

**CHIEFTEK PRECISION CO., LTD. AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REVIEW REPORT OF INDEPENDENT  
ACCOUNTANTS  
MARCH 31, 2018 AND 2017**

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

## REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

### **Introduction**

We have reviewed the accompanying consolidated balance sheets of CHIEFTEK PRECISION CO., LTD. and subsidiaries (the “Group”) as at March 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three-month periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

### **Scope of Review**

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Basis for Qualified Conclusion**

As explained in Note 4(3), the financial statements and related information disclosed in Note 13 of certain insignificant consolidated subsidiaries were not reviewed by independent accountants. Those statements reflect total assets of NTD\$456,627 thousand and NTD\$99,853 thousand, constituting 16% and 4% of the consolidated total assets, and total liabilities of NTD\$230,858 thousand and NTD\$2,665 thousand, constituting 18% and —% of the consolidated total liabilities as at March 31, 2018 and 2017, respectively, and total comprehensive (loss) income of (NTD\$3,732) thousand and NTD\$58 thousand, constituting (4%) and (7%) of the consolidated total comprehensive income for the three-month periods then ended, respectively.

## Qualified Conclusion

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the three-month periods then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

Lin, Yung-Chih

Independent Accountants

Lin, Tzu-Shu

PricewaterhouseCoopers, Taiwan

Republic of China

May 11, 2018

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

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

**CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2018, DECEMBER 31, 2017 AND MARCH 31, 2017**

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of March 31, 2018 and 2017 are reviewed, not audited)

Assets			March 31, 2018		December 31, 2017		March 31, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 837,366	29	\$ 651,824	25	\$ 569,760	25
1136	Current financial assets at	6(1)						
	amortized cost, net		1,445	-	-	-	-	-
1150	Notes receivable, net	6(2) and 12	34,716	1	26,540	1	33,884	2
1170	Accounts receivable, net	6(2) and 12	450,824	15	400,091	15	305,595	14
1200	Other receivables		12,426	1	4,522	-	1,841	-
130X	Inventory	5 and 6(3)	408,985	14	374,046	14	323,285	14
1410	Prepayments		26,744	1	22,598	1	19,334	1
11XX	Total current assets		1,772,506	61	1,479,621	56	1,253,699	56
Non-current assets								
1600	Property, plant and equipment	6(4)(5) and						
		8	991,938	34	999,260	38	868,271	39
1780	Intangible assets	6(5)	129,243	4	123,173	5	78,519	4
1840	Deferred income tax assets	6(19)	20,247	1	16,552	1	22,103	1
1915	Prepayments for equipment	6(4)	4,715	-	11,561	-	4,355	-
1920	Guarantee deposits paid		5,322	-	5,161	-	4,824	-
1980	Other financial assets - non-current	8	-	-	1,445	-	1,430	-
1990	Other non-current assets		1,479	-	2,046	-	5,136	-
15XX	Total non-current assets		1,152,944	39	1,159,198	44	984,638	44
1XXX	Total assets		\$ 2,925,450	100	\$ 2,638,819	100	\$ 2,238,337	100

(Continued)

**CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2018, DECEMBER 31, 2017 AND MARCH 31, 2017**  
(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of March 31, 2018 and 2017 are reviewed, not audited)

Liabilities and Equity		Notes	March 31, 2018		December 31, 2017		March 31, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Liabilities</b>								
<b>Current liabilities</b>								
2100	Short-term borrowings	6(6)(23)	\$ 304,068	10	\$ 214,755	8	\$ 214,995	10
2130	Current contract liabilities	12	4,524	-	-	-	-	-
2150	Notes payable		136,943	5	115,672	4	66,317	3
2170	Accounts payable		91,841	3	91,689	4	53,965	2
2200	Other payables	6(7)	163,752	5	140,970	5	78,984	4
2230	Current income tax liabilities	6(19)	49,624	2	27,276	1	9,471	-
2310	Advance receipts	12	1,815	-	3,422	-	7,408	-
2320	Long-term liabilities, current portion	6(8)(23) and 8	49,800	2	69,935	3	58,533	3
21XX	<b>Total current liabilities</b>		<u>802,367</u>	<u>27</u>	<u>663,719</u>	<u>25</u>	<u>489,673</u>	<u>22</u>
<b>Non-current liabilities</b>								
2540	Long-term borrowings	6(8)(23) and 8	471,011	16	430,993	17	384,800	17
2570	Deferred income tax liabilities	6(19)	13,654	1	8,697	-	1,736	-
2640	Net defined benefit liabilities	6(9)	5,599	-	5,674	-	4,551	-
25XX	<b>Total non-current liabilities</b>		<u>490,264</u>	<u>17</u>	<u>445,364</u>	<u>17</u>	<u>391,087</u>	<u>17</u>
2XXX	<b>Total liabilities</b>		<u>1,292,631</u>	<u>44</u>	<u>1,109,083</u>	<u>42</u>	<u>880,760</u>	<u>39</u>
<b>Equity</b>								
<b>Share capital</b>								
3110	Share capital - common stock	6(10)	590,455	20	620,455	23	620,455	28
<b>Capital reserves</b>								
3200	Capital surplus	6(10)(11)	440,667	15	463,051	18	463,051	21
<b>Retained earnings</b>								
3310	Legal reserve	6(10)(12)	73,463	3	73,463	3	64,905	3
3320	Special reserve		5,928	-	5,928	-	-	-
3350	Unappropriated retained earnings		531,918	18	497,930	19	346,510	15
3400	<b>Other equity interest</b>		( 8,829)	-	( 12,367)	-	( 18,865)	( 1)
3500	<b>Treasury stocks</b>	6(10)	-	-	( 118,544)	( 5)	( 118,544)	( 5)
31XX	<b>Equity attributable to owners of the parent</b>		<u>1,633,602</u>	<u>56</u>	<u>1,529,916</u>	<u>58</u>	<u>1,357,512</u>	<u>61</u>
36XX	<b>Non-controlling interest</b>		( 783)	-	( 180)	-	65	-
3XXX	<b>Total equity</b>		<u>1,632,819</u>	<u>56</u>	<u>1,529,736</u>	<u>58</u>	<u>1,357,577</u>	<u>61</u>
<b>Significant Contingent Liabilities and Unrecognized Contract Commitments</b>								
<b>Significant Events After The Balance Sheet Date</b>								
3X2X	<b>Total liabilities and equity</b>		<u>\$ 2,925,450</u>	<u>100</u>	<u>\$ 2,638,819</u>	<u>100</u>	<u>\$ 2,238,337</u>	<u>100</u>

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)  
(REVIEWED, NOT AUDITED)

		Three months ended March 31				
			2018		2017	
Items	Notes		AMOUNT	%	AMOUNT	%
4000	Sales revenue	6(13)	\$ 504,842	100	\$ 256,074	100
5000	Operating costs	6(3)(5)(9)(17)(18)(21)	( 263,356)	( 52)	( 161,385)	( 63)
5900	Net operating margin		241,486	48	94,689	37
	Operating expenses	6(5)(9)(17)(18) and 7				
6100	Selling expenses		( 28,263)	( 6)	( 20,665)	( 8)
6200	General and administrative expenses		( 46,733)	( 9)	( 22,265)	( 9)
6300	Research and development expenses		( 25,200)	( 5)	( 12,794)	( 5)
6450	Expected credit impairment loss	12	( 3,987)	( 1)	-	-
6000	Total operating expenses		( 104,183)	( 21)	( 55,724)	( 22)
6900	Operating profit		137,303	27	38,965	15
	Non-operating income and expenses					
7010	Other income	6(14) and 12	1,366	-	2,219	1
7020	Other gains and losses	6(15) and 12	( 6,074)	( 1)	( 23,882)	( 9)
7050	Finance costs	6(16)	( 3,845)	( 1)	( 2,502)	( 1)
7000	Total non-operating income and expenses		( 8,553)	( 2)	( 24,165)	( 9)
7900	Profit before income tax		128,750	25	14,800	6
7950	Income tax expense	6(19)	( 29,388)	( 6)	( 2,698)	( 1)
8200	Profit for the period		\$ 99,362	19	\$ 12,102	5
	Other comprehensive income (loss)(Net)					
	Components of other comprehensive income (loss) that will not be reclassified to profit or loss					
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(19)	\$ 182	-	\$ -	-
	Components of other comprehensive income (loss) that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		3,539	1	( 12,941)	( 5)
8300	Total other comprehensive income (loss) for the period		\$ 3,721	1	( \$ 12,941)	( 5)
8500	Total comprehensive income (loss) for the period		\$ 103,083	20	( \$ 839)	-
	Profit (loss) attributable to:					
8610	Owners of the parent		\$ 99,966	19	\$ 12,156	5
8620	Non-controlling interest		( 604)	-	( 54)	-
			\$ 99,362	19	\$ 12,102	5
	Comprehensive income (loss) attributable to:					
8710	Owners of the parent		\$ 103,686	20	( \$ 781)	-
8720	Non-controlling interest		( 603)	-	( 58)	-
			\$ 103,083	20	( \$ 839)	-
	Earnings per share (in dollars)	6(20)				
9750	Basic		\$ 1.69		\$ 0.21	
9850	Diluted		\$ 1.69		\$ 0.21	

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)  
(REVIEWED, NOT AUDITED)

Notes	Equity attributable to owners of the parent								Non-controlling interest	Total equity
	Share capital - common stock	Capital reserve	Retained Earnings			Other Equity Interest		Total		
			Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Treasury stocks			
	\$ 620,455	\$ 463,051	\$ 64,905	\$ -	\$ 334,354	(\$ 5,928 )	(\$ 118,544 )	\$ 1,358,293	\$ 123	\$ 1,358,416
	-	-	-	-	12,156	-	-	12,156	( 54 )	12,102
	-	-	-	-	-	( 12,937 )	-	( 12,937 )	( 4 )	( 12,941 )
	<u>\$ 620,455</u>	<u>\$ 463,051</u>	<u>\$ 64,905</u>	<u>\$ -</u>	<u>\$ 346,510</u>	<u>(\$ 18,865 )</u>	<u>(\$ 118,544 )</u>	<u>\$ 1,357,512</u>	<u>\$ 65</u>	<u>\$ 1,357,577</u>
	\$ 620,455	\$ 463,051	\$ 73,463	\$ 5,928	\$ 497,930	(\$ 12,367 )	(\$ 118,544 )	\$ 1,529,916	(\$ 180 )	\$ 1,529,736
6(10)(11)	( 30,000 )	( 22,384 )	-	-	( 66,160 )	-	118,544	-	-	-
	-	-	-	-	99,966	-	-	99,966	( 604 )	99,362
6(19)	-	-	-	-	182	3,538	-	3,720	1	3,721
	<u>\$ 590,455</u>	<u>\$ 440,667</u>	<u>\$ 73,463</u>	<u>\$ 5,928</u>	<u>\$ 531,918</u>	<u>(\$ 8,829 )</u>	<u>\$ -</u>	<u>\$ 1,633,602</u>	<u>(\$ 783 )</u>	<u>\$ 1,632,819</u>

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)  
(REVIEWED, NOT AUDITED)

		For the three-month periods ended March 31,	
	Notes	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 128,750	\$ 14,800
Adjustments			
Adjustments to reconcile profit (loss)			
Expected credit impairment loss	12	3,987	-
Reversal of allowance for doubtful accounts	6(14) and 12	-	( 1,146 )
Loss on inventory market price decline	6(3)	4,449	2,936
Depreciation	6(4)(5)(17)	21,331	28,550
Amortization	6(5)(17)	610	426
Interest income	6(14)	( 528 )	( 286 )
Interest expense	6(16)	3,845	2,502
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		( 8,176 )	( 1,689 )
Accounts receivable		( 54,897 )	19,898
Other receivables		( 7,904 )	84
Inventories		( 39,425 )	( 4,768 )
Prepayments		( 4,146 )	( 2,826 )
Changes in operating liabilities			
Current contract liabilities		4,524	-
Notes payable		26,129	( 4,147 )
Accounts payable		152	11,271
Other payables		26,863	3,838
Advance receipts		( 1,607 )	6,436
Net defined benefit liabilities		( 75 )	( 74 )
Cash inflow generated from operations		103,882	75,805
Interest received		528	286
Interest paid		( 3,598 )	( 2,602 )
Income tax paid		( 5,596 )	( 873 )
Net cash flows from operating activities		95,216	72,616

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CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)  
(REVIEWED, NOT AUDITED)

		For the three-month periods ended March 31,	
	Notes	2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in current financial assets at amortized cost, net		(\$ 1,445 )	\$ -
Cash paid for acquisition of property, plant and equipment	6(22)	( 19,906 )	( 2,430 )
Cash paid for acquisition of intangible assets	6(5)	( 5,986 )	( 11,120 )
Increase in prepayment for equipment		-	( 308 )
Increase in guarantee deposits paid		( 161 )	( 827 )
Decrease in other financial assets - non-current		1,445	-
Decrease (increase) in other non-current assets		<u>567</u>	<u>( 1,522 )</u>
Net cash flows used in investing activities		<u>( 25,486 )</u>	<u>( 16,207 )</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings	6(23)	90,360	27,280
Increase in long-term borrowings	6(23)	350,000	-
Decrease in long-term borrowings	6(23)	<u>( 328,509 )</u>	<u>( 5,833 )</u>
Net cash flows from financing activities		<u>111,851</u>	<u>21,447</u>
Effect of foreign exchange rate changes on cash and cash equivalents		<u>3,961</u>	<u>( 14,526 )</u>
Net increase in cash and cash equivalents		185,542	63,330
Cash and cash equivalents at beginning of period	6(1)	<u>651,824</u>	<u>506,430</u>
Cash and cash equivalents at end of period	6(1)	\$ 837,366	\$ 569,760

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)  
(REVIEWED, NOT AUDITED)

1. HISTORY AND ORGANIZATION

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

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

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

These consolidated financial statements were reported to the Board of Directors on May 11, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standard Board (“IASB”)</u>
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15, Revenue from contracts with customers’	January 1, 2018
Amendments to International Accounting Standards (“IAS”) 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealized losses’	January 1, 2017

New Standards, Interpretations and Amendments	Effective date by International Accounting Standard Board (“IASB”)
Amendments to IAS 40, ‘Transfers of investment property’ International Financial Reporting Interpretations Committee(“IFRIC”) 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018 January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, ‘Investments in associates and joint ventures’	January 1, 2018

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

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

None.

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

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

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

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

B. The Group will adopt the modified retrospective transitional provisions of IFRS 16 ‘Leases’, and classify the effects on the lease contract of lessee to January 1, 2019 in accordance with IFRS 16.

C. In the first quarter of 2018, the Group reported to the Board of Directors that IFRS 16 has no significant impact to the Group.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### (1) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, and the IAS 34, ‘Interim financial reporting’ as endorsed by the FSC.

##### (2) Basis of preparation

- A. Except for the defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation, these consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5, critical accounting judgements, estimates and key sources of assumption uncertainty.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 and the first quarter of 2017 were not restated. The financial statements for the year ended December 31, 2017 and for the three-month period ended March 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4), ‘Effects on initial application of IFRS 9, ‘Financial instruments’ and 12(5), ‘Effects of initial application of IFRS 15’ for details of significant accounting policies.

### (3) Basis of consolidation

#### A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Business activities	Ownership (%)			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
CHIEFTEK PRECISION CO., LTD. ("CHIEFTEK PRECISION")	CHIEFTEK PRECISION HOLDING CO., LTD.	Professional investment	100	100	100	-
CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH ("cpc Europa")	Sale of high precision linear motion components and rendering after-sales service	100	100	100	Note 1
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	Lease of real estate property	100	100	-	Note 1 Note 3
CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Research, manufacture and sale of machineries	80	80	80	Note 2
CHIEFTEK PRECISION HOLDING CO., LTD	Chieftek Precision (Hong Kong) Co., Limited	Professional investment	100	100	100	-

Name of investor	Name of subsidiary	Business activities	Ownership (%)			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
CHIEFTEK PRECISION HOLDING CO., LTD	CHIEFTEK PRECISION USA CO., LTD. ("cpc USA")	Sale of high precision linear motion components and rendering after-sales service	100	100	100	Note 2
Chieftek Precision (Hong Kong) Co., Limited	Chieftek Machinery (Kunshan) Co., Ltd. ("Chieftek (Kunshan)")	Production, processing and sale of high precision linear motion components and after-sales service	100	100	100	-

Note 1: The financial statements of the entity as of and for the three-month period ended March 31, 2018 were not reviewed by the independent accountants as the entity did not meet the definition of a significant subsidiary.

Note 2: The financial statements of the entity as of and for the three-month periods ended March 31, 2018 and 2017 were not reviewed by the independent accountants as the entity did not meet the definition of a significant subsidiary.

Note 3: Newly established company in July 2017.

The financial statements and the related information disclosed in Note 13 of certain insignificant consolidated subsidiaries were not reviewed by independent accountants. Those statements reflect total assets of \$456,627 and \$99,853, constituting 16% and 4% of the consolidated total assets, and total liabilities of \$230,858 and \$2,665, constituting 18% and —% of the consolidated total liabilities as at March 31, 2018 and 2017, respectively, and total comprehensive (loss) income of (\$3,732) and \$58, constituting (4%) and (7%) of the consolidated total comprehensive income for the three-month periods then ended, respectively.

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

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

E. Significant restrictions: None.

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

#### (4) Foreign currency translation

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

##### A. Foreign currency transactions and balances

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

##### B. Translation of foreign operations

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

operation.

(5) Classification of current and non-current items

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

(6) Cash equivalents

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

(7) Financial assets at amortized cost

- A. Financial assets at amortized cost are those that meet all of the following criteria:
  - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
  - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortized cost are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognized in profit or loss when the asset is derecognized or impaired.



D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(8) Accounts and notes receivable

A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

For debt instruments measured as financial assets at amortized cost, at each reporting date, the Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses ("ECLs") if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognizes the impairment provision for lifetime ECLs.

(10) Derecognition of financial assets

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

(11) Inventories

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

(12) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

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

(13) Operating leases (lessee)

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

(14) Intangible assets

A. Trademarks and patents

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

B. Computer software

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

C. Internally generated intangible assets — research and development expenditures

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

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

- i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- ii. An entity intends to complete the intangible asset and use or sell it;
- iii. An entity has the ability to use or sell the intangible asset;

- iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;
- v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- vi. The expenditure attributable to the intangible asset during its development can be reliably measured.

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

#### D. Other intangible assets

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

#### (15) Impairment of non-financial assets

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

#### (16) Borrowings

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

#### (17) Notes and accounts payable

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

#### (18) Derecognition of financial liabilities

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

(19) Offsetting financial instruments

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

(20) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

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

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

(21) Income tax

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

- G. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- H. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognizes the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognized outside profit or loss is recognized in other comprehensive income or equity while the effect of the change on items recognized in profit or loss is recognized in profit or loss.

(22) Share capital

- A. Ordinary shares are classified as equity.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is resolved from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(23) Dividends

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

(24) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells linear guide, ball screw and linear modules. Sales are recognized when control of the products has transferred, being when the products are delivered to the external customer, and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- (b) Sales revenue is recognized based on the contract price, net of output tax and sales returns and discounts. No element of financing is deemed present as the sales are made with a credit term of 30 ~ 180 days after monthly closing, which is consistent with market practice.
- (c) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

## B. Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

### (25) Operating segments

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

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

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

### Evaluation of inventories

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

B. As of March 31, 2018, the carrying amount of inventories was \$408,985.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Cash:			
Cash on hand	\$ 1,656	\$ 1,051	\$ 716
Checking accounts and demand deposits	<u>687,961</u>	<u>649,244</u>	<u>567,650</u>
	<u>689,617</u>	<u>650,295</u>	<u>568,366</u>
Cash Equivalents:			
Time deposits	<u>147,749</u>	<u>1,529</u>	<u>1,394</u>
	<u>\$ 837,366</u>	<u>\$ 651,824</u>	<u>\$ 569,760</u>

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

B. The Group classified the time deposits with maturity over 3 months amounting to \$1,445 as current financial assets at amortized cost on March 31, 2018.

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

(2) Notes and accounts receivable, net

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Notes receivable	\$ 34,716	\$ 26,540	\$ 33,884
Accounts receivable	\$ 465,792	\$ 410,895	\$ 317,167
Less: Allowance for doubtful accounts	( 14,968)	( 10,804)	( 11,572)
	<u>\$ 450,824</u>	<u>\$ 400,091</u>	<u>\$ 305,595</u>

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Not past due	\$ 405,390	\$ 339,738	\$ 222,995
Less than 30 days	15,332	23,282	25,089
31 to 90 days	24,144	26,369	30,586
91 to 180 days	4,419	6,111	21,354
Over 181 days	16,507	15,395	17,143
	<u>\$ 465,792</u>	<u>\$ 410,895</u>	<u>\$ 317,167</u>

The above ageing analysis was based on past due date.

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

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

(3) Inventories

	<u>March 31, 2018</u>		
	<u>Cost</u>	<u>Allowance for market price decline</u>	<u>Book value</u>
Raw materials	\$ 39,447	(\$ 555)	\$ 38,892
Supplies	69,462	( 5,386)	64,076
Work in progress	208,312	( 15,343)	192,969
Finished goods	154,842	( 41,794)	113,048
	<u>\$ 472,063</u>	<u>(\$ 63,078)</u>	<u>\$ 408,985</u>



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

March 31, 2017			
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 30,072	(\$ 431)	\$ 29,641
Supplies	38,540	( 3,286)	35,254
Work in progress	152,353	( 14,347)	138,006
Finished goods	175,681	( 55,297)	120,384
	<u>\$ 396,646</u>	<u>(\$ 73,361)</u>	<u>\$ 323,285</u>

The cost of inventories recognized as expense for the period:

	For the three-month periods ended March 31,	
	2018	2017
Cost of goods sold	\$ 259,234	\$ 158,723
Loss on inventory market price decline	4,449	2,936
Gain on physical inventory	( 151)	( 245)
Revenue from sale of scraps	( 176)	( 29)
	<u>\$ 263,356</u>	<u>\$ 161,385</u>

(4) Property, plant and equipment

		Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Leasehold improvements and other equipment	Construction in progress and equipment before acceptance inspection	Total
January 1, 2018								
Cost	\$ 414,740	\$ 535,004	\$ 800,132	\$ 5,282	\$ 18,060	\$ 133,253	\$ 17,380	\$ 1,923,851
Accumulated depreciation	-	( 105,777)	( 685,013)	( 4,061)	( 16,576)	( 113,164)	-	( 924,591)
	<u>\$ 414,740</u>	<u>\$ 429,227</u>	<u>\$ 115,119</u>	<u>\$ 1,221</u>	<u>\$ 1,484</u>	<u>\$ 20,089</u>	<u>\$ 17,380</u>	<u>\$ 999,260</u>
For the three-month period ended March 31, 2018								
At January 1	\$ 414,740	\$ 429,227	\$ 115,119	\$ 1,221	\$ 1,484	\$ 20,089	\$ 17,380	\$ 999,260
Additions	-	1,414	223	-	364	1,383	7,336	10,720
Transferred from prepayments for equipment	-	-	-	-	-	-	6,846	6,846
Transferred after acceptance inspection	-	-	797	-	-	-	( 797)	-
Reclassifications	( 44,659)	44,659	-	-	-	-	-	-
Depreciation (Note)	-	( 4,429)	( 14,446)	( 149)	( 269)	( 2,075)	-	( 21,368)
Disposals — Cost	-	-	-	-	( 392)	( 141)	-	( 533)
— Accumulated depreciation	-	-	-	-	392	141	-	533
Net currency exchange differences	( 1,848)	( 1,834)	136	6	4	16	-	( 3,520)
At March 31	<u>\$ 368,233</u>	<u>\$ 469,037</u>	<u>\$ 101,829</u>	<u>\$ 1,078</u>	<u>\$ 1,583</u>	<u>\$ 19,413</u>	<u>\$ 30,765</u>	<u>\$ 991,938</u>
March 31, 2018								
Cost	\$ 368,233	\$ 584,410	\$ 801,648	\$ 5,312	\$ 18,039	\$ 134,549	\$ 30,765	\$ 1,942,956
Accumulated depreciation	-	( 115,373)	( 699,819)	( 4,234)	( 16,456)	( 115,136)	-	( 951,018)
	<u>\$ 368,233</u>	<u>\$ 469,037</u>	<u>\$ 101,829</u>	<u>\$ 1,078</u>	<u>\$ 1,583</u>	<u>\$ 19,413</u>	<u>\$ 30,765</u>	<u>\$ 991,938</u>

		Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Leasehold improvements and other equipment	Construction in progress and equipment before acceptance inspection	Total
January 1, 2017								
Cost	\$ 316,864	\$ 462,353	\$ 818,978	\$ 5,384	\$ 17,470	\$ 123,646	\$ 2,837	\$ 1,747,532
Accumulated depreciation	-	( 91,795)	( 637,144)	( 4,449)	( 16,421)	( 105,704)	-	( 855,513)
	<u>\$ 316,864</u>	<u>\$ 370,558</u>	<u>\$ 181,834</u>	<u>\$ 935</u>	<u>\$ 1,049</u>	<u>\$ 17,942</u>	<u>\$ 2,837</u>	<u>\$ 892,019</u>
For the three-month period ended March 31, 2017								
At January 1	\$ 316,864	\$ 370,558	\$ 181,834	\$ 935	\$ 1,049	\$ 17,942	\$ 2,837	\$ 892,019
Additions	-	-	3,234	-	69	617	-	3,920
Transferred from prepayments for equipment	-	-	-	-	-	-	1,790	1,790
Transferred after acceptance inspection	-	-	-	-	-	1,503	( 1,503)	-
Depreciation (Note)	-	( 3,426)	( 22,469)	( 113)	( 170)	( 2,461)	-	( 28,639)
Disposals — Cost	-	-	-	-	( 222)	( 8)	-	( 230)
— Accumulated depreciation	-	-	-	-	222	8	-	230
Net currency exchange differences	-	-	( 667)	( 35)	( 25)	( 92)	-	( 819)
At March 31	<u>\$ 316,864</u>	<u>\$ 367,132</u>	<u>\$ 161,932</u>	<u>\$ 787</u>	<u>\$ 923</u>	<u>\$ 17,509</u>	<u>\$ 3,124</u>	<u>\$ 868,271</u>
March 31, 2017								
Cost	\$ 316,864	\$ 462,353	\$ 820,837	\$ 5,298	\$ 17,001	\$ 125,534	\$ 3,124	\$ 1,751,011
Accumulated depreciation	-	( 95,221)	( 658,905)	( 4,511)	( 16,078)	( 108,025)	-	( 882,740)
	<u>\$ 316,864</u>	<u>\$ 367,132</u>	<u>\$ 161,932</u>	<u>\$ 787</u>	<u>\$ 923</u>	<u>\$ 17,509</u>	<u>\$ 3,124</u>	<u>\$ 868,271</u>

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

- A. For the three-month periods ended March 31, 2018 and 2017, no borrowing costs were capitalized as part of property, plant and equipment.
- B. Information about the property, plant and equipment that were pledged to others as collateral as of March 31, 2018, December 31, 2017 and March 31, 2017 is provided in Note 8, 'Pledged assets'.

(5) Intangible assets

For the three-month periods ended March 31, 2018 and 2017, reconciliation of the initial cost, accumulated amortization amount and carrying amount at beginning and end of period of intangible assets is as follows:

For the three-month period ended March 31, 2018						
	Trademarks	Patents	Software	Internally generated intangible assets	Others	Total
<u>At January 1, 2018</u>						
Cost	\$ 578	\$ 9,231	\$ 10,067	\$ 79,865	\$ 60,000	\$ 159,741
Accumulated amortization	( 578)	( 1,945)	( 6,085)	-	( 13,500)	( 22,108)
Accumulated impairment	-	-	-	-	( 14,460)	( 14,460)
Net value	<u>\$ -</u>	<u>\$ 7,286</u>	<u>\$ 3,982</u>	<u>\$ 79,865</u>	<u>\$ 32,040</u>	<u>\$ 123,173</u>
Net value at January 1, 2018	\$ -	\$ 7,286	\$ 3,982	\$ 79,865	\$ 32,040	\$ 123,173
Additions — acquired separately	-	-	238	-	-	238
Additions — from internal development	-	-	-	5,748	-	5,748
Additions — depreciation reclassified	-	-	-	37	-	37
Additions — amortization reclassified	-	-	-	17	-	17
Amortization	-	( 146)	( 481)	-	-	( 627)
Net currency exchange differences	-	-	2	655	-	657
Net value at March 31, 2018	<u>\$ -</u>	<u>\$ 7,140</u>	<u>\$ 3,741</u>	<u>\$ 86,322</u>	<u>\$ 32,040</u>	<u>\$ 129,243</u>
<u>At March 31, 2018</u>						
Cost	\$ 578	\$ 9,231	\$ 10,311	\$ 86,322	\$ 60,000	\$ 166,442
Accumulated amortization	( 578)	( 2,091)	( 6,570)	-	( 13,500)	( 22,739)
Accumulated impairment	-	-	-	-	( 14,460)	( 14,460)
Net value	<u>\$ -</u>	<u>\$ 7,140</u>	<u>\$ 3,741</u>	<u>\$ 86,322</u>	<u>\$ 32,040</u>	<u>\$ 129,243</u>

For the three-month period ended March 31, 2017

	Trademarks	Patents	Software	Internally generated intangible assets	Others	Total
<u>At January 1, 2017</u>						
Cost	\$ 578	\$ 9,146	\$ 6,156	\$ 16,987	\$ 60,000	\$ 92,867
Accumulated amortization	( 578)	( 1,363)	( 4,421)	-	( 13,500)	( 19,862)
Accumulated impairment	-	-	-	-	( 4,298)	( 4,298)
Net value	<u>\$ -</u>	<u>\$ 7,783</u>	<u>\$ 1,735</u>	<u>\$ 16,987</u>	<u>\$ 42,202</u>	<u>\$ 68,707</u>
Net value at January 1, 2017	\$ -	\$ 7,783	\$ 1,735	\$ 16,987	\$ 42,202	\$ 68,707
Additions — acquired separately	-	85	619	-	-	704
Additions — from internal development	-	-	-	10,416	-	10,416
Additions — depreciation reclassified	-	-	-	89	-	89
Additions — amortization reclassified	-	-	-	42	-	42
Amortization	-	( 145)	( 323)	-	-	( 468)
Net currency exchange differences	-	-	( 25)	( 946)	-	( 971)
Net value at March 31, 2017	<u>\$ -</u>	<u>\$ 7,723</u>	<u>\$ 2,006</u>	<u>\$ 26,588</u>	<u>\$ 42,202</u>	<u>\$ 78,519</u>
<u>At March 31, 2017</u>						
Cost	\$ 578	\$ 9,231	\$ 6,740	\$ 26,588	\$ 60,000	\$ 103,137
Accumulated amortization	( 578)	( 1,508)	( 4,734)	-	( 13,500)	( 20,320)
Accumulated impairment	-	-	-	-	( 4,298)	( 4,298)
Net value	<u>\$ -</u>	<u>\$ 7,723</u>	<u>\$ 2,006</u>	<u>\$ 26,588</u>	<u>\$ 42,202</u>	<u>\$ 78,519</u>

A. For the three-month periods ended March 31, 2018 and 2017, no borrowing costs were capitalized as part of intangible assets.

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

	For the three-month periods ended March 31,	
	2018	2017
Manufacturing overhead	\$ -	\$ 42
General and administrative expenses	65	65
Research and development expenses	562	361
	<u>\$ 627</u>	<u>\$ 468</u>

(6) Short-term borrowings

Nature	March 31, 2018	Interest rate range	Collateral
Bank unsecured borrowings	\$ 215,000	1.00% ~ 1.05%	None
Bank secured borrowings	<u>89,068</u>	1.14% ~ 3.56%	Endorsements and guarantees by the Company
	<u>\$ 304,068</u>		
Nature	December 31, 2017	Interest rate range	Collateral
Bank unsecured borrowings	\$ 125,000	1.03% ~ 1.05%	None
Bank secured borrowings	<u>89,755</u>	1.20% ~ 3.03%	Endorsements and guarantees by the Company
	<u>\$ 214,755</u>		
Nature	March 31, 2017	Interest rate range	Collateral
Bank unsecured borrowings	\$ 154,999	1.05% ~ 1.18%	None
Bank secured borrowings	<u>59,996</u>	1.20% ~ 1.49%	Endorsements and guarantees by the Company
	<u>\$ 214,995</u>		

(7) Other payables

	March 31, 2018	December 31, 2017	March 31, 2017
Accrued salaries and bonuses	\$ 51,450	\$ 55,278	\$ 32,238
Employees' compensation and directors' and supervisors' remuneration payable	47,039	29,687	14,015
Equipment payable	908	5,236	456
Others	<u>64,355</u>	<u>50,769</u>	<u>32,275</u>
	<u>\$ 163,752</u>	<u>\$ 140,970</u>	<u>\$ 78,984</u>

(8) Long-term borrowings

Nature	Expiry date	March 31, 2018	Interest rate range	Collateral
Long-term bank borrowings				
Secured borrowings	July 25, 2020 ~ August 25, 2024	\$ 458,311	1.27% ~ 4.43%	Land, buildings and structures, and endorsed and guaranteed by the Company
Unsecured borrowings	September 23, 2019 ~ October 5, 2022	62,500	1.27% ~ 1.80%	None
		520,811		
Less: Current portion		( 49,800)		
		\$ 471,011		

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

Nature	Expiry date	March 31, 2017	Interest rate range	Collateral
Long-term bank borrowings				
Secured borrowings	February 17, 2019 ~ September 23, 2021	\$ 422,500	1.27% ~ 2.01%	Time deposits (Note), land, buildings and structures, machinery and equipment
Unsecured borrowings	September 23, 2019	20,833	1.27%	None
		443,333		
Less: Current portion		( 58,533)		
		\$ 384,800		

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

(9) Pensions

A.(a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units



accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by next March.

- (b) No pension cost was recognized under the aforementioned defined benefit pension plan of the Company for the three-month periods ended March 31, 2018 and 2017.
- (c) Expected contributions to the defined benefit pension plan of the Company for the year ending December 31, 2018 amount to \$297.

B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The other subsidiaries are subject to local government sponsored defined contribution plan. In accordance with the related laws of the respective local government, the independent pension fund of employees is administered by the government. Other than the monthly contributions, these subsidiaries do not have further obligations. The pension costs under the defined contribution pension plans of the Group for the three-month periods ended March 31, 2018 and 2017 were \$3,921 and \$3,009, respectively.

(10) Share capital - common stock

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

	For the three-month periods ended March 31,	
	2018	2017
At January 1 and March 31	59,046	59,046

B. Treasury shares

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

For the three-month period ended March 31, 2018				
Reason for reacquisition	Shares at beginning of period	Increase	Decrease	Shares at end of period
To be reissued to employees	3,000	-	(3,000)	-
For the three-month period ended March 31, 2017				
Reason for reacquisition	Shares at beginning of period	Increase	Decrease	Shares at end of period
To be reissued to employees	3,000	-	-	3,000

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. As of December 31, 2017 and March 31, 2017, the treasury shares both amounted to \$118,544.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.
- C. The Company acquired a total of 3 million treasury shares during the period from November 2014 to January 2015. On February 9, 2018, the shares were retired as resolved by the Board of Directors. The capital deduction became effective on the same date and the registration has been approved by the Southern Taiwan Science Park Bureau, Ministry of Science and Technology. The Company debited 'share capital – common stock' and 'capital surplus–share premium' in the amounts of \$30,000 and \$22,384, respectively, and 'unappropriated retained earnings' was offset by the short amount of \$66,160.
- D. As of March 31, 2018, the Company's authorized capital was \$1,200,000 (including \$30,000 reserved for employee stock options), and the paid-in capital was \$590,455 (59,046 thousand shares) with par value of \$10 (in dollars) per share.

(11) Capital reserve

For the three-month period ended March 31, 2018	Share premium	Others	Total
At January 1	\$ 462,937	\$ 114	\$ 463,051
Retirement of treasury shares	(22,384)	-	(22,384)
At March 31	\$ 440,553	\$ 114	\$ 440,667
For the three-month period ended March 31, 2017	Share premium	Others	Total
Balances at beginning and end of period	\$ 462,937	\$ 114	\$ 463,051

- A. Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.
- B. Information relating to capital surplus offset by the retirement of treasury shares is provided in Note 6(10), 'Share capital – common stock'.

(12) Retained earnings

- A. The legal reserve shall be exclusively used to cover accumulated deficit, to issue new stocks, or to distribute cash to shareholders in proportion to their share ownership. The use of legal reserve for the issuance of stocks or cash dividends to shareholders in proportion to their share ownership is permitted provided that the balance of such reserve exceeds 25% of the Company's paid-in capital.
- B. According to the Company's Articles of Incorporation, the Company's dividend policy is to distribute the current year's earnings, if any, in the following order:
  - (1) pay all taxes and dues;
  - (2) offset any loss of prior years;
  - (3) set aside 10% as legal reserve;
  - (4) set aside or reverse special reserve as required by regulations or the Competent Authority;
  - (5) The appropriation of the remaining amount after deducting items (1) to (4), along with the unappropriated retained earnings of prior years can be distributed in accordance with a resolution passed during a meeting of the Board of Directors and approved at the shareholders' meeting. However, the distribution of dividends shall not be lower than 20% of the current year's profit after deducting items (1) to (4). In order to continually expand the scale of operation, increase competitiveness as well as cooperate with the Company's long-term development, future capital requirements and long-term financial plan, the dividend policy is to distribute stock dividends and partially as cash dividends. Cash dividends shall not be less than 10% of the total dividends distributed to shareholders.
- C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings. As of December 31, 2016, pursuant to the regulations for the deduction amount to stockholders' equity from other equity items, the Company has set aside special reserve of \$5,928 which cannot be distributed to shareholders.

D. The Company recognized cash dividends distributed to owners amounting to \$59,045 (\$1.0 (in dollars) per share) for the year ended December 31, 2017. On April 16, 2018, the Board of Directors proposed to distribute cash and stock dividends for 2017 of \$59,045 (\$1.0 (in dollars) per share) and \$147,614 (\$2.5 (in dollars) per share), respectively. Both were not reflected in these consolidated financial statements.

(13) Operating revenue

	For the three-month period ended March 31, 2018
Revenue from contracts with customers	\$ 504,842

A. The Group derives revenue from the transfer of goods at a point in time in segments. Please refer to Note 14, 'Segment information' for details.

B. For the three-month period ended March 31, 2018, revenue from contracts with customers recognized that was included in the current contract liabilities at January 1, 2018 was \$1,689.

C. Related disclosures of operating revenue for the three month period ended March 31, 2017 are provided in Note 12(5), 'Effects of initial application of IFRS 15'.

(14) Other income

	For the three-month periods ended March 31, 2018	2017
Interest income:		
Interest income from bank deposits	\$ 528	\$ 286
Reversal of allowance for doubtful accounts	-	1,146
Other income – others	838	787
	\$ 1,366	\$ 2,219

(15) Other gains and losses

	For the three-month periods ended March 31, 2018	2017
Currency exchange loss	\$ 6,071	\$ 23,882
Others	3	-
	\$ 6,074	\$ 23,882

(16) Finance costs

	For the three-month periods ended March 31, 2018	2017
Interest expense on bank borrowings	\$ 3,845	\$ 2,502

(17) Expenses by nature

For the three-month period ended March 31, 2018			
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expense	\$ 65,684	\$ 63,235	\$ 128,919
Depreciation	17,424	3,907	21,331
Amortization	-	610	610
	<u>\$ 83,108</u>	<u>\$ 67,752</u>	<u>\$ 150,860</u>
For the three-month period ended March 31, 2017			
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expense	\$ 41,953	\$ 30,425	\$ 72,378
Depreciation	25,829	2,721	28,550
Amortization	42	384	426
	<u>\$ 67,824</u>	<u>\$ 33,530</u>	<u>\$ 101,354</u>

(18) Employee benefit expense

For the three-month period ended March 31, 2018			
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 56,273	\$ 57,128	\$ 113,401
Labor and health insurance expense	5,320	3,432	8,752
Pension costs	2,381	1,540	3,921
Other personnel expenses	1,710	1,135	2,845
	<u>\$ 65,684</u>	<u>\$ 63,235</u>	<u>\$ 128,919</u>
For the three-month period ended March 31, 2017			
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 35,389	\$ 26,008	\$ 61,397
Labor and health insurance expense	3,489	2,432	5,921
Pension costs	1,881	1,128	3,009
Other personnel expenses	1,194	857	2,051
	<u>\$ 41,953</u>	<u>\$ 30,425</u>	<u>\$ 72,378</u>

- A. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be 3% to 8% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.
- B. For the three-month periods ended March 31, 2018 and 2017, the Company's employees' compensation was accrued at \$11,126 and \$1,187, respectively; while directors' and supervisors' remuneration was accrued at \$4,172 and \$445, respectively. The aforementioned amounts were recognized in salary expenses that were estimated and accrued based on the profit as of the end of reporting period and the percentage specified in the Articles of Incorporation of the Company.

The employees' compensation and directors' and supervisors' remuneration for 2017 as resolved by the Board of Directors were \$31,741, which was different from the estimated amount of \$24,687 and \$5,000 recognized in the 2017 financial statements by \$2,054. Such difference was recognized in profit and loss for the year ended December 31, 2018. The employees' compensation will be distributed in the form of cash. The employees' compensation and directors' and supervisors' remuneration for 2017 have not yet been distributed.

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

(19) Income tax

A. Income tax expense:

(a) Components of income tax expense:

	For the three-month periods ended March 31,	
	2018	2017
Current income tax:		
Income tax incurred in current period	\$ 26,781	\$ 4,393
Prior year's income tax under estimation	1,163	-
Total current income tax	27,944	4,393
Deferred income tax:		
Origination and reversal of temporary differences	2,648 (	1,695)
Impact of change in tax rate	( 1,204)	-
Total deferred tax	1,444 (	1,695)
Income tax expense	\$ 29,388	\$ 2,698

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

	For the three-month periods ended March 31,	
	2018	2017
Impact of change in tax rate	(\$ 182)	\$ -

B. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority. There were no disputes existing between the Company and Authority as of May 11, 2018.

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

(20) Earnings per share (“EPS”)

For the three-month period ended March 31, 2018			
	Amount after tax	Weighted average number of shares outstanding (shares in thousands)	EPS (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 99,966	59,046	\$ 1.69
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 99,966	59,046	
Assumed conversion of all dilutive potential ordinary shares			
Employees’ compensation	-	220	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 99,966	59,266	\$ 1.69
For the three-month period ended March 31, 2017			
	Amount after tax	Weighted average number of shares outstanding (shares in thousands)	EPS (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 12,156	59,046	\$ 0.21
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 12,156	59,046	
Assumed conversion of all dilutive potential ordinary shares			
Employees’ compensation	-	250	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 12,156	59,296	\$ 0.21

(21) Operating leases

The Group entered into a non-cancellable operating lease agreement for the periods from January 1, 2003 to December 31, 2022 and from August 28, 2014 to August 27, 2034 for the land in Southern Taiwan Science Park. The lease agreement is renewable at the end of the lease term. The Company pays monthly rent. If the announced land values, state-owned land rent rate, or other factors change, the monthly rent paid by the Group will be adjusted accordingly on the following month. The Group may have to pay additional rent or get a refund on its last rental payment because of such adjustment. The rent expense of \$1,808 and \$1,708 was recognized in profit or loss for the three-month periods ended March 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Within one year	\$ 7,594	\$ 7,594	\$ 7,175
Later than one year but not exceeding five years	28,491	30,375	28,700
Exceeding five years	645	660	6,004
	<u>\$ 36,730</u>	<u>\$ 38,629</u>	<u>\$ 41,879</u>

(22) Supplemental cash flow information

A. Investing activities with partial cash payments

	<u>For the three-month periods ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Purchase of property, plant and equipment	\$ 10,720	\$ 3,920
Add: Opening balance of notes payable	4,858	1,575
Opening balance of payable for equipment	5,236	3,656
Less: Ending balance of notes payable	- (	6,265)
Ending balance of payable for equipment (	908)	(456)
Cash paid during the period	<u>\$ 19,906</u>	<u>\$ 2,430</u>

B. Investing activities with no cash flow effects

	<u>For the three-month periods ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Prepayments for equipment reclassified to property, plant and equipment	<u>\$ 6,846</u>	<u>\$ 1,790</u>



(23) Changes in liabilities from financing activities

	Short-term borrowings	Long-term borrowings	Liabilities from financing activities-gross
January 1, 2018	\$ 214,755	\$ 500,928	\$ 715,683
Changes in cash flow from financing	90,360	21,491	111,851
Impact of changes in foreign exchange rate	( 1,047)	( 1,608)	( 2,655)
March 31, 2018	<u>\$ 304,068</u>	<u>\$ 520,811</u>	<u>\$ 824,879</u>

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

None.

(2) Key management compensation

	For the three-month periods ended March 31,	
	2018	2017
Salaries and other short-term employee benefits	<u>\$ 12,707</u>	<u>\$ 3,840</u>

8. PLEDGED ASSETS

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

Asset pledged	Book value			Purpose of collateral
	March 31, 2018	December 31, 2017	March 31, 2017	
Land (Note 1)	\$ 368,233	\$ 414,740	\$ 316,864	Guarantee for long — term borrowings
Buildings and structures-net (Note 1)	428,998	389,261	323,900	Guarantee for long — term borrowings
Machinery and equipment-net (Note 1)	-	8,749	20,531	Guarantee for long — term borrowings
Pledged demand and time deposits (Note 2)	-	1,445	1,430	Guarantee for long — term borrowings
	<u>\$ 797,231</u>	<u>\$ 814,195</u>	<u>\$ 662,725</u>	

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

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

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT  
COMMITMENTS

(1) As of March 31, 2018, December 31, 2017 and March 31, 2017, the endorsements and guarantees provided by the Company to the subsidiary, cpc Europa GmbH, amounted to \$197,285, \$142,280 and \$81,075, respectively, and the actual amount drawn down was \$54,762, \$56,319 and \$59,996, respectively; and provided to the subsidiary, CHIEFTEK PRECISION INTERNATIONAL LLC, amounted to \$58,220, \$59,520 and \$ —, respectively, and the actual amount drawn down was

\$58,220, \$59,520 and \$—, respectively.

- (2) As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group's remaining balance due for construction in progress and prepayments for equipment were \$71,643, \$30,854 and \$17,997, respectively.
- (3) On July 5, 2017, the Company entered into a mid-term secured syndicated loan contract for a credit line of \$1,200,000 with 9 financial institutions including E. Sun Commercial Bank, Ltd.. The credit term is 5 years. Under the terms of the syndicated loan, the Company agree that:
- A. Under the terms of the syndicated loan, the financial ratios stated in the Company's semi-annual reviewed financial statements and annual audited financial statements shall comply with the following financial ratios and will be assessed semi-annually:
- (a) Current ratio (current assets/current liabilities): At least 100%.
  - (b) Liability ratio (total liabilities/net equity): Less than 150%.
  - (c) Tangible net value (shareholders' equity less intangible assets): At least \$1,000,000.
- B. If the Company violates the above financial covenants, the Company should improve within nine months after fiscal year or half fiscal year. It will not seem to default, if the audited or reviewed financial rates are comply with the covenants after improved. During the improvement period, the credit line which has not been withdrawn will be frozen, until the financial covenants are met. In addition, for withdrawn credit, its financing rate shall be increased by an additional 0.125% per annum from the date after the notification by the management bank to the date after the completion of improvement.

As of March 31, 2018, the Company has not violated any of the above covenants.

- (4) For the details of operating lease agreements, please refer to Note 6(21), 'Operating leases'.

#### 10. SIGNIFICANT DISASTER LOSS

None.

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

On April 26, 2018, the Company entered into a new construction contract with HWA FONG Construction Co., Ltd. for a total contract price of \$101,680 for the construction of a plant located in Tree Valley Park.

#### 12. OTHERS

##### (1) Capital management

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

## (2) Financial instruments

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

### B. Financial risk management policies

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

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

#### (a) Market risk

##### I. Foreign exchange risk

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

March 31, 2018			
	Foreign currency		Book value
	amount (in thousands)	Exchange rate	(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 17,693	29.11	\$ 515,053
JPY:NTD	160,212	0.2739	43,882
EUR:NTD	648	35.87	23,251
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	164	29.11	4,787
JPY:NTD	18,015	0.2739	4,934
EUR:NTD	600	35.87	21,522
December 31, 2017			
	Foreign currency		Book value
	amount (in thousands)	Exchange rate	(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 11,452	29.76	\$ 340,815
JPY:NTD	55,770	0.2642	14,734
EUR:NTD	618	35.57	21,968
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	204	29.76	6,076
JPY:NTD	29,683	0.2642	7,842
EUR:NTD	1,174	35.57	41,776
March 31, 2017			
	Foreign currency		Book value
	amount (in thousands)	Exchange rate	(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 10,330	30.33	\$ 313,298
JPY:NTD	11,728	0.2713	3,182
EUR:NTD	593	32.43	19,246
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	49	30.33	1,479
JPY:NTD	18,355	0.2713	4,980
EUR:NTD	749	32.43	24,281

Sensitivity analysis of foreign exchange risk is primarily for foreign currency monetary items at financial reporting date. If the exchange rate of NTD to other currencies had appreciated/depreciated by 1% with all other factors remaining constant, the Group's net profit (loss) after tax for the three-month periods ended March 31, 2018 and 2017 would increase/decrease by \$4,388 and \$2,504, respectively.

- (vi) The total exchange loss, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three-month periods ended March 31, 2018 and 2017 amounted to \$6,071 and \$23,882, respectively.

## II. Price risk

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

## III. Cash flow and fair value interest rate risk

- (i) The Group's main interest rate risk arises from short-term and long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. However, partial interest rate risk is offset by cash and cash equivalents held at variable rates. For the three-month periods ended March 31, 2018 and 2017, the Group's borrowings at variable rate were mainly denominated in NTD, USD and EUR.
- (ii) The Group's borrowings are measured at amortized cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.
- (iii) If the borrowing interest rate had increased/decreased by 10% with all other variables held constant, profit, net of tax for the three-month periods ended March 31, 2018 and 2017 would have decreased/increased by \$319 and \$208, respectively. The main factor is that changes in interest expense result from floating-rate borrowings.

## (b) Credit risk

- I. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- II. The Group manages their credit risk taking into consideration the entire group's concern. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.
- III. The Group adopts the assumption under IFRS 9 whereby, if the contract payments are past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

IV. The Group adopts the assumption under IFRS 9 whereby, the impairment is assessed when the contract payments are past due over certain days.

V. The Group classified customer's accounts receivable in accordance with credit rating of customer and credit risk on trade. The Group applies the simplified approach using forecastable consideration to adjust historical and timely information to estimate expected credit loss. Movements in relation to the Group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	For the three-month period ended March 31, 2018
	<u>Accounts receivable</u>
At January 1	\$ 10,804
Provision for impairment	3,987
Effect of foreign exchange	177
At March 31	<u>\$ 14,968</u>

VI. Credit risk information for the three-month period ended March 31, 2017 is provided in Note 12.(4), 'Effects on initial application of IFRS 9, 'Financial instruments''.

(c) Liquidity risk

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

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

III. The Group has the following undrawn borrowing facilities:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Floating rate:			
Expiring within 1 year	\$ 889,358	\$ 923,623	\$ 900,240
Expiring beyond 1 year	989,098	1,647,327	373,000
	<u>\$ 1,878,456</u>	<u>\$ 2,570,950</u>	<u>\$ 1,273,240</u>

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

March 31, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 305,432	\$ -	\$ -	\$ -
Notes payable	136,943	-	-	-
Accounts payable	91,841	-	-	-
Other payables	163,752	-	-	-
Long-term borrowings (including current portion)	60,701	120,548	310,930	75,944
December 31, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 216,411	\$ -	\$ -	\$ -
Notes payable	115,672	-	-	-
Accounts payable	91,689	-	-	-
Other payables	140,970	-	-	-
Long-term borrowings (including current portion)	80,286	324,006	50,699	79,089
March 31, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 215,599	\$ -	\$ -	\$ -
Notes payable	66,317	-	-	-
Accounts payable	53,965	-	-	-
Other payables	78,984	-	-	-
Long-term borrowings (including current portion)	65,602	232,280	160,369	-

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

(3) Fair value information

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

B. Financial instruments not measured at fair value

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

(4) Effects on initial application of IFRS 9, 'Financial instruments'

A. Summary of significant accounting policies adopted for the three-month period ended March, 2017:

(a) Receivables

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

(b) Impairment of financial assets

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

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

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

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

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

(iv) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;



- III. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made according of financial assets. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.
- B. Credit risk information for the year ended December 31, 2017 and the three-month period ended March 31, 2017 are as follows:
- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, the Group is responsible for managing and analysing the credit risk for each of their new clients. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding receivables and committed transactions. For financial institutes, the Group also transacts with many different financial institutions to diversify credit risk.
- (b) The ageing analysis of the Group's accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Up to 30 days	\$ 23,282	\$ 25,089
31 to 90 days	26,012	29,974
91 to 180 days	5,890	20,927
181 to 365 days	5,343	6,610
	<u>\$ 60,527</u>	<u>\$ 82,600</u>

The above ageing analysis was based on past due date.

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

	For the three-month period ended March 31, 2017	
	Group provision	
At January 1	\$	13,205
Reversal of allowance for doubtful accounts (Note)	(	1,146)
Effect of foreign exchange rate changes	(	487)
At March 31	\$	11,572

(Note) Listed as 'other income'.

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

(5) Effects of initial application of IFRS 15

A. The significant accounting policies applied on revenue recognition for the three-month period ended March 31, 2017 are set out below.

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

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

(a) Effects and description of balance sheet:

	March 31, 2018		
Balance sheet items	Balance by using IFRS 15	Balance by using previous accounting policies	Effects from change in accounting policy
Contract liabilities— Current	\$ 4,525	\$ -	\$ 4,524
Advance sales receipts	-	4,524	( 4,524)

Explanation:

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

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

### 13. SUPPLEMENTARY DISCLOSURES

Information related to the three-month period ended March 31, 2018 will be disclosed.

#### (1) Significant transactions information

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

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

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

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

E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.

H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.

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

J. Significant inter-company transactions during the reporting period: Please refer to table 3.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 4.

#### (3) Information on investments in Mainland China

A. Basic information: Please refer to table 5.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 6.

### 14. SEGMENT INFORMATION

#### (1) General information

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

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

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

For the three-month period ended March 31, 2018						
	CHIEFTEK PRECISION	Chieftek (Kunshan)	cpc Europa	cpc USA	Others	Total
Segment revenue	\$ 428,240	\$ 140,672	\$ 64,909	\$ 38,584	\$ 5,916	\$ 678,321
Revenue from internal customers	167,560	-	3	-	5,916	173,479
Revenue from external customers	260,680	140,672	64,906	38,584	-	504,842
Interest income	21	506	-	1	-	528
Depreciation and amortization	19,763	236	673	13	1,256	21,941
Interest expense	2,260	-	181	-	1,404	3,845
Income from segment pre-tax income	121,815	28,564	( 3,613)	( 477)	396	146,685
Segment assets	2,105,885	361,474	100,837	73,664	283,590	2,925,450
For the three-month period ended March 31, 2017						
	CHIEFTEK PRECISION	Chieftek (Kunshan)	cpc Europa	cpc USA	Others	Total
Segment revenue	\$ 213,196	\$ 66,655	\$ 41,728	\$ 30,307	\$ -	\$ 351,886
Revenue from internal customers	95,808	-	4	-	-	95,812
Revenue from external customers	117,388	66,655	41,724	30,307	-	256,074
Interest income	6	279	-	1	-	286
Depreciation and amortization	28,229	226	535	49	68	29,107
Interest expense	2,293	-	209	-	-	2,502
Income from segment pre-tax income	13,209	3,687	698	1,182	( 102)	18,674
Segment assets	1,771,968	292,655	70,605	64,806	38,303	2,238,337

(3) Reconciliation for segment income

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

	For the three-month periods ended March 31,	
	2018	2017
Reportable segments profit before income tax	\$ 146,289	\$ 18,776
Other segments income (loss) before income tax	396 (	102)
Inter segments income	( 17,935)	( 3,874)
Profit before income tax	<u>\$ 128,750</u>	<u>\$ 14,800</u>

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Loans to others

For the three-month period ended March 31, 2018

Table 1

Expressed in thousands of NTD

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the three-month period ended	Balance at March 31, 2018	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 2)	Footnote
					March 31, 2018								Item	Value			
0	CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Other receivables	Y	\$ 54,360	\$ 53,805	\$ 20,805	1.5%	Short-term financing	\$ -	Operational use	\$ -	—	\$ -	\$ 653,441	\$ 653,441	—
0	CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	Other receivables	Y	29,760	29,110	29,110	2%	Short-term financing	-	Operational use	-	—	-	653,441	653,441	—

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

(1) Parent company is '0'.

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

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

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others

For the three-month period ended March 31, 2018

Table 2

Expressed in thousands of NTD

No. (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of March 31, 2018	Outstanding endorsement/ guarantee amount at March 31, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
		Company name	with the endorser/ guarantor (Note 2)											
0	CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	1	\$ 816,801	\$ 197,285	\$ 197,285	\$ 54,762	\$ -	12%	\$ 816,801	Y	N	N	—
0	CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	1	816,801	59,520	58,220	58,220	-	4%	816,801	Y	N	N	—

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

(1) Parent company is '0'.

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

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

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

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

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES  
Significant inter-company transactions during the reporting period  
For the three-month period ended March 31, 2018

Table 3

Expressed in thousands of NTD

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	1	Sales revenue	(\$ 46,122)	180 days after monthly-closing, T/T	(9%)
				Accounts receivable	40,841	—	1%
				Endorsements and guarantees	197,285	—	7%
		CSM Maschinen GmbH	1	Long-term prepayment	69,805	—	2%
				Other receivables	20,957	—	1%
	CHIEFTEK PRECISION USA CO., LTD.		1	Sales revenue	( 25,007)	180 days after monthly-closing, T/T	(5%)
				Accounts receivable	25,836	—	1%
	Chieftek Machinery (Kunshan) Co., Ltd.		1	Sales revenue	( 96,431)	180 days after monthly-closing, T/T	(19%)
				Accounts receivable	68,718	—	2%
	CHIEFTEK PRECISION INTERNATIONAL LLC		1	Other receivables	29,474	—	1%
				Endorsements and guarantees	58,220	—	2%
1	CHIEFTEK PRECISION USA CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	3	Lease payment	5,916	—	1%
				Refundable deposit	1,456	—	—
				Other payables	( 3,280)	—	—

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

(1) Parent company is '0'.

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

(Note 2) Relationship between transaction company and counterparty is classified into the following three categories (Transactions among the company and subsidiaries with amount over NTD\$1,000 and one side of them are disclosed):

(1) the company to subsidiary.

(2) Subsidiary to the Company.

(3) Subsidiary to subsidiary.

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



CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Information on investees

For the three-month period ended March 31, 2018

Table 4

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at March 31, 2018			Net profit (loss) of the investee for the three-month period ended March 31, 2018	Investment income (loss) recognized by the Company for the three-month period ended March 31, 2018	Footnote
				Balance as at March 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION HOLDING CO., LTD.	Samoa	Professional investment	\$ 202,290	\$ 202,290	6,760,000	100	\$ 320,794	\$ 20,564	\$ 20,564	Subsidiary
CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	Germany	Sale of high precision linear motion components and rendering after -sale services	98,695	98,695	-	100	( 15,540)	( 3,613)	( 3,613)	Subsidiary
CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Germany	Research, manufacture and sale of machineries	726	726	-	80	( 3,131)	( 3,018)	( 2,415)	Subsidiary
CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	America	Lease of real estate property	15,170	15,170	-	100	14,528	3,400	3,400	Subsidiary
CHIEFTEK PRECISION HOLDING CO., LTD.	Chieftek Precision (Hong Kong) Co., Limited	Hong Kong	Professional investment	148,461	148,461	5,100,000	100	295,795	20,928	-	Subsidiary (Note 1)
CHIEFTEK PRECISION HOLDING CO., LTD.	CHIEFTEK PRECISION USA CO., LTD.	America	Sale of high precision linear motion components and rendering after -sale services	48,323	48,323	1,660,000	100	57,539	( 497)	-	Subsidiary (Note 1)

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

(Note 2) Foreign currencies were translated into New Taiwan Dollars using the exchange rate (USD:NTD 1:29.11) as at March 31, 2018.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

For the three-month period ended March 31, 2018

Table 5

Expressed in thousands of NTD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the three-month period ended March 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2018	Net income of investee for the three-month period ended March 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the three-month period ended March 31, 2018 (Note 2)	Book value of investments in Mainland China as of March 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of March 31, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Chieftek Machinery (Kunshan) Co., Ltd	Production, processing and sale of high precision linear motion components and rendering after-sale services	\$ 148,461	Note 1	\$ 148,461	\$ -	\$ -	\$ 148,461	\$ 20,298	100%	\$ 20,928	\$ 295,794	\$ -	—

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 3)
CHIEFTEK PRECISION CO., LTD.	\$ 148,461	\$ 148,461	\$ 980,161

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

(Note 2) The investment income (loss) is recognized based on the investees' financial statements that were reviewed by parent company's accountant for the three-month period ended March 31, 2018.

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

(Note 4) Foreign currencies were translated into New Taiwan Dollars using the exchange rate (USD:NTD 1:29.11) as at March 31, 2018.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

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

For the three-month period ended March 31, 2018

Table 6

Expressed in thousands of NTD

Investee in Mainland China	Sales (purchases)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing				
	Amount	%	Amount	%	Balance at March 31, 2018	%	Balance at March 31, 2018	Purpose	Maximum balance during the three-month period ended March 31, 2018	Balance at March 31, 2018	Interest rate	Interest during the three-month period ended March 31, 2018	Others
Chieftek Machinery (Kunshan) Co., Ltd	\$ 96,431	23%	\$ -	-	\$ 68,718	16%	\$ -	-	\$ -	\$ -	-	\$ -	\$ -