

Stock Code: 1597

Chieftek Precision Co., LTD.

2018 Annual Shareholders' Meeting Handbook

Time : 9:00 a.m., May 28, 2018

Place : 2F.-1, No.26, Nanke 3rd Rd., Xinshi Dist., Tainan City 744, Taiwan,
R.O.C. (Southern Science Park Industries)

(This document is prepared in accordance with the Chinese version and is for reference only. In the event of any inconsistency between the English version and the Chinese version, the Chinese version shall prevail.)

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Chieftek Precision Co., Ltd.
2018 Annual Shareholders' Meeting
Meeting Procedure

1. Report the number of attendance
2. Call Meeting to Order
3. Chairman's Address
4. Report Items
5. Proposed Resolutions
6. Discussion Items
7. Special Motion
8. Meeting Adjourned

Chieftek Precision Co., Ltd.
2018 Annual Shareholders' Meeting Agenda

1. Time : 9:00 a.m., May 28, 2018
2. Place : 1F.-1, No.26, Nanke 3rd Rd., Xinshi Dist., Tainan City 744,
Taiwan, R.O.C. (Southern Science Park Industries)
3. Attendants : Call the Meeting to Order (Report the number of attendance)
4. Chairman's Address
5. Report Items :
 - (1) To Report the Business of 2017.
 - (2) Supervisors' Review Report on the 2017 Financial Statements.
 - (3) To Report 2017 Employees' Profit Sharing Bonus and Directors and Supervisors' Compensation.
 - (4) To Report the Treasury Stock of Buyback.
 - (5) To Report the 2017 Endorsement and Guarantee.
 - (6) Revision of the Company's "Rules of Procedure of the Board of Directors" report.
6. Proposed Resolutions :
 - (1) To accept 2017 Business Report and Financial Statements.
 - (2) To Approve the Proposal for Distribution of 2017 Profit.
7. Discussion Items :
 - (1) To Amend the Articles of Incorporation.
 - (2) In the case of 2017 Surplus Transferring Capital and Issuing New Shares.
8. Special motion
9. Meeting Adjournment

Report Item

1. To Report the business of 2017.

Explanatory Notes : The 2017 Business Report, please refer to the Handbook of the 2018 Annual Shareholders' Meeting.

2. Supervisors' Review Report on the 2017 Financial Statements.

Explanatory Notes : The 2017 Supervisors' Review Report, please refer to the Handbook of the 2018 Annual Shareholders' Meeting.

3. To Report 2017 Employees' Profit Sharing Bonus and Directors and Supervisors' Compensation.

Explanatory Notes : The 2017 Employees' Profit Sharing Bonus and Directors and Supervisors' Compensation Report, please refer to the Handbook of the 2018 Annual Shareholders' Meeting.

4. To Report the Treasury Stock of Buyback.

Explanatory Notes : The Treasury Stock of Buyback is as following.

Batch Order	The first period
Purpose of the buy-back	Transfer to employees
Timeframe of buy-back	From November 12, 2014 to January 9, 2015
Price range	NTD 22.30 to 50.40 dollars per share
Class, quantity of shares bought back	3,000,000 Common shares
Value of shares bought-back	118,543,503 dollars
Shares sold/transferred	3,000,000 Common shares
Accumulated number of company shares held	0
Percentage of total company shares (*Note) held(%)	0%

*Note : In the case of the 3,000,000 shares of elimination listed above, the registration process was approved by the Ministry of Science and Technology Southern Science and Technology Industrial Park Administration on February 27, 2018, and the total number of issued shares after the reduction was 59,045,489 shares.

5. To Report the 2017 Endorsement and Guarantee.

Explanatory Notes :

- (1) As of December 31, 2017, The Company provision of endorsement and guarantee to others as following :

Company Name	Endorsement Ending Balance (in NT\$ thousands)	Amount Actually Drawn (in NT\$ thousands)	The relationship with headquarters
cpc Europa GmbH	142,280	56,319	The Subsidiary that shareholding 100% shares
Chieftek Precision International LLC	59,520	59,520	The Subsidiary that shareholding 100% shares

- (2) The above-mentioned amount is not exceed the limit of rules.

6. To Report Revision of the company's "Rules of Procedure of the Board of Directors".

Explanatory Notes :

- (1) Based on the Financial Supervisory Commission's letter of September 25, 2017, ChinKuanChengPhaChi No. 1060034709 and Gre Tai Securities Market (GTSM) of September 30, 2017, ChengKuaiChienChi No. 1060026920 and "Regulations Governing Procedure for Board of Directors Meetings of Public Companies".
- (2) In accordance with Article 2 of the Regulations Governing Procedure for Board of Directors Meetings of Public Companies, in order to establish a sound corporate governance and independent director system for the company so that independent directors perform their functions on the board of directors and the company's operations, Companies should refer to Article 26(1) of the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies to establish these rules for compliance.
- (3) Please refer to the Handbook of the 2018 Annual Shareholders' Meeting.

Proposed Resolutions

1. To accept 2017 Business Report and Financial Statements.

Proposed by the Board of Directors

Explanatory Notes :

- (1) The Company's Financial Statements, including the balance sheet, the statement of comprehensive income, the statement of changes in equity, and statement of cash flows, were audited by independent auditors, Mr. Yung-Chih, Lin and Ms. Tzu-Shu, Liu of PricewaterhouseCoopers (PwC), Taiwan. Also Business Report and Financial Statements have been approved by the Board of Directors and examined by the supervisors of the Company.
- (2) The 2017 Business Report and financial statements could be referred to the Chinese version Appendix 2, 3 and 4, independent auditors' audit report, and Financial Statements by PwC could be referred to the Handbook for the 2018 Annual Shareholders' Meeting.

Resolution :

2. To Approve the Proposal for Distribution of 2017 Profit.

Proposed by the Board of Directors

Explanatory Notes :

- (1) The 2017 profit distribution program of the company has been submitted by board on April 16, 2018, in accordance with company Act and the Articles of Incorporation of the company.
- (2) The cash dividends of shareholders distributed in this plan amounted to NT\$59,045,489. Based on the actual number of shares in circulation, NT\$1.0 per share was allotted and NT\$147,613,730 was a dividend on shares. According to the number of shares actually traded, 250 shares are issued for each 1,000 shares and the total amount is NT\$206,659,219. Please refer to Appendix VI (page 45) of this manual for the surplus allocation table.
- (3) Please refer to the Handbook for the 2018 Annual Shareholders'

Meeting for the 2017 Profit distribution.

- (4) Actual placement and number of shares will depend on the number of registered shareholders on the ex-rights date. The cash dividend distribution will be calculated to the nearest NT dollar. After the above mentioned method were approved by regular shareholders' meeting. The ex-dividend date will be decided by the Board of Directors meeting after approval by the competent authority. Allotment of fractional shares (less than one share) shall be paid in cash, and the chairman or his designated representative may subscribe at par value. Actual placement and number of shares will depend on the number of registered shareholders on the ex-rights date.
- (5) Before ex- right date if buying back shares the transfer of treasury shares of the company, cancellation or other reasons prior to the date of ex-right affect the number of shares of the outstanding shareholders and change the allotment rate, company will submitted to the shareholder's meeting and the Board is authorized to make such adjustments.

Resolution:

Discussion Items

1. To Amend the Articles of Incorporation.

Proposed by the Board of Directors

Explanatory Notes :

- (1) In order to attract outstanding talents and improve the company's operating performance, it plans to revise some provisions of the company's "Articles of Association".
- (2) Please refer to the Handbook for the 2018 Annual Shareholders' Meeting for the comparison tables of the articles to be amended.

Resolution :

2. In the case of 2017 Surplus Transferring Capital and Issuing new Shares.

Proposed by the Board of Directors

Explanatory Notes :

- (1) In order to meet the needs of business development, the Company proposes to allocate NT\$147,613,730 from the available-for-distribution surplus for 2017, and to transfer 14,761,373 new shares to be issued for capital increase. The denomination of each share is NT\$10.
- (2) According to the shareholder's name list on the basis of the shares allotment, the proportion of shares held by the company, 250 shares are promissory for every 1,000 shares, and less than one share of abnormal shares is issued, and the shares are transferred from the shareholders to the company shares within five days from the date of transfer. The agency shall handle the registration of the whole stock by itself and make up the missing shares that are still insufficient or overdue. The depreciation shall be calculated in denominations to NTD (less than 1NTD will not be counted). Its shares will authorize the chairman of the board to appoint a specific person to subscribe for it in denomination.
- (3) The capital increase and issuance of new shares have the same rights and obligations as the shares that have already been issued.
- (4) Issues relating to the issuance of benchmark dates for new shares and capital increase issues shall be determined by the board of directors after being reported

to the competent authority for approval.

- (5) Prior to the issuance of the new shares, if the share ratio of the shareholders is changed due to the purchase of shares of the company or the transfer, cancellation or other reasons of the treasury shares, which would affect the number of shares in circulation, the shareholders' meeting shall authorize the board of directors to handle the issue.
- (6) If the above matters relating to capital increase are subject to amendments approved by the competent authority and subject to changes in the operational requirements of the objective environment, the shareholders' meeting shall be authorized to authorize the board of directors to take full responsibility.
- (7) Please refer to the Handbook for the 2018 Annual Shareholders' Meeting for the comparison tables of the articles to be amended.

Resolution :

Special motion

Meeting Adjournment

Chieftek Precision Co., Ltd.

2017 Business Report

The wave of Industry 4.0 has been accompanied by a recovery in the global economy, supporting the continuous growth of industries related to automation machinery, and countries such as China, the United States, and Japan have invested resources in the development of automation industries. In addition, Taiwan's wafer semiconductor giants have successively expanded their new plants, and new orders from global toolmakers have increased. In particular, orders from Japanese tool makers have grown for more than a year, and demand for linear slide rails and other drive system components continues to increase. Coupled with the transformation and upgrading of enterprises, the demand for automation equipment and industrial robots is eager to drive the market to increase the demand for linear slides. Together with the efforts of Chieftek Precision Co., Ltd., the revenue and profit continue to create a new historical high. The inventory adjustment performance was significant, and the capacity utilization rate also increased. As a result, the consolidated revenue for 2017 was NT\$1,488,259 thousand, NT\$505,723 thousand more than NT\$982,536 thousand for 2016 consolidated revenue, and the growth rate was as high as 51.47%. The 2017 pre-tax net profit was as high as NT\$300,124 thousand, a substantial increase of NT\$194,716 thousand from NT\$105,408 thousand for pre-tax net income, which was a much higher growth rate of 184.73%.

2017 Business Report is as follow

1. The result of Implementation of business plan

(1) Consolidated Statement of Comprehensive Income for the years ended December 31, 2017 and 2016.

Unit: NT\$ thousands

Items	For the years ended December 31		Increase (Decrease)
	2017	2016	
Sales revenue	1,488,259	982,536	505,723
Operating costs	(865,292)	(627,819)	(237,473)
Net operating margin	622,967	354,717	268,250
Operating expenses	(290,450)	(230,384)	(60,066)
Operating profit	332,517	124,333	208,184
Non-operating income and expenses	(32,393)	(18,925)	(13,468)
Profit before income tax	300,124	105,408	194,716
Income tax expense	(62,252)	(19,874)	(42,378)
Profit for the year	237,872	85,534	152,338
Other comprehensive income (loss)	(7,507)	(18,714)	11,207
Comprehensive income for the year	230,365	66,820	163,545
Earnings per share (in dollars)	4.03	1.45	

We could understand from above

I. Turnover

- (i) Net consolidated revenue for 2017 of NT\$1,488,259 thousand, which increased by NT\$505,723 thousand, compared with 2016 of NT\$982,536 thousand. The increased rate was 51.47%.
- (ii) If comparing the sales by region, the growth rate was 81% in mainland China and 38% in Europe. It increased by 21% in American region and increased by 45% for Taiwan domestic sales and other regions increased by 50% .

II. Profit

- (i) Consolidated operating margin in 2017 was NT\$622,967 thousand, compared with NT\$354,717 thousand in 2016 which was increased NT\$268,250 thousand. The increasing rate was 43.06%.
- (ii) Profit before tax was NT\$300,124 thousand in 2017, which decreased by NT\$194,716 thousand with comparison of NT\$105,408 thousand in 2016. The increasing rate was 184.73%. The main reasons is as following:
 - A. The gross margin of Miniature Linear Guides increased and its percentage of revenue went up as well.
 - B. The effects on the destocking of aggregate inventory was significant and the amount of aggregate inventory has been reached historic lows. The revenue was support by the period outputs which improved the capacity utilization rate and increased the gross margin and profit ability subsequently.
- (iii) Basic earnings per share was NT\$4.03 for the year ended December 31,2017.

(2) Parent Company Only Statement of Comprehensive Income for the years ended December 31, 2017 and 2016.

Unit: NT\$ thousands

Items	For the years ended December 31		Increase (Decrease)
	2017	2016	
Sales revenue	1,198,518	784,654	413,864
Operating costs	(788,524)	(556,953)	(231,571)
Gross profit	409,994	227,701	182,293
Unrealized gain from inter-affiliate accounts	(52,500)	(61,186)	8,686
Realized gain from inter-affiliate accounts	61,186	76,292	(15,106)
Net operating margin	418,680	242,807	175,873
Operating expenses	(179,646)	(134,891)	(44,755)
Operating profit	239,034	107,916	131,118
Non-operating income and expenses	39,456	(8,108)	47,564
Profit before income tax	278,490	99,808	178,682
Income tax expense	(40,319)	(14,225)	(26,094)
Profit for the year	238,171	85,583	152,588
Other comprehensive income (loss)	(7,503)	(18,704)	11,201
Comprehensive income for the year	230,668	66,879	163,789

(3) Parent Company Only of Profitability Analysis for the 2017 and 2016

Items	2017	2016
Return on Total Assets (%)	10.77%	4.32%
Return on Equity (%)	16.49%	6.39%
Operating Income to Paid-in Capital Ratio (%)	38.53%	17.39%
Pre-tax Income to Paid-in Capital Ratio (%)	44.89%	16.09%
Net Margin (%)	19.87%	10.91%
Basic Earnings Per Share (NT\$)	4.03	1.45

(4) Consolidated Company Only of Profit ability Analysis for the 2017 and 2016

Items	2017	2016
Return on Total Assets (%)	10.25%	4.29%
Return on Equity (%)	16.49%	6.39%
Operating Income to Paid-in Capital Ratio (%)	53.59%	20.04%
Pre-tax Income to Paid-in Capital Ratio (%)	48.37%	16.99%
Net Margin (%)	15.98%	8.71%
Basic Earnings Per Share (NT\$)	4.03	1.45

2. Enterprise Development

Chieftek Precision Co Ltd has been focusing on the development and application development of key components of transmission elements and electronic controls and institutions. With the increase of international popularity, the reputation of the self-created brand cpc has become increasingly louder. At the same time, the company continued to strengthen the cultivation of talents. The future operation and profitability will be able to grow steadily and robustly. In addition, the Group adheres to the business philosophy of “deeply cultivating technical fields, expanding customer service, actively innovating R&D, and accumulating patent resources” as basis for management and development.

Chieftek Precision Co., Ltd.
2017 Supervisors' Review Report

Hereby to approve,

The undersigned PwC TW Mr. Lin, Yung-Chih and Ms. Liu, Tzu-Shu have duly audited the Operating Report and Financial Statements prepared by the supervisor for the year of 2017, and issued recorded unqualified opinion auditing report. All statistical forms shall be compiled in accordance with the law after being reviewing by the Supervisor. Any discrepancies shall be reported to the superior in accordance with Article 219 of the Company Law.

With respect,

CHIEFTEK PRECISION CO., LTD. 2018 SHAREHOLDERS' MEETING

Chieftek Precision Co., Ltd.

Supervisor: KUANG HSI-HUI

Supervisor: LI MEI

Supervisor: TSENG HSU-WEN

March 9, 2018

Chieftek Precision Co., Ltd.
2017 Supervisors' Review Report

Hereby to approve,

The profit distribution table of the 2017 provided by the board of directors of the company was completed and reviewed by the supervisor, etc., and it was deemed that there was no inconformity. Therefore, the application for review was required according to Article 219 of the company act.

With respect,

CHIEFTEK PRECISION CO., LTD. 2018 SHAREHOLDERS' MEETING

Chieftek Precision Co., Ltd.

Supervisor: KUANG HSI-HUI

Supervisor: LI MEI

Supervisor: TSENG HSU-WEN

APRIL 16, 2018

**2017 Employees' Profit Sharing Bonus
and Directors and Supervisors' Compensation**

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

According to the provisions of the revised articles of association, this company should distribute 3% to 8% of profit of current year to reward employees, and should distribute no more than 3% of profit of current year to reward directors and supervisors. But when the company has accumulated loss, it should be covered. The employee remuneration should be distributed in cash or stock, and those who are distributed with cash or stock should meet certain conditions of being affiliated to the company employees. These certain condition should be formulated by the board of directors.

2. The employees' compensation and the assignment of directors and supervisors in the year 2017 of the company were approved by the board of directors on March 9, 2018. The proposed distribution of the board of directors' approval is as follows:

- (1) The proposed remuneration for allotment of employees in cash is NT\$24,654,126, which is approximately 8% of the profit for the current year. The amount of employee compensation reported on the accounts is NT\$24,686,767, which is lower by NT\$32,641. The project is listed as annual profit and loss of 2018.
- (2) The proposed distribution of directors by cash and the supervisor's remuneration is NT\$7,087,085 in cash, which is approximately 2.30% of the profit for the year, and the remuneration of directors and supervisors listed in the accounts is NT\$5,000,000 higher than NT\$2,087,085. This item is listed as profit and loss in 2018.

Chieftek Precision Co., Ltd.

Revised Articles Comparison Charts of Rules of Procedure of the Board of Directors

Article	Before revised	Revised Version	Description
Article 3	A notice specifying the reason for convening a Board meeting shall be sent to all Directors seven (7) days before the scheduled meeting day; provided, however, that a Board meeting may be convened on short notice in the event of emergency.	A notice specifying the reason for convening a Board meeting shall be sent to all Directors seven (7) days before the scheduled meeting day; provided, however, that a Board meeting may be convened on short notice in the event of emergency.	Modified with acts
Article 7	<p>The company shall submit the following matters to the board for discussion:</p> <p>3. To establish or amend the internal control system in accordance with Article 14 of the Securities and Exchange Act.</p> <p>In accordance with Article 14ter of the Securities and Exchange Act, other matters that are subject to resolutions of the shareholders meeting or decided by the board of directors in accordance with statutes or articles of association, or major matters stipulated by the competent authority.</p> <p>The related party referred to in the preceding paragraph 7 refers to the person regulated by the criteria for the preparation of the financial report of the</p>	<p>The company shall submit the following matters to the board for discussion:</p> <p>3. <u>To establish or amend the internal control system and the assessment of the effectiveness of the internal control system in accordance with Article 14 of the Securities and Exchange Act.</u></p> <p>In accordance with Article 14ter of the Securities and Exchange Act, other matters that are subject to resolutions of the shareholders meeting or decided by the board of directors in accordance with statutes or articles of association, or major matters stipulated by the competent authority.</p> <p>The related party referred to in the preceding paragraph 7 refers to the person regulated by the criteria for the preparation of the financial report of</p>	Modified with acts

Article	Before revised	Revised Version	Description
	<p>issuer of the securities; the alleged significant donation to the non-related party refers to the amount of each donation or cumulative donation to the same person within one year. The amount of NT\$100 million or more, or up to 1% of the net operating income from the financial report of an accountant's visa in the most recent year or more than 5% of the paid-in capital.</p> <p>In the one-year period mentioned in the preceding paragraph, the date of the meeting of the board of directors was used as a benchmark, and retroactively extrapolated for one year. It has been proposed that the resolution passed by the board of directors will not be counted.</p> <p>If the foreign company's stock is non-detailed or if the denomination of each share is not NT\$10, the second amount of 5% of the paid-in capital is calculated based on 2.5% of the shareholders' equity.</p> <p>If the company has an independent director, in case of the matter decided according to Article 14ter of the Securities and Exchange Act by board of directors, the independent director should attend in person or entrust other independent directors to attend the meeting. If an independent director</p>	<p>the issuer of the securities; the alleged significant donation to the non-related party refers to the amount of each donation or cumulative donation to the same person within one year. The amount of NT\$100 million or more, or up to 1% of the net operating income from the financial report of an accountant's visa in the most recent year or more than 5% of the paid-in capital.</p> <p>In the one-year period mentioned in the preceding paragraph, the date of the meeting of the board of directors was used as a benchmark, and retroactively extrapolated for one year. It has been proposed that the resolution passed by the board of directors will not be counted.</p> <p>If the foreign company's stock is non-detailed or if the denomination of each share is not NT\$10, the second amount of 5% of the paid-in capital is calculated based on 2.5% of the shareholders' equity.</p> <p><u>If the company has independent director, at least one of the independent directors should personally attend the board of directors for the matters to be resolved by the board of directors in Article 14ter of the Securities Exchange Act; for the first item to be mentioned by</u></p>	

Article	Before revised	Revised Version	Description
	cannot personally attend the board of directors to express objections or reservations, he shall, unless there is a valid reason, issue a written opinion in advance and specify in the minutes of the board of directors.	<u>the board of directors, all independent directors should attend If the board of directors or independent directors cannot attend in person, the other independent directors should be appointed to attend the meeting. If an independent director has objections or reservations, he or she shall specify in the proceedings of the board of directors; if an independent director cannot personally attend the board of directors to express objections or reservations, he shall, unless there is a valid reason, issue a written opinion in advance and specify in the minutes of the board of directors.</u>	
Article 8	<p>The principle of authorization during the intersessional period of the board of directors</p> <p>Except for the first item of the preceding article that should be referred to the board of directors of the company, the board of directors shall stipulate in accordance with the law or the company's articles of association that the level, content and other matters that the resolution authorizes the exercise of the powers of the board of directors shall be specified.</p>	<p>The principle of authorization during the intersessional period of the board of directors</p> <p>Except for the first item of the preceding article that should be referred to the board of directors of the company, the board of directors shall stipulate in accordance with the law or the company's articles of association that the level, content and <u>other matters that the resolution authorizes the exercise of the powers of the board of directors shall be specified.</u></p>	Modified with acts
Article 14	<p>Decision 1<—></p> <p>When the chairman of the board of directors thinks that the discussion content of the board of directors'</p>	<p>Decision 1<—> D</p> <p>When the chairman of the board of directors thinks that the discussion content of the board of directors'</p>	Modified with acts

Article	Before revised	Revised Version	Description
	<p>proposal has reached the point where he can start voting, he can announce that he will stop the discussion and start voting.</p> <p>When the resolution of the board of directors was voted upon, if the chairman had consulted the directors and had no objection, he was deemed to have passed. If there are dissidents after consultation by the chairman, a vote shall be initiated.</p> <p>The method of voting on the board of directors' proposals shall be implemented by the chairman in accordance with the provisions of the following paragraphs. However, if the attendees have objections, they shall seek a majority opinion. :</p> <p>(A) vote by show of hands or use a voting device.</p> <p>(B) The roll-call vote.</p> <p>(C) voting.</p> <p>In voting on the motion of the board of directors, the chairman may appoint the counting staff to perform statistics, and all the attending directors shall be the scrutineers.</p> <p>The total number of attending directors mentioned in the first two items does</p>	<p>proposal has reached the point where he can start voting, he can announce that he will stop the discussion and start voting.</p> <p>When the board of directors' proposal is voted, all those who have no objection after the chairman has consulted the board of directors shall be deemed to have passed the voting.</p> <p><u>Except for the case that all directors attended the meeting and passed without objection, the method of vouchering and counting shall be clearly stated.</u></p> <p>The method of voting on the board of directors' proposals shall be implemented by the chairman in accordance with the provisions of the following paragraphs. However, if the attendees have objections, they shall seek a majority opinion. :</p> <p>(A) vote by show of hands or use a voting device.</p> <p>(B) The roll-call vote.</p> <p>(C) voting.</p> <p>(D) Chose by the Company</p> <p>In voting on the motion of the board of directors, the chairman may appoint the counting staff to perform statistics, and all the attending directors shall be the scrutineers.</p> <p>The total number of attending directors mentioned in the first three</p>	

Article	Before revised	Revised Version	Description
	not include directors who are not allowed to exercise their voting rights under the first item of Article 16.	items does not include directors who are not allowed to exercise their voting rights under the first item of Article 16.	
Article 15	<p>decision 2<二></p> <p>The decisions of the board of directors shall, except as provided in the Securities and Exchange Act and company law, be attended by more than half of the directors, and shall be subject to the consent of more than half of the directors.</p> <p>When there are amendments or alternatives to the same motion, the chairman and the original case set the voting order. However, if one of the cases has been passed, the other motions will be considered negative and no further voting will be required.</p>	<p>decision 2<二></p> <p><u>The decisions of the board of directors shall, except as provided in the Securities Exchange Act and company law, be attended by more than half of the directors, and shall be subject to the consent of more than half of the directors.</u><u>implemented only by the consent of more than half of the directors present.</u></p>	Modified with acts
Article 17	<p>Meeting minutes</p> <p>IX. Other items to be listed</p> <p>After the public offering of the company, the board of directors of the board resolved matters, such as independent directors have objections or reservations and there are records or written statements. Except as stated in the minutes, it shall be declared on the website for information declaration designated by the competent authority within two days from the date of the board of directors.</p>	<p>Meeting minutes</p> <p>IX. Other items to be listed</p> <p><u>Resolved matters of the board of directors of the board of directors, for example, the independent directors have objections or reservations, and there are records or written declarations. Except as stated in the minutes, the board of directors shall make an announcement on the information reporting website designated by the competent authority within two days from the date of the board of directors.</u></p>	Modified with acts

**Independent Auditors' Report
(Consolidated Financial Statements)**

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

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee Interpretations, and Standing Interpretations Committee Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion

thereon, we do not provide a separate opinion on these matters.

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

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

Description

Refer to Note 4(10) for description of accounting policy on inventory, Note 5 for accounting estimates and assumption uncertainty in relation to inventory valuation, and Note 6(3) for description of allowance for inventory valuation losses. As of December 31, 2017, the balances of inventories and allowance for inventory valuation losses were NT\$432,638 thousand and NT\$58,592 thousand, respectively.

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

How our audit addressed the matter

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

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

Cut off of operating revenue from export sales

Description

Refer to Note 4(24) for the accounting policies on revenue recognition.

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

How our audit addressed the matter

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

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

Other matter – Parent company only financial report

We have audited and expressed an unqualified opinion on the parent company only financial statements of CHIEFTEK PRECISION CO., LTD. as at and for the years ended December 31, 2017 and 2016.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee Interpretations, and Standing Interpretations Committee Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of

consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- A. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- B. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- D. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to

the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- E. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- F. Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Lin, Yung-Chih

Independent Accountants

Lin, Tzu-Shu

PricewaterhouseCoopers, Taiwan

Republic of china

March 9, 2018

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
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 651,824	25	\$ 506,430	23
1150	Notes receivable, net		26,540	1	32,195	1
1170	Accounts receivable, net	6(2)	400,091	15	323,860	15
1200	Other receivables		4,522	-	1,925	-
130X	Inventory	5(1) and 6(3)	374,046	14	318,565	15
1410	Prepayments		22,598	1	16,508	1
11XX	Total current assets		<u>1,479,621</u>	<u>56</u>	<u>1,199,483</u>	<u>55</u>
Non-current assets						
1600	Property, plant and equipment	6(4)(5) and 8	999,260	38	892,019	41
1780	Intangible assets	6(6)(7)	123,173	5	68,707	3
1840	Deferred income tax assets	6(20)	16,552	1	21,286	1
1915	Prepayments for equipment		11,561	-	5,837	-
1920	Guarantee deposits paid		5,161	-	3,997	-
1980	Other financial assets - non-current	8	1,445	-	1,430	-
1990	Other non-current assets		2,046	-	3,614	-
15XX	Total non-current assets		<u>1,159,198</u>	<u>44</u>	<u>996,890</u>	<u>45</u>
1XXX	Total assets		<u>\$ 2,638,819</u>	<u>100</u>	<u>\$ 2,196,373</u>	<u>100</u>

(Continued)

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

Liabilities and Equity		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Liabilities						
Current liabilities						
2100	Short-term borrowings	6(8)	\$ 214,755	8	\$ 187,715	8
2150	Notes payable		115,672	4	65,774	3
2170	Accounts payable		91,689	4	42,694	2
2200	Other payables	6(9)	140,970	5	78,446	4
2230	Current income tax liabilities	6(20)	27,276	1	5,951	-
2310	Advance receipts		3,422	-	972	-
2320	Long-term liabilities, current portion	6(10), 8 and 9	69,935	3	58,533	3
21XX	Total current liabilities		<u>663,719</u>	<u>25</u>	<u>440,085</u>	<u>20</u>
Non-current liabilities						
2540	Long-term borrowings	6(10), 8 and 9	430,993	17	390,633	18
2570	Deferred income tax liabilities	6(20)	8,697	-	2,614	-
2640	Net defined benefit liabilities	6(11)	5,674	-	4,625	-
25XX	Total non-current liabilities		<u>445,364</u>	<u>17</u>	<u>397,872</u>	<u>18</u>
2XXX	Total liabilities		<u>1,109,083</u>	<u>42</u>	<u>837,957</u>	<u>38</u>
Equity						
Share capital						
3110	Share capital - common stock	6(12)(14)	620,455	23	620,455	28
Capital reserves						
3200	Capital surplus	6(13)	463,051	18	463,051	21
Retained earnings						
		6(12)(14)(20)				
3310	Legal reserve		73,463	3	64,905	3
3320	Special reserve		5,928	-	-	-
3350	Unappropriated retained earnings		497,930	19	334,354	15
3400	Other equity interest		(12,367)	-	(5,928)	-
3500	Treasury stocks	6(12)	(118,544)	(5)	(118,544)	(5)
31XX	Equity attributable to owners of the parent		<u>1,529,916</u>	<u>58</u>	<u>1,358,293</u>	<u>62</u>
36XX	Non-controlling interest		(180)	-	123	-
3XXX	Total equity		<u>1,529,736</u>	<u>58</u>	<u>1,358,416</u>	<u>62</u>
Significant Contingent Liabilities and Unrecognized Contract Commitments						
Significant Events After The Balance Sheet Date						
3X2X	Total liabilities and equity		<u>\$ 2,638,819</u>	<u>100</u>	<u>\$ 2,196,373</u>	<u>100</u>

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

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

Notes	Equity attributable to owners of the parent									
	Share capital - common stock	Capital reserve	Retained Earnings			Financial statements translation differences of foreign operations	Treasury stocks	Total	Non-controlli ng interest	Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings					
<u>For the year ended December 31, 2016</u>										
Balance at January 1, 2016	\$ 592,338	\$ 463,051	\$ 57,827	\$ -	\$ 312,835	\$ 12,024	(\$ 118,544)	\$ 1,319,531	\$ -	\$ 1,319,531
Distribution of earnings for 2015 net income:										
Legal reserve	-	-	7,078	-	(7,078)	-	-	-	-	-
Cash dividends	6(14) -	-	-	-	(28,117)	-	-	(28,117)	-	(28,117)
Stock dividends	6(12)(14) 28,117	-	-	-	(28,117)	-	-	-	-	-
Profit for the year	-	-	-	-	85,583	-	-	85,583	(49)	85,534
Other comprehensive loss for the year	-	-	-	-	(752)	(17,952)	-	(18,704)	(10)	(18,714)
Non-controlling interest	-	-	-	-	-	-	-	-	182	182
Balance at December 31, 2016	<u>\$ 620,455</u>	<u>\$ 463,051</u>	<u>\$ 64,905</u>	<u>\$ -</u>	<u>\$ 334,354</u>	<u>(\$ 5,928)</u>	<u>(\$ 118,544)</u>	<u>\$ 1,358,293</u>	<u>\$ 123</u>	<u>\$ 1,358,416</u>
<u>For the year ended December 31, 2017</u>										
Balance at January 1, 2017	\$ 620,455	\$ 463,051	\$ 64,905	\$ -	\$ 334,354	(\$ 5,928)	(\$ 118,544)	\$ 1,358,293	\$ 123	\$ 1,358,416
Distribution of earnings for 2016 net income:										
Legal reserve	-	-	8,558	-	(8,558)	-	-	-	-	-
Special reserve	6(14) -	-	-	5,928	(5,928)	-	-	-	-	-
Cash dividends	6(14) -	-	-	-	(59,045)	-	-	(59,045)	-	(59,045)
Profit for the year	-	-	-	-	238,171	-	-	238,171	(299)	237,872
Other comprehensive loss for the year	-	-	-	-	(1,064)	(6,439)	-	(7,503)	(4)	(7,507)
Balance at December 31, 2017	<u>\$ 620,455</u>	<u>\$ 463,051</u>	<u>\$ 73,463</u>	<u>\$ 5,928</u>	<u>\$ 497,930</u>	<u>(\$ 12,367)</u>	<u>(\$ 118,544)</u>	<u>\$ 1,529,916</u>	<u>(\$ 180)</u>	<u>\$ 1,529,736</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 YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 300,124	\$ 105,408
Adjustments			
Adjustments to reconcile profit (loss)			
Reversal of allowance for doubtful accounts	6(2)(15)	(2,300)	(3,480)
Loss on inventory market price decline	6(3)	(14,424)	327
Depreciation	6(4)(6)(18)	101,951	117,965
Loss on disposal of property, plant and equipment	6(16)	(2,027)	92
Amortization	6(6)(18)	2,036	1,336
Loss on disposal of intangible assets	6(16)	-	18
Impairment loss	6(6)(7)(16)	10,162	4,298
Interest income	6(15)	(2,170)	(1,242)
Interest expense	6(17)	11,972	12,645
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		5,655	(7,499)
Accounts receivable		(73,903)	4,878
Other receivables		(2,597)	(421)
Inventories		(40,760)	49,927
Prepayments		(6,090)	(1,044)
Changes in operating liabilities			
Notes payable		46,615	19,432
Accounts payable		48,995	19,212
Other payables		60,739	13,700
Advance receipts		2,450	175
Net defined benefit liabilities		(232)	(231)
Cash inflow generated from operations		446,196	335,496
Interest received		2,170	1,242
Interest paid		(11,767)	(13,012)
Income tax received		254	13,803
Income tax paid		(30,147)	(19,129)
Net cash flows from operating activities		<u>406,706</u>	<u>318,400</u>

(Continued)

CASH FLOWS FROM INVESTING ACTIVITIES

Cash paid for acquisition of property, plant and equipment	6(23)	(\$ 205,337)	(\$ 15,620)
Interest paid for acquisition of property, plant and equipment	6(4)(23)	-	(370)
Proceeds from disposal of property, plant and equipment		2,600	-
Cash paid for acquisition of intangible assets	6(6)	(63,361)	(21,837)
Increase in prepayment for equipment		(8,758)	(2,593)
Increase in guarantee deposits paid		(1,164)	(1,739)
(Increase) decrease in other financial assets - non-current		(15)	2
Decrease (increase) in other non-current assets		<u>1,568</u>	<u>(1,247)</u>
Net cash flows used in investing activities		<u>(274,467)</u>	<u>(43,404)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Increase (decrease) in short-term borrowings		27,040	(17,088)
Increase in long-term borrowings		114,189	100,000
Decrease in long-term borrowings		(61,446)	(253,170)
Payment of cash dividends	6(14)	(59,045)	(28,117)
Change in non-controlling interest		<u>(4)</u>	<u>172</u>
Net cash flows from (used in) financing activities		<u>20,734</u>	<u>(198,203)</u>
Effect of foreign exchange rate changes on cash and cash equivalents		<u>(7,579)</u>	<u>(20,212)</u>
Net increase in cash and cash equivalents		145,394	56,581
Cash and cash equivalents at beginning of year	6(1)	<u>506,430</u>	<u>449,849</u>
Cash and cash equivalents at end of year	6(1)	<u>\$ 651,824</u>	<u>\$ 506,430</u>

Independent Auditors' Report

(Parent Company Only Financial Statements)

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

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

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

Description

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

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

How our audit addressed the matter

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

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

Cut off of operating revenue from exports sales

Description

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

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

How our audit addressed the matter

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

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

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

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

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

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

Auditor's responsibilities for the audit of the parent company only financial statements

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

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

- A. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- B. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- D. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- E. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

F. Obtain sufficient appropriate audit evidence regarding the parent company only financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Lin, Yung-Chih

Independent Accountants

Liu, Tzu-Shu

PricewaterhouseCoopers, Taiwan

Republic of China

March 9, 2018

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

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

Chieftek Precision Co., Ltd.
2017 Profit Distribution Proposal

Unit: NT\$ in dollar

Item	Amount	
	Subtotal	Total
Undistributed surplus balance at the beginning of the period		\$ 260,822,750
Decrease: Confirmation of actuarial losses of benefit plan		(1,063,449)
Reserved surplus at the beginning of the period after adjustment		259,759,301
Distributable surplus available of this year		
Profit for the year	238,170,742	
Less: 10% Legal Reserve	(23,817,074)	
Less: reverse special reverse	(6,439,384)	
Profit in 2017 Available for Distribution		<u>207,914,284</u>
Cumulative distributable surplus		467,673,585
Distribution Item:		
- Cash Dividends to Common Share Holders (NT\$1 per share)	(59,045,489)	
- dividend on shares(NT\$2.5 per share)	(147,613,730)	
Subtotal of distributed amount		<u>(206,659,219)</u>
Undistributed surplus balance		<u>\$ 261,014,366</u>
Notes:		
1. The surplus distribution for this time will give priority to distribution of 2017 surplus.		
2. The cash dividend shall be calculated according to the shareholding ratio of shareholders recorded in the shareholders ledger on the dividend distribution base date, until distributed to NT\$1(neglecting all those less than NT\$1). After the above dividend distribution is passed by the general meeting of shareholders, the board of directors shall be authorized to further arrange the dividend distribution base date and designate special persons for handling all the cash dividend of less than NT\$1.		