supervisors who don't belong to the company or its affiliated enterprises. However, it doesn't apply to the independent directors who belong to the company or its parent company, or the subsidiary, or are set up based on the local laws.
- (3) Not the person, his/her spouse and minor children, or natural person shareholders who hold in the name of others over 1% of the issued shares of the company or whose shareholding ranks top 10.
- (4) Spouse and direct lineal relatives within the second degree of kinship or the third degree of kinship who don't belong to the personnel listed in the first three items.
- (5) Board directors, supervisors or employees of corporate shareholders who don't directly hold more than 5% of issued shares of the company or whose shareholding ranks top 5.
- (6) Board directors, supervisors, managers or shareholders holding over 5% of shares in specific companies or institutions who don't have financial or business transaction with the company.
- (7) Entrepreneurs, partner, board directors, supervisors, managers and his/her spouse in the sole or partnership company or institution and professionals who don't provide business, legal affair, finance, accounting and other services or consultations for the company or its affiliated enterprises.
- (8) Do not have any of various situations in Article 30 of the Company Law.

### 2. Duties of the Compensation Committee

The committee shall follow the duties of good administrator, faithfully perform the following functions and power and submit the recommendations to the board of directors for discussion. As to the suggestion on salary and remuneration of supervisors which is submitted to the board of directors for discussion, it shall be subject to that the remuneration of supervisors is explicitly stipulated in articles of association or that the board of directors is

authorized to handle by shareholder meeting:

- (1) Draft the proposal of remuneration of board directors, supervisors and managers and its regular evaluation report;
- (2) Draft and regularly review the performance evaluation of board directors, supervisors and managers;
- (3) Draft and regularly review the remuneration related policy, system, standard and structure of the company;
- (4) Other cases handed over and decided by the board of directors.

### 3. Information of operation situation of the Compensation Committee

- (1) Compensation Committee of the company includes 3 members.
- (2) Tenure of this term of members: the 3rd term was from July 1, 2017 to June 21, 2020, 4 meetings (A) were held by the Compensation Committee as of April 27, 2018. Qualification and attendance situation of the 2nd committee members are as follows:

Job Title	Name	Actual attendance time (B)	Entrusted attendance time	Actual attendance ratio (%) (B/A) (Note)	Remark
Convener	WEI NAI-CHANG	4	0	100.00%	
Committee	WU CHUNG-JEN	4	0	100.00%	
Committee	HO MING-YU	4	0	100.00%	

Other matters that shall be recorded:

- I. If the board of directors doesn't adopt or amends the recommendations of the Compensation Committee, the date, term, proposal content and resolution results of the board of directors as well as handling for advice of the Compensation Committee shall be stated (if the remuneration passed by the board of directors is superior to the recommendation of the Compensation Committee, the difference situation and reason shall be stated): Nil.
- II. If any member holds the objection or reservations and has related record or written statement for resolution matters of the Compensation Committee, items like date, term, proposal content, opinions from all members and corresponding handling of the Compensation Committee shall be specified: Nil.

- (V) Social responsibility fulfillment: system and measures implemented and taken by the company for environmental protection, participation in community activities, social contribution, social service, social welfare, consumer rights & interests, human rights, safety & health and other social responsibility activities, and its fulfillment.

Evaluation Items	Operation Situation			The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes
	Yes	No	Abstract Statement	
I. The implementation of corporate governance	✓		(I) The company has developed the Code of	Comply with

Evaluation Items	Operation Situation		Abstract Statement	The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes									
	Yes	No											
(I) Whether the company makes policies or systems for corporate social responsibility and makes a self-criticism for its implementation effects?			<p>Practice of Enterprise Social Responsibility and Enterprise Social Responsibility Policy based on the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprise, which were approved by the board of directors in May 9, 2014 through discussion after submission. Moreover, the amendments of the Code of Practice of Enterprise Social Responsibility and Enterprise Social Responsibility Policy was passed in the board meeting held on January 20, 2017. Also the implementation effect of 2016 will report on the board meeting hold on March 19, 2018.</p> <p>1. The promotion plans and implementation effect are listed as below:</p> <table border="1"> <thead> <tr> <th>Donation target</th> <th>Summary</th> <th>Donation Amount</th> </tr> </thead> <tbody> <tr> <td>MINISTRY OF HEALTH AND WELFARE DONATION A/C</td> <td>Assistant of re-structure for victims of earthquake in Hualien on February 06, 2018.</td> <td>NT\$2,000,000</td> </tr> <tr> <td>Tainan Traditional Chinese Culture College Foundation</td> <td>Sponsorship for the 2017 activities.</td> <td>NT\$30,000</td> </tr> </tbody> </table> <p>2. Hosted related activities with Tainan transitional Chinese Culture College Foundation.</p>	Donation target	Summary	Donation Amount	MINISTRY OF HEALTH AND WELFARE DONATION A/C	Assistant of re-structure for victims of earthquake in Hualien on February 06, 2018.	NT\$2,000,000	Tainan Traditional Chinese Culture College Foundation	Sponsorship for the 2017 activities.	NT\$30,000	the code of practice of social responsibility of listed and OTC companies and enterprises.
Donation target	Summary	Donation Amount											
MINISTRY OF HEALTH AND WELFARE DONATION A/C	Assistant of re-structure for victims of earthquake in Hualien on February 06, 2018.	NT\$2,000,000											
Tainan Traditional Chinese Culture College Foundation	Sponsorship for the 2017 activities.	NT\$30,000											
(II) Whether the company arranges social responsibility education and training on a regular basis?	✓		<p>(II) It is explained as below:</p> <p>1. The company shall arrange internal social responsibility education and training regularly and explain environmental safety and health courses, developing direction of the company, operation principle and relevant policies as well as the idea of corporate social responsibility.</p> <p>2. Arrange further-study courses for directors and supervisors according to Practicable Main Points of Refresher Courses for Directors and Supervisors of Listed and OTC Companies.</p>	Comply with the code of practice of social responsibility of listed and OTC companies and enterprises.									
(III) Whether the company has special (concurrent) unit to promote corporate social responsibility, which is managed by top management under authorization from board of directors, and to report to board of directors?	✓		<p>(III) On May 9, 2014, the board of directors approved that the Chairman's Office should act as the unit in charge of promoting corporate social responsibility.</p> <p>1. The Chairman acts as the convener, and the CSR promotion team is composed of the Financial Department, Business Department, Purchasing</p>	Comply with the code of practice of social responsibility of listed and OTC companies and									

Evaluation Items	Operation Situation			The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes
	Yes	No	Abstract Statement	
(IV) Whether the company makes reasonable remuneration policy, combines employee performance assessment system with enterprise social responsibility policy and lays down well-defined and effective reward and punishment system?	✓		<p>Department and the Occupational Safety Department, which holds meeting regularly. It is responsible for the promotion of the corporate social responsibilities.</p> <p>2. The team CSR promotion team sorts and reports the 2017 implementation effect and the opinions put forward by the interested parties in the board meeting held on March 9, 2018.</p> <p>3. It communicates with trade association in Science Park, promotes prosperity of Chinese traditional culture and cares for vulnerable groups in communities. In 2003, the company set up a factory in Tainan Science Park. Over more than a decade, the Chairman has earned herself the nickname "Tainan science park Sunny Aunt" by holding meetings in the park to maintain good relations with colleagues and neighbors on a monthly or quarterly basis, laying stress on physical &amp; mental communication and supplemented by professional interaction; teaching colleagues in the company to overcome evil with good &amp; kindheartedness and build an ideal realm of life of "happiness and harmony"!</p> <p>(IV) Related measures are taken as follows:</p> <p>1. The major remuneration principle of the company takes department responsibility and performance &amp; result into account, hoping to recruiting and retaining talents by making reasonable remuneration policy.</p> <p>2. The code of conduct and related reward and punishment system are clearly incorporated into employee manual of the Company.</p> <p>3. The Compensation Committee set by the Company consists of three independent directors. These three committee members with different background, high academic qualification and rich experience fully get hold of industrial dynamics at home and abroad and gradually and persistently promote the integration of the above systems and enterprise social responsibility policy through meetings held more than twice annually and irregular discussion &amp; communication and examining reasonable remuneration policy and performance assessment system. Following the operation dynamic, it constantly improves the integration of above systems and the corporate social responsibility policies, so as to sharpen the competitive edge of the company at each stage.</p>	enterprises.  Comply with the code of practice of social responsibility of listed and OTC companies and enterprises.

Evaluation Items	Operation Situation		Abstract Statement	The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes
	Yes	No		
<p>II. Develop sustainable environment</p> <p>(I) Whether the company is dedicated to improving utilization efficiency of various resources and making use of renewable materials with low environmental load impact?</p> <p>(II) Whether the company establishes applicable environmental management system based on its industrial characteristics?</p> <p>(III) Whether the company is aware of the influences of climatic variation on operational activities, detects greenhouse gases and formulates energy saving and carbon &amp; greenhouse gases reduction strategies?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(I) The company is dedicated to lifting utilization efficiency of various resources, such as recycling pallets and wooden boxes as shipment package or for inventory management. Furthermore, the company also carries out the campaign of classified garbage recovery and sets up rainwater recycling system for on-site process water recovery, both reducing cost and environmental load &amp; impact.</p> <p>(II) 1. The Occupational Safety Department of the company shall take charge of environmental management, establishing and controlling environmental management system, setting up safety and health committee and jointly dealing with environmental safety problems. 2. Besides observing environmental laws earnestly, the Company passed ISO14001 environmental management system, OHSAS 18001 occupational safety and health management system and CNS15506 Taiwan occupational safety and health management system in September, 2014. 3. In August, 2017, the company passed ISO 9001:2015 version quality management system, ISO 14001:2015 version environmental management system, OHSAS 18001:2017 version occupational safety and health management system and version renewal certification of CNS15506 Taiwan occupational safety and health management system.</p> <p>(III) The company aims to decrease in-plant temperature, replace air conditioning system and save electricity by raised design, adding outer walls and adopting natural circulation for ventilation &amp; heat dissipation based on energy saving and carbon reduction during factory design.</p> <p>1. Energy saving target Those up to standard of energy consumption shall establish energy inspection system, set the energy saving targets and draw up execution plan to reach 1% annual power saving rate in accordance with ISO 50001 specification and Article VIII, IX and XII of Energy Resources Law.</p>	<p>Comply with the code of practice of social responsibility of listed and OTC companies and enterprises. Comply with the code of practice of social responsibility of listed and OTC companies and enterprises.</p> <p>Comply with the code of practice of social responsibility of listed and OTC companies and enterprises.</p>

Evaluation Items	Operation Situation			The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes															
	Yes	No	Abstract Statement																
			<p>2. Energy saving measures</p> <p>This year, the company changed motor in machine of production line, to replace the older motor with higher performance motor. The energy performance increased from 75% to 91%, each one increased by 16%. Accomplish the energy-saving measures by increasing power-efficiency and decreasing power-loss.</p> <p>At the first, replace the older motor with higher performance motor, the performance increased from 75% to 91%, each one increased by 16% performance. So it is predicted that power-loss shall be decreased by 88409.2kWh, the ratio of energy saving this year shall be as much as 1%.</p> <p>3. Carbon reduction target</p> <p>The data provided by the Bureau of Energy, Ministry of Economic Affairs, shows that 0.638kg of CO<sub>2</sub> is produced for 1KWH this year. A total of 88409.2kWh is reduces, so it is predicted that 56405.06kg of CO<sub>2</sub> shall be reduced this year.</p> <p>4. Greenhouse gas emission</p> <p>For greenhouse gas emitted by the company, its indirect emission source stems mainly from outsourced power, which is 6,894MWh, 6,970MWh, 6,866.8MWh and 8,600.28MWh respectively between 2014 and 2017. The total emissions of greenhouse gases of the company were about 4,398.372mt of CO<sub>2</sub>e/year in 2014, while that in 2015 and 2016 was roughly 4,381.018mt CO<sub>2</sub>e/year and 5,486.928mt CO<sub>2</sub>e/year separately. In response to environmental impact caused by greenhouse gases, measures for reducing greenhouse gas emissions shall be promoted in future to accomplish sustainable energy development in consideration of cost &amp; resource efficiency, energy saving and environmental protection.</p> <table border="1"> <thead> <tr> <th>Year</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> </tr> </thead> <tbody> <tr> <td>Total Power Consumption (KWh)</td> <td>6,894,000</td> <td>6,970,393</td> <td>6,866,800</td> <td>8,600,200</td> </tr> <tr> <td>CO<sub>2</sub>Emissions (mt)</td> <td>4,398.372</td> <td>4,447.111</td> <td>4,381.018</td> <td>5,486.928</td> </tr> </tbody> </table> <p>Note: The data provided by the Bureau of Energy, Ministry of Economic Affairs shows that 0.638kg of CO<sub>2</sub> is produced for 1KWh.</p>	Year	2014	2015	2016	2017	Total Power Consumption (KWh)	6,894,000	6,970,393	6,866,800	8,600,200	CO <sub>2</sub> Emissions (mt)	4,398.372	4,447.111	4,381.018	5,486.928	
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Evaluation Items	Operation Situation		Abstract Statement	The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes				
	Yes	No						
<p>III. Maintaining social welfare</p> <p>(I) Whether the company makes related management policy and procedure pursuant to relevant regulations and international covenants of human rights?</p> <p>(II) Whether the company establishes employee complaint mechanism and channel and makes a settlement properly?</p> <p>(III) Whether the company creates a safe and healthy working environment and implements safety and health education for employees regularly?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(I)The company formulates relevant complete system and administrative measures in compliance with labor standard act and related government decrees, which are in the charge of specially-assigned personnel, to guarantee legal labor rights of employees, employment policy, nondiscrimination and other management principles. In the meantime, in the most important principle of caring for employees and employee welfare, the company shall set aside retirement pension and set up employee welfare committee by law; in the principle of stable operation, the company shall provide all kinds of welfare benefits superior to legal conditions and take various measures to the greatest extent. What's more, the company shall make announcement and launch an advocacy in the factory to cope with changes in decrees.</p> <p>(II) In a bid to realize friendly communication between the employees and the company, complaint mechanism and communication channel have been established as follows:</p> <ol style="list-style-type: none"> <li>1. Tangible suggestion boxes are set on the first floor and in dining hall of the factory.</li> <li>2. Special E-mail service is offered to senior executives, HR department, department heads and leaders of all units.</li> <li>3. Communication meetings associated with labor-management relations are held.</li> <li>4. Questionnaire survey is conducted irregularly.</li> <li>5. Formulate and advocate code of conduct, integrity management, safety &amp; health and practice of enterprise social responsibility.</li> </ol> <p>(III) The company shall set up Labor Safety and Health Committee as per labor safety and health law, convene labor safety and health meeting regularly, persistently assist the factory in completing various tasks related to environmental safety and health to make sure the safety and health of working environment. Explanation of only relevant items is made below:</p> <table border="1" data-bbox="737 1951 1286 2092"> <thead> <tr> <th>Items</th> <th>Contents</th> </tr> </thead> <tbody> <tr> <td>Entrance Guard</td> <td>1. Strict entrance guard monitoring system is set up in the daytime and nighttime. 2. Connect with police organs online to take precaution.</td> </tr> </tbody> </table>	Items	Contents	Entrance Guard	1. Strict entrance guard monitoring system is set up in the daytime and nighttime. 2. Connect with police organs online to take precaution.	<p>Comply with the code of practice of social responsibility of listed and OTC companies and enterprises.</p> <p>Comply with the code of practice of social responsibility of listed and OTC companies and enterprises.</p> <p>Comply with the code of practice of social responsibility of listed and OTC companies and enterprises.</p>
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Evaluation Items	Operation Situation		Abstract Statement	The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes
	Yes	No		
			<p>Maintenance and Inspection of Various Equipment</p> <p>1. In accordance with buildings public safety inspection and visa &amp; declaration regulations, entrust specialized company to carry out public safety inspection every year or every four years.</p> <p>2. According to fire protection law, conduct fire safety inspection by outsourcing every year.</p> <p>3. Maintain and check such equipment as electrical equipment, lift, air conditioner, water dispenser, automobile, fire apparatus in terms of Code of Practice of Safety and Health in the company.</p>	
			<p>Continuing Measures for Disaster Prevention</p> <p>1. Develop emergency preparedness and response procedure, emergency response plan, Code of Practice of Labor Safety and Health, accident investigation and management procedure together with other disaster prevention, rescue precautions and accident &amp; disaster reporting procedure, well define responsibilities of personnel at all levels for such important incidents and accidents as acts of God and fire disaster and corresponding tasks and arrange safety protection drills as required.</p> <p>2. Entrust fire competent authority to carry out fire control &amp; disaster prevention training.</p>	
			<p>Physiological Health</p> <p>1. Perform periodic health examination on a yearly basis in accordance with Occupational Safety and Health Law.</p> <p>2. Health in working environment: Ban smoking entirely in working environment, hold health lecture, arrange CPR training and regularly conduct office environment cleaning and sterilization.</p>	
			<p>Mental Health</p> <p>1. Educational training: provide communication skill and emotion management courses as well as employee psychological adjustment and profession skill strengthening training.</p> <p>2. Expression of opinion: set employee suggestion zone and provide various manuals, educational training announcement and channels for employee's expression of opinion and interactive learning.</p> <p>3. Sexual harassment prevention: set forth complaint and punishment terms.</p>	
			<p>Insurance and Medical Condition</p> <p>1. Buy labor insurance (including occupational hazard insurance) and health insurance by law.</p> <p>2. Buy officers liability insurance.</p> <p>3. Buy group insurance.</p>	

Evaluation Items	Operation Situation			The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes				
	Yes	No	Abstract Statement					
			<table border="1"> <tr> <td>Contractor Management</td> <td>           1. Inform contractors of hazard factors during working and hold meetings for contractor agreement in accordance with Occupational Safety and Health Law.            2. Set contractor management procedure and provide related forms for contractor applying and filling out.         </td> </tr> <tr> <td>Educational Training</td> <td>           Implement pertinent safety &amp; health educational training, such as the general safety &amp; health educational training and hazardous chemical manufacturing, disposal and using educational training and add safety and health trainings 3h before operation of manufacturing machine or equipment, aerial working vehicle, winch and electric welding as well as working in oxygen deficient environment in accordance with Occupational Safety and Health Law.         </td> </tr> </table> <p>Healthy and safe working environment            The company shall provide employees with safe and sound working environment, earnestly observe fire regulations and take the following measures to protect personal safety and health in the working environment:</p> <ol style="list-style-type: none"> <li>ISO 14001/OHSAS 18001/CNS 15506 environmental safety and health management system: set up a management system to evaluate performance and efficiency of environmental and occupational safety &amp; health and enhance environmental safety &amp; health, thus guaranteeing personal safety of employees.</li> <li>Identify environmental considerations and various hazards in all activities, products and services of the Company, evaluate the risks of major environmental considerations and its hazards, judge the priority action level and control unacceptable environmental safety and health risks that may facilitate the planning, management and implementation of environmental and occupational safety and health.</li> <li>Establish unified regulations for hazardous labeling of chemicals in compliance with regulations and requirements; be able to take emergency measures immediately upon occurrence of hazard and leakage during working through effective reminders to prevent from occurrence of hazards and extension of accidents.</li> <li>For industrial wastes produced, establish resources recovery and related management mechanism to realize waste recycling,</li> </ol>	Contractor Management	1. Inform contractors of hazard factors during working and hold meetings for contractor agreement in accordance with Occupational Safety and Health Law. 2. Set contractor management procedure and provide related forms for contractor applying and filling out.	Educational Training	Implement pertinent safety & health educational training, such as the general safety & health educational training and hazardous chemical manufacturing, disposal and using educational training and add safety and health trainings 3h before operation of manufacturing machine or equipment, aerial working vehicle, winch and electric welding as well as working in oxygen deficient environment in accordance with Occupational Safety and Health Law.	
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Evaluation Items	Operation Situation		Abstract Statement	The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes
	Yes	No		
			<p>stabilization, hazard-free treatment, economization and satisfy the requirements of decree by improving environmental sanitation.</p> <p>5.Raise contingency ability of employees under emergency circumstances and define correct handling procedure to make sure personal safety and normal operation of the company in the hope of minimizing loss in case of accident.</p> <p>6.Check the fire apparatuses on a regular basis to reduce the losses after accident occurrence and guarantee personal safety of employees.</p> <p>7. Lay down <i>Code of Practice of Safety and Health</i> to avoid occupational accident, maintain the safety and health of employees and ensure the normal operation of working place, further reaching the target of sustainable business operation.</p> <p>8.Appoint <i>Safety and health Personnel</i> to take charge of planning and advancing environmental safety and health policies and management system of the company and checking their performance. Train occupational safety personnel for occupational safety, including A Grade occupational safety and health manager, B Grade occupational safety and health specialist, A Grade occupational safety and health executive, first-aid personnel and fire controller, to strengthen environmental safety and health management in workplace and maintain a safe and healthy workplace.</p> <p>9.Conduct Annual Health Examination for Employees on a regular basis to protect their safety and health.</p> <p>10.Conduct Working Environment Monitoring twice a year, get hold of working environment dynamics, evaluate exposure hazard, measure physical and chemical factors in environment and improve the working environment based on measured results to meet the requirements.</p> <p>11.Regular inspection, key inspection and work inspection: conduct automatic inspection every year, 3 months, monthly, daily based on automatic inspection management procedure and examine potential hazards in workplace by means of automatic inspection for the purpose of preventing disasters and protecting company property and personal operation safety.</p> <p>12. Field inspection: conduct regular or irregular inspection for in-plant safety and health to</p>	

Evaluation Items	Operation Situation		Abstract Statement	The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes
	Yes	No		
(IV) Whether the company establishes regular communication mechanism for employees and informs rationally employee of operational changes that have significant impact on them?	✓		eliminate actual or potential hazards and risks. 13.Objective and scheme of environmental and hygiene: improvement scheme in 2017 includes wind tunnel adapter improvement scheme in the field, segment plate didn't place in the electric chest improvement scheme and certification scheme for version transferred of ISO 14001:2015 environmental management system, all of them were accomplished.	Comply with the code of practice of social responsibility of listed and OTC companies and enterprises.
(V) Whether the company develops efficient career capability development training plan?	✓		(IV) In order to achieve all-around communication between employee and the Company, the Company shall convene meetings with regard to labor-management relations regularly, set up tangible suggestion boxes and bulletin board in the factory and provide special E-mail service for senior officers, department heads and leaders of all units as the media publishing significant information. (V) The company has been committed to creating a learning environment providing endless talent force and increasing remarkable competitive power, set <i>Educational Training Management and Operational Procedure</i> and cultivated right talents by virtue of internal and external training resources. Currently, the company has provided a series of educational trainings for common knowledge, professional skill and management to stimulate employee's potential and occupational development ability, realize close coordination between enterprise development and talent development plan of colleagues and heighten awareness of production efficiency and enterprise social responsibility. Training plan mainly implemented is composed of general training, educational training for labor safety, operation & management and traditional culture, professional training, training for employees dispatched to foreign subsidiaries, Internship training for international exchange. The company shall train head of all units and senior colleagues as internal lecturer to inherit company culture and skills and invite external experts, directors, supervisors to give lessons irregularly.	Comply with the code of practice of social responsibility of listed and OTC companies and enterprises.
(VI) Whether the company makes relevant consumer's interest protection policy and complaint procedure with regard to R&D, purchase, production, working and service procedure?	✓		(VI)The company shall hold the attitude of specialty-related innovation and honesty & integrity to improve product efficiency and	Conform to the provisions of code of faithful management of the listed

Evaluation Items	Operation Situation			The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes
	Yes	No	Abstract Statement	
(VII) Whether the company observes relevant regulations and international standards for product and service marketing and marking?	✓		serve customers in hope of providing products and services to the satisfaction of customers. Therefore, the company shall formulate standard customer complaint operating procedure, properly judge the responsibility problems, develop preventive measures to prevent from such problems, regularly investigate and track customer satisfaction to understand demands and problems of customers and take the above investigation results as basis of developing improvement strategy.	and over-the-counter companies.
(VIII) Whether the company evaluates previous records of suppliers (namely, impact on environment and society) before making a deal?	✓		(VII) For products of the company which fall within mechanical parts, there are related international standards. The company shall conform to related regulations and international standards and implement them in aspects of processing and management of raw materials.	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.
(IX) Whether the contract between company and key supplier includes terms that need to be terminated or rescinded in case suppliers fail to perform its enterprise social responsibility and has significant impact on environment and society?	✓		(VIII) The company possesses tight and complete supply chain system and can assist suppliers in improving product quality by integration. For suppliers of contract project, the 2-IS-2-K-001 contractor management procedure shall be followed. Apart from implementation of safety & sanitation autonomous management, educational training, agreement organization, factory-entering hazard notification and other safety managements, requirements of physical environmental management shall also be met to fulfill the enterprise social responsibility of safety and environmental protection he company has closed and integrated supply chain system, and able to integrate and assist suppliers improve product quality. As to the contractor who carry the engineering were perform management according to 2-IS-2-K-001 contractor management procedure. In addition to adhesive perform.	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.
			(IX) The company apply the evaluation procedure of “manufacturer environmental management evaluation table” and “social responsibility evaluation table” to supplier and new outsourcing process manufacturer according to 1-AD-2-B-001 supplier management procedure.	Conform to the provisions of code of faithful management of the listed and

Evaluation Items	Operation Situation			The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes
	Yes	No	Abstract Statement	
			In accordance with contract between the company and key suppliers, the suppliers and contractors must comply with labor standard act and relevant human rights provisions, including prohibition of child labor and forced labor. In the event of involving into violation of enterprise social responsibility policy and exerting significant impact on environment and the society, the company shall terminate and cancel the contract at any time.	over-the-counter companies.
IV. Strengthen information disclosure (I) Whether the company disclose relevant reliable information concerned with enterprise social responsibility at its website and information disclosure observation station ?	✓		(I) The company has been adhering to information disclosure and transparency on corporate governance level. The company has explicitly disclosed information concerned with enterprise social responsibility in annual report and at company's website and been developing and creating enterprise social responsibility webpage. Besides, the company has appointed seed cadres to facilitate educational training inside the company based on enterprise social responsibility policy and disclose relevant information at the right moment in future, in spite of not preparing enterprise social responsibility report.	Comply with the code of practice of social responsibility of listed and OTC companies and enterprises.
V. In case the Company lays down the Code of Practice of Corporate Social Responsibility of its own in accordance with Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises, please detail the difference between its operation and the code laid down: The company laid down the Code of Practice of Corporate Social Responsibility in accordance with connotation and relevant regulations of Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises through discussion in the board meeting on May 9, 2014. The amended version was passed in the board meeting on January 20, 2017. The operation of the corporate social responsibility is subject to the connotation and related regulations of the Code, which will be carried out continuously.				
VI. Other important information conducive to understanding the operation of the corporate social responsibility: In terms of participation in social activities and social contribution, the company actively cooperates with various universities and colleges in Tainan (such as National Cheng Kung University (NCKU), Southern Taiwan University of Technology (STUST), Kunshan University, Far East University and Nan Jeon Institute of Technology) to provide opportunity of observation learning and internship and enhance industry-university collaboration, with the aim to accelerate the regional prosperity and bring more employment opportunities. In addition, the Company also cooperates with communities to establish prize for moral excellence and provide financial aid for students in community colleges.				
VII. If the enterprise social responsibility report of the company passes the verification standards of related certification authorities, please make a description: (I) The company's product has passed ISO9001: 2008 certification. (II) In September, 2014, the company passed ISO14001 environmental management system, OHSAS 18001 occupational safety and health management system and CNS15506 Taiwan occupational safety and health management system. (III) In August, 2018, the company passed ISO 9001:2015 version quality management system, ISO 14001:2015 version				

Evaluation Items	Operation Situation			The difference from the Code of Practice of Social Responsibility of Listed and OTC Companies and Enterprises and the Causes
	Yes	No	Abstract Statement	
environmental management system, OHSAS 18001:2017 version occupational safety and health management system and version renewal certification of CNS15506 Taiwan occupational safety and health management system.				

(VI) Circumstances of the company's performance of faithful management and implementation measures:

In accordance with "Code of Faithful Management of the Listed and Over-The-Counter Companies" released by the competent authority, based on the management ideas of integrity, transparency and accountability, this company formulated the integrity-based policy, established a good corporate governance and risk management mechanism to create a business environment with sustainable development, and formulated the code of faithful management of this company. The "Code of Faithful Management" was passed by the resolution of the board of directors on March 21, 2012, and reported by the general meeting of shareholders on June 20, 2012. The "Code of Faithful Management" was passed by the resolution of the board of directors on March 21, 2012, and the revised "Faithful Management Procedures and Behavioral Guidelines" was passed by the resolution of the board of directors on March 26, 2015. In addition, to carry out the faithful management policy, through the resolution of the board of directors on May 9, 2014, the chairman room should serve as the unit responsible for promoting enterprise faithful management, and adopt this management idea to sincerely serve all customers and suppliers, and continuously strengthen the company's business information transparency to make shareholders know the company's operation more clearly.

Evaluation item	Operation situation			Circumstances of differing from faithful management of the listed and over-the-counter companies and reasons
	Yes	No	Explanatory memorandum	
I. Formulation of faithful management policy and scheme (I) Does the company clearly specify the policy, practice of faithful management in the rules and external files, and does the board of directors, management level actively implement the commitment of faithful management?	✓		(I) This company passed the stipulated "Code of Faithful Management" through the board of directors on March 21, 2012, reported through the general meeting of shareholders on June 20, 2012, and passed the revised "Faithful Management Procedures and Behavioral Guidelines" through the resolution of the board of directors on March 26, 2015 to specifically regulate the matters needing attention when the company's personnel are performing the business, and serve as the commitment of the board of directors	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.

Evaluation item	Operation situation			Circumstances of differing from faithful management of the listed and over-the-counter companies and reasons
	Yes	No	Explanatory memorandum	
(II) Does the company formulate the scheme of preventing dishonest behaviors, clearly specify the operation procedures, behavioral guidelines, violation punishment and appeal system, and carry out the implementation?	✓		and management level to actively implement the management policy. (II) The company clearly formulates the code of practice of enterprise social responsibility, code of employee behavior, code of faithful management, relevant specification of preventing insider trading procedures, carries out the management ideas of “Integrity and Fairness, Integrity and Ability” and other principles of faithful management, continues to review, revise the relevant operation procedures, behavioral guideline, violation punishment and appeal system in each stage, and supplements the internal training, external training, independent director special instruction and other education training to gradually implement and conform to the relevant provisions.	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.
(III) Does the company implement prevention measures for the business activities with high risk of dishonest behaviors in each clause of Item II of Article 7 of “Code of Faithful Management of the Listed and Over-The-Counter Companies” or within the other business scope?	✓		(III) The company formulates the “Code of Faithful Management” according to the “Code of Faithful Management of the Listed and Over-The-Counter Companies” released by the competent authority as the basis to abide by, and clearly specifies the prohibition of dishonest behaviors. The directors, supervisors, manager, employees or those with substantial control ability of this company shall not directly or indirectly provide, promise, request or accept any illegitimate benefits, or have other dishonest behaviors of violation of good faith, illegitimacy or breach of the trustee obligation, etc. to gain or maintain the interests. The relevant prevention measures include operation procedures, behavioral guidelines and education training, etc.  The prevention scheme formulated by this company covers the prevention measures for the following behaviors: I. Offer bribes and accept bribes. II. Provide illegal political contributions.	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.



Evaluation item	Operation situation			Circumstances of differing from faithful management of the listed and over-the-counter companies and reasons
	Yes	No	Explanatory memorandum	
			III. Improper charitable donation or sponsorship. IV. Provide or accept unreasonable gift, hospitality or other improper benefits.	
II. Implementation of faithful management				
(I) Does the company assess the credit records of trading objects, and clearly specify the honesty behavior clauses in the contract signed with the trading objects?	✓		(I) Before the establishment of commercial relation, firstly assess the legality of this trading object, policy of faithful management, and assess whether there ever exist the records of dishonest behaviors to ensure its business operation mode fair, transparent, and no behavior of asking for, offering or accepting bribes.	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.
(II) Does the company set up a full-time (part-time) unit affiliated to the board of directors to promote the enterprise faithful management, and regularly report its performance situation to the board of directors?	✓		(II) This company has designated the Chairman's Office through the board of directors as a special responsible unit: 1. It handles the revision, implementation, interpretation, consultation service, reporting content registration document and other relevant operation, will supervise its performance and regularly report to the Board of Directors. 2. It continuously conducts related training courses covering food safety, law safety and asset safety to practice business integrity.	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.
(III) Does the company formulate the policy of preventing conflict of interest, provide the proper statement channel, and carry out the implementation?	✓		(III) To prevent the conflict of interests and provide appropriate statement channels, the "Code of Faithful Management" formulated by this company requests that the directors should adhere to high self-discipline, and should state opinions, reply to inquiries for the proposal listed by the board of directors when such proposal has the interest relationship with himself or his represented entity, and brings damage to the company's interests, without involving in discussion and voting, and the directors shall avoid at the time of discussion and voting.	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.
(IV) Has the company established the effective accounting system, internal control system to implement the faithful management, and are these systems regularly checked by the internal audit unit, or by the entrusted accountant?	✓		(IV) This company sets up 3 independent directors to strengthen the corporate governance spirit. The board of directors set up the compensation	Conform to the provisions of code of faithful management of the listed and

Evaluation item	Operation situation		Circumstances of differing from faithful management of the listed and over-the-counter companies and reasons	
	Yes	No		Explanatory memorandum
(V) Does the company hold the internal, external education training of faithful management regularly?	✓		<p>committee bill on December 22, 2011 to reach the supervision on the company's implementation of management ideas. In addition, to ensure the implementation of faithful management ideas, this company has established the effective internal control system, relevant management measures and accounting system to perform. This company handles the self-inspection once every year, then the internal audit unit will recheck the self-inspection report of each unit and subsidiary, including control environment, risk assessment, control operation, information and communication and supervision, etc. as well as lack of internal control and abnormal matter improvement situation discovered by the audit unit, thus to serve as the main basis for the board of directors and general manager to assess the effectiveness of the overall internal control system and issue the statement of internal control system.</p> <p>(V) In addition to regularly holding the internal education training of business integrity, the Company also participates in external similar courses to serve as a channel for the employees' absorption of new knowledge and provision of decision-making assistance.</p>	<p>over-the-counter companies.</p> <p>Conform to the provisions of code of faithful management of the listed and over-the-counter companies.</p>
<p>III. Operation situation of the company's reporting system</p> <p>(I) Does the company formulate the specific reporting and reward system, establish the convenient reporting channel, and designate the specifically responsible personnel aiming at the reported object?</p>	✓		<p>(I) The company incorporates the faithful management in the employee performance assessment and human resource policy, and sets up a clear, effective reward and punishment and appeal system. The complaints procedure is as follows: Any violation of government decree or any fraud discovered shall be reported to the manager, internal audit personnel through the dedicated e-mail address of senior executives, internal audit personnel or in writing. The relevant personnel after receiving the reporting shall</p>	<p>Conform to the provisions of code of faithful management of the listed and over-the-counter companies.</p>

Evaluation item	Operation situation			Circumstances of differing from faithful management of the listed and over-the-counter companies and reasons
	Yes	No	Explanatory memorandum	
(II) Does the company formulate the survey standard operation procedure and relevant confidentiality mechanism for accepting the reporting matters?	✓		submit it to the general manager or chairman for deciding. Any severe violations shall be reported to the board of directors, and the unit or department head of the reported object shall be designated to be specifically responsible for acceptance to deal with the follow-up properly. (II) The company formulates the reporting system in “Code of Employee Behaviors”. In case of illegal (including corruption) and wrong conduct or suspicious event of violating the code of employee behaviors, the employees shall have the obligation to report to the management level, and request the relevant supervisors and corresponding personnel to keep strictly confidential. For severe violation of this company’s personnel of honest behavior, it shall be handled according to the relevant laws or according to the company’s personnel regulations. The survey standard operation procedures for relevant acceptance of reporting matters shall be continuously established and improved.	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.
(III) Does the company adopt the measures to protect the reporter from suffering the improper treatment due to reporting?	✓		(III)The company provides protection measures for the reporters in the formulated “Code of Employee Behaviors” to ensure the survey quality, and avoid the reporter suffering unfair revenge or treatment.	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.
IV. Strengthening the disclosure of information (I) Does the company disclose the content of its formulated code of faithful management and promotion effect on its website and public information observation station?	✓		(I)The amended Business Integrity Operation Procedure and Code of Conduct was passed upon the resolution of the board meeting on March 26, 2015. Moreover, the information related to business integrity is disclosed under the Investor Relations on the official site of the Company. (II) This company shall disclose the policy of faithful management on the internal regulations, annual report or other statement, and make declarations on the product	Conform to the provisions of code of faithful management of the listed and over-the-counter companies.

Evaluation item	Operation situation			Circumstances of differing from faithful management of the listed and over-the-counter companies and reasons
	Yes	No	Explanatory memorandum	
			presentation, legal person illustration meeting and other external activity to make its suppliers, customers or other business related institutions and personnel clearly know the company's idea and specification of faithful management.	
<p>V. If the company formulates its own code of faithful management according to the "Code of Faithful Management of the Listed and Over-The-Counter Companies", please explain the differences between its operation and the formulated code:  This company has formulated the code of faithful management of the company (already having been revised as "Faithful Management Procedures and Behavioral Guidelines") to specifically regulate the matters needing attention for the company's personnel when performing the business, without major difference.</p> <p><b>Prohibition of dishonest behavior</b>  In the process of being engaged in business activities, it shall not directly or indirectly provide, promise, request, or accept any illegitimate benefits, or have other dishonest behavior of violating integrity, illegitimacy or breach of trustee obligation, etc. to gain or maintain the interests.</p> <p><b>Faithful management of commercial activity</b>  It shall carry on the commercial activities in the manner of fairness and transparency. Before the commercial intercourse, it shall consider the legitimacy of agents, suppliers, customers or other commercial trading objects and consider whether there exist the records of dishonest behavior. It shall avoid trading with those who have the records of dishonest behavior.</p> <p><b>Prohibition of offering bribes or accepting bribes</b>  When performing the business, it shall not directly or indirectly provide, promise, request or accept the illegitimate interests of any forms.</p> <p><b>Prohibition of providing political illegal contributions</b>  It shall conform to the Political Donations Act and the company's internal related operation procedures, and shall not there out gain commercial interests or trading advantages.</p> <p><b>Prohibition of improper charitable donation or sponsorship</b>  It shall conform to the relevant laws and internal operation procedures, instead of disguised bribery.  It shall not directly or indirectly provide or accept any unreasonable gift, hospitality or other improper benefits to there out establish the commercial relations or affect the business transactions.</p> <p><b>Accounting and internal control</b>  It shall establish the effective accounting system and internal control system for the business activities with high risk of dishonest behavior, without any external account or keeping any secret account, and shall check at any time to ensure the design and performance of this system continuously effective.  The internal audit personnel of this company shall regularly check the conformance situation of the previous system, and shall make it into the audit report to be submitted to the board of directors.</p> <p><b>Information disclosure</b>  It shall disclose the performance situation of its code of faithful management on the company website, annual report and public instruction book.</p>				
<p>VI. Other important information that contributes to understanding of the company's operation situation of faithful management: (such as the company's inspection, revision of its formulated code of faithful management, etc.)  As an important enterprise culture of this company, the integrity has been simultaneously implemented to the company's employees, directors and supervisors, suppliers, etc.</p>				

(VII) If the company formulates the corporate governance code and relevant regulations, it shall disclose its inquiry mode:

The Company has formulated the Code of Corporate Governance and relevant regulations, and has released them under the Investor's Zone, the CSR Zone on the company website (company website: <http://www.chieftek.com>) or the special zone on MOPS.

(VIII) Other important information enough to promote the understanding of operation situation of corporate governance:

This Company will disclose significant information to the investors according to laws to promote the understanding of the Company.

(IX) Internal control system performance situation

1. Internal control statement



CHIEFTEK PRECISION CO., LTD.

Date: March 09, 2018

The internal control system of this company in 2017 is hereby stated as follows according to the self-assessment results:

- I. This company acknowledges that to establish, implement and maintain the internal control system is the responsibility of the company's board of directors and manger, and this company has established such system. Its purpose is to provide reasonable assurance for reaching the goals of effective and efficient operation (including making profits, achieving performance and ensuring the safety of assets, etc.), reliable, timely, transparent guidance and conforming to relevant specification, namely relevant laws and regulations, etc.
- II. The internal control system has natural limits. No matter how perfect the design is, the effective internal control system can also provide reasonable assurance only for reaching the above three goals. Moreover, due to the change of environment and situation, the effectiveness of internal control system may also change. Only the internal control system of this company is set with the self-supervision mechanism, and once the negligence is identified, this company will take the corrective action.
- III. This company is basing on the judgment items for the effectiveness of internal control system stipulated by "Standard for Treatment of Establishment of Internal Control System of the Public Offering Company" (hereinafter referred to as "Standard for Treatment") to judge whether the design and implementation of the internal control system are effective. This internal control system judgment items adopted for "Standard for Treatment" are diving the internal control system into five components in accordance with the process of management control: 1. Control environment; 2. Risk assessment; 3. Control operation; 4. Information and communication; and 5. Supervision operation. Each component further includes several items. Please refer to the provisions of "Standard for Treatment" for the above items.
- IV. This company has adopted the above internal control system judgment items to assess the effectiveness of design and performance of the internal control system.
- V. Based on the assessment results of the preceding paragraph, the Company considers the internal control system (including the supervision and management of subsidiaries) on December 31, 2017

includes understanding the goal realization degree of effective and efficient operation, and reporting the effective design and implementation of internal control system that is reliable, timely, transparent, and conforming to the relevant specification, namely the relevant laws and regulations, which can reasonably ensure the realization of the above goals.

VI. This statement will become main contents of annual report and public instruction book of this company, and will be opened to the public. If the above disclosed contents have any hypocrisy, concealment and other illegal matter, the legal liability of Article 20, Article 32, Article 171 and Article 174, etc. in the Securities Exchange Act will be involved.

VII. This statement had been passed on March 09, 2018 by the board of directors of this company. Among 8 attending directors, no one objects; all of them agree the content of this statement, and hereby state.

CHIEFTEK PERCISION CO., LTD.

Chairman: CHEN LI-FEN

General Manager: HSU MING-CHE

2. If the accountant is entrusted for project review of internal control system, the accountant review report shall be disclosed: None.

(X) From the nearest year to the print date of annual report, circumstances of the company and internal personnel being punished according to law, and the company's punishment, main negligence and improvement for the internal personnel who violate the internal control system:

1. In the year of 2017 and by the date of printing the annual report, the Company and internal personnel have no punishment case due to major violation of the provisions of internal control system.
2. In addition to strengthening the personnel education and training, this company requests the internal audit personnel to check at any time to reduce the occurrence of negligence.

(XI) In the latest year and by the date of printing the annual report, important resolutions of the board of shareholders and the board of directors:

1. Important resolution content and implementation situation of the general shareholders' meeting in 2017

Date of meeting	Important resolution
June 22, 2017	(1) Pass and approve 2016 business report and financial statement. (2) Pass and approve 2016 surplus distribution plan. Implementation situation: Specify August 2, 2017 as the ex-dividend base date, and August 16, 2017 as the payment date (NT\$10 distributed as cash dividend for each share), which is the same with the resolution of general shareholders' meeting. (3) Pass the revision of some clauses of "Articles of Association". Implementation situation: Approved by NS Zi No. 1060016617 of Southern Taiwan Science Park Administration of Ministry of Science

	<p>and Technology on July 4, 2017, and announced on the company website.</p> <p>(4) Pass the amendments of “Procedures for Acquisition or Disposal of Assets”.</p> <p>(5) Proposal of election for 7<sup>th</sup> period of board director and supervisor.</p> <p>A. Election list:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%;">Name</th> <th style="width: 15%;">Registered No. or ID No.</th> <th style="width: 40%;">Election List</th> <th style="width: 20%;">Election Rights</th> </tr> </thead> <tbody> <tr> <td>Board director</td> <td>1</td> <td>CHEN LI-FEN</td> <td>46,576,491</td> </tr> <tr> <td>Board director</td> <td>2</td> <td>HSU MING-CHE</td> <td>44,358,828</td> </tr> <tr> <td>Board director</td> <td>157</td> <td>LI AN</td> <td>39,797,998</td> </tr> <tr> <td>Board director</td> <td>35</td> <td>WANG CHEN PI-HSIA</td> <td>39,286,565</td> </tr> <tr> <td>Board director</td> <td>25</td> <td>CHENG SHENG-FEN</td> <td>38,840,463</td> </tr> <tr> <td>Independent director</td> <td>R120*****</td> <td>WEI NAI-CHANG</td> <td>38,597,495</td> </tr> <tr> <td>Independent director</td> <td>Y120*****</td> <td>HO MING-YU</td> <td>36,791,638</td> </tr> <tr> <td>Independent director</td> <td>201</td> <td>WU CHUNG-JEN</td> <td>36,717,058</td> </tr> <tr> <td>Supervisor</td> <td>64</td> <td>KUANG HIS-HUI</td> <td>40,125,004</td> </tr> <tr> <td>Supervisor</td> <td>23</td> <td>TSENG HSU-WEN</td> <td>40,120,817</td> </tr> <tr> <td>Supervisor</td> <td>9</td> <td>LI MEI</td> <td>40,116,630</td> </tr> </tbody> </table> <p>B. Implementation situation: Approved by NS Zi No. 1060016617 of Southern Taiwan Science Park Administration of Ministry of Science and Technology on July 4, 2017, and announced on the company website</p> <p>(6) Pass the proposal of relief of new directors from non-competition restrictions.</p>	Name	Registered No. or ID No.	Election List	Election Rights	Board director	1	CHEN LI-FEN	46,576,491	Board director	2	HSU MING-CHE	44,358,828	Board director	157	LI AN	39,797,998	Board director	35	WANG CHEN PI-HSIA	39,286,565	Board director	25	CHENG SHENG-FEN	38,840,463	Independent director	R120*****	WEI NAI-CHANG	38,597,495	Independent director	Y120*****	HO MING-YU	36,791,638	Independent director	201	WU CHUNG-JEN	36,717,058	Supervisor	64	KUANG HIS-HUI	40,125,004	Supervisor	23	TSENG HSU-WEN	40,120,817	Supervisor	9	LI MEI	40,116,630
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## 2. Important resolution of the board of directors

Meeting Name	Meeting Date	Important Resolution
Board meeting	January 20, 2017	<p>(1) Pass the 2016 year-end bonus distribution for the managers reviewed by the compensation committee.</p> <p>(2) Pass the amendments of Code of Practice for Corporate Governance, Code of Practice for CSR, Professional Accounting Judgment Procedure, Accounting Policy and Estimate Change Procedure.</p> <p>(3) Pass the proposal of changing CPA and CPA's independence assessment.</p> <p>(4) Pass the proposal of changing indirect investment for Chieftek Precision USA Co., LTD into direct investment.</p> <p>(5) Pass the proposal of cancellation of endorsement and guarantee for subsidiaries.</p> <p>(6) Pass the application for financing limit to the bank.</p>

Board meeting	March 23, 2017	<p>(1) Pass the 2016 annual bonus distribution for the directors, supervisors and employees reviewed by the compensation committee.</p> <p>(2) Pass the 2016 business report and financial report.</p> <p>(3) Pass the 2016 surplus distribution plan.</p> <p>(4) Pass the 2016 “Internal Control System Statement”.</p> <p>(5) Pass the amendments of “Procedures for Acquisition or Disposal of Assets”.</p> <p>(6) Pass the proposal of re-electing directors and supervisors.</p> <p>(7) Pass the proposal of relief of directors from non-competition restrictions.</p> <p>(8) Pass the proposal of convening 2016 general shareholders’ meeting of this company.</p> <p>(9) Pass the 2017 budget proposal of this company.</p> <p>(10) Pass the proposal of setting up special (concurrent) unit for corporate governance.</p> <p>(11) Pass the proposal of increase of endorsement and guarantee for reinvestment in subsidiaries.</p> <p>(12) Pass the application for financing limit to the bank.</p>
Board meeting	May 09, 2017	<p>(1) Pass the proposal of changing official vehicles for Chairman and General Manager.</p> <p>(2) Pass the proposal of reviewing candidates of independent directors according to laws.</p> <p>(3) Pass the amendments of Articles of Associations.</p> <p>(4) Pass the proposal of adding reason for convening 2017 general shareholders’ meeting.</p> <p>(5) Pass the adjustment of schedule for Project of Plant Construction on the Land of Tree Valley Park and the budget proposal.</p> <p>(6) Pass the increase of endorsement and guarantee for reinvestment in subsidiaries.</p> <p>(7) Pass the proposal of entrusting E.SUN Bank as the arranger to organize the syndicated loan bank club, and applying the loan with the total amount of NT\$1 billion granted by the syndicated loan bank club.</p> <p>(8) Pass the application for financing limit to the bank.</p>
Board meeting	June 22, 2017	Elect CHEN LI-FEN as the 7 <sup>th</sup> chairman.
Board meeting	July 11, 2017	<p>(1) Pass the proposal of modification of “policy of internal control”.</p> <p>(2) Pass the proposal of member election of 3<sup>rd</sup> compensation committee.</p> <p>(3) Pass related-proposal of setting ex-dividend date.</p> <p>(4) Pass proposal of establishing subsidiaries through re-investment.</p> <p>(5) Pass the proposal of adjusting endorsement and guarantee for re-invested subsidiaries.</p> <p>(6) Pass the application for financing limit to the bank.</p>



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Board meeting	August 09, 2017	(1) Pass the 2016 year-end bonus distribution by managers for the employees reviewed by the compensation committee. (2) Pass the 2016 annual bonus distribution for the directs and supervisors reviewed by the compensation committee. (3) Pass the proposal of purchasing factory in subsidiaries. (4) Pass the application of financial limit to the bank by subsidiaries and providing endorsement and guarantee for subsidiaries. (5) Pass the proposal of providing financing limit for subsidiaries. (6) Pass the application for financing limit to the bank.
Board meeting	October 31, 2017	(1) Pass the proposal of specify “2017 audit plan”. (2) Pass the proposal of reducing financing limit for subsidiaries. (3) Pass the modification of cooperation contract with subsidiaries. (4) Pass the proposal of increasing financing limit for subsidiaries of the company. (5) Pass the application for financing limit to the bank.
Board meeting	December 17, 2017	(1) Pass the amendments of “organization article of compensation committee”. (2) Pass the evaluation proposal of CPA’s independence assessment. (3) Pass the amendments of “meeting code of board meetings”. (4) Pass the proposal of specifying the “duty code of independent directors” of the company.
Board meeting	February 09, 2018	(1) Pass the 2017 year-end bonus distribution for the managers. (2) Pass the regulation inspection of 2017 salary, bonus rewards and others of managers. (3) Pass the modification of the code of managers’ salary and bonus rewards and inspection of managers’ salary adjusting. (4) Pass the treasury stock shall be cancelled and specify the base date of reduction capital, while the treasure stock purchase by company and didn’t transfer to employees in the period of 3 years. (5) Pass the proposal of establish the “performance evaluation method of board directors” of company. (6) Pass the application for financing limit to bank,
Board meeting	March 09, 2018	(1) Pass the 2017 salary for the directors, supervisors and salary distribution for employees review by the compensation committee. (2) Pass the proposal of 2017 “efficiency audit of internal control system” and “statement of internal control system”. (3) Pass the 2017 business report and Financial report. (4) Pass the proposal of convening 2018 general shareholders’ meeting of this company. (5) Pass the 2018 budget proposal of this company. (6) Pass the proposal of increase of endorsement and guarantee for reinvestment in subsidiaries. (7) Pass the application for financing limit to the bank.
Board meeting	April 16, 2018	(1) Pass the 2017 surplus distribution plan. (2) Pass the 2017 surplus transferred to common stock with issue new shares. (3) Pass the amendments of “Articles of Associations”. (4) Pass the proposal of adding reason for convening 2018 general shareholders’ meeting. (5) Pass the application for financing limit to the bank.

annual report, the directors or supervisors have different opinions for the important resolution passed by the board of directors, and there are records or written declarations

of its main content: None.

(XIII) From the nearest year to the print date of annual report, summary of dismissal and separation of chairman, general manager, accounting supervisor, financial executive, internal audit supervisor and R&D supervisor, etc. of the company: None.

#### IV. Information of the accountant's public expense

Name of accounting firm	Name of accountant		Check period	Remarks
PricewaterhouseCoopers Taiwan	LIN TZU-YU	LIU TZU-MEN G	2016	
PricewaterhouseCoopers Taiwan	LIN YONG-ZHI	LIN TZU-YU	2017	Cooperate with the internal organization adjustment of PricewaterhouseCoopers Taiwan.

(I) Class interval table of information of the accountant's public expense:

Unit: NT\$ in thousand

Item of public expense		Audit public expense	Non-audit public expense	Total
Amount class interval				
1	Below NT\$2,000 thousand	-	274	274
2	NT\$2,000 thousand (included) ~NT\$4,000 thousand	3,200	-	3,200
3	NT\$4,000 thousand (included) ~NT\$6,000 thousand	-	-	-
4	NT\$6,000 thousand (included) ~NT\$8,000 thousand	-	-	-
5	NT\$8,000 thousand (included) ~NT\$10,000 thousand	-	-	-
6	Above NT\$10,000 thousand (included)	-	-	-
Total		3,200	274	3,474

(II) If the non-audit public expense paid to the certified accountant, the certified accountant affiliated firm and its associated enterprise is more than 1/4 of the audit public expense, the amount of audit and non-audit public expense and the content of non-audit service shall be disclosed: No such situation.

Unit: NT\$ in thousand

Name of accounting firm	Name of accountant	Audit public expense	Non-audit public expense					Check period of the accountant	Remarks
			System design	Industrial and commercial register	Human resource	Others	Subtotal		
PricewaterhouseCoopers	LIN YONG-	3,200	-	15	-	259	3,474	January 1~December	Transfer pricing report 200,

Taiwan	ZHI							ber 31,	capital increase
	LIN TZU-YU							20171	out of earnings and others 54.

(III) If the accounting firm is changed and the audit public expense paid in the year of change is less than the audit public expense of the previous year of change, the decreased amount, proportion and reason before and after the change shall be disclosed: No such situation.

(IV) If the audit public expense is decreased of more than 15% compared with that of the previous year, the decreased amount, proportion and reason of the audit public expense shall be disclosed: No such situation.

**V. Information of change of CPA: Please refer to IV. Audit Public Expense**

**VI. Information of the company's chairman, general manager, manager in charge of finance or accounting affairs working in the certified accountant affiliated firm or its associated enterprise in the recent one year: None.**

**VII. From the nearest year to the print date of annual report, circumstance of changes in equity transfer and equity change of the directors, supervisors, managers and shareholders who hold more than 10% shares:**

(I) Circumstances of changes in equity of directors, supervisors, managers and Substantial shareholders:

Unit: Share

Title	Name	2017		Current year to April 27	
		Number of increase (decrease) of shares held	Number of increased (decrease) of shares pledged	Number of increase (decrease) of shares held	Number of increased (decrease) of shares pledged
Chairman	CHEN LI-FEN	0	0	0	0
Director & General manager	HSU MING-CHE	0	0	0	0
Director	CHENG SHENG-FEN	0	0	0	0
Director	WANG CHEN PI-HSIA	(25,000)	0	0	0

Director	LI AN	0	0	0	0
Independent director (Note 1)	CHEN-SHU	0	0	0	0
Independent director	WU CHUNG-JEN	0	0	0	0
Independent director	WEI NAI-CHANG	0	0	0	0
Independent director (Note 1)	HO MING-YU	0	0	0	0
Supervisor	KUANG HIS-HUI	0	0	0	0
Supervisor	TSENG HSU-WEN	0	0	0	0
Supervisor	LI MEI	(18,000)	0	0	0
Manager	CHEN MIN-CHANG	0	0	(23,000)	0
Manager	PENG CHIUNG-YIN	0	0	0	0
Financial executive & Accounting supervisor	LI PAI-TSANG	(5,000)	0	0	0

Note 1: Re-election of directors and supervisors on shareholders' meeting held in June 22, 2017. Mr. CHEN SHU Independent director was re-elected by Mr. HO MING-YU. Mr. CHEN-SHU.

Note 2: This company has no substantial shareholder who holds more than 10% shares.

(II) Equity transfer information:

Name	Equity transfer reason	Trading date	Trading counterpart	Relationship of the trading counterpart and the company director, supervisor, shareholder who holds more than 10% shares	Number of shares	Trading price
Director – WANG CHEN PI-HSIA	Disposal (Donation)	December 26, 2017	WANG WEI-TING	Mother and son	25,000	86.4

(III) Equity pledge information: None.

**VIII. Information of the shareholder whose shareholding ratio ranks top 10, mutual relation of related person or spouse, domestic relation of parents or closer**

April 27, 2018

Name	Shares personally held		Shares held by spouse, minor child		Total shares held in the name of other		Mutual relation of related person or spouse, domestic relation of parents or closer among the first ten substantial shareholders, their designation or name and relation		Remark
	Number of shares	Share holding ratio	Number of shares	Share holding ratio	Number of shares	Share holding ratio	Designation (or name)	Relation	
HSU MING-CHE	4,057,701	6.87%	2,655,805	4.50%	0	0%	CHEN LI-FEN	Spouse	
CHEN LI-FEN	2,655,805	4.50%	0	0%	0	0%	HSU MING-CHE Deneng	Spouse Chairman of this	

							Sunshine Investment Co., Ltd. Deyuan Management Consulting Co., Ltd.	company Chairman of this company	
FUBON LIFE INSURANCE CO., LTD.	2,480,000	4.20%	0	0%	0	0%	Nil	Nil	
DAVID ENTERPRISE CO., LTD.	2,434,747	4.12%	0	0%	0	0%	NIL	Nil	
DENENG SUNSHINE INVESTMENT CO., LTD.	1,289,630	2.18%	0	0%	0	0%	CHEN LI-FEN	Chairman of this company	
WANG CHANG-FENG	1,084,267	1.84%	425,350	0.72%	0	0%	Nil	Nil	
DEYUAN MANAGEMENT CONSULTANTS CO., LTD.	881,290	1.49%	0	0%	0	0%	CHEN LI-FEN	Chairman of this company	
LI AN	782,030	1.32%	0	0%	0	0%	Nil	Nil	
WU PEI-FENG	775,505	1.31%	375,445	0.64%	0	0%	Nil	Nil	
CHEN JIA-HAO	760,857	1.29%	0	0%	0	0%	Nil	Nil	

**IX. Number of shares held for the same reinvestment business by the company's director, supervisor, manager and the company's directly or indirectly controlled business, and combined calculation of the comprehensive shareholding ratio:**

April 27, 2018  
Unit: Shares; %

Reinvestment business (Note)	Investment of this company		Investment of the director, supervisor, manager and directly or indirectly controlled business		Comprehensive investment	
	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)
CHIEFTEK PRECISION HOLDING CO., LTD.	6,760,000	100.00	-	-	6,760,000	100.00

CHIEFTEKPRECISION (HONG KONG) CO.,LTD.	5,100,000	100.00	-	-	5,100,000	100.00
CHIEFTEK PRECISION USA CO.,LTD.	1,660,000	100.00	-	-	1,660,000	100.00
CHIEFTEK MACHINERY (KUNSHAN) CO., LTD.	Non-joint-stock system	100.00	-	-	Non-joint-stock system	100.00
cpc Europa GmbH	Non-joint-stock system	100.00	-	-	Non-joint-stock system	100.00
CSM Maschinen GmbH	Non-joint-stock system	80.00	-	-	Non-joint-stock system	80.00
Chieftek Precision International LLC	Non-joint-stock system	100.00	-	-	Non-joint-stock system	100.00

Notes: It is investment accounted for under equity method.

### III. Fundraising Circumstance

#### I. Capital and shares

##### (I) Source of capital stock

Unit: NT\$ in thousand/Share in thousand

MM/YY	Issue price	Authorized capital stock		Paid-in capital stock		Remarks		
		Number of shares	Amount	Number of shares	Amount	Source of shares	Number of shares	Amount
October 1998	10	500	5,000	500	5,000	Cash establishment of capital stock	Nil	Note 1
October 1999	10	2,500	25,000	2,500	25,000	Increment of cash NT\$20,000 thousand	Nil	Note 2
April 2000	10	4,120	41,200	4,120	41,200	Increment of cash NT\$16,200 thousand	Nil	Note 3
September 2000	10	9,900	99,000	9,900	99,000	Increment of cash NT\$57,800 thousand	Nil	Note 4
July 2001	10	15,000	150,000	15,000	150,000	Increment of cash NT\$51,000 thousand	Nil	Note 5
July 2002	10	21,000	210,000	21,000	210,000	Tech stock NT\$ 60,000 thousand	Tech stock 6,000,000 shares	Note 6
August 2003	18	27,000	270,000	27,000	270,000	Increment of cash NT\$ 60,000 thousand	Nil	Note 7
October 2003	18	29,000	290,000	29,000	290,000	Increment of cash NT\$20,000 thousand	Nil	Note 8
January 2004	18	36,000	360,000	34,000	340,000	Increment of cash NT\$50,000 thousand	Nil	Note 9
March 2004	18	36,000	360,000	36,000	360,000	Increment of cash NT\$20,000 thousand	Nil	Note 10
December 2009	30	50,000	500,000	36,056	360,560	Increment of cash NT\$560 thousand	Nil	Note 11

MM/YY	Issue price	Authorized capital stock		Paid-in capital stock		Remarks		
		Number of shares	Amount	Number of shares	Amount	Source of shares	Number of shares	Amount
November 2010	10	50,000	500,000	37,859	378,588	Capital increase by transferring of surplus NT\$18,028 thousand	Nil	Note 12
September 2011	10	50,000	500,000	40,888	408,875	Capital increase by transferring of surplus NT\$30,287 thousand	Nil	Note 13
December 2011	83	50,000	500,000	43,388	433,875	Increment of cash NT\$25,000 thousand	Nil	Note 14
April 2012	24	50,000	500,000	44,008	440,079	Employee stock options NT\$6,204 thousand	Nil	Note 15
December 2012	10	50,000	500,000	48,409	484,087	Capital increase by transferring of surplus NT\$44,008 thousand	Nil	Note 16
January 2013	40	80,000	800,000	53,042	530,417	Increment of cash NT\$46,330 thousand	Nil	Note 17
January 2013	24	80,000	800,000	53,297	532,973	Employee stock options NT\$2,556 thousand	Nil	Note 18
September 2013	10	80,000	800,000	55,962	559,622	Capital increase by transferring of surplus NT\$26,649 thousand	Nil	Note 19
March 2014	24	80,000	800,000	56,208	562,086	Employee stock options NT\$ 2,464 thousand	Nil	Note 20
June 2014	10	80,000	800,000	59,019	590,190	Capital increase by transferring of surplus NT\$28,104 thousand	Nil	Note 21
December 2014	24	80,000	800,000	59,234	592,338	Employee stock options NT\$ 2,148 thousand	Nil	Note 22



MM/YY	Issue price	Authorized capital stock		Paid-in capital stock		Remarks		
		Number of shares	Amount	Number of shares	Amount	Source of shares	Number of shares	Amount
August 2016	10	80,000	800,000	62,045	620,455	Capital increase of NT\$ 28,117 thousand	Nil	Note 23
February 2018	10	80,000	800,000	59,045	590,455	Capital reduction of Treasury Stock NT\$30,000 thousand	Nil	Note 24

Note 1: Approval of JY Zi No. 87340468 of Construction Bureau of Taipei City Government on October 19, 1998.  
Note 2: Approval of BSJSE Zi No. 88345971 of Construction Bureau of Taipei City Government on October 25, 1999.  
Note 3: Approval of BSJSE Zi No. 89280975 of Construction Bureau of Taipei City Government on April 28, 2000.  
Note 4: Approval of BSJSE Zi No. 89325503 of Construction Bureau of Taipei City Government on September 27, 2000.  
Note 5: Approval of J(2001)S Zi No. 09001228200 of Civil Services of Doc, MOEA on July 3, 2001.  
Note 6: Approval of J(2002)S Zi No. 09101304180 of Civil Services of Doc, MOEA on July 31, 2002.  
Note 7: Approval of JSZ Zi No. 09232488100 of Civil Services of Doc, MOEA on August 8, 2003.  
Note 8: Approval of JSZ Zi No. 09232808800 of Civil Services of Doc, MOEA on October 20, 2003.  
Note 9: Approval of JSZ Zi No. 09331593930 of Civil Services of Doc, MOEA on January 29, 2004.  
Note 10: Approval of JSZ Zi No. 09331877650 of Civil Services of Doc, MOEA on March 29, 2004.  
Note 11: Approval of NS Zi No. 0980028767 of Southern Taiwan Science Park Administration on December 25, 2009.  
Note 12: Approval of NS Zi No. 0990024356 of Southern Taiwan Science Park Administration on November 5, 2010.  
Note 13: Approval of NS Zi No. 1000023845 of Southern Taiwan Science Park Administration on September 23, 2011.  
Note 14: Approval of NS Zi No. 1000029971 of Southern Taiwan Science Park Administration on December 6, 2011.  
Note 15: Approval of NS Zi No. 1010007820 of Southern Taiwan Science Park Administration on April 6, 2012.  
Note 16: Approval of NS Zi No. 1010026797 of Southern Taiwan Science Park Administration on October 30, 2012.  
Note 17: Approval of NS Zi No. 1020000730 of Southern Taiwan Science Park Administration on January 11, 2013.  
Note 18: Approval of NS Zi No. 1020003932 of Southern Taiwan Science Park Administration on February 18, 2013.  
Note 19: Approval of NS Zi No. 1020022718 of Southern Taiwan Science Park Administration on September 11, 2013.  
Note 20: Approval of NS Zi No. 1030007680 of Southern Taiwan Science Park Administration of Ministry of Science and Technology on March 28, 2014.  
Note 21: Approval of NS Zi No. 1030022837 of Southern Taiwan Science Park Administration of Ministry of Science and Technology on September 5, 2014.  
Note 22: Approval of NS Zi No. 1040001256 of Southern Taiwan Science Park Administration of Ministry of Science and Technology on January 15, 2015.  
Note 23: Approval of NS Zi No. 1050023001 of Southern Taiwan Science Park Administration of Ministry of Science and Technology on September 07, 2016.  
Note 24: Approval of NS Zi No. 1070006680 of Southern Taiwan Science Park Administration of Ministry of Science and Technology on February 27, 2018.

## (II) Shares and capital

April 27, 2018/Unit: Share

Stock class	Authorized capital stock (Note 1)			Remark
	Outstanding stock	Unissued Stock	Total	
Registered common stock(stock of over-the counter stock)	59,045,489	60,954,511	120,000,000	Limit of employee stock options 3,000,000 shares

Note 1: On June 25, 2015, the general shareholders' meeting passed the amendments of the Articles of Association and increase of the nominal capital amount to NT\$1,200,000 thousand (120,000,000 shares), which had obtained the approval of NS Zi No. 1050023001 Letter of Southern Taiwan Science Park Administration of Ministry of Science and Technology on September 7, 2016 (except the increase of capital sum in Article 5 of the articles of association that will not be registered temporarily).

Note 2: Relevant information of summary of reporting system: Not applicable.

## (III) Shareholder structure

April 27, 2018/Unit: Share

Shareholder structure Quantity	Government agency	Financial institution	Other legal person	Individual	Foreign institutions and foreigners	Total
Number of people	0	0	80	7,231	21	7,232
Number of shares held	0	0	14,983,785	41,471,878	2,589,826	59,045,489
Shareholding ratio	0.00%	0.00%	25.38%	70.23%	4.39%	100.00%

Note: This company has no capital investment from China.

## (IV) Shares distribution circumstance

April 27, 2018/Unit: share

Grouping of shares held	Number of shareholders	Number of shares held	Shareholding ratio
1~999	1,386	240,062	0.41%
1,000~5,000	5,238	8,323,638	14.10%
5,001~10,000	331	2,652,364	4.49%
10,001~15,000	86	1,084,618	1.84%
15,001~20,000	52	962,535	1.63%
20,001~30,000	47	1,201,884	2.04%
30,001~50,000	42	1,731,229	2.93%
50,001~100,000	58	4,153,660	7.03%
100,001~200,000	36	5,452,609	9.23%
200,001~400,000	33	9,251,529	15.67%
400,001~600,000	10	4,703,354	7.97%
600,001~800,000	6	4,404,567	7.46%
800,001~1,000,000	1	881,290	1.49%
Above 1,000,001	6	14,002,150	23.71%
Total	7,332	59,045,489	100.00%

## (V) List of major shareholders

Name, number of shares held and shareholding ratio of the shareholders whose equity proportion reaches more than 5% shares or whose equity proportion ranks top 10:

April 27, 2018/Unit: Share

Name of major shareholders	Number of shares held	Shareholding ratio
HSU MING-CHE	4,057,701	6.87%
CHEN LI-FEN	2,655,805	4.50%
FUBON LIFE INSURANCE CO., LTD.	2,480,000	4.20%
DAVID ENTERPRISE CO., LTD.	2,434,747	4.12%
DENENG SUNSHINE INVESTMENT CO., LTD.	1,289,630	2.18%
WANG CHANG-FENG	1,084,267	1.84%
DEYUAN MANAGEMENT CONSULTING CO., LTD.	881,290	1.49%
LIAN	782,030	1.32%
WU PEI-FEN	775,505	1.31%
CHEN JIA-HAO	760,857	1.29%

## (VI) Market price, net value, surplus, dividend of each share and relevant data in recent two years

Item	Year		2016	2017	Current year to April 27, 2018
	Market price of each share (Note 1)	Highest		40.05	109.00
Lowest		24.35	30.70	86.70	
Average		32.47	73.41	148.06	
Net value of each share (Note 2)	Before distribution		21.89	24.66	21.88
	After distribution		20.94	(註 9)	Not applicable
Surplus of each share	Weighted average number of shares		59,046	59,046	59,046
	Surplus of each share (Note 3)	Before adjustment	1.45	4.03	1.69
		After adjustment	1.45	(Note 9)	Not applicable
Dividend of each share	Cash dividend		1.00	(Note 9)	Not applicable
	Stock grants	Stock Dividend from Retained Earnings	-	(Note 9)	Not applicable
		Stock Dividend from Capital Reserve	-	(Note 9)	Not applicable
	Cumulative unpaid dividend (Note 4)		-	-	-
Analysis investment reward	Price-earning ration (Note 5)		20.76	14.78	21.21
	Price-dividend ratio (Note6)		60.20	59.56	Not applicable
	Yield to maturity of cash dividend (Note 7)		1.66%	1.68%	Not applicable

\* In case of the allotment of shares through transfer of surplus or capital reserve to increase the capital, the market price and cash dividend information of the issued shares retroactively adjusted shall be disclosed.

Note 1: List the highest and lowest market price of common stock of each year, and calculate the average market price of each year according to the trading value and trading volume of each year.

Note 2: Please fill in based on the number of shares issued at the end of the year and the resolution of distribution of the board of shareholders in next year.

Note 3: If the retroactive adjustment is required due to stock grants, etc., the surplus of each share before and after adjustment shall be listed.

Note 4: If the issuance condition of equity securities requests the unissued dividend of that year should be accumulated to the issuance of surplus year, the cumulative unissued dividend by the end of current year shall be respectively disclosed.

Note 5: Price-earning ratio=Average closing price of each share of current year / Surplus of each share.

Note 6: Price-dividend ratio=Average closing price of each share of current year / Cash dividend of each share.

Note 7: Yield to maturity of cash dividend=Cash dividend of each share / Average closing price of each share of current year.

Note 8: The net value of each share, surplus of each share shall be filled in with the data checked (checked and approved) by the accountant in the nearest quarter by the end of print date of annual report, while the rest of field shall be filled in with the data of current year by the end of print date of annual report.

Note 9: 2017 surplus distribution plan has not passed by 2018 general shareholders' meeting.

(VII) Dividend policy and performance situation of the company

1. Dividend policy:

The general final accounts of current year of this company shall be distributed according to the following order in case of surplus:

- (1) Pay duties and taxes.
- (2) Cover the deficit.
- (3) Withdraw 10% as the statutory surplus reserve.
- (4) If necessary, withdraw or transfer back the special surplus reserve in accordance with the provisions of laws or competent authorities.
- (5) For the balance after deduction of the amount withdrawn from the above four items, as well as the undistributed surplus of the previous years, the board of directors shall draft a distribution proposal, and submit it to the shareholders' meeting to decide whether to distribute the shareholder dividend or reserve it, but the dividend distribution amount shall not be lower than 20% of the remaining amount after deduction of the profit of current year according to the provisions of above paragraph 1~4.

In order to continuously expand the operation scale, enhance the competitive strength, and cooperate with the company's long-term business development, future fund demand and long-term financial planning, the dividend distribution policy shall give priority to stock dividend and collocation of part of the cash dividend. The cash dividend distribution sum shall not be lower than 10% of the sum of shareholder dividend to be distributed.

2. Implementation situation:

The company's 2017 surplus distribution plan had been passed by the resolution of the board of directors on April 16, 2018. Please refer to the following table for 2017 surplus distribution table.

CHIEFTEK PRECISION CO., LTD.  
Surplus distribution table  
2017

Unit: NT\$

Item	Amount	
	Subtotal	Total
Undistributed surplus balance at the beginning of the period		\$ 260,822,750
Decrease: Actuarial losses of defined benefit plans		( 1,063,449)
Reserved surplus at the beginning of the period after adjustment		259,759,301
Distributable surplus available of this year		
Current net income after tax	238,170,742	
Decrease: Drawing of 10% statutory surplus reserve	( 23,817,074)	
Decrease: Drawing of special surplus reserve	( 6,439,384)	
Cumulative distributable surplus		<u>207,914,284</u>
Listed allotment of this year		
Shareholder dividend-Cash (distribution of NT\$1.0 for each share)		467,673,585
Shareholder bonus-Stock share (distribution of NT\$2.5 for each share)	( 59,045,489)	
Subtotal of distribution amount	( 147,613,730)	
Distribution surplus balance		<u>(206,659,219)</u>

		<u>\$261,014,366</u>
Notes:		
<ol style="list-style-type: none"> <li>1. The surplus distribution for this time will give priority to distribution of 2017 surplus.</li> <li>2. The cash dividend shall be calculated according to the shareholding ratio of shareholders recorded in the shareholders ledger on the dividend distribution base date, until distributed to NT\$1 (neglecting all those less than NT\$1). After the above dividend distribution is passed by the general meeting of shareholders, the board of directors shall be authorized to further arrange the dividend distribution base date and designate special persons for handling all the cash dividend of less than NT\$1.</li> </ol>		

(VIII) Effects of the stock grants proposed by the board of shareholders for this time on the company's business performance and surplus of each share:

1. Financial forecasting was not published in 2018, so this is not applicable.
2. The company passes the proposal of 2017 surplus distribution approved by board meeting held on April 16, 2017. Capital surplus transferred to common stock is NT\$147,613,730 (distributed 250 shares per thousand share), paid-in capital is NT\$738,068,620, after increase capital. Surplus per share is NT\$4.03 in 2017, and surplus per share is NT\$3.22 after adjustment, the reduce proportion is around 20%. However,
  - (1) The business of the company in the future will going to grow up continuously.
  - (2) New factory in Tree Valley Park is under constructor now, it is highly required the long-term capital to support.
  - (3) After the construction of new factory is finish, shall grow up the business development of company through increased production capability.

(IX) Remuneration of employees, directors and supervisors:

1. Percentage or range of remuneration of employees, directors and supervisors specified in the Articles of Association:

According to the Articles of Association, this company should distribute 3%-8% of profit of current year to reward employees, and should distribute no more than 3% of profit of current year to reward directors and supervisors. But when the company has accumulated loss, it should be covered. The employee remuneration should be distributed in cash or stock, and those who are distributed with cash or stock should include the employees of the affiliates that meet certain conditions. These certain conditions should be formulated by the board of directors.

2. Accounting treatment on difference between the estimation basis for estimation of remuneration amount of employees, directors and supervisors, shares calculation basis for employee remuneration distributed in stock, actually distributed amount, and the estimated amount of current period:

In accordance with the provisions of (2007) JM Zi No. 052 Letter released by Accounting Research and Development Foundation of the Republic of China in March 2007, this Company should take the employee bonus, remuneration of directors, supervisors as the expenses, instead of surplus distribution. For the remuneration of directors, supervisors and employee bonus of current period, if the actually distributed amount through the resolution of the board of shareholders differs from the estimated amount, it will be regarded as changes in accounting estimate, and listed as the profit/loss of 2018. 2017 EPS has fully reflected the effects of employee bonus, remuneration of directors, supervisors on profit-making, thus this will not affect the estimated calculation of EPS.

3. Circumstance of passing the remuneration distribution by the board of directors:

- (1) Employee remuneration and remuneration amount of directors, supervisors distributed in cash or stock: In case of difference with the annual estimated amount of recognized expenses, the difference amount, reason and treatment shall be disclosed:

This Company passed the remuneration of employee and remuneration of directors and supervisors through the resolution of the board of directors on April 16, 2018, shows as following:

A. This Company plans to distribute the remuneration of directors, supervisors of NT\$7,087,085 in cash, which equals 2.30% of the year profit situation. The estimated amount listed on the account book was NT\$5,000,000 for the directors and supervisors was increased by NT\$2,087,085. This was listed as the profit/loss of 2018.

B. The Company plans to distribute the remuneration of employee NT\$24,654,126 in cash, which equals 8% of the current year profit situation. The estimated amount listed on the account book was NT\$ 24,686,767 for the employee was decreased by NT\$ 32,641 元. This was listed as the profit/loss in 2018.

- (2) Amount of employee remuneration distributed in stock and proportion occupied in sum of individual or individual financial reporting profit (loss) for the year and total amount of employee remuneration of current period: The cash method is adopted for this time, therefore it is not applicable.

4. Circumstance of actual distribution of remuneration of employee, directors and supervisors of the previous year (including the number of shares distributed, amount and share price), any difference with the recognized remuneration of employees, directors and supervisors, and detailed description of different amount, reason and treatment:

- (1) The employee bonus actually distributed by this company in 2016 was NT\$ 8,975,293.  
 (2) The remuneration of directors and supervisors actually distributed by this company in 2016 was NT\$ 3,365,735.  
 (3) The original board of directors passed the employee bonus, remuneration of directors and supervisors of 2016, and such remuneration was distributed to employees, directors and supervisors in 2017; meanwhile, the proposed distribution amount passed by the original board of directors was same with the actually distributed amount.

(X) Circumstance of repurchase of this company's shares:

Repurchase time	First time (period)
Repurchase purpose	Transfer shares to employees.
Repurchase period	From November 12, 2014 to January 9, 2015
Price range of repurchase	NT\$ 22.30 to NT\$50.40 元 for each share
Class and quantity of repurchased shares	Common stock of 3,000,000 shares.
Amount of repurchased shares	NT\$118,543,503 元
Quantity of shares having already been handled with elimination and transfer	Common stock of 3,000,000 shares.
Quantity of shares of this company cumulatively held	0 share
Ratio (%) of quantity of shares of this company cumulatively held in total shares issued	0%

**II. Corporate bonds handling circumstance: None.**

**III. Special stock handling circumstance: None.**

**IV. Handling circumstance of Global Depositary Receipts (GDR): None.**

**V. Employee subscription right voucher and circumstance of restriction on handling the employee right offering:**

(I) Circumstance of handling the company's unexpired employee subscription right voucher: None.

(II) Accumulated to the print date of annual report, name, obtaining and subscription circumstance of the manager who obtains the employee subscription right voucher and the employee who obtains the voucher, and can subscribe top 10 shares: None.

(III) Circumstance of handling the private employee subscription right voucher in recent three years: None.

(IV) Circumstance of restriction on handling the employee right offering in the nearest year to the print date of annual report: None.

**VI. Circumstance of handling of new issue of shares with merger or assignee of other corporate stock: None.**

**VII. Funds application plan performance circumstance:**

This company has no issuance or private placement of negotiable security in the previous times that has not been completed or has been completed in the recent three years and the planned benefit has not been shown.

## IV. Operational Highlights

### 1. Business content

(I) Business scope:

1. Business scope:

(1) Main content of the operating business:

CB01990 other mechanical manufacturing industry.

F401010 international trade.

Research, develop, manufacture and sell the following products:

A. Miniature and standard type linear guide.

B. Miniature and standard type linear module.

C. Photovoltaic and semiconductor process equipment.

D. Concurrently engaged in international trade related to the above products.

(2) Business proportion:

Unit: NT\$ in thousand

Product name	2017		2016	
	Amount	%	Amount	%
Linear Guide	1,435,757	96.47%	957,105	97.41%
Linear Motor	52,502	3.53%	25,431	2.59%
Total	1,488,259	100.00%	982,536	100.00%

(3) Commodity (service) items of the company at present:

- A. All series linear guide.
- B. All series linear motor.
- C. Linear motor servo driver.
- D. Linear motor module and subsystem.
- E. Industry robot.
- F. Magnetic encoder component.
- G. DD Motor.
- H. EtherCAT communicative driver.
- I. Anti-interference module for driver.
- J. All series water-cooled linear motor.
- K. Magnetic encoder.

(4) Commodity (service) items of the company in the future:

- A. All series water-cooled linear motor specification expansion.
- B. DD motor series specification expansion.
- C. Driver function expansion.
- D. Encoder communicative string device.
- E. PLC and controller.

2. Industry introduction

(1) Current situation and development of the industry

A. Linear guide

The Linear guide is low friction component that takes the linear motion rolling bearing and guidance as the purpose. The characteristics of the linear guide superiority lie in high load capacity, high service life, high precision, high rigidity, high speed, low



friction resistance, small energy consumption small space, standardization, and low cost.

In the linear motion, the linear guide is main component for load bearing and linearguidance. As the industry has increasing requirements for yield rate, speed and space application, etc., the linear guide must have high load capacity, small energy cimsumption, small space, standardization, low cost and other conditions to meet the industry requirements.

**(A)The linear guide can be divided into the following according to different rolling elements:**

- Ball type linear guide.
- Roller type linear guide.

**(B)According to the size, it can be divided into:**

- Miniature type linear guide (size 1, 2, 3, 5, 7, 9, 12, 15).
- Standard type linear guide (size 15, 20, 25, 30, 35, 45, 55, 65).
- Ultra-large type linear guide (size85, 100, 125).
- Wide type linear guide (size 尺寸 17, 21, 27, 35).

In different areas, and according to different industry types, the linear guide is widely used in the straight-line motion mechanism of precision machinery and equipment, automation equipment, medical instrument, food and aerospace science and technology equipment, etc. Because of the rapid development of mobile phone, tablet personal computer and other handheld type 3C products, the application of its main manufacturing equipment and non-standard automation equipment is continuously increasing, and the requirement for precision and efficiency, etc. of equipment is also relatively increasing. In addition, with the progress of medical technology and other precision equipment, the application of micro machinery is also relatively increasing, and the space application and precision of miniature type linear guide in space also become relatively important. Therefore, the linear guide has a significant impact on precision, efficiency, quality and cost, etc. of equipment and product manufacturing.

As the linear guide is applied to all mechanical equipment needing the linear actuation, each manufacturing industry belongs to the application range.

**(C)It is classified as follows according to the characteristics:**

- High precision requirement: Toolroom machine, measuring instrument, semiconductor equipment.
- High speed requirement: Automation machinery and equipment, toolroom machine, electronic industry machinery, packaging and printing equipment, optoelectronics industry.
- High load requirement: Large-scale toolroom machine, shock absorption system.
- High rigidity requirement: Toolroom machine.
- Miniaturization requirement: Semiconductor equipment, electronic machinery, biotechnology, medical equipment, optoelectronics industry.
- Low noise requirement: Semiconductor equipment, electronic machinery, mechanical arm, measuring instrument.
- Low cost requirement: General industry, mechanical arm, handling machinery.

Those belonging to the bulk include the toolroom machine industry, automation industry, semiconductor packaging equipment, LCD panel and solar cell process equipment, electronic machine, testing and measuring equipment, biomedical instrument, handling equipment, printing machine, wood-working machine, etc.

In 2018, the requirement of new living industry such as 3C products and electric car market is increasing, that brings development of related industry. The equipment required by those industry processing belongs to high-end equipment. The automation of Industry 4.0 has been developed naturally in the market. The performance and reliability of equipment required by either automation equipment or high level industry is more strict, therefore the requirement for accuracy, durability, reliability of key components is improved relatively. It means the price is not the only requirement of key components, but also include reliability and quality which will be the one of key index.

#### **A. Electronic and mechanical components: Motor (generator)**

The motor has a very wide range of types, which is closely related to our daily life, such as 3C and electrical appliances, industrial products of motor vehicles, aerospace, medical, electronics, automatic tools, machines and equipment, etc., that are absolutely necessary.

It can be roughly divided into induction motor, step motor, servo motor, linear motor and even micro motor according to the type, with the power varying from mini Watt to mega Watt.

The advantages and disadvantages of motor performance can be judged from: motor constant (specific value of power/heat), power density (specific value of power/volume), insulating property, waterproofness, durability, reliability, etc.

The latest development trend of motor is intelligent motor currently, which is the new type products accompanied with Industry 4.0. It combines driver and motor, that differs from putting drivers into power control chest which cause increased space required by room layout and wiring layout. The strengths of combination of both by intelligent motor is as follows: system layout is more specific (can correspond to the driver – motor clearly), flexibility of layout is higher, simplified the wiring work and saving space in wire chest. There is this type product in the market in current.

#### **B. Control components:**

Such components include frequency converter, driver, controller (shaft clip), PLC and other accessories, such as communication adapter card, security system module, power supply, relay, switch, wire and cable, etc. The development of controller was focus on processing technique before, Industry 4.0 now emphasizes intergrating “existing” industrial-related technique, data exchanging ability among equipment and process capability of data analysis, and control by intelligent control. Therefore this exhibit onto the products, that the trend of development will focus on the collection and analysis of big data, compatibility cross different equipments and communicate rapidly, good communication quality (low noise interference), strengthen in-build functional development of machinery (for example: more customized function that allowed users to setup “condition-reaction” openly, software module function that easy to use, and so on) to process the received information in time and make the purpose of intelligent control.

#### **C. Sensing components**

There are such components like human’s nerve, including encoder, optical scale, image recognition, accelerometer, gyroscope, strain gauge and other components known very well, and there are all other components that can sense the information of different source, and analyze, conclude it into available signal. With the development of technology, the innovation of this aspect quickly changes at a tremendous pace and is limitless.

Follows development trending of Industry 4.0, the sensing element of various type, higher precision and multi-signal transmitting format is required to match the

requirement of automation equipment, intelligent factory.

#### D. Mechanical components:

Bearing guidance components: Bearing, linear guide. Power transmission components: Gear, rack, belt, oil and gas pressure cylinder, balls crew.

There are many other components of different properties, such as locking joint, leak-proof, braking, spring, etc.

The development of manufacturer means the quantity required by industry robot is increasing. Because industry robot is not just improve the performance, product quality, and also reduce human resource cost. The required performance of industry robot by enterprises is going higher at present, which is expected to increase production performance and product quality in advance. Therefore, modularize of high speed, high precision and intelligence for industry robot is the major development trend.

The key components are critical foundation for the development of industry robots, which also determines the quality of industry robots. Generally, the speed reducer, the motor and driver, plus the controller, account for more than 70% of the cost of the entire industry robot, which are mainly imported from Germany and Japan. Although some enterprises in Taiwan realize the localization, the performance stability, reliability and performance in need of improvement.

In addition, the specifications of 3C products are getting diverse and changing constantly, and even the machine tools that are developed maturely in Taiwan start to think about how to make technological breakthroughs. It gives rise to the application of DD motor technology on the dividing plate of machine tool, which increase the scenarios of using turbo modules and shortens the machining cycle greatly.

In terms of control, the manufacturers of key parts and components have respective advantages of products. Thus, the entire industry gradually improves the machining technology in the way of cooperation and professional labor division. To improve the reliability of the entire cooperation system, it doesn't execute purely based on digital signal, but transforms into communication and transmission. Therefore, the open communication format and operating system platform become key fields for the development of intelligent industry in the following years.

#### (2) Relevance of industry upstream, midstream, downstream

Upstream: Raw material supply: Alloy steel / Stainless steel / Copper wire / Magnet.

Processing industry: Cold drawing, forging, heat treatment, precision cutting processing, PCB panel layout processing, SMT assembly.

Material supply: Precision ball, roller, precision injection molded parts, electronic component (IC component, passive component).

Midstream industry: Manufacturing of linear motion components.

Linear guide, ball screw, linear motor, linear module / stage.

Supporting cooperation industry: Mould designing and manufacturing, special processing machinery.

Precision spindle, high frequency spindle, controller, driver.

Downstream: Toolroom machine industry, automation industry, semiconductor industry.

LCD panel and solar cell industry, electronic industry.

Medical and biotechnology industry, optical instrument industry.

Aerospace and defense industry, general machinery industry.

### 3. Each development trend and competition circumstance of products

#### (1) Product development trend

To become a professional manufacturer of key components for industry robot, **cpc**

plans to continue to develop the following products horizontally:

- A. Linear guide: It will continuously develop the roller-type linear guide with higher load and higher precision. With the exclusive patented technology of **cpc**, it will increase the product life span to the No. 1 in the industry.
- B. Linear motor: Due to the direct drive system, the linear motor is favored by the equipment manufacturers who have high capacity, high precision requirements, and the market acceptance also becomes increasingly high. Although the overall linear motor module is gradually traded in the market, many other experienced customers choose components for self-assembly; both iron core series and ironless series have their respective suitable market. For example, as the ironless series has no cogging force, it has smooth speed ripple, and is especially suitable for application of scanning. As the suction between mobile stator is 0, the mechanism volume can be shortened to save space; while the iron core series has the advantage of high thrust density, it is suitable for using in the occasion of point-to-point motion.

The development roadmap of **cpc** can divide into two directions of manufacture processing:

- a. Special industrial processes:

To develop the miniature motor with the pulling force less than 10N, and the special motor that is applicable to bio-tech and IC packaging processes.

- b. Tool machine processes:

To respond to the increasing demands for the application scenarios of using linear motor on the tool machine, **cpc** has developed the Ironcore linear motor with the maximum pulling force above 20,000N. Moreover, since the temperature of the motor in working affects the machining precision, it designs the cooling device loaded to control temperature rise.

- C. Servo driver: With the arrival of industry 4.0, the demand for industry 3.0 is increasing greatly. The industry 3.0 mainly lies in the capacity of industrial automation, the demand of domestic equipment manufacturers for localized components increases rapidly. CHIEFTEK PRECISION has always been a manufacturer of key components of precision machinery in the internal market; for example, linear guide, linear motor, linear motor module, motor servo driver, and even industry robot are all independently developed and manufactured.

In the aspect of drive control technology, for the linear motor driver, there is almost no completely independently developed product in the domestic, and most of them are matched with the system of Europe and the United States, causing the price competitiveness decreases significantly, and the independent technology is restricted. From the perspective of practical experience, when the marketing strategy of matching with the European driver is adopted, the existing linear motor market development generally concentrates on the sale of complete system, thus the biggest advantage is that the customer can maintain the fixed technology window, but may be also easily closed by the technology like Japanese brands to implement the price bundling, which may reduce the competitiveness on the contrary. For this situation, CHIEFTEK PRECISION will develop the linear motor driver truly meet the market demand with many years' experience in mechanical and

electrical integration. Such driver can not only match with the linear motor module produced by CHIEFTEK, but also can freely match with the linear motor module, linear guid, and optical scale. In addition, by using the existing sales channel, CHIEF PRECISION has established the driver brand of proprietary technology in the domestic,

In the aspect of machinery communication, to adopt information exchanging capability emphasized by Industry 4.0 trend, in addition CANopen communicative interface in the related-industry, CHIEFTEK PRECISION is also developed the driver equip with EtherCAT communicative interface. With efficient and real-time communication performance, EtherCAT is gradually valued and preferred in the industry. Its bottom layer is the architecture of industrial communication protocol based on the Ethernet, which can support multi-axis real-time control function. In view of this, **cpc** will take the driver based on EtherCAT communication as the slave. In the future, it will develop the motion controller with master identity vertically.

D. Driver software function upgrade: Linear motor has high speed, high precision properties, the demand for auxiliary software function of linear motor (such as friction compensation, interference filter) is increased with increased user. Short the response time is become the one of main develop technique for many axial application particularly. Driver software of CHIEFTEK PRECISION is start to support various different type communicative format to realize the string purpose of whole factory system , includes RS232, CANOpen and EtherCAT.

E.Sensor: Sensor like the nerve which make machine can sense outside, in charge of message transmission. One of the key link of intelligent industrialized is how to obtain required information and transmit through whole information network. So the sensor is the critical component to decide whether the data is correct directly. The reliability, resolution and anti-dirt of sensor is the key index of quality. Now CHIEFTEK PRECISION has already develop and mass produce magnetic position sensing component with resolution up to  $0.5\mu$ . In the future, will use the micro mechanic and electronic design, and extend to acceleration ruler, force ruler and sensor-related products. Developing directions are focus as follows:

- a. Higher responding.
- b. Can filter outside noise.
- c. Origin signal is stable (no noise from it own).

F. DD motor:With demand of processing machineincreased, direct drive rotated component (such as DD motor) is one of the develop item in necessary. Now CHIEFTEK PRECISION has developed DR-105 and RP-120 series of DD motor for the demand of light load (such as wafer equipment), high precision to use specifically. CHIEFTEK PRECISION will develop frameless and framed all series DD motors in the future, which can be divided into multi-axial articulate robot, machine tool and automation industry.

G. Communication processing equipment: At the current stage of automation industry, the format of signal is still transmitting by simple digital signal

mostly, correspond to communication method of high-level machine tool , adapt character string package method to raise the reliability of system. Now automation industry is flourishing, the system trends to whole factory network control. CHIEFTEK PRECISION set the development of string adapt chassis as the beginning. The function is output incremental analog or digital differ signal of current encoder to Biss C common rule universal format of the industry and provide to driver and controller for using through this device.

H. PLC and controller: Controller can be divided into two types in the past: PC-based and PLC . The advantage of PC-based is the central processor can operate in hugely and rapidly. And PLC is operate by logic simply, it is more stable but operation speed is slower. Now those two type controllers were obscure with the industry developing. PLC is evolve to PC-based slightly, to provide system has both reliability and speed for users.

## (2) Competition circumstance:

### A. Linear guide

The world's first largest linear guide company is Japan's THK, and the second is Germany's Bosch Rexroth, then Schaeffler, HIWIN, IKO, PMI, Schneeberger, **cpc**, NB, etc. The quality leaders are mainly THK, Bosch Rexroth, INA, then IKO · Schneeberger, **cpc**.; while the price leaders are HIWIN, PMI, TBI, etc.

When the linear guide manufacturers continuously increase the company establishment in the mainland with some large factories, in addition to the quality, the price competition is also increasingly fierce. **cpc** has actively put into development of large-scale high load and high rigidity linear guide, and improved the process and design to increase profits. Meanwhile, in response to the fiercely competitive market price, it has also actively developed the high-tech products, such as the linear guide with the miniature size of 1mm and 2mm, to provide the market demand of high precision and micro machine.

### B. Linear motor

Regarding the development of manufacturing of key components of industry robots, the products such as encoder, motor component, linear guide and driver are all made by **cpc**. It can combine with the practical application in market to optimize the performance of the parts and components. Moreover, it puts into more efforts in the development of process equipment. While improving the entire scale of volume production, it can reduce the yield rate of products. This can control the entire costs better. Moreover, the core technologies are expanded to customer needs, and better products quality are taken as the primary goal, providing innovative and optimal service for customers.

### C. DD motor

Multi-axis is another aspect of precision processing. To reduce the consumption occurred by the time spend of workpiece turnover and material feed in/out and avoid precision difference and cost spend of core changing. At present, rotary axis of five-axis processing machine use a large number of DD motor progressively to achieve high speed, high precision processing. The structure of DD motor may be imagined the linear motor packaged into one object. Therefore, in terms of DD motor research and production, it can take over the development experience of linear motor. Which cause the DD motor of CHIEFTEK PRECISION compared with competitor has higher motor

performance and reliability. Now **cpc** stresses the optimize of procedure to have more efficient control of the product cost.

#### D.Sensor

Germany, Japan are the most automatization countries. Germany and Japan are mature to produce sensor as sensing components of automation, the acuteness and quality are reliable but price is several times more than brand of other countries. Among most of force, visual and distance of sensors, CHIEFTEK PRECISION choose magnetic encoder which can be the feedback devise directly in linear motor system, sale through original owned market channel of linear motor to accumulate practice experience of encoder. It is believed to be the foundation of development of other type sensors.

#### E.Servo driver

Driver is one of critical components to perform motor control. To correspond the processing requirement of high perision specification at present, capability of driver to control outside factors is higher, also bring the upgrade and response of whole driver hardware to speed up. Now international market share of domatic automation is more than 70%. Facing such mature industrial technique, CHIEFTEK PRECISION developed high price-performance ratio driver products through the view of users to accumulate experience step by step and improve performace specification continuously.

#### F.PLC and controller

For the development of controller of CHIEFTEK PRECISION, operation system of botton layer, package transmission mechanism, best path plan develop through the company professionals with the spirit of independent-development of technique to improve competitive capability of domestic control technique.

### (III) Technology and research and development situation

#### 1.Technological level and research and development of the operated business

As a professional manufacturer of linear motion mechanical and electronic components, **cpc** has obtained several invention patents for its products of Taiwan, Mainland China, Germany, the United States and Japan.

The linear guide products have complete size, from size 3(2W) to size 55, all in the rangeofmass production. Among them, the ball type products are included. Now **cpc** is carrying on the mass production of roller type products, ultra-long, ultra-short, wide type products step by step. The producs produced take the realization of best function in the same industry as the goal. In the aspect of load capacity, high-speed operation, low-noise design, self-lubrication design, retaining chain design and miniaturization design, **cpc** has also reached the above goals.

In the aspect of customized industry robot, **cpc** starts to obtain the recoganzation from leader manufacturer in the market, develops high-speed, high presicision linear motor module meet the requirement of market. The performance of machine is optimized by collocating with **cpc** independent-development driver, which helps customers to improve the production capacity and yield. At present, stressed the optimization of current quality and miniature of volume and plans to provide miniature direct current servo driver which can save the load of electric layout easily for customers in the application of multi-axis controlling.

In the aspect of DD motor, **cpc** develops larger outer size specification of 140mm, 175mm and 210 mm continuously and starts to produce the water-cooling type motor with water-cooling device. Linear motor has developed water-cool petterm with ultra-continuous pulling force to provie intergrated selection of the application of machine tool for customers.

In the aspect of controller, the goal design is multi-axis controlling to realize real-time control through EtherCAT. In the first step, the automation industry is settled as the major

target market and provide humanized user UI. Helps customers complete rapid and precision working items with smooth data transmission, high-level operating path plan.

2. Research and developmet expenditure invested each year in recent five years

Unit: NT\$ in thousand

Year	2013	2014	2015	2016	2017
Research and development expcediture (A)	26,158	30,775	36,985	43,775	65,382
Net sales revenue (B)	941,944	1,016,920	1,021,983	982,536	1,488,259
Proportion (A)/(B)	2.78%	3.03%	3.62%	4.46%	4.39%

3. Successfully developed technology or product from the recent five years to the print date of annual report

Year	Research result
2013	Four raw ball wide rail type linear guide. Hole caps structure of the linear guide. Ironcore series linear motor. Linear motor module.
2014	Roller type linear guide. CLS linear motor module. Linear motor servo driver.
2015	Roller type linear guide of each size. CLMS dual-track type linear motor module. MMLS magnet motive linear motor module. 20A linear servo driver.
2016	MMLS linear motor module.
2017	ME1 magnetic encoder. DR-105 series framless DD motor. RP-120 series framed DD motor. Expansion of driver functions. Large 45 roller type linear guide. MXL series enlarge high load linear guide.
2018	Expansion of DD motor specification (140mm) ◦ Customized industrial rebot and linear motor module. EtherCAT communicative deiver.

(IV) Long and short-term business development plan:

1. Short-term business development plan.

(1) Sales strategy

- A. Conduct global marketing for self-brand **cpc**, to improve brand awareness and value.
- B. Enhance the management of existing customers and establish good interaction.
- C. Continuously strengthen the operation function of each region to improve the overallrevenus.
- D. Actively extend market to increase market share.

(2) Production strategy

- A. Actively develop optimization of procedure.
- B. Quality is the result of design, manufacturer and management.
- B. Reveive, manufacturer and distribute no non-performing product.



C. Quality improvement is an uninterrupted activity of the entire personnel.

(3) Research and development strategy

- A. Expansion of specification range of linear guide continuously, provide service of integrated product line with exquisite technology.
- B. Improve the automation and autonomy degree.
- C. Improve precision grade of component.
- D. Take Taiwan as the center of core technology and product development.

(4) Operation strategy

- A. Strengthen the personnel training, attract excellent talents, intensify the concept of profession and working.
- B. Implement the quality policy constantly improved to increase the competitiveness of products.
- C. Implement each management system to strengthen the management performance.

(5) Environment and occupational safety and health policy

- A. Providing a working environment with high quality and available for maintaining physical and psychological health, and reach the goal of no disaster, no accident.
- B. Protect the environment, maintain the natural ecology, and realize the energy conservation and waste reduction.
- C. In accordance with the laws, implement the risk management, prevent the pollution, and carry out 6S activities.
- D. The environmental protection safety is an uninterrupted activity of entire personnel.

2. Long-term business development plan

(1) Research and development strategy

- A. Development of new products: DR-140 series frameless type DD motor, RP-155 series framed direct drive motor, expansion of driver function, water-cool linear motor and others, also PLC and controller.
- B. Closely cooperate with the upstream, midstream, downstream manufacturers to grow together.
- C. Implement the role of creator continuously on the international stage for a long term.

(2) Marketing strategy

- A. Conduct global marketing for self-brand **cpc**, to improve brand awareness and value.
- B. Enhance the management of existing customers and establish good interaction.
- C. Continuously strengthen the operation function of each region to improve the overall revenue.
- D. Actively extend market to increase market share.

(3) Operation strategy

- A. Firmly strengthen the operational performance of subsidiaries.
- B. Implement the constant improvement, constant cultivation of personnel quality, and establish the best management team.
- C. Strengthen the cooperation of the related products and industry.  
Implement the industrial division, vertical integration, and strengthen the integration of upstream, downstream industry to establish a powerful product supply chain, and give full play to the advantage of mass production scale economy.
- D. Strengthen the patent layout.

## II. Market and sales overview

### (I) Market Analysis

#### 1. Sales Region of Main Products

Unit: NT\$ in thousand; %

Year

Sales Region \ Item		2016		2017	
		Net sales Revenue	Percentage	Net sales Revenue	Percentage
Export	America	128,379	13.07%	155,065	10.42%
	Europe	194,573	19.80%	273,956	18.4%
	Asia	431,895	43.96%	718,554	48.28%
	Others	4,035	0.41%	2,022	0.14%
	Subtotal	758,882	77.24%	1,149,597	77.24%
Local		223,654	22.76%	338,662	22.76%
Total		982,536	100.00%	1,488,259	100.00%

## 2. Market Share

**cpc** mainly engages in the research and development, manufacture and sale of precision linear motion components, which belongs to the mechanical drive industry of machinery industry. According to the industrial production statistics of Ministry of Economic Affairs, the mechanical drive industry output value of Taiwan in 2017 was about NT\$ 63.445 billion, while consolidated revenue of the Company in 2018 was NT\$14.88 billion, so it could find the market share of the Company in 2018 was about 2.35%. However, component of mechanical drive includes axis, gear, roll bearing and linear guide, so as to the market share of linear guide could be 7% above.

## 3. Supply and Demand Status as well as Growth of Future Market

- (1) Requirement of global automatization, intelligent automatization are growing up constantly. Industry 4.0 is rising, and the industrial automation is an unstoppable trend, which provides fundamental driving force of the growing demands for linear guide rail. Moreover, the machine and equipment are developing towards miniature design, which is a piece of good news for the miniature linear guide rail.
- (2) Government was pushed "AI Robotics Hub at Park". Tainan Science Park will invest huge outlays, in addition to forming the operation pattern of "center-satellite base network pattern", also build a international flagship of self-manufacture base of intelligent robot, and extend the business potential. The **cpc** product aims at improving the client machinery product performance, and increasing the client machinery equipment production efficiency. Under the tendency of rapid automation, intelligentization and energy saving of the industry, the using demand of **cpc** series product shall grow vigorously.
- (3) Requirement of digital control machine tools for traditional industry transformation and upgrade, and emerging industry is increase, which has obvious help of orders of machine tool, as well as bring linear guide rail related to mechanical drive industry growing up.
- (4) According to estimation of profession institution, the growth of mechanical drive industry of our country should be 25% and above in 2018.

## 4. Competition Niche

- (1) High competitiveness of quality and technology
  - A. With the goal of "product quality" and "product function", **cpc** increase the value added of the products, and controls the cost strictly.
  - B. Based on the rich R&D experience, and fast reaction to client and market demand.
- (2) Continuously improve technology and develop new products
  - A. The **cpc** linear electrical product technology development trends to the "precision", "speed/efficiency", "reliability / quality", "durability/ service time", "micromotion /

multifunction”, “flexibility / diversity” and “energy conservation / environmental protection”, which are the product development tendency of “big data integration”, “information processing / communication / transmission / confidentiality...”, “remote control”, “AI intelligentization”.

B.The linear motor module also starts to match the **cpc** self-developed linear magnetic ruler as the position feedback system, to provide more diverse options for customers.

C.To correspond the demand of market, extend the specification of DD motor and water-cooling linear motor to large load type machine tool industry.

D.Both of controller software which is developed from bottom level, real-time operation system are going to catch up the realization of industry 4.0.

(3) Good service quality

A.Good customer service quality can provide the best foundation for the competitiveness of the Company.

B.Keep good customer relationship to win the trust from the customers.

5. Favorable and Unfavorable Factors and Countermeasures in the Long Term Development Vision

(1) Favorable Factors:

Since founded, **cpc** has invested in the precise linear motion component R&D, manufacture and marketing, which started from the manufacture of miniature linear guide rail, and then the linear guide rail became the main product. In order to expand the future business opportunity, **cpc** has launched the development of linear motor product since 2009, and dedicated to the development of control component “linear motor driver” with high added value, as well as the integrated development of linear motor module with the linear guide rail, to satisfy the demand of automated equipment.

Along with the manpower cost increasing and market competition fierce, to reduce the production cost, promote the product manufacture speed and new product development speed becomes the target of the manufacture industry, thus the production equipment automation, numerical control (CNC/NC) and factory automation (FA) have become the goal of manufacture industry input and improvement. Aiming at the demand of production equipment and factory automation (FA), **cpc** could provide the electromechanical integrated system product and service.

The **cpc** product is widely applied to the CNC processing machine, testing platform, LCD processing equipment, optical measuring instrument, handling machine, mechanical arm / automatic machinery equipment, PCB drilling machine, automatic card machine (SMT), Die Bonder, Wire Bonder, laser imprinter, laser cutting machine, nano micromachining equipment. CHIEFTEK PRECISION has invested large amount of resources for innovative R&D, to deeply explore the technology field, accumulate the own patent, and market the **cpc** of own brand to global, which has established the good reputation in the precise machine market monopolied by Japan and Germany for a long time.

The product competitive advantage, core key technology and main product key technology are described respectively as below:

A. Product competitive advantages of **cpc** are as below:

(A) Unique production and manufacture technology: **cpc**'s product quality is stable, because our patent design could reduce the manufacture cost in processing.

(B) Product R&D capacity advantage: **cpc**'s product is developed and designed by R&D team, and acquires the patent, to make the product

functional quality leading in the industry through the quality control of production personnel.

(C) Complete independent R&D in machinery motor specialized technology: R&D team of **cpc** controls the key core technology, with excellent integrating capacity.

(D) Positive input for patent layout: **cpc** has acquired several innovation patents, and shall input the patent layout continuously to protect the technology and intellectual property in the future.

(E) Electromechanical integration system engineering.

B. Core key technologies of **cpc** are as below:

(A) Bearing technology engineering.

(B) Manufacture processing technology engineering.

(C) Motor technology engineering.

(D) Drive control technology engineering.

C. Key technologies of main products of **cpc** are described respectively as below:

(A) Miniature linear guide rail

a. Mass production capacity leading in the industry.

**cpc** had made the mass production of linear guide rail of size 3 in 2004, which was the pioneer in the industry. Moreover, it is making breakthroughs towards the more advanced linear guide rail of size 2.

b. Design leading in the industry

(a) Embedded patent design:

i. Greatly simplify the processing, to make the product with absolute competitive advantage in the manufacture cost. ◦

ii. Make the product extremely micro, unable to cause processing difficulty.

(b) Embedded lubrication pad design: to make the product with permanent lubricating effect.

(c) Exclusive reinforced pad patent design: to make the product running speed reaching 10 m/sec, higher than the general running speed of 3~5m/sec.

(d) Operating smoothness could realize the optimal performance.

(B) Standard linear guide rail

a. Design leading in the industry.

b. German heavy load capacity design: **cpc**'s product mainly adopts the German design, to make the product load capacity higher, and service life longer.

c. Reinforcing plate patent design: **cpc** has the unique reinforcing plate design, to make the running speed reaching 10 m/sec.

d. Embedded lubrication pad patent design: to make the product with permanent lubricating effect.

e. Waterproof, iron scrape preventive and sealed design: to make the product running smoothness realizes the optimal performance.

f. Product service life is longer than other competitor.

(C) Ironless linear motor

a. Design leading in the industry

(a) High-efficiency design:

The **cpc** adopts the own researched and developed coil stacking patent technology, with the professional magnetic recording analysis software, to manufacture the maximum motor efficiency of maximum thrust generated under energy consumption per unit of same specification and dimension.

(b) Patented heat dissipation design:

With compact internal design matching the heat dissipation patent technology of special material, **cpc**'s linear motor is featured in the heat dissipation of low thermal resistance.

(c) High thrust density design:

The **cpc** linear motor featured in high efficiency and low thermal resistance, presents the high thrust in the same dimension compared to the competitor, to make the client saving the needed space for motor installation.

(d) Production technology guarantee:

Since the linear motor belongs to the key component of high-precision application industry, all the processes are researched, developed and manufactured by **cpc** own, thus it could indeed control the manufacture quality and quick customized response.

(D) Ironcore linear motor

a. Design leading in the industry

(a) Low-pause-power design / low-adsorption design:

Although the ironcore linear motor has high thrust density compared to the ironless type, there also goes along with the pause power, while the pause power would increase the difficulty in the motor running stability and control; thus, **cpc** adopts the special structure design matching the practice and simulation to realize the ironcore linear motor with low pause power.

The adsorption force of ironcore linear motor with special design structure is below 1/2 of that of the industry under the same thrust.

(b) Structure design maximum motor constant:

Optimize the ironcore linear motor's structure group, and build the Hall component sensor inside the forcer, to achieve the minimum dimension and high heat dissipation capacity to realize the maximum motor constant.

(E) CHIEFTEK PRECISION follows the extension of linear guide rail product, to develop the water-cooled linear motor suitable for machine tool and PCB drilling machine, featured in controlling the motor temperature rising degree by the cooling liquid under the high-load operation, to avoid influencing the processing plane temperature for thermal expansion. While in the direct drive system, the common component DD motor in the rotational motion is also one of the development key products.

(F) DD motor

a. Highest motor efficiency:

The design of DD motor still takes the maximum motor efficiency as the development goal, which can make the entire system achieve the energy-saving goal effectively.

b. Low cogging:

In the application of ironcore motor, the silicon steel plate will generate cogging when moving from N pole to S pole as the magnetic field has 180-degree magnetic rotation direction. Generally, it should design the cogging within 2% of rated torque, which can obtain high response for controlling.

c. Large hollow external diameter:

The application of DD motor mostly fixes the load on the motor. The central hole of DD motor is usually used as the path of flat cable. With the increasing integration of the device, the wiring becomes more and more complicated. In this case, the size of hollow diameter is one of the indicators considered by the user.

d. Guarantee of production technology:

The performance of **cpc** DD motor is far superior to other competitors in the market. Aside from the leading design, another key is the powerful process that can realize more strict processing conditions than other competitors. Besides the precision machining of fixture, the entire processing devices are self-designed and manufactured. Thus, the production technology is mastered by its own.

(G) Magnetic encoder

High resolution and high precision: Currently the magnetic encoder developed by **cpc** can reach 0.5 $\mu$ m resolution. In terms of the precision, it can reach 10 $\mu$ m/m by taking advantage of the exclusive calibration method, which can provide the linear encoder of another type for the market.

(H) PLC and controller

Technology was completely independent development, from the bottom operation system software to UI control interface all can be handled totally. Which will establish efficiency channel onto the good foundation of electromechanical business. °

(2) Unfavorable Factors and Countermeasures

A. Difficulty in talent acquisition and cultivation

Industry 4.0 need more development talent, the trend of manpower towards simplified and high quality. This cause difficulty in talent acquisition, as well as the government policy such as “one fixed day off and flexible rest day” increased the cost of human resource.

**Countermeasures:**

- (A) **cpc**'s main technology is developed on its own, thus the internal training mechanism shall be independent; in the handling principle of divided management, clear rights and liabilities, distinct right and wrong, encouraging innovations, and continuing improvements.
- (B) It should reinforce the industry-academy cooperation and cultivate more talents, to realize the application of knowledge.
- (C) It should promote the welfare system of the Company, to attract and retain the talents.

B. Due to New Taiwan dollar rises against US dollar, the lose of exchange rate affects the profit. When receiving urgent orders, the capacity in transition period is restricted due to the national policy. The range of Yuan exchange US dollar is less than the range of New Taiwan dollar exchange the US dollar, this affects the order capability of Taiwan manufacturer. The loss of exchange rate affects the revenue and profit. As the labor awareness is rising, and the government carries out the "one fixed day off and one flexible rest day" policy, it is difficult for the enterprise to increase capacity quickly to cope with the large demands of urgent order in the transition period.

**Countermeasures:**

The unit of export revenue is mainly US dollar, Euro and Yuan. The purchase of foreign currency is mainly Euro and Yuan. Therefore, some of assets and debit have the effect of risk avoidance. For corresponding to change of currency rate, the company will actively gather variation information of currency rate to obtain and decide the trend of currency rate, and adopt proper countermeasures of risk avoidance to reduce the impact of risk of currency rate. To maintain the yield rate of

products, and increase the shipment capacity, it controls the safe inventory of various parts, and starts to plan the automation scale for the production in plant. This can stabilize the yield rate and capacity of the entire production line, and realize sustainable operation.

## (II) Important Uses and Production Procedures of Main Products:

### 1. Important Uses of Main Products

#### (1) Linear guide rail

Mainly apply to the automation industry, machine tool industry, TFT-LCD, photoelectrical manufacture detection and carrier, electronic industry machinery equipment, and semiconductor manufacture detection/packaging/handling equipments, medical instrument, printing and packaging machine, industrial machine and aerospace industry, and national defense industry, etc.

#### (2) Linear motor

The machinery equipments with output capacity demand are the main selling market of linear motor. Taking the ironless linear motor as example, it has no pause power and has light forcer, which is particularly suitable for the application in the semiconductor industry, panel industry, biochemical technology, laser cutting and automation industry. While the ironcore linear motor with high thrust and low stator cost is suitable for the application in the automated storage, solar energy industry, laser industry, panel industry, and semiconductor carrier and automation industry.

#### (3) Driver and linear motor module

At present, the major linear motor goes with the driver in the drive method of one to one, thus the occasion to use the linear motor is also the market of driver and linear motor, which is just different in the using habit and form of the client.

#### (4) DD motor

It is mainly divided into frameless (DR) and framed (RP) series. The difference between these two types is that the RP series doesn't only have rotator and stator, but also includes bearing, encoder and other processing parts. The entire product is modularized when being provided for user. The market demand of DR series is that the customer can purchase the stator for using when there are special restriction on cost or space, such as the manufacturer of rotation motor and robotic arm. On the other hand, the RP series allows the user to fix the load on the rotating table directly, which is for the high-speed and high-precision application. Currently, the main application scenarios include the panel industry, automation device, biomedical robot, machine tool industry and semi-conductor industry.

#### (5) Magnetic encoder

Encode is massively used as the product of position feedback in the industries, with the resolution reaching 0.5 $\mu$ m. Therefore, its track can be found in the entire rotation or linear motion system. It is naturally included in **cpc**'s development plan of key parts and components.

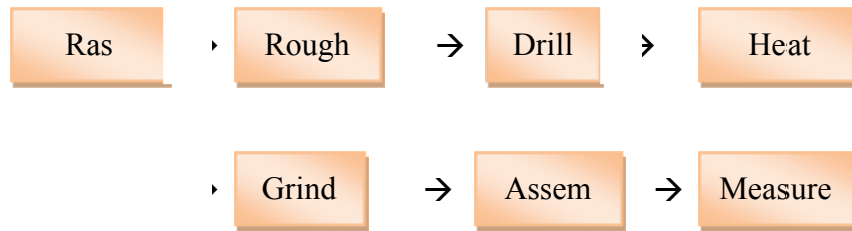
### 2. Production Procedures of Main Products

The main production flows of the product produced by **cpc** are as below:

#### (1) Guide rail



(2) Linear block



(3) Magnetic part of motor



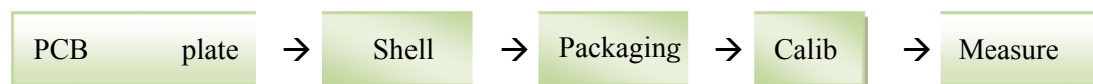
(4) Winding part of motor



(5) Linear motor module and industry robot



(6) Magnetic encoder and driver



(III) Supply Status of Main Materials

**cpc** mainly engages in the manufacture of linear guide rail, whose major raw materials are the cold drawn, plastic fittings and steel balls, and the purchase source is the domestic and overseas manufacturer, which all have established the long-term and good cooperation relation with the Company. As of now, the supplying condition of major raw materials of the Company is good.

Major raw material	Supplier	Supply condition
Cold drawn	Company A, Company B, Company F, Company M	Normal
Plastic fittings	Company E, Company J	Normal
Steel ball	Company C, Company D	Normal

In addition, the major raw materials of linear motor are the rare earth magnet, enameled wire and epoxy resin, with suppliers all over the world, with long-term and good cooperation



mode, to ensure the normal and good major raw material supply.

Major raw material	Supplier	Supply condition
Rare earth magnet	Company A, Company B, Company C, Company D	Normal
Enameled wire	Company E, Company F	Normal
Epoxy resin	Company G, Company H, Company I	Normal

Linear motor driver

Major raw material	Supplier	Supply condition
PCB board	Company A, Company B	Normal
Electronic component	Company C, Company D, Company E	Normal
Shell	Company F, Company G, Company H	Normal
Cooling fin	Company H, Company I	Normal

#### (IV) Major Suppliers and Clients

1. Major suppliers in the last two calendar years and purchased amount and percent as well as change reason explanation

Unit: NT\$ in thousand; %

Item	2016				2017				As of first quarter of 2018			
	Company Name	Amount	Percent in the annual purchases (%)	Relation with Issuer	Company Name	Amount	Percent in the annual purchases (%)	Relation with Issuer	Company Name	Amount	Percent in the annual purchases (%)	Relation with Issuer
1	Company A	58,919	29.51	No	Company A	101,290	26.37	No	Company B	26,047	22.53	No
2	Company B	29,176	14.61	No	Company B	58,903	15.33	No	Company A	16,488	14.26	No
	Others	111,542	55.88	No	Others	223,964	58.30	No	Others	73,078	63.21	No
	Net total supplies	199,637	100.00		Net total supplies	384,157	100.00		Net total supplies	115,613	100.00	

Note 1: Major suppliers with gross purchase over 10% in the last two calendar years and purchase amount and percent are listed above, but the contract has stipulated not to disclose the supplier name or transaction object as individual or non-related party, so it is listed in code name.

Note 2: Increase or decrease reason: in 2017, it showed a obvious increase rate if compared to 2016. It was mainly because of the great increase of revenue in 2017. For correspond to the requirement of production and sales increase the amount of purchase.

2. Major clients in the last two calendar years and sale amount and percent as well as change reason explanation

Unit: NT\$ in thousand; %

Item	2016				2017				As of first quarter of 2018			
	Company Name	Amount	Percent in the annual net purchases (%)	Relation with Issuer	Company Name	Amount	Percent in the annual net purchases (%)	Relation with Issuer	Company Name	Amount	Percent in the annual net purchases (%)	Relation with Issuer
1	Company A	59,187	6.02	No	Company A	79,551	5.35	No	Company E	69,576	13.78	No
2	Company B	57,411	5.84	No	Company D	78,232	5.26	No	Company C	29,890	5.92	No
3	Company C	49,681	5.06	No	Company B	77,889	5.23	No	Company F	26,717	5.29	No
	Others	816,257	83.08	No	Others	1,252,587	84.16	No	Others	378,659	75.00	No
	Net Sales	982,536	100.00	No	Net Sales	1,488,259	100.00		Net Sales	504,842	100.00	

Note 1: Major clients with gross sales over 10% in the last two calendar years and sale amount and percent are listed above, but the contract has stipulated not to disclose the client name or transaction object as individual or non-related party, so it is listed in code name.

Note2: Increase or decrease reason: In 2017, Due to the factors of demand for industrial automation and semi-conduct equipment was increased, result in that the revenue was significant increase. Plus business unit explore customer actively to increase the market share with significant effects.

(V) Production in the Last Two Years

Unit: 1,000 pieces/ Unit: NT\$ in thousand

Major products	2016			2017		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Linear guide rail and slide base	664	564	847,132	964	819	1,284,261
Linear motor	28	24	24,706	40	34	47,426
Others	-	-	-	-	-	-
Total	692	588	871,838	1,004	853	1,331,687

Note: Production change and analysis: In 2017, Due to the factors of demand for industrial automation and semi-conduct equipment was increased , result in that the revenue was significant increase. As well as the quantity of production in 2017 is significant increased , which compared to 2016.

(VI) Sales in the Last Two Years

Unit: 1,000 pieces / Unit: NT\$ in thousand

Sales	2016		2017	
	Local		Export	
	Quantity	Amount	Quantity	Amount
Linear guide rail and slide base	163	210,171	1,288	746,802
Linear motor	11	13,483	22	12,080
Total	174	223,654	1,310	758,882

Note: Sales change and analysis: Because of the recovery of industry economic and the company explore market actively, therefore the quantity and amount of local sales are significate increased.

**III. Number of Employee of Recent Two Years as of Printing Date**

April 27, 2018

Y e a r		2016	2017	As of April 27, 2018
Number of Employees	Administrative staff	75	92	94
	R&D personnel	43	46	46
	Busiiness personnel	32	38	42
	Field staff	230	333	372
	Total	380	509	554
Average Age		33.4	36.26	34.57
Average Years of Service		4.50	4.19	4.01

Y e a r		2016	2017	As of April 27, 2018
Educa tion 率	Ph.D.	0.0%	0%	0%
	Masters	6.8%	6.4%	6.1%
	Bachelor's Degree	60.0%	51.2%	51.3%
	Senior High School	30.0%	40.5%	40.7%
	Below Senior High School	3.2%	1.9%	1.9%

## V. Environmental Protection Expenditure

For the loss or penalty caused by environmental pollution during the latest year and up to the printing date of this annual report, and the future countermeasures as well as possible expenditures:

- (I) According to the regulation provisions, those applying for the pollution facility setting license or pollution discharge license or payable pollution prevention expense or needing to set the environmental protection specific personnel, the explanation of application, payment or setting condition is as below: **cpc** is the linear guide rail manufacturer, located in Southern Taiwan Science Park, and has applied and acquired the pollution facility setting license or pollution discharge license according to the environmental protection laws.
- (II) Main equipment and its usage as well as possible benefit invested by the Company for the environmental pollution prevention:

Unit: NT\$ in thousand; April 27, 2018

Equipment Name	Qty.	Acquisition Date	Invested Cost	Balance	Usage and Estimated Benefit
Water pollution prevention project	1	June 21, 2004	1,387	356	Sewage treatment necessarily
Waste Gathering Field	1	November 03, 2014	270	192	Waste gathering and processing
Driver Type Floor Washing Machine	1	January 12, 2012	410	0	Washing floor
Newly add the activated carbon equipment, modify the sand leach tower, and replace the biological filter material project	1	December 29, 2015	500	200	Sewage treatment necessarily

- (III) During the environmental pollution progress of the Company in the latest year and up to the printing date of this annual report, there is any pollution dispute, and it shall describe the disposal process: the Company has no pollution dispute during the latest year and up to the printing date of this annual report.
- (IV) During the latest year and up to the printing date of this annual report, the loss (including compensations) and punishment sum caused by the environmental pollution of the Company, and disclosed future countermeasures (including improvement measures) and possible expenses (including the estimated amount of possible loss, punishment and compensation if not taking the countermeasures; if unable to estimate reasonably, it shall state the fact unable to estimate reasonably): None.
- (V) Present pollution status and influence of improvement to the company surplus, competition

status and capital expenditure, and estimated significant environmental protection capital expenditure in future two years: None.

## V. Labor Relations

(I) Employee welfare measure, advanced study, training, retirement system and implementation condition, and agreement on labor and capital as well as various staff rights and interests maintenance measure condition of the Company:

1. Employee welfare measures and implementation condition:

- (1) Weekly two day-off and paternity leave.
- (2) Competitive salary.
- (3) In-service training.
- (4) Wedding and funeral cash gifts.
- (5) Flexible reward system.
- (6) Spring Festival cash gifts.
- (7) Pension allocation.
- (8) Labor health insurance and occupation insurance.
- (9) Lunch and supper subsidy.
- (10) Employee stock bonus.
- (11) Periodical employee health examination, disease medical treatment and consulting service.
- (12) Female colleague breastfeeding room.
- (13) Year-end thanksgiving party, travelling and gathering.
- (14) Planning of free parking space.
- (15) Set up Staff Welfare Committee, encourage the employees to participate in establishing and improving the corporate welfare system, provide allowance and show care for the employees in wedding and funeral, as well as important festivals.
- (16) Set up health management consultant and regular occupational physician to visit during the health consultation period, who concern for the employee's health actively, conduct health check-up and assist in health management for the employees. At the meantime, they can improve the health knowledge for the employees, and follow up the abnormal condition.
- (17) Set up Automated External Defibrillator (AED) in the hall at 1F, which is provided for the employees and others to use in emergency.
- (18) Strengthen the knowledge and training related to industrial safety, occupational safety, fire protection and disaster prevention for the employees. Set up self-defense fire protection team, and conduct fire protection advocacy and drills regularly.

2. Employee advanced study, training system and implementation condition:

The Company dedicates in creating the study environment for talent sustainability and excellent competitiveness improvement, specially formulates the "educational training management procedure" and "educational training operational procedure", to cultivate the proper excellent talent via the internal and external training resource

At present, the Company provides a series of common knowledge, professional skill and management educational trainings, to cultivate the section head and senior employees as the internal lecturer to inherit the company culture and skill, and also irregularly invite the external specialists to give instructions. In 2017, the Company held training course over 1,672 classes, total training hours nearly 1,678 hours, and total participated persons of 20,792 person-times.

The training courses in 2017 include:

- (1) New employee educational training: It includes the company regulations, labor, safety and health related introduction as well as the arrival guidance; every new employee has the educational trainer, to assist adapting

the work environment, and getting familiar with the work content as soon as possible.

- (2) Common knowledge training: It refers to the common knowledge training activity required by government decree, company policy and the whole company or all sectors at each level, such as: education of prohibition and prevention of insider trading, staff HSE educational training, safety and health training course, quality training course, factory emergency response training course, and personal performance management series course.
  - (3) Professional training: It refers to the technology and professional training of each unit, such as R&D course, processing course, finance and accounting course, information technology course.
  - (4) Supervisor training: It refers to the planning of supervisor management training and development course. The content includes the management and leadership control course as well as other supplementary courses.
  - (5) Direct personnel training: It refers to the training course providing the necessary knowledge, skill and attitude of technical personnel on production line, such as the machine skill training course for direct personnel.
  - (6) Periodically make the technical evaluation and performance evaluation, positively train the reserve leaders and talents
3. Employee retirement system and implementation condition: the Company's retirement system is mainly based on the relevant laws and regulations of Labor Standard Act.
- (1) For the company in the Republic of China: It shall follow the labor retirement management regulation of Labor Standard Act, and allocate the pension reserve monthly to the labor retirement reserve fund supervision committee special account according to the provisions. Moreover, it has overall implemented the "Labor Pension Act" since July 1, 2005, in which the applicable provisions are as below:
    - A. Employee arriving the post after July 1, 2005 (included) shall be entirely applicable for the "Labor Pension Act".
    - B. Employee arriving the post before July 1, 2005 (excluded) shall select the pension provision of "Labor Pension Act" or "Labor Standard Law" depending on personal actual demand within five years since July 1, 2005; if the employee doesn't make selection before the due date, s/he will continuously apply the pension provision of "Labor Standard Law" since the implementation date
    - C. If the colleague has any one of the conditions below, it shall apply for retirement voluntarily:
      - (A) Taking office over 15 years (included) and over 55-year-old.
      - (B) Taking office over 25 years (included).
      - (C) Taking office over 10 years (included) and over 60-year-old.
    - D. If the colleague has any one of the conditions below, it shall be forced to handle the retirement:
      - (A) Over 65-year-old.
      - (B) Lunacy or physically disabled for the work.
- For the employees at special posts that are dangerous, and require high strength, according to the provisions in subparagraph 2 of Article 54 of Labor Standard Law, the enterprise shall report to the competent authority to adjust the age stipulated in above paragraph, which shall not be less than 55 years old. For those who meet compulsory retirement conditions, and are applicable to termination of employment contract according to Article 11 of Labor Standard Law, it shall be subject to the retirement method according to the law.

- E. Pension payment standards:
- (A) For the employees arriving the post before March 1, 1998(not including March 1), it shall pay pension based on 2 cardinal numbers for each working year. For the working years more than 15, it shall pay 1 cardinal number additionally for every one full year, which shall not exceed 61 cardinal numbers at most.
  - (B) For the employees arriving the post after March 1, 1998(including March 1), it shall pay pension based on 2 cardinal numbers for each working year. For the working years more than 15, it shall pay 1 cardinal number for every one full year, which shall not exceed 45 cardinal numbers at most except for the compulsory retirement due to occupational injury and disease.
  - (C) For the employees retired compulsorily, if the lunacy or physical disability is caused by the work and results in compulsory retirement, the pension shall be paid based on 20% plus the above regulation.
- F. Under the new pension system, it shall monthly allocate 6% to labor pension special account, and estimate the balance of labor pension reserve by the end of every year. If it is less than the amount to be paid for the employees who meet the retirement conditions within one year according to subparagraph 1-1 of Article 53 or Article 54, it shall appropriate the difference at one time by the end of March in the next year. Moreover, it shall be submitted to the Supervisory Committee of Workers' Retirement Fund for review.
- G. It shall advocate the personal voluntary pension contribution, and encourage improving the economic life after retirement from diverse perspectives.
- (2) For the company in China: For the endowment insurance after labor retirement, the company shall pay the endowment insurance based on the local laws and regulation at the premises of the enterprise.
- A. According to the operation of local social insurance, the endowment insurance is included in social insurance (including medical insurance, maternity insurance, endowment insurance, occupational injury insurance, and unemployment insurance). After adding member for social insurance, the company shall starts to fulfill the obligation of paying endowment insurance.
  - B. If the employee reaches the retirement age stipulated by laws, and pays the endowment insurance (including the deemed years of contribution) for 15 years accumulatively, s/he shall be eligible to the treatment of basic endowment insurance, which is composed of the following:
    - (A) For those working since January 1, 1993: Basic pension+ pension of personal account, explained as below:
      - a. Basic pension: When employee is retired, the monthly wage of workers employed in the previous year \*individual payment years \*1%.
      - b. Pension of personal account: When employee is retired, the balance in account /months paid for retirement.
4. Agreement on labor and capital as well as various staff rights and interests maintenance measure condition:
- The Company adopts the open and two-way communication method for the policy advocacy and employee opinion, uses E-MAIL and bulletin board to timely deliver the relevant information, complaint box, conference communication, supervisor communication, and welfare committee. In addition, it sets up the employee communication and care channel for the foreign employees. With the assistance of translator, it improves the adaptation and performance of foreign employees in work and life. This is to maintain the labor and management relation harmoniously, without labor and management disagreement.

(II) During the latest year and up to the printing date of this annual report, for the losses caused by

labor dispute, and disclosure of current and future possible estimated amount and response measures:

1. As of now, there is no significant labor dispute, and there is no labor and capital disagreement, nor the loss caused by labor dispute.
2. Current and future possible response measures:
  - (1) Fully abide by the labor law.
  - (2) Continuously maintain the open and honest labor-capital communication channel and complaint channel.
3. Current and future possible losses: the labor-capital relation of the Company is normal and harmonious, which shall not cause significant loss.

## VI. Important Contracts

Contract Nature	Counterparty	Contracted Period	Major Content	Restrictions
Medium and long-term borrowings	Six banks including Mega International Commercial Bank	December 09, 2014~December 09, 2019	Joint credit granting contract	Note 1
Medium and long-term borrowings	Chanf Hwa Bank	February 17, 2012~February 17, 2019	Credit granting contract	Note 2
Medium and long-term borrowings	E.SUN Bank	September 23, 2016~September 23, 2021	Credit granting contract	No
Medium and long-term borrowings	E.SUN Bank	September 23, 2016~September 23, 2019	Credit granting contract	No
Medium and long-term borrowings	Six banks including E.SUN Bank	December 05, 2017~December 05, 2022	Joint credit granting contract	Note 3
Land lease	Southern Taiwan Science Park Administration, MOST	January 01, 2003~December 31, 2022	Land lease contract	No
Land lease	Southern Taiwan Science Park Administration, MOST	August 28, 2014~August 27, 2034	Land lease contract	No

@Note 1 : 1. The Company signed an interim-guaranteed joint credit granting contract on November 14, 2014 with six banks including Mega International Commercial Bank. The contract under question features a total credit amount of \$560,000, with a credit granting period of 5 years. The Company shall follow the provision and make commitment of following items to the joint loan bank consortium during the joint credit granting period:

- (1) During the joint credit granting period, according to the accountant checked annual report or accountant audited consolidated financial statement of second quarter, the Company shall maintain the following financial ratio, and be inspected once every half year:
  - A.Liquidity ratio (current asset/current liability): over 100% (included).
  - B.Debt ratio (total liability/net value): below 150% (included).
  - C.Tangible net worth (amount of stockholders' equity deducting intangible asset): over NT\$ 1,000,000 (included).
- (2) If the Company fails to maintain the above-mentioned financial ratio and standards, the financing interest rate shall be calculated from the date of improvement as

stated in the notice from the management bank or the date of June 1 of the following year after the end of the most recent fiscal year, to the day before the actual improvement of the opening condition. The annual interest rate should be 0.25% more than the original contractual interest rate as stated in the joint credit granting contract.

As of December 31, 2017, the financial ratio of the company did not violate the above commitment.

2. The contract was fully paid for in advance on January 22, 2018.

Note 2 : The credit granting contract with Chang Hwa Bank has been extended from February 17, 2017 to February 17, 2018, but was fully paid for in advance on January 22, 2018.

Note 3 : 1. The Company signed an interim-guaranteed joint credit granting contract on July 5, 2017 with nine banks including E.SUN Bank. The contract under question features a total credit amount of \$1,200,000, with a credit granting period of 5 years. The Company shall follow the provision and make commitment of following items to the joint loan bank consortium during the joint credit granting period:

(1) During the joint credit granting period, according to the accountant checked annual report or accountant audited consolidated financial statement of second quarter, the Company shall maintain the following financial ratio, and be inspected once every half year:

A. Liquidity ratio (current asset/current liability): over 100% (included).

B. Debt ratio (total liability/net value): below 150% (included).

C. Tangible net worth (amount of stockholders' equity deducting intangible asset): over NTS 1,000,000 (included).

(2) If the Company fails to maintain the above-mentioned financial ratio and standards, the Company shall improve within 9 months after the end of the fiscal year or half year. If the adjusted financial ratio after the audit check or review meets the stipulation, it shall not be deemed a breach of contract. During the period of adjustment, the unencumbered credit limit of the credit grant will suspend the use of equity until the financial ratio meets the standards of the contract. In addition, the unpaid principal balance shall have been used. The financing interest rate shall be calculated from the next interest payment date after the date of notification from the management bank, to the first interest payment date as stated on the contract. The annual interest rate should be 0.125% more than the original contractual interest rate as stated in the joint credit granting contract.

As of December 31, 2017, the financial ratio of the company did not violate the above commitment.



## VI. Financial information

### 1. Five-Year Financial Summary of Condensed Balance Sheet Consolidated Condensed Statement of Comprehensive Income

#### (I) Condensed Balance Sheet and Consolidated Statement of Comprehensive Income

##### 1. Condensed Balance Sheet

##### (1) Consolidated Condensed Balance Sheet

Unit: NT\$ in thousand

Item	Year	Financial Summary for The Last Five Years (Note 2)					Financial Summary as of March 31, 2018 (Note 2)
		2013	2014	2015	2016	2017	
Current assets		1,364,977	1,305,890	1,195,278	1,199,483	1,479,621	1,772,506
Real Estate, Plant and Equipment		874,975	770,097	661,307	892,019	999,260	991,938
Intangible assets		49,010	51,284	53,104	68,707	123,173	129,243
Other assets		362,442	364,798	366,567	36,164	36,765	31,763
Total assets		2,651,404	2,492,069	2,276,256	2,196,373	2,638,819	2,925,450
Current liabilities	Before distribution	657,156	638,344	446,440	440,085	663,719	802,367
	After distribution	668,398	666,461	474,557	499,130	Note 2	Note 2
Non-current liabilities		616,794	565,386	510,285	397,872	445,364	490,264
Total liabilities	Before distribution	1,273,950	1,203,730	956,725	837,957	1,109,083	1,292,631
	After distribution	1,285,192	1,231,847	984,842	897,002	Note 2	Note 2
Equity attributable to shareholders of the parent company		1,377,454	1,288,339	1,319,531	1,358,293	1,529,916	1,633,602
Capital stock		565,535	592,338	592,338	620,455	620,455	590,445
Capital surplus		456,573	463,051	463,051	463,051	463,051	440,667
Retaining earnings	Before distribution	350,050	331,149	370,662	399,259	577,321	611,309
	After distribution	310,704	303,032	342,545	340,214	Note 2	Note 2
Other equity interest		5,296	15,168	12,024	(5,928)	(12,367)	(8,829)
Treasury stock		-	(113,367)	(118,544)	(118,544)	(118,544)	-
Non-controlling interest		-	-	-	123	(180)	(783)
Total equity	Before distribution	1,377,454	1,288,339	1,319,531	1,358,416	1,529,736	1,632,819
	After distribution	1,366,212	1,260,222	1,291,414	1,299,371	Note 2	Note 2

Note 1: The financial data of 2013, 2014, 2015, 2016 and 2017 had been audited by the CPA, and the financial data as of March 31, 2018 has not reviewed by the CPA.

Note 2: The earnings distribution plan of 2017 is subject to the resolution of shareholders' meeting.

## (2) Condensed balance sheet – individual

Unit: NT\$ in thousand

Item	Year	Financial Summary for The Last Five Years (Note 1)				
		2013	2014	2015	2016	2017
Current assets		1,194,380	1,051,103	963,499	924,949	1,145,130
Real estate, plant and equipment		854,292	752,075	641,818	872,944	814,135
Intangible assets		48,917	51,184	53,016	51,132	42,907
Other assets		516,737	613,399	603,088	302,306	410,340
Total assets		2,614,326	2,467,761	2,261,421	2,151,331	2,412,512
Current liabilities	Before distribution	606,273	580,422	420,124	363,561	525,300
	After distribution	617,515	608,539	448,241	422,606	註 2
Non-current liabilities		630,599	599,000	521,766	429,477	357,296
Total liabilities	Before distribution	1,236,872	1,179,422	941,890	793,038	882,596
	After distribution	1,248,114	1,207,539	970,007	852,083	註 2
Equity attributable to shareholders of the parent company		1,377,454	1,288,339	1,319,531	1,358,293	1,529,916
Capital stock		565,535	592,338	592,338	620,455	620,455
Capital surplus		456,573	463,051	463,051	463,051	463,051
Retaining earnings	Before distribution	350,050	331,149	370,662	399,259	577,321
	After distribution	310,704	303,032	342,545	340,214	註 2
Other equity interest		5,296	15,168	12,024	(5,928)	(12,367)
Treasury stock		-	(113,367)	(118,544)	(118,544)	(118,544)
Non-controlling interest		-	-	-	-	-
Total equity	Before distribution	1,377,454	1,288,339	1,319,531	1,358,293	1,529,916
	After distribution	1,366,212	1,260,222	1,291,414	1,299,248	註 2

Note 1: The financial data of 2013, 2014, 2015, 2016, 2017 had been audited by the accountant.

Note 2: The earnings distribution plan of 2017 is subject to the resolution of shareholders' meeting.

## 2. Consolidated Condensed Statement of Comprehensive Income

### (1) Consolidated Condensed Statement of Comprehensive Income

Unit: NT\$ in thousand

Item \ Year	Financial Summary for The Last Five Years (Note 1)					Financial Summary as of March 31, 2018 (Note 1)
	2013	2014	2015	2016	2017	
Operating revenue	941,944	1,016,920	1,021,983	982,536	1,488,259	504,842
Gross profit	244,499	240,920	306,404	354,717	622,967	241,486
Income from operations	47,287	39,152	96,156	124,333	332,517	137,303
Non-operating income and expense	32,967	(7,334)	(14,741)	(18,925)	(32,393)	(8,553)
Income before tax	80,254	31,818	81,415	105,408	300,124	128,750
Net income of this term from continuous operation	58,688	20,743	70,782	85,534	237,872	99,362
Loss from discontinued operations	-	-	-	-	-	-
Net income (Loss)	58,688	20,743	70,782	85,534	237,872	99,362
Other comprehensive income (income after tax)	8,653	9,574	(6,296)	(18,714)	(7,507)	3,721
Total comprehensive income	67,341	30,317	64,486	66,820	230,365	103,083
Net income attributable to shareholders of the parent company	58,688	20,743	70,782	85,583	238,171	99,966
Net income attributable to non-controlling interest	-	-	-	(49)	(299)	(604)
Comprehensive profit/loss attributable to Shareholders of the parent company	67,341	30,317	64,486	66,879	230,668	103,686
Comprehensive profit/loss attributable to non-controlling interest	-	-	-	(59)	(303)	(603)
Earnings per share	1.00	0.35	1.26	1.45	4.03	1.69

註 1: The financial data of 2013, 2014, 2015, 2016 and 2017 had been audited by the CPA, and the financial data as of March 31, 2018 has not reviewed by the CPA.



## (2) Consolidated Condensed Statement of Income – individual

Unit: NT\$ in thousand

Year Item	Financial Summary for The Last Five Years (Note 1)				
	102 年	103 年	104 年	105 年	106 年
Operating revenue	601,674	811,557	826,513	784,654	1,198,518
Gross profit	153,264	155,461	213,766	242,807	418,680
Income from operations	47,292	37,374	89,536	107,916	239,034
Non-operating income and expense	26,972	(11,449)	(12,615)	(8,108)	39,456
Income before tax	74,264	25,925	76,921	99,808	278,490
Net income of this term from continuous operation	58,688	20,743	70,782	85,583	238,171
Loss from discontinued operations	-	-	-	-	-
Net income (Loss)	58,688	20,743	70,782	85,583	238,171
Other comprehensive income (income after tax)	8,653	9,574	(6,296)	(18,704)	(7,503)
Total comprehensive income	67,341	30,317	64,486	66,879	230,668
Net income attributable to shareholders of the parent company	58,688	20,743	70,782	85,583	238,171
Net income attributable to non-controlling interest	-	-	-	-	-
Comprehensive profit/loss attributable to shareholders of the parent company	67,341	30,317	64,486	66,879	230,668
Comprehensive profit/loss attributable to non-controlling interest	-	-	-	-	-
Earnings per share	1.00	0.35	1.26	1.45	4.03

註 1：The financial data of 2013, 2014, 2015, 2016 and 2017 had been audited by the CPA.

(II) Condensed Balance Sheet and Consolidated Statement of Income – based on SFAS : Not applicable.

(III) CPA's Names and Audit Opinions for the Last Five Years:

1. CPA's names and audit opinions for the last five years are listed as follow:

Year	Accounting Firm	CPA	Audit Opinion
2013	PwC TW	CPA LIU TZU-MENG, LI MING-HSIEN	Unqualified
2014	PwC TW	CPA LIN TZU-YU, LIU TZU-MENG	Unqualified
2015	PwC TW	CPA LIN TZU-YU, LIU TZU-MENG	Unqualified
2016	PwC TW	CPA LIN TZU-YU, LIU TZU-MENG	Unqualified
2017	PwC TW	CPA LIN YONG-ZHI, LIN TZU-YU	Unqualified

2. Explanation to the reason of accountant change in recent five years:

- (1) The financial statement of the Company was originally appointed PwC TW Accountant LIU TZU-MENG and LI MING-HSIEN for check and audit; in order to cooperate with the internal adjustment of PwC TW, it has changed to appoint PwC TW Accountant LIN TZU-YU and LIU TZU-MENG for check and audit since 2014.
- (2) The financial statement of the Company was originally appointed PwC TW Accountant LIN TZU-YU and LIU TZU-MENG for check and audit; in order to cooperate with the internal adjustment of PwC TW, it has changed to appoint PwC TW Accountant LIN YONG-ZHI and LIN TZU-YU for check and audit since 2017.

## II. Five-Year Financial Analysis

### (I) Financial Analysis – Based on IFRS

#### 1. Consolidated Financial Analysis

Analysis Item		Year	Financial Analysis for the Last Five Years (Note 1)					As of March 31, 2018 (Note 2, Note 3)
		2013	2014	2015	2016	2017		
Financial structure (%)	Debt Ratio	48.05	48.30	42.03	38.15	42.03	44.19	
	Ratio of long-term capital to real estate, plant and equipment	227.92	240.71	276.70	196.89	197.66	214.03	
Solvency %	Current ratio	207.71	204.57	267.74	272.56	222.93	220.91	
	Quick ratio	106.92	127.53	182.40	196.42	163.17	166.42	
	Interest earned ratio (times)	4.92	2.64	5.45	9.10	26.07	34.49	
Operating performance	Accounts receivable turnover (times)	2.98	2.95	2.82	2.67	3.69	4.32	
	Average collection days	122	124	129	137	99	84	
	Inventory turnover (times)	0.98	1.28	1.47	1.51	2.10	2.32	
	Accounts payable turnover (times)	13.64	16.40	10.69	6.98	5.48	4.84	
	Average days in sales	372	285	248	242	174	157	
	Real estate, plant and equipment turnover (times)	1.04	1.24	1.43	1.27	1.57	2.04	
	Total assets turnover (times)	0.35	0.40	0.43	0.44	0.62	0.72	
Profitability	Return on total assets (%)	2.81	1.43	3.60	4.29	10.25	14.72	
	Return on equity (%)	4.35	1.56	5.43	6.39	16.47	25.12	
	Pre-tax income to paid-in capital (%) (Note 8)	14.34	5.37	13.74	16.99	48.37	21.81	
	Net profit ratio (%)	6.23	2.04	6.93	8.71	15.98	19.68	
	Earnings per share (NT\$)	1.00	0.35	1.26	1.45	4.03	1.69	
Cash flow	Cash flow ratio (%)	28.60	53.05	67.90	72.35	61.28	11.87	
	Cash flow adequacy ratio (%)	13.71	34.00	42.86	96.16	299.00	305.51	
	Cash reinvestment ratio (%)	8.62	13.26	10.70	11.11	11.99	3.10	
Leverage	Operating leverage	4.30	5.15	2.54	2.11	1.37	1.23	
	Financial leverage	1.76	1.98	1.23	1.12	1.04	1.03	

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

1. Accounts receivable turnover, average collection days, inventory turnover, average days in sales, real estate, plant and equipment turnover, total assets turnover are main caused by prospect of industry is good, operation situation of the company is good, as a result of revenue and profit are increased greatly.
2. Accounts payable turnover is reduced. Because the revenue and profit is increased greatly. For corresponding to increased purchase amount which caused from production, as well as reassigned to extend the payment condition with suppliers, result in increased payable turnover along with purchase amount and extension of payment term, and cause by reduced accounts payable turnover.
3. Interest earned ratio, return on total assets, return on equity, pre-tax income to paid-in capital, net profit ratio, earnings per share and cash flow adequacy ratio are increased. Because sales amount and quantity are increased, along with the usage ratio of production is increased, and cause by both increased of net profit ratio and earning.

Note 1: The financial date of 2013, 2014, 2015, 2016 and 2017 had been audited by the CPA.

Note 2: The financial date of March 31, 2018 has not been audited by CPA.

Note 3: Relevant operation capacity and profitability related financial ratio is calculated by the annual figure.

Note 4: Calculation formulas are as below:

1. Financial structure

(1) Ratio of liability to asset = total liability / total asset.

(2) Ratio of long-term capital to real estate, plant and equipment = (total equity + non-current liability) / net amount of real estate, plant and equipment.

2. Solvency

(1) Current ratio = current asset / current liability.

(2) Quick ratio = (current asset – inventory – prepaid expense) / current liability.

(3) Interest earned ratio = net profit before income tax and interest expense / current interest expense.

3. Operating performance

(1) Accounts payable (including accounts receivable and notes receivable caused by business) turnover ratio = net sales / average accounts receivable ((including accounts receivable and notes receivable caused by business) balance).

(2) Average collection days = 365 / accounts payable turnover ratio.

(3) Inventory turnover ratio = sales cost / average inventory.

(4) Accounts payable (including accounts payable and notes payable caused by business) turnover ratio = sales cost / balance of average accounts payable (including accounts payable and notes payable caused by business).

(5) Average days in sale = 365 / inventory turnover ratio.

(6) Real estate, plant and equipment turnover ratio = net sales / net amount of average real estate, plant and equipment.

(7) Total assets turnover ratio = net sales / average total assets.

4. Profitability

(1) Return on assets = (after-tax profit and loss + interest expense × (1 – tax rate)) / average total assets.

(2) Return on equity = after-tax profit and loss / average total equity.

(3) Net profit ratio = after-tax profit and loss / net sales.

(4) Earnings per share = (equity attributable to shareholders of parent company – preference dividend) / weighted average issued share number. (Note 5)

5. Cash flow

(1) Cash flow ratio = net cash flow of operating activity / current liability.

(2) Net cash flow adequacy ratio = net cash flow of operating activity in recent five years / recent five years (capital expenditure + inventory increase + cash dividend).

(3) Cash reinvestment ratio = (net cash flow of operating activity – cash dividend) / (gross amount of real estate, plant and equipment + long-term investment + other non-current asset + working capital). (Note 6)

6. Leverage:

(1) Operating leverage = (net operating revenue – changed operating costs and expense)



/operating profit. (Note 7)

(2) Financial leverage = operating profit / (operating profit – interest expense).

Note 5: Calculation formula of above earnings per share shall pay attention to following items when measuring:

1. Subject to weighted average common share number, not based on issued share numbers in the end of the year.
2. If there is increment of cash or treasury stock transaction, it shall consider the circulation period, and calculate the weighted average share number.
3. If there is surplus transferred to increment or capital reserve transferred to investment, when calculating the earnings per share of the previous year and half year, it shall trace and adjust according to increment proportion, without any consideration of issuing period of the increment.
4. If the special stock is the inconvertible accumulative special stock, its dividend of that year (no matter issued or not) shall be deducted from the profit (loss) for the year, or increase the after-tax net loss. If the special stock is non-cumulative type, when there is after-tax dispute, the special stock dividend shall be deducted from the profit (loss) for the year; if it is loss, it shall not be adjusted.

Note 6: Cash flow analysis shall pay special attention to the following items when measuring:

1. Net cash flow of operating activity refers to net cash inflow of operating activity in cash flow statement.
2. Capital expenditure refers to the cash outflow of annual capital investment.
3. Inventory increment shall only be accounted when the ending balance is greater than beginning balance, and if the inventory decreases in the end of the year, it shall be calculated as zero.
4. Cash dividends include the cash dividend of common stock and special stock.
5. Real estate, plant and equipment gross refer to the sum of real estate, plant and equipment before deducting the accumulated depreciation.

Note 7: Issuer shall divide the operating costs and operating expenses into the fixed and changeable one; if estimation or subjective judgment is involved, it shall pay attention to the rationality and maintain the consistency.

Note 8: If the company share has no denomination or the denomination per share is not NTD\$ 10, the above ratio calculation related to paid-in capital shall be changed to calculate the ratio of equity attributable to shareholders of parent company of balance sheet.

(2) Financial Analysis – individual

Analysis Item		Year	Financial Analysis for the Last Five Years					As of March
			2013	2014	2015	2016	2017	31, 2018
Financial structure (%)	Debt Ratio		47.31	47.79	41.65	36.86	36.58	
	Ratio of long-term capital to real estate, plant and equipment		235.05	250.95	286.89	204.80	231.81	
Solvency %	Current ratio		197.00	181.09	229.34	254.41	218.00	
	Quick ratio		143.64	139.43	178.05	195.49	160.62	
	Interest earned ratio (times)		4.68	2.40	5.36	9.34	31.80	
Operating performance	Accounts receivable turnover (times)		1.33	2.65	2.63	2.43	3.01	
	Average collection days		274	138	139	150	121	
	Inventory turnover (times)		1.81	2.39	2.70	2.53	3.14	
	Accounts payable turnover (times)		10.76	14.34	9.07	6.18	5.01	Not applicable
	Average days in sales		202	153	135	144	117	
	Real estate, plant and equipment turnover (times)		0.67	1.01	1.19	1.04	1.42	
	Total assets turnover (times)		0.22	0.32	0.35	0.36	0.53	
Profitability	Return on total assets (%)		2.73	1.42	3.60	4.32	10.77	
	Return on stockholders' equity (%)		4.35	1.56	5.43	6.39	16.49	
	Pre-tax income to paid-in capital (%) (Note 8)		13.27	4.38	12.99	16.09	44.88	
	Net profit ratio (%)		9.75	2.56	8.56	10.91	19.87	
	Earnings per share (NT\$ in dollars)		1.00	0.35	1.20	1.45	4.03	
Cash flow	Cash flow ratio (%)		53.78	39.01	62.71	57.13	43.76	
	Cash flow adequacy ratio (%)		52.28	75.47	81.13	132.50	263.77	
	Cash reinvestment ratio (%)		15.44	8.64	9.17	6.84	6.13	
Leverage	Operating leverage		2.49	4.35	2.53	1.99	1.41	
	Financial leverage		1.74	1.99	1.24	1.12	1.04	
<p>Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)</p> <p>1. Accounts receivable turnover, inventory turnover, real estate, plant and equipment turnover, total assets turnover are main caused by prospect of industry is good, operation situation of the company is good, as a result of revenue and profit are increased greatly.</p>								

2. Interest earned ratio, return on total assets, return on equity, pre-tax income to paid-in capital, net profit ratio, earnings per share and cash flow adequacy ratio are increased. Because sales amount and quantity are increased, along with the usage ratio of production is increased, and cause by both increased of net profit ratio and earning.

Note 1: The financial date of 2013, 2014, 2015, 2016 and 2017 had been audited by the CPA.

Note 2: The formula is as follows:

1. Financial structure
  - (1)The proportion of liabilities covered by assets = total liabilities/total assets.
  - (2)The proportion of long-term funds covered by fixed assets = (Shareholder's net equity + long-term liability)/net value of fixed assets.
2. Debt-paying ability
  - (1)Current ratio = current assets/current liability.
  - (2)Quick ratio = (current assets–inventory - prepaid expenses)/current liability.
  - (3)Time interest earned ratio = income tax and net profit before interest expense/current interest expense.
3. Business capacity
  - (1)Receivables (including receivables and the notes receivable produced by the business) turnover = net sales/each average receivables (including receivables and the notes receivable produced by the business) balance.
  - (2)Average collection days = 365/receivables turnover.
  - (3)Inventory turnover = Cost of goods sold/average inventory.
  - (4)Receivables (including receivables and the notes receivable produced by the business) turnover = net sales/each average receivables (including receivables and the notes receivable produced by the business) balance.
  - (5)Average sales days = 365/inventory turnover.
  - (6)Fixed asset turnover = net sales/average net value of fixed assets.
  - (7)Total assets turnover = net sales/average total assets.
4. Profitability
  - (1)Return on assets = (post-tax profit or loss + interest expense× (1–tax rate) /average total assets.
  - (2)Shareholder's return on equity = post-tax profit or loss /average shareholder's net equity.
  - (3)Net profit ratio = post-tax profit or loss /net sales.
  - (4)Earnings per share = (net profit after tax - preference dividend) /weighted average issued shares.
5. Cash flow
  - (1)Cash flow ratio = operating activities net cash flow/current liability.  
net cash flow adequacy ratio = Net cash flow from operating activities for the Past Five Years /for the Past Five
  - (2)Years (capital expenditure + inventory increases + cash dividends).
  - (3)Cash re-investment ratio = (operating activities net cash flow - cash dividends)/(fixed asset's gross amount + long-term investment + other assets + working capital).
6. Lever degree:
  - (1)Degree of operating leverage = (net revenue - business change costs and expenses)/ sales revenue.
  - (2)Degree of financial leverage = sales revenue / (sales revenue–interest expenses).

Note 3: For the calculation formula of the above earnings per share, the following matters shall be paid attention to:

1. Be subject to the weighted average of common stock shares rather than by then end of the year.
2. The one goes through a cash capital increase or treasury stock trading shall consider calculating the weighted average outstanding shares during the circulation period.
3. The one goes through surplus capital increase or turn add equity capital accumulation fund shall carry out retroactive adjustment based on capital increase ratio when calculating the earnings per share of previous years and semiannual.
4. If the preferred stock is the non-convertible cumulative stock, the current annual dividend (whether issued or not) shall be deducted from post-tax profit or added to post-tax loss. If the preferred stock is not cumulative, it shall be deducted from the post-tax profit; and it needs no adjustment if it losses.

Note 4: Pay attention to the following matters when measuring cash flow analysis:

1. Operating activities net cash flow refers to the net cash inflows of operating activities in the Cash Flow Table.
2. Capital expenditure refers to capital investment cash outflows each year.
3. Inventory increases is only included when ending balance is larger than beginning balance. If the inventory at the end of year is decreased, then it will be calculated as zero.
4. Cash dividends include common stock and preferred stock's cash dividends.
5. Fix asset's gross amount refers to the total fixed assets before deducting accumulated depression.

Note 5: The issuer shall divide Operating costs and Operating expenses as fixed or changed depending on the nature. If estimation or subjective judgment is involved, it shall pay attention to its rationality and maintain consistency.

**III. Auditing report for recent annual financial statement prepared by supervisor**

**CHIEFTEK PRECISION CO., LTD.**

**Supervisor's Auditing Reprt**

Hereby to approve,

The Board of Directors prepares the Financial Statement, Operating Report, and Earnings Distribution Plan for the year of 2017. The undersigned PwC TW CPA LIN YONG-ZHI and LIN TZU-YU have duly audited the 2017 Financial Statement, and issued recorded unqualified opinion auditing report. All statistical forms shall be complied in accordance with the law after being reviewing by the supervisors. Any discrepancies shall be reported to the superior in accordance with Article 219 of the Company Law.

With respect,

CHIEFTEK PRECISION CO., LTD. 2018 SHAREHOLDERS' MEETING

CHIEFTEK PRECISION CO., LTD.

Supervisor: KUANG HIS-HUI

Supervisor: LI MEI

Supervisor: TSENG HSU-WEN

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# **CHIEFTEK PRECISION CO., LTD.**

## **Supervisor's Auditing Report**

Hereby to approve,

The Board of Directors prepares the earning distribution table for the year of 2017. The above statement are reviewed by the supervisors. Any discrepancies shall be reported to the superior in accordance with Article 219 of the Company Law.

With respect

CHIEFTEK PRECISION CO., LTD. 2018 SHAREHOLDERS' MEETING

CHIEFTEK PRECISION CO., LTD.

Supervisor: KUANG HIS-HUI

Supervisor: LI MEI

Supervisor: TSENG HSU-WEN

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IV. Recent consolidated financial statement: Please refer to Appendix I.

V. Recent parent company only financial statement reviewed by CPA: Please refer to Appendix II.

VI. If any financial difficulties happen to the Company and its affiliate enterprises by the deadline of annual report printing, then its impact on the Company's financial condition is: None.

## VII. Review of Financial Conditions, Financial Performance, and Risk Management

### I. Analysis of Financial Status

#### (I) Comparative analysis table of financial condition

Unit: NT\$ in thousand

Year Account subject	2017	2016	Increased (decreased)	
	Amount	Amount	Amount	%
Current assets	1,479,621	1,199,483	280,138	23.36%
Real estate, plant and equipment	999,260	892,019	107,241	12.02%
Intangible assets	123,173	68,707	54,466	79.27%
Other assets	36,765	36,164	601	1.66%
Total assets	2,638,819	2,196,373	442,446	20.14%
Current liabilities	663,719	440,085	223,634	50.82%
Non-current liabilities	445,364	397,872	47,492	11.94%
Total liabilities	1,109,083	837,957	271,126	32.36%
Equity attributable to owners of the parent	1,529,916	1,358,293	171,623	12.64%
Capital stock	620,455	620,455	-	0.00%
Capital reserves	463,051	463,051	-	0.00%
Retained earnings	577,321	399,259	178,062	44.60%
Other equity interest	(12,367)	(5,928)	(6,439)	(108.62%)
Treasury stock	(118,544)	(118,544)	-	0.00%
Non-controlling interests	(180)	123	(303)	(246.34%)
Total equity	1,529,736	1,358,416	171,320	12.61%
Analysis of changes in financial ratios (more than 20% are changed and the changed amount is up to above NT\$10 million):				
1. Current assets, intangible assets, total assets are increased and other assets is recuded, the main reasons are:				
(1)Business amount is grow up to 51.47% greatly, result increased note receivable and accounts receivable.				
(2)For corresponding to growth of business amount, raw material, materials and product in produce are increased.				
(3)The expense of the assignment of CSM Maschinen GmbH to develop new product is increase continuously.				
(4)US subsidiary Chieftek Precision International LLC purchased new factory in 2017 cause the real estate, factory and equipment are increased.				
2. Current liabilities and total liabilities are increased. The main reasons are:				
(1)Mainly because the revenue of company is significate increased. For corresponding to increased purchase amount which caused from production, as well as reassigned to extend the payment condition with suppliers, result in increased payable turnover along with purchase amount and extension of payment term, and cause by reduced				



accounts payable turnover.

(2)The salary payable and year-end bonus of employee is increased significantly increased due to the number of employee increased greatly along with business amount.

(3)Due to the profit is growup greatly, the the salary of employees and the salary of directors and supervisors proposed according to Articles of incorporation is increased greatly.

3. Retained earnings is increased, because the profit condition is growup greatly.

## II. Analysis of Financial Performance

(I) Comparative analysis table of financial performance:

Unit: NT\$ in thousand

Year Account subject	2017	2016	Increased (decreased)	
	Amount	Amount	Amount	%
Sales revenue	1,488,259	982,536	505,723	51.47%
Operating margin	622,967	354,717	268,250	75.62%
Operation profit and loss	332,517	124,333	208,184	167.44%
Non-operating income and expense	(32,393)	(18,925)	(13,468)	(71.17%)
Net profit before tax	300,127	105,408	194,719	184.73%
Net profit of the term to continuous operation unit	237,872	85,534	152,338	178.10%
Loss of discontinued operation	-	-	-	-
Net profit (loss) of the term	237,872	85,534	152,338	178.10%
Other comprehensive ( loss) Income (net profit after tax)	(7,507)	(18,714)	11,207	59.88%
Total comprehensive income (loss)	230,365	66,820	163,545	244.75%
Net profit attributable to the owner of parent company	238,171	85,583	152,588	178.29%
Non-controlling interest's net profit	(299)	(49)	(250)	(510.20%)
Parent company owner's consolidated profit	230,668	66,879	163,789	244.90%
Comprehensive profit attributable to the owner of parent company	(303)	(59)	(244)	(413.56%)
Earnings per share (NT\$)	4.03	1.45	2.58	177.93%
Analysis of changes in financial ratios (more than 20% are changed and the changed amount is up to above NT\$10 million):				
1. Sales revenue, operating margin, operation profit and loss, net profit before tax, netprofit of the term to continuous operation unit, net profit (loss) of the term, total comprehensive income (loss), net profit attributable to the owner of parent company and earnings per share are increased, mainly due to:				
(1) The requirement of sutomation equipment is increased greatly due to Industry 4.0				

and enterprise transformation and upgrade, along with the increased demand of linear guide in the market, result in the greatly increased operation amount.

- (2) The performance of recuction of inactive stocks is great, as well as the current operation revenu is supported by the current output, which raise up the usage of production and increase the net profit ratio.
  - (3) Because operation amount is growing up, it is not only the revenu and net profit of miniature linear products with high gross net profit is increased significately, along with the revenu and gross profit ratio of large linear products are increased significately.
2. Non-operation revenu and expense is decreased from the last term. It is mainly because the proportion of unit in EURO is more than US dollar which are the price unit of product export of the company. Result in the exchange loss by the raise of New Taiwan dollar.

(II) Expected sales volume and its basis:  
Please refer to “Letter to Shareholders”.

(III) Possible impact on the Company’s future financial business and contingency plan:  
The trend of automation equipment brings the requirement of linear guide in the market. Operation amount of the company is grow up continuously Accompany with the high gross profit of minisure linear product will increase operation scale again. In the aspect of financial, in addition to search long-term foundation source to apply the capital expense, also improve the financial proportion and make the financial structure more healthy.

### III. Cash flow

(I) Liquidity Analysis for the Current Year:

Unit: NT\$ in thousand

Year Account subject	2017	2016	Increase (decrease)	
	Amount	Amount	Amount	%
Operating activities inflows (outflows)	406,706	318,400	88,306	27.73%
Investment activities inflows(outflows)	(274,467)	(43,404)	(231,063)	(532.35%)
Financial activities inflows (outflows)	20,734	(198,203)	218,937	110.46%
Effect of exchange rate	(7,579)	(20,212)	12,633	62.50%
Net cash inflows (outflows)	145,394	56,581	88,813	156.97%
<p>1. Net cash inflow of operating activities is increased: The main reasons are the business amount for 2017 is significate increased. The gross profit and profit are growed greatly, as well as accounts payable increased along tiwth increased purchase amount.</p> <p>2.Net cash outflows is increased. The main reasons are:</p> <ol style="list-style-type: none"> <li>(1) Subsidiary CSM Maschinen GmbH keep investing new product development, casue the increased intengible assests.</li> <li>(2) US subsidiary Chieftek Precision International LLC purchased new plant during the year of 2016, cause the increased real estate, factory and equipment.</li> </ol> <p>3.Financial activities outflows is decreased. The main reasons are:</p> <ol style="list-style-type: none"> <li>(1) US subsidiary Chieftek Precision International LLC purchased new factory, cause the increased long-term, short-term loan.</li> </ol>				

(2) Accompany with the increased profit, repay the joint financial project and long-term debit.

(II) Remedy for Cash Flow analysis for coming year:

Unit: NT\$ In thousand

Cash Surplus in the beginning (1)	Estimated Cash Flow from Operating Activities for the Year (2)	Estimated Cash outflow for the Year (3)	Estimated Cash Surplus (Deficit) (1)+(2)-(3)	Leverage of Cash Surplus (Deficit)	
				Investment Plans	Financing Plans
651,824	250,000	450,000	451,824	-	-
Analysis of cash flow change for the coming year:					
1. Operating activities: It is estimated that the operating amount will grow with comparing to 2017. and the amount of purchases and accounts receivable will increase accordingly. However, the profit will be increased, which will result in the net cash outflow in operating activities.					
2. Investment activities: It is estimated that the "Project of New Plant Construction in TreeValley Park" will keep going in 2017, causing net cash outflow in investment activities over NT\$ 200,000 thousand.					
3. Financial activities: It is estimated that the "Project of New Plant Construction in TreeValley Park" will process in 2018 will increase the long-term loan. However, the profits might be increased accordingly, which can be used to repay some amortization of long-term loan and short-term loan, which causes the net cash outflow in financial activities.					

(III) Improvement plan for illiquidity:

since the Company's business is in profit growth and turnover, stock purchase and receivables, required working capital are estimated to increase, it shall carry out the financing or increase financing amount according to plans. Moreover, the "Project of New Construction in Tree Valley Park" will keep going in 2017, it is estimated that the funds will come from owned fund, bank financing (or syndicated loan) or other fund-raising method. Currently, as passed in the board meeting on May 9, 2017, applying syndicated loan project of the loan with the total amount of NT\$20 billion granted by 9 banks includes E.SUN Bank and other banks on July 7, 2017. It can be provided for the project of new plant construction in Tree Valley Park and the adequate long-term operating fund for future.

**VI. Impact of Major Capital Expenditure Items on Financial Business**

(I) Reason for plant construction and benefits

Plant area	Products manufacturerd	Annual capacity	Main reason for plant construction	Remark
Plant of Tree Valley Park	Electromechanical device	(Note)	Development new technologies/products	

(Note) The construction license was obtained on April 26, 2017, which is waiting for contracting and construction.

1. Main reason for plant construction: It plans to construct plant on the land of Tree Valley Park, with the aim to develop and manufacture the technology related to transmission device (such as: motor core axis, harmonic drive and other transmission components), and the prototype of Turnkey mass production machine derived from such application technology together with the subsidiary CSM Maschinen

GmbH, so as to meet the operating demands of the Company.

2. Benefits: Expand operating scale and increase turnover.

(II) The impact on the Company's financial business

The company's debt ratio on December 31, 2017 is 42.03%, increased 3.88% compared to 38.15% on December 31, 2016. The increased debt ratio in 2017 mainly due to:

1. US subsidiary Chieftek Precision International LLC purchased new plant during the year of 2016, cause the increased load amount which supported by owned funds, long-term and short-term loans.
2. Because the revenue in 2017 is increased greatly, as well as reassigned to extend the payment condition with suppliers, the amount of account payable is increased by increased purchase amount and extended payment term.
3. The number of employees is increase because the profit is growing greatly. Which cause salary payable and year-end bonus of employees are increased apparently.
4. Along with the increased profits, the salary of employees and salary of directors and supervisors proposed according to Articles of incorporation is increased greatly.

For corresponding to the "Project of New Construction in Tree Valley Park", it is estimated that the funds will come from owned fund, bank financing (or syndicated loan) or other fund-raising method. Currently, as passed in the board meeting on May 9, 2017, applying syndicated loan project of the load with the total amount of NT\$20 billion granted by 9 banks includes E.SUN Bank and other banks on July 7, 2017. It can be provided for the project of new plant construction in Tree Valley Park and the adequate long-term operating fund for future.

From the viewpoint of annual revenue and profit for 2017 is greatly growing, the performance of operation is excellent and financial operating is conservative and stable.

**V. Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year**

- (I) The Company's reinvestment policy shall focus on business-related field with an expectation to improve its overall operating performance. Relevant executive departments shall implement in accordance with internal control system "Investment Cycle" and "Procedures for Acquisition or Disposal of Assets"; stipulate "Subsidiary Management Approach" for internal control system to facilitate monitoring each subsidiary to stipulate relevant operating procedure on major financial and business matters and establish subsidiary operating risk management system in accordance with laws to maximize the performance.

(II) Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year:

Unit: NT\$ in thousand

項目 / Description	2017 profit or loss amount	Main reason of profit or loss	Improvement plans	Investment plans for the coming year
CHIEFTEK PRECISION HOLDING CO., LTD.	61,767	CHIEFTEK PRECISION (HONG KONG) CO., LTD. And CHIEFTEK PRECISION USA CO., LTD. Investment gains and losses	-	Depending on the operating conditions
cpc Europa GmbH	18,117	Growth of turnover.	-	Depending on the operating conditions

CSM Maschinen GmbH	(1,492)	Expense generated from operation	In the stage of product development	Depending on the operating conditions
CHIEFTEK PRECISION (HONG KONG) CO., LTD.	55,137	Chieftek Machinery (Kunshan) Co., Ltd. investment profit	-	Depending on the operating conditions
CHIEFTEK PRECISION USA CO., LTD.	5,257	Growth of turnover.	-	Depending on the operating conditions
Chieftek Machinery (Kunshan) Co., Ltd.	55,029	Growth of turnover and de-inventory rapidly.	-	Depending on the operating conditions
Chieftek Precision International LLC	(3,557)	At the beginning, expense of segmental and repair engineering caused by new purchased plant	It will improve while the plant complete renovation	Depending on the operating conditions

## VI. Analysis of Risk Management

### (I) Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures:

#### 1. Interest rate:

The Company's 2017 and 2016 annual interest payment is NT\$11,972 thousand and NT\$12,645 thousand respectively, accounting for 0.81% and 1.29% of turnover respectively. The Company has achieved stable profit and growth in the past two years, so the loan amount and interest rate keep reducing. Moreover, the Company regularly evaluates the interest rate of the bank loan and keeps close relationship with the bank, so as to obtain the preferential interest rate and reduce the interest expense. Therefore, the change of interest rate doesn't show material influence on the Company.

#### 2. Foreign exchange rates:

While the Company's income of export sales is Dollar, Euro and Yen-based and the purchased currency is Euro and Yen-based, so part of assets and liabilities have natural hedging effect. However, to respond to the risk of changes in the foreign exchange rate, the Company will collect the information related to the changes of exchange rate more positively, so as to master and analyze the trend of foreign exchange rate and take appropriate hedging actions, reducing the impact of risk brought by exchange rate.

The Company's 2017 and 2016 net loss on currency exchange is NT\$20,933 thousand and NT\$10,041 thousand respectively, accounting for (1.41%) and (1.02%) of net income respectively. As the proportion of exchange gain or loss accounting for turnover is not high, the whole exchange rate has not been a major risk burden on profitability.

#### 3. Inflation:

In terms of the profits obtained in 2017 and 2016, no high inflation occurred, so the impact of inflation does not currently have a significant impact on the Company's profits and business operations. Only the Company still continues to pay close attention to the economic environment and the volatility of the market environment, with the expectation to

avoid the adverse impact of inflation and deflation.

(II) Policies, Main Causes of Gain or Loss with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions:

The Company is dedicated to the operation of related businesses, and its financial policies are based on the conservative principle. The Company did not engage in any high-risk or high-leveraged investments. As for lending funds to others, endorsement and guarantee, as well as the transaction of derivative products, it is subject to the “Operation Procedure for Endorsement and Guarantee”, the “Operation Procedure of Lending Funds to Others”, “Procedures for Financial Derivatives Transactions” and the “Procedures for Acquisition or Disposal of Assets” passed by the board of directors in addition the cautious evaluation, regular reporting and monthly control.

(III) Future Research & Development Projects and Corresponding Budget:

The Company has invested NT\$65,382 thousand of R&D in 2017, increasing by NT\$21,607 thousand compared to NT\$43,775 thousand in 2016. The increase rate is 49.36%.

Along with the industry 4.0, required sensor components with various type, higher precision and multi-signal transmission format, to meet the requirement of automation equipment, intelligent factory. It is estimated to increase the investment of R&D expense for 2018.

(IV) Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales:

In 2017, the government carries out the "one fixed day off and one flexible rest day" policy, which increases the cost of manpower and has shortage of manpower. However, the Company keep increase the welfare include raise the salary, group insurance and so on. Therefore, the financial condition and businesses of the Company is not influenced by the changes in critical policies and laws home and abroad in the last year and by the date of printing the annual report. °

(V) Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales:

The technology of industry 4.0, automation industry is keep improving, It is a positive help to enlarge the application field of the company products. Therefore, the Company will continue to develop R&D ability and combine technology and industry's long-term development trend, so as to improve the product quality and realize the Company's sustainable operation and growth.

The industry or market of the Company doesn't have any material change in manufacturing or related technologies, so there is no event that shows material influence on the financial condition and businesses of the Company.

(VI) The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures:

1. In terms of the corporate image, the Company highly values integrity and never pursues illegal profits. With professional R&D team and international operation pattern, it formulates a refreshing image in the industry. Moreover, with the goals of promoting social economy, improving environmental prosperity and guaranteeing staff welfare, it strictly follows the provisions of laws and regulation stipulated by the competent authority.
2. The Company has good corporate image. In the 3rd corporate governance assessment, it ranked in the top 20% among the new companies, and won the “Improvement Award” for encouragement. It indicates the efforts made in the field of corporate governance. Moreover, it has won the recognition of assessment system, and even greatly improved the corporate

image. Therefore, there is no significant change in circumstances and cause crisis to the Company.

3. The countermeasures such as donate 2 billion dollars to MINISTRY OF HEALTH AND WELFARE DONATION in Hualien, actively donate Transditional Chinese Culture College Fundation and Artist group are positive helps for corporate image.

(VII) Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans:

The Company has no ongoing merger and acquisition activities. In considering future M&A activities, the Company will evaluate their efficiency, risks, vertical integration and other factors in accordance with its internal control system to guarantee the Company's interests and original shareholders' equities.

(VIII) Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans:

The Company cautiously implements the plant expansion plan. Besides strengthening the financial structure through capital increase out of earnings, it also cooperates with bank club to acquire adequate funds. Moreover, the operating team of the Company owns rich industrial experience, understands the industrial demands for products, and can fully make use of the utilization rate of the new plant. The plant expansion of the Company goes through the complete, cautious and professional evaluation process. For any major capital expenditures, it shall report to director's meeting and fully considers the investment returns and possible risks.

To achieve the business goal of sustainable operation, the Company completed the phase-II plant construction in Tainan Science Park in 2012, with the expectation to get rooted in industry of key linear motion parts. In addition, it plans to launch the "Project of New Plant Construction in Tree Valley Park" in 2017. Please refer to "IV. Impact of Major Capital Expenditure Items on Financial Business" in Section VII. Review of Financial Conditions, Financial Performance, and Risk Management.

(IX) Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration:

1. Purchase

Based on industry's characteristics, quality rate, delivery and market supply and demand, the Company purchases most miniature linear guides and slide cold drawing steel from Company A (Taiwan is the main production base for the Company, so the main stock manufacture of the combined company shall be same with the parent company's). This manufacture is a world leading manufacture in cold drawing piece production, whose product quality is good. The Company has established cooperative relationship with it since the beginning and the long-term relationship is good. In order to maintain the elasticity with the supplier, the Company has not signed a long-term supply contract with Company A. And in order to avoid a shortage of materials and uncontrollable cost risk caused by a single supplier, in addition to maintain a good cooperative relationship with Company A, the Company is also actively seeking a new supplier to reduce the stock concentration. The purchase proportion from Company A has been reduced year by year since 2009 and the situation of stock concentration has been improved. The risk is limited.

2. Sales

Main products of the Company are miniature linear guide, standard linear guide and linear motor. The biggest trade debtor in 2017 is the subsidiary CHIEFTEK PRECISION (Kunshan) with 100% shareholding, which is accounting for 31.89% of annual net sales. Main business scope of CHIEFTEK PRECISION (Kunshan) is to sell the products produced by the Company and provide after-sales service for mainland customers, so it is not a single customer of over-concentrated sales. As for the merged company, there has no customer that accounting for 10% of annual net sales. The Company will continue to develop new products

and customers in the future and it is expected that there will have no circumstances that will affect normal operation due to concentrated sales.

(X) Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%:

The shareholdings of the Company's directors and supervisors have been stable during the last few years, and there have been no major transfers or swaps of shares.

(XI) Effects of, Risks Relating to and Response to the Changes in Management Rights:

The Company's directors and supervisors actively participate in the Company's operation and the management class has stronger sense of mission to the Company, regarding company's operation as a tenure career. Our policy is to maintain a steady ownership and management structure. As of the date of this Annual Report, such risks were not identified by the Company

(XII) Litigation or Non-litigation Matters:

1. Until the printing date of Company's recent annual report, major ongoing lawsuits, non-lawsuits or administrative lawsuits, the matters that may have significant impact on shareholder's equity or security price are: None.
2. Major ongoing lawsuits, non-lawsuits or administrative lawsuits caused by the Company's director, supervisor, general manager, the actual head, major shareholder who holds more than 10% of the shares and affiliated company by the date of printing the annual report, with the matters that may have major effect on shareholder's equity or security price: None.

(XIII) Other significant risks and Response Measures: None.

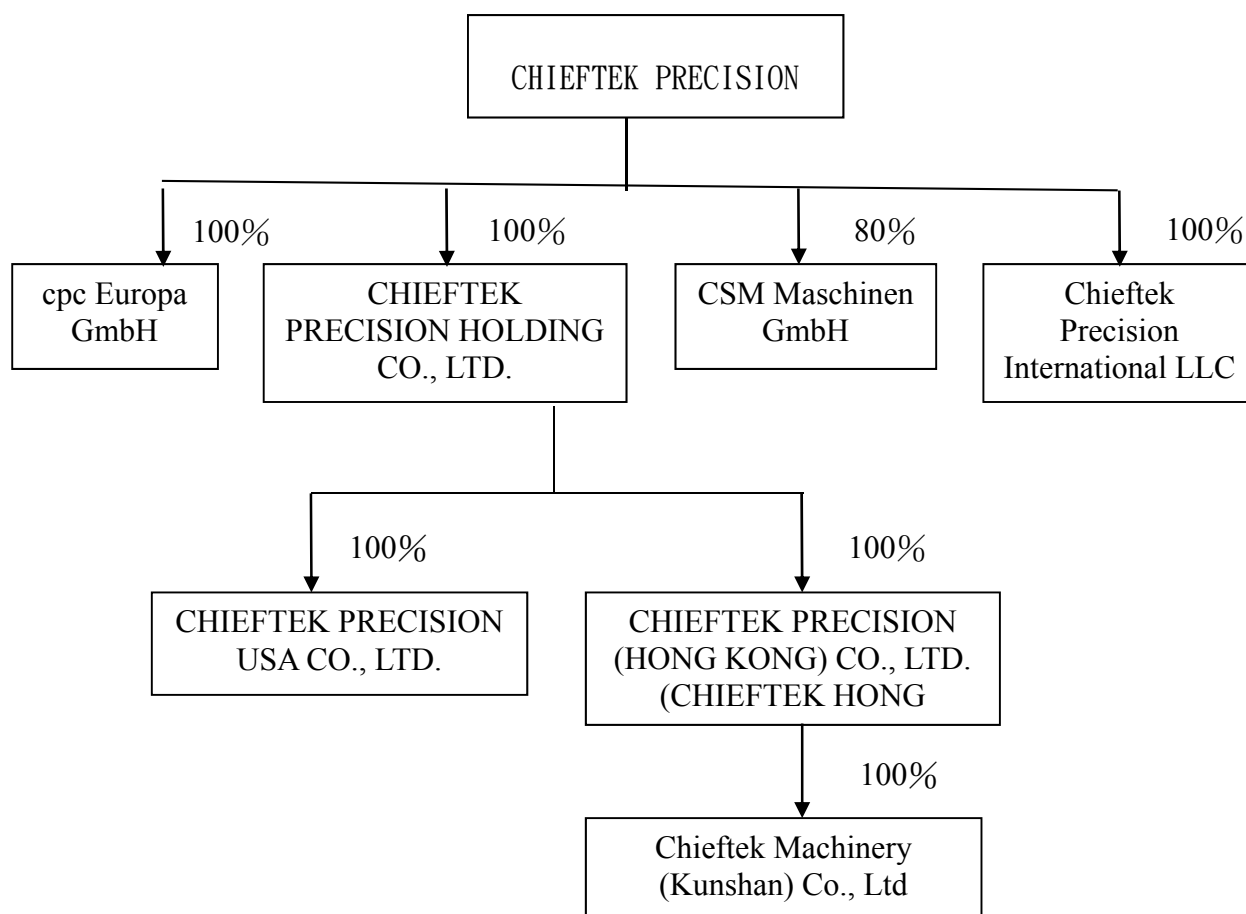
**VI. Other important matters: None.**



## VIII. Special notes

### I. Affiliate enterprises' relevant information

- (I) Affiliate enterprises consolidated financial statements: please refer to consolidated financial statements.
- (II) Affiliate enterprises consolidated operating report
  - 1. Affiliate enterprises organizational table



2. Relationship between affiliate enterprises, shareholding ratio, share and actual investment amount

March 31, 2018; Unit: Share in thousand / NT\$ in thousand

Affiliate enterprises name	The relationship with the Company	The company's share hold by the affiliate enterprises		Affiliate enterprises' share hold by the Company		
		Shares	Shareholding ratio(%)	Shares	Shareholding ratio(%)	Actual investment amount
CHIEFTEK PRECISION HOLDING CO., LTD.	The Company adopts equity method to evaluate invested company	-	-	6,760	100%	USD6,760
cpc Europa GmbH	The subsidiary CHIEFTEK PRECISION (HONG KONG) CO.,LTD adopts equity method to evaluate invested company	-	-	Note 1	100%	EUR2,500
CSM Maschinen GmbH	The Company adopts equity method to evaluate invested company	-	-	Note 1	80%	EUR20
CHIEFTEK PRECISION (HONG KONG) CO., LTD	The Company adopts equity method to evaluate invested company	-	-	5,100	100%	USD5,100
CHIEFTEK PRECISION USA CO., LTD	Affiliate enterprises ( <b>cpc</b> holdings) adopt equity method to evaluate invested company	-	-	1,660	100%	USD1,660
Chieftek Mechinert (Kuanshan) Co., Ltd.	Affiliate enterprises ( <b>cpc</b> holdings) adopt equity method to evaluate invested company	-	-	Note 2	100%	USD5,100
Chieftek Precision International LLC	The Company adopts equity method to evaluate invested company	-	-	Note 3	100%	USD 500

Note 1 : The Germany Company directly invested by the Company is a limited liability company. No share.

Note 2: The mainland company indirectly invested by the Company is a limited liability company. No share.

Note 3 : The US Company directly invested by the Company is a limited liability company. No share.

### 3. Basic documents of affiliate enterprises

March 31, 2018; Unit: US\$/EUR

Enterprise name	Establishment date	Address	Paid-in capital	Main business or production project
CHIEFTEK PRECISION HOLDING CO., LTD.	December 20, 2007	Level 2, Lotemau Centre, Vaea Street, Apia, Samoa	US\$ 6,760,000	Investment holding
cpc Europa GmbH	January 19, 2010	Industriepark 314, 78244 Gottmadingen Germany	EUR 2,500,000	Marketing positions in Europe and after-sales services
CSM Maschinen GmbH	January 19, 2010	Justus-von-Liebig Str. 12, 86899 Landsberg	EUR 25,000	R&D, manufacturing and marketing and after-sales service
CHIEFTEK PRECISION (HONG KONG) CO., LTD	September 26, 2008	Huamao Century Square 31 floor, Gloucester Road 178, Hong Kong	US\$ 5,100,000	Investment holding
CHIEFTEK PRECISION USA CO., LTD	January 01, 2008	4881 Murietta St., Chino, CA 91710, USA	US\$ 1,660,000	Marketing positions in US and Canada, and after-sales services
Chieftek Machinery (Kunshan) Co., Ltd	December 26, 2008	Hongqiao Road 1186, Yushan Town, Kunshan City	US\$ 5,100,000	Marketing positions in mainland, assembling and after-sales service
Chieftek Precision International LLC	January 17, 2018	2280 EAST LOCUST COURT ONTARIO, CA 91761	USD 500,000	Investment

4. Same shareholder data of the one that presumed to have control and subordinate relationship:  
No.

5. The industries covered by the business operated by the overall affiliate enterprises are related to the business operated by each affiliate enterprise, which shall illustrate the division situation:

The business operated by the Company's affiliate enterprises are the same with the Company's, which are based on "linear motion key components", supporting each other in technology, capacity.

6. Documents of each affiliate enterprise's director, supervisor and general manager:

Unit: Share in thousand

Enterprise name	Title	Name or Representative	Holding of shares	
			Shares	Shareholding ratio
CHIEFTEK PRECISION HOLDING CO., LTD.	Director	CHIEFTEK PRECISION CO., LTD. Representative: CHEN LI-FEN	6,760	100%
cpc Europa GmbH	Director	CHIEFTEK PRECISION CO., LTD. Representative: CHEN LI-FEN	Non equity	100%
CSM Maschinen GmbH	Director	CHIEFTEK PRECISION CO., LTD. Representative: CHEN LI-FEN	Non equity	80%
CHIEFTEK PRECISION (HONG KONG) CO., LTD	Director	CHIEFTEK PRECISION HOLDING CO., LTD. Representative: CHEN LI-FEN	5,100	100%
CHIEFTEK PRECISION USA CO., LTD	Director	CHIEFTEK PRECISION HOLDING CO., LTD. Representative: CHEN LI-FEN	1,660	100%
Chieftek Machinery (Kunshan) Co., Ltd	Director Supervisor	CHIEFTEK PRECISION (HONG KONG) CO., LTD Representative: CHEN LI-FEN Representative: LI PAI-TSANG	Non equity	100%
	Manager	General Manager: CHEN MIN-CHANG		

Chieftek Precision International LLC	Director	CHIEFTEK PRECISION CO., LTD. Representative: CHEN LI-FEN	Non equity	100%
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## 7. Operation situation of each affiliate enterprise

Unit: NT\$ in thousand

Enterprise name	Capital sum	Total assets	Total liabilities	Net value	Revenue	Sales revenue	Current profit and loss (after)	Earnings per share (Yuan) (after)
CHIEFTEK PRECISION HOLDING CO., LTD.	USD6,760	329,050	0	329,050	0	0	61,767	3.07
cpc Europa GmbH	EUR2,500	115,543	107,563	7,980	215,460	16,361	18,117	Non equity
CSM Maschinen GmbH	EUR 25	88,917	89,814	(897)	0	(1,952)	(1,492)	Non equity
CHIEFTEK PRECISION (HONG KONG) CO., LTD	USD5,100	269,711	0	269,711	0	(2)	56,341	3.71
CHIEFTEK PRECISION USA CO., LTD	USD1,660	86,191	26,860	59,331	156,590	11,370	5,372	1.09
Chieftek Machinery (Kunshan) Co., Ltd	RMB32,118	441,032	171,323	269,709	483,452	64,683	56,231	Non equity
Chieftek Precision International LLC	USD500	186,729	175,330	11,399	735	(1,287)	(3,557)	Non equity

**II. By the printing deadline of the latest annual report, the handling situation of private securities is: None.**

**III. By the printing deadline of the latest annual report, the Company's stock held or disposed by subsidiary is: None.**

### IV. Other necessary supplementary instruction:

Commitment issues that the Company applying counter transaction to Securities and Futures Trading Center of ROC and its implementation:

No	Commitment issues	Implementation
1	The Company has committed that Securities and Futures Trading Center of ROC (refer as: Taipei Exchange) shall participate in the evaluation of company's management system in two years after OTC listing. The evaluation result shall be reported in the shareholder's meeting; and the stipulation of relevant internal control and internal system shall refer to "Listed and OTC Company Governance Code of Practice".	The commitment has been eliminated in accordance with Taipei Exchange No. 1030200482 on 2014 June, 23.
2	The Company has committed to not to give up increasing capital to cpc Europa GmbH, CHIEFTEK PRECISIONHOLDING CO., LTD. (hereafter referred as CHIEFTEK PRECISION HOLDING) in the future when revising "Acquisition or Disposition of Assets Handler"; CHIEFTEK PRECISION Hong Kong shall not give up increasing capital to the Company or disposing the Company's equity unless obtaining the approval of CHIEFTEK PRECISION CO., LTD. Director's meeting in	Has been implemented according to the commitments.

	the future. If the handling method is to be revised in the future, CHIEFTEK PRECISION Hong Kong shall input it in the public information observation station and report to OTC listing for reference.	
3	The Company has committed that Securities and Futures Trading Center of ROC (refer as: Taipei Exchange) shall entrust the accountant or institute designated by OTC listing through the Company to carry out external professional audit in accordance with the audit scope designated by the OTC listing. The audit result shall be submitted to OTC listing and the Company will be responsible for relevant costs.	Has been implemented according to the commitments.
4	As the Company's profit before tax in the first three quarters of 2012 has significantly decreased compared to the same period last year, the Company and the recommended securities firm will fully consider the performance change when discussing the offering price.	Has been implemented according to the commitments.

The violation of the commitments will result in the applicant company in this case (it is an OTC company when the commitments are violated) subject to "Securities Trading Business Rules" Article 12, Paragraph 1, Item 7 and the center shall report to competent authority to stop its securities OTC trading.

The commitment issues will come into effect after the undertaking is issued. Except it is fulfilled, or the term is expired, or the conditions are terminated, its force will continue to be effective during the period of OTC listing. The promised made by the applicant company will not be affected by the change of applicant company's name or operating class. When the operating class is changing, the non-eliminated promises shall be listed in the handover matters. For the promises made by the applicant company's director, supervisor, shareholders or specific person, the applicant company is responsible for the broken promises. They shall promise it will not have any impact due to the change of personal name or personal status. If the change of status is in the promise list, then it is not subject to the limit.

**IX. By the printing deadline of the latest annual report, the matters that prescribed in Securities Exchange Act Article 36, Paragraph 3, Item 2 that have great impact on shareholder's equity or security price are: None**

ChiefTek Precision Co., Ltd

Chairman: Chen, Li-Fen

