

**CHIEFTEK PRECISION CO., LTD. AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REVIEW REPORT OF INDEPENDENT  
ACCOUNTANTS  
SEPTEMBER 30, 2019 AND 2018**

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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 September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three-month and nine-month periods then ended, as well as the consolidated statements of changes in equity and of cash flows for the nine-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 NT\$491,364 thousand and NT\$535,475 thousand, constituting 15% and 16% of the consolidated total assets, and total liabilities of NT\$186,303 thousand and NT\$258,592 thousand, constituting 13% and 17% of the consolidated total liabilities as at September 30, 2019 and 2018, respectively, and total comprehensive income of NT\$2,714 thousand, NT\$13,366 thousand,

NT\$3,751 thousand and NT\$17,290 thousand, constituting 9%, 12%, 3% and 5% of the consolidated total comprehensive income for the three-month and nine-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 September 30, 2019 and 2018, and of its consolidated financial performance and its consolidated cash flows for the three-month and nine-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

November 6, 2019

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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**  
**SEPTEMBER 30, 2019, DECEMBER 31, 2018 AND SEPTEMBER 30, 2018**

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2019 and 2018 are reviewed, not audited)

Assets		Notes	September 30, 2019		December 31, 2018		September 30, 2018	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 765,390	23	\$ 797,400	25	\$ 875,461	26
1150	Notes receivable, net	6(2)	17,894	1	50,722	2	52,260	2
1170	Accounts receivable, net	6(2) and 12	353,248	10	432,443	13	541,707	16
1200	Other receivables		6,906	-	12,371	-	15,711	-
1220	Current tax assets	6(20)	4,963	-	-	-	2,373	-
130X	Inventory	5 and 6(3)	682,584	20	683,544	21	646,677	19
1410	Prepayments		32,444	1	21,825	1	28,170	1
11XX	<b>Total current assets</b>		<u>1,863,429</u>	<u>55</u>	<u>1,998,305</u>	<u>62</u>	<u>2,162,359</u>	<u>64</u>
<b>Non-current assets</b>								
1600	Property, plant and equipment	6(4)(6) and 8	1,138,477	34	1,035,570	32	1,030,010	30
1755	Right-of-use assets	3(1) and 6(5)	131,728	4	-	-	-	-
1780	Intangible assets	6(6)	121,991	4	124,977	4	133,156	4
1840	Deferred income tax assets	6(20)	26,905	1	27,076	1	24,877	1
1915	Prepayments for equipment	6(4)	77,916	2	52,737	1	21,524	1
1920	Guarantee deposits paid		5,880	-	5,076	-	6,779	-
1990	Other non-current assets		3,274	-	3,643	-	1,498	-
15XX	<b>Total non-current assets</b>		<u>1,506,171</u>	<u>45</u>	<u>1,249,079</u>	<u>38</u>	<u>1,217,844</u>	<u>36</u>
1XXX	<b>Total assets</b>		<u>\$ 3,369,600</u>	<u>100</u>	<u>\$ 3,247,384</u>	<u>100</u>	<u>\$ 3,380,203</u>	<u>100</u>

(Continued)

**CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2019, DECEMBER 31, 2018 AND SEPTEMBER 30, 2018**  
(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2019 and 2018 are reviewed, not audited)

Liabilities and Equity		Notes	September 30, 2019		December 31, 2018		September 30, 2018	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Liabilities</b>								
<b>Current liabilities</b>								
2100	Short-term borrowings	6(7)(24) and 9	\$ 281,480	8	\$ 210,407	6	\$ 263,377	8
2130	Current contract liabilities	6(14)	2,433	-	1,828	-	3,810	-
2150	Notes payable		75,526	2	154,647	5	220,483	7
2170	Accounts payable		31,713	1	68,940	2	143,148	4
2200	Other payables	6(8)	203,065	6	196,074	6	218,238	6
2230	Current income tax liabilities	6(20)	17,891	1	83,397	3	56,952	2
2280	Current lease liabilities	3(1) and 6(5)	4,890	-	-	-	-	-
2310	Advance receipts		1,717	-	1,781	-	1,795	-
2320	Long-term liabilities, current portion	6(9), 8 and 9	88,686	3	57,208	2	61,260	2
21XX	<b>Total current liabilities</b>		<u>707,401</u>	<u>21</u>	<u>774,282</u>	<u>24</u>	<u>969,063</u>	<u>29</u>
<b>Non-current liabilities</b>								
2540	Long-term borrowings	6(9), 8 and 9	519,701	15	503,976	15	536,980	16
2570	Deferred income tax liabilities	6(20)	18,176	1	25,827	1	29,197	1
2580	Non-current lease liabilities	3(1) and 6(5)	127,668	4	-	-	-	-
2640	Net defined benefit liabilities	6(10)	7,221	-	7,444	-	5,451	-
25XX	<b>Total non-current liabilities</b>		<u>672,766</u>	<u>20</u>	<u>537,247</u>	<u>16</u>	<u>571,628</u>	<u>17</u>
2XXX	<b>Total liabilities</b>		<u>1,380,167</u>	<u>41</u>	<u>1,311,529</u>	<u>40</u>	<u>1,540,691</u>	<u>46</u>
<b>Equity</b>								
<b>Share capital</b>								
3110	Share capital - common stock	6(11)(13)	811,876	24	738,069	23	738,069	22
<b>Capital reserves</b>								
3200	Capital surplus	6(11)(12)	440,667	13	440,667	14	440,667	13
<b>Retained earnings</b>								
3310	Legal reserve	6(11)(13)	144,552	4	97,280	3	97,280	3
3320	Special reserve		17,047	1	12,367	-	12,367	-
3350	Unappropriated retained earnings		596,043	18	664,519	20	572,545	17
3400	<b>Other equity interest</b>		( 20,752)	( 1)	( 17,047)	-	( 19,795)	( 1)
31XX	<b>Equity attributable to owners of the parent</b>		<u>1,989,433</u>	<u>59</u>	<u>1,935,855</u>	<u>60</u>	<u>1,841,133</u>	<u>54</u>
36XX	<b>Non-controlling interest</b>		-	-	-	-	( 1,621)	-
3XXX	<b>Total equity</b>		<u>1,989,433</u>	<u>59</u>	<u>1,935,855</u>	<u>60</u>	<u>1,839,512</u>	<u>54</u>
<b>Significant contingent liabilities and unrecognized contract commitments</b>								
3X2X	<b>Total liabilities and equity</b>		<u>\$ 3,369,600</u>	<u>100</u>	<u>\$ 3,247,384</u>	<u>100</u>	<u>\$ 3,380,203</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 AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018  
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)  
(REVIEWED, NOT AUDITED)

	Items	Notes	Three months ended September 30				Nine months ended September 30			
			2019		2018		2019		2018	
			AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000	Sales revenue	6(14)	\$ 321,874	100	\$ 584,667	100	\$ 1,000,252	100	\$ 1,674,386	100
5000	Operating costs	6(3)(10)(18)(19)(22)	( 176,507)	( 55)	( 318,870)	( 55)	( 556,584)	( 56)	( 881,970)	( 53)
5900	Net operating margin		<u>145,367</u>	<u>45</u>	<u>265,797</u>	<u>45</u>	<u>443,668</u>	<u>44</u>	<u>792,416</u>	<u>47</u>
	Operating expenses	6(6)(10)(18)(19) and 7								
6100	Selling expenses		( 27,046)	( 8)	( 40,017)	( 7)	( 83,013)	( 8)	( 89,992)	( 6)
6200	General and administrative expenses		( 33,489)	( 10)	( 43,985)	( 7)	( 117,104)	( 12)	( 154,534)	( 9)
6300	Research and development expenses		( 18,803)	( 6)	( 17,046)	( 3)	( 50,701)	( 5)	( 69,008)	( 4)
6450	Expected credit impairment loss	12	( 2,146)	( 1)	( 341)	-	( 6,915)	( 1)	( 5,397)	-
6000	Total operating expenses		( 81,484)	( 25)	( 101,389)	( 17)	( 257,733)	( 26)	( 318,931)	( 19)
6900	Operating profit		<u>63,883</u>	<u>20</u>	<u>164,408</u>	<u>28</u>	<u>185,935</u>	<u>18</u>	<u>473,485</u>	<u>28</u>
	Non-operating income and expenses									
7010	Other income	6(15)	2,333	1	2,037	1	9,872	1	5,917	1
7020	Other gains and losses	6(16) and 12	( 9,591)	( 3)	( 5,138)	( 1)	( 344)	-	( 15,805)	( 1)
7050	Finance costs	6(5)(17)	( 4,376)	( 2)	( 4,225)	( 1)	( 12,867)	( 1)	( 12,019)	( 1)
7000	Total non-operating income and expenses		( 11,634)	( 4)	( 7,326)	( 1)	( 3,339)	-	( 9,703)	( 1)
7900	Profit before income tax		<u>52,249</u>	<u>16</u>	<u>157,082</u>	<u>27</u>	<u>182,596</u>	<u>18</u>	<u>483,188</u>	<u>29</u>
7950	Income tax expense	6(20)	( 10,164)	( 3)	( 31,693)	( 5)	( 51,506)	( 5)	( 107,132)	( 7)
8200	Profit for the period		<u>\$ 42,085</u>	<u>13</u>	<u>\$ 125,389</u>	<u>22</u>	<u>\$ 131,090</u>	<u>13</u>	<u>\$ 376,056</u>	<u>22</u>
	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(20)	\$ -	-	\$ -	-	\$ -	-	\$ 182	-
	Components of other comprehensive income (loss) that will be reclassified to profit or loss									
8361	Financial statements translation differences of foreign operations		( 10,338)	( 3)	( 10,544)	( 2)	( 3,705)	-	( 7,417)	-
8300	Total other comprehensive loss for the period		( \$ 10,338)	( 3)	( \$ 10,544)	( 2)	( \$ 3,705)	-	( \$ 7,235)	-
8500	Total comprehensive income for the period		<u>\$ 31,747</u>	<u>10</u>	<u>\$ 114,845</u>	<u>20</u>	<u>\$ 127,385</u>	<u>13</u>	<u>\$ 368,821</u>	<u>22</u>
	Profit (loss) attributable to:									
8610	Owners of the parent		\$ 42,085	13	\$ 125,499	22	\$ 131,090	13	\$ 377,508	22
8620	Non-controlling interest		-	-	( 110)	-	-	-	( 1,452)	-
			<u>\$ 42,085</u>	<u>13</u>	<u>\$ 125,389</u>	<u>22</u>	<u>\$ 131,090</u>	<u>13</u>	<u>\$ 376,056</u>	<u>22</u>
	Comprehensive income (loss) attributable to:									
8710	Owners of the parent		\$ 31,747	10	\$ 114,959	20	\$ 127,385	13	\$ 370,262	22
8720	Non-controlling interest		-	-	( 114)	-	-	-	( 1,441)	-
			<u>\$ 31,747</u>	<u>10</u>	<u>\$ 114,845</u>	<u>20</u>	<u>\$ 127,385</u>	<u>13</u>	<u>\$ 368,821</u>	<u>22</u>
	Earnings per share (in dollars)	6(21)								
9750	Basic		\$ 0.52		\$ 1.55		\$ 1.61		\$ 4.65	
9850	Diluted		\$ 0.52		\$ 1.53		\$ 1.61		\$ 4.63	

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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018  
(Expressed in thousands of New Taiwan dollars)  
(REVIEWED, NOT AUDITED)

		Equity attributable to owners of the parent									
		Retained Earnings				Financial statements translation differences of foreign operations					
Notes	Share capital - common stock	Capital reserve	Legal reserve	Special reserve	Unappropriated retained earnings		Treasury stocks	Total	Non-controlling interest	Total equity	
<u>For the nine-month period ended September 30, 2018</u>											
Balance at January 1, 2018	\$ 620,455	\$ 463,051	\$ 73,463	\$ 5,928	\$ 497,930	( \$ 12,367 )	( \$ 118,544 )	\$ 1,529,916	( \$ 180 )	\$ 1,529,736	
Profit (loss) for the period	-	-	-	-	377,508	-	-	377,508	( 1,452 )	376,056	
Other comprehensive income (loss) for the period	-	-	-	-	182	( 7,428 )	-	( 7,246 )	11	( 7,235 )	
Total comprehensive income (loss) for the period	-	-	-	-	377,690	( 7,428 )	-	370,262	( 1,441 )	368,821	
Appropriations of 2017 earnings:											
Legal reserve	-	-	23,817	-	( 23,817 )	-	-	-	-	-	
Special reserve	6(13)	-	-	6,439	( 6,439 )	-	-	-	-	-	
Cash dividends	6(8)(13)	-	-	-	( 59,045 )	-	-	( 59,045 )	-	( 59,045 )	
Stock dividends	6(13)	147,614	-	-	( 147,614 )	-	-	-	-	-	
Retirement of treasury stock	6(11)(12)	( 30,000 )	( 22,384 )	-	( 66,160 )	-	118,544	-	-	-	
Balance at September 30, 2018	\$ 738,069	\$ 440,667	\$ 97,280	\$ 12,367	\$ 572,545	( \$ 19,795 )	\$ -	\$ 1,841,133	( \$ 1,621 )	\$ 1,839,512	
<u>For the nine-month period ended September 30, 2019</u>											
Balance at January 1, 2019	\$ 738,069	\$ 440,667	\$ 97,280	\$ 12,367	\$ 664,519	( \$ 17,047 )	\$ -	\$ 1,935,855	\$ -	\$ 1,935,855	
Profit for the period	-	-	-	-	131,090	-	-	131,090	-	131,090	
Other comprehensive loss for the period	-	-	-	-	-	( 3,705 )	-	( 3,705 )	-	( 3,705 )	
Total comprehensive income (loss) for the period	-	-	-	-	131,090	( 3,705 )	-	127,385	-	127,385	
Appropriations of 2018 earnings:											
Legal reserve	-	-	47,272	-	( 47,272 )	-	-	-	-	-	
Special reserve	6(13)	-	-	4,680	( 4,680 )	-	-	-	-	-	
Cash dividends	6(8)(13)	-	-	-	( 73,807 )	-	-	( 73,807 )	-	( 73,807 )	
Stock dividends	6(11)(13)	73,807	-	-	( 73,807 )	-	-	-	-	-	
Balance at September 30, 2019	\$ 811,876	\$ 440,667	\$ 144,552	\$ 17,047	\$ 596,043	( \$ 20,752 )	\$ -	\$ 1,989,433	\$ -	\$ 1,989,433	

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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018  
(Expressed in thousands of New Taiwan dollars)  
(REVIEWED, NOT AUDITED)

		For the nine-month periods ended September 30,	
	Notes	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 182,596	\$ 483,188
Adjustments			
Adjustments to reconcile profit (loss)			
Expected credit impairment loss	12	6,915	5,397
(Reversal of) loss on inventory market price decline	6(3)	( 888 )	450
Depreciation	6(4)(5)(6)(18)	64,199	60,754
Amortization	6(6)(18)	2,283	1,925
Interest income	6(15)	( 2,915 )	( 3,776 )
Interest expense	6(17)	12,867	12,019
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		32,828	( 25,720 )
Accounts receivable		72,979	( 146,639 )
Other receivables		5,465	( 11,189 )
Inventories		2,647	( 273,113 )
Prepayments		( 10,619 )	( 5,572 )
Changes in operating liabilities			
Current contract liabilities		605	3,810
Notes payable		( 91,268 )	105,115
Accounts payable		( 37,227 )	51,459
Other payables		( 55,168 )	72,629
Advance receipts		( 64 )	( 1,627 )
Net defined benefit liabilities		( 223 )	( 223 )
Cash inflow generated from operations		185,012	328,887
Interest received		2,915	3,776
Interest paid		( 13,450 )	( 11,336 )
Income tax paid		( 129,455 )	( 67,472 )
Net cash flows from operating activities		45,022	253,855

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**CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018**  
(Expressed in thousands of New Taiwan dollars)  
(REVIEWED, NOT AUDITED)

		For the nine-month periods ended September 30,	
	Notes	2019	2018
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Cash paid for acquisition of property, plant and equipment	6(23)	(\$ 137,760 )	(\$ 41,410 )
Cash paid for acquisition of intangible assets	6(6)	( 119 )	( 12,152 )
Increase in prepayment for equipment		( 47,630 )	( 52,222 )
Increase in guarantee deposits paid		( 804 )	( 1,618 )
Decrease in other non-current financial assets		-	1,445
Decrease in other non-current assets		369	548
Net cash flows used in investing activities		( 185,944 )	( 105,409 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings	6(24)	73,214	46,731
Payments of lease liability	6(24)	( 3,610 )	-
Increase in long-term borrowings	6(24)	200,000	460,000
Decrease in long-term borrowings	6(24)	( 153,697 )	( 364,934 )
Payments of cash dividends	6(13)	-	( 59,045 )
Net cash flows from financing activities		115,907	82,752
Effect of foreign exchange rate changes on cash and cash equivalents		( 6,995 )	( 7,561 )
Net (decrease) increase in cash and cash equivalents		( 32,010 )	223,637
Cash and cash equivalents at beginning of period	6(1)	797,400	651,824
Cash and cash equivalents at end of period	6(1)	\$ 765,390	\$ 875,461

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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018  
(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 November 6, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board (“IASB”)</u>
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, ‘Leases’

- A. IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a 'lease liability' (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.
- B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. Accordingly, the Group both increased 'right-of-use asset' and 'lease liability' by \$136,168.
- C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
- (a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
  - (b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
  - (c) The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of \$9,023 was recognized in the third quarter of 2019.
  - (d) The exclusion of initial direct costs for the measurement of 'right-of-use asset'.
  - (e) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- D. The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate of 1.80%.
- E. The Group recognized lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate and lease liabilities recognized as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$ 31,035
Add: Adjustments as a result of a different treatment of extension and termination options	<u>135,307</u>
Total lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019	<u>\$ 166,342</u>
Incremental borrowing interest rate at the date of initial application	<u>1.80%</u>
Lease liabilities recognized as at January 1, 2019 by applying IFRS 16	<u>\$ 136,168</u>

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

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

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020

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

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

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

New Standards, Interpretations and Amendments	Effective date by IASB
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 17, 'Insurance contracts'	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standard 34, 'Interim financial reporting' 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, the 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or

complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5, 'Critical accounting judgments, estimates and key sources of assumption uncertainty'.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

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

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Business activities	Ownership (%)			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
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	100	Note 1
CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	Research, manufacture and sale of machineries	100	100	80	Note 1 Note 2
CHIEFTEK PRECISION HOLDING CO., LTD.	CHIEFTEK PRECISION (Hong Kong) Co., Limited	Professional investment	100	100	100	-
CHIEFTEK PRECISION HOLDING CO., LTD.	CHIEFTEK PRECISION USA CO., LTD. (“cpc USA”)	Sale of high precision linear motion components and rendering after-sales service	100	100	100	Note 1
CHIEFTEK PRECISION (Hong Kong) Co., Limited	Chiefttek Machinery (Kunshan) Co., Ltd. (“Chiefttek (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 nine-month periods ended September 30, 2019 and 2018 were not reviewed by independent accountants as the entity did not meet the definition of a significant subsidiary.

Note 2: In October, 2018, the Group acquired the remaining 20% of shares of its subsidiary with non-controlling interest.

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 \$491,364 and \$535,475, constituting 15% and 16% of the consolidated total assets, and total liabilities of \$186,303 and \$258,592, constituting 13% and 17% of the consolidated total liabilities as at September 30, 2019 and 2018, respectively, and total comprehensive income of \$2,714, \$13,366, \$3,751 and \$17,290, constituting 9%, 12%, 3% and 5% of the consolidated total comprehensive income for the three-month and nine-month periods ended September 30, 2019 and 2018, 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 subject to an insignificant risk of changes in value.



B. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitment in operations are classified as cash equivalents.

(7) Accounts and notes receivable

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

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

(8) Impairment of financial assets

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

(9) Derecognition of financial assets

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

(10) Inventories

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

(11) Property, plant and equipment

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

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

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

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

(12) Leasing arrangements (lessee) — right-of-use assets/ lease liabilities

Effective 2019

- A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.

- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate.

Lease payments are comprised of the following:

- (a) Fixed payments, less any lease incentives receivable;
- (b) Amounts expected to be payable by the lessee under residual value guarantees; and
- (c) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The Group subsequently measures the lease liability at amortized cost using the interest method and recognizes interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognized as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

- C. At the commencement date, the right-of-use asset is stated at cost comprising the following:
- (a) The amount of the initial measurement of lease liability;

- (b) Any lease payments made at or before the commencement date;
- (c) Any initial direct costs incurred by the lessee; and
- (d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

(13) Operating leases (lessee)

Prior to 2019

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. Turn-key professional technique

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

E. Other intangible assets

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

(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 expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit 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. Remeasurement arising on defined benefit plans is 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. Also, 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 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 recognised 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. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is resolved from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(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

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

(25) Government grants

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

(26) Operating segments

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

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

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

Evaluation of inventories

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

B. As of September 30, 2019, the carrying amount of inventories was \$682,584.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Cash:			
Cash on hand	\$ 1,273	\$ 1,397	\$ 1,571
Checking accounts and demand deposits	<u>762,658</u>	<u>764,082</u>	<u>779,967</u>
	<u>763,931</u>	<u>765,479</u>	<u>781,538</u>
Cash Equivalents:			
Time deposits	<u>1,459</u>	<u>31,921</u>	<u>93,923</u>
	<u>\$ 765,390</u>	<u>\$ 797,400</u>	<u>\$ 875,461</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 has no cash and cash equivalents pledged to others as of September 30, 2019, December 31, 2018 and September 30, 2018.



(2) Notes and accounts receivable, net

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Notes receivable	\$ <u>17,894</u>	\$ <u>50,722</u>	\$ <u>52,260</u>
	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Accounts receivable	\$ 375,349	\$ 448,328	\$ 557,534
Less: Allowance for doubtful accounts	( <u>22,101</u> )	( <u>15,885</u> )	( <u>15,827</u> )
	\$ <u>353,248</u>	\$ <u>432,443</u>	\$ <u>541,707</u>

A. The ageing analysis of the Group's notes and accounts receivable is as follows:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>		<u>September 30, 2018</u>	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	\$ 257,983	\$ 17,745	\$ 339,115	\$ 50,605	\$ 453,054	\$ 52,260
Up to 30 days	44,556	149	27,273	117	46,323	-
31 to 90 days	18,866	-	43,293	-	23,161	-
91 to 180 days	15,349	-	19,308	-	16,490	-
Over 180 days	38,595	-	19,339	-	18,506	-
	<u>\$ 375,349</u>	<u>\$ 17,894</u>	<u>\$ 448,328</u>	<u>\$ 50,722</u>	<u>\$ 557,534</u>	<u>\$ 52,260</u>

The above ageing analysis was based on past due date.

B. As of September 30, 2019, December 31, 2018, September 30, 2018 and January 1, 2018, the balances of notes receivable and accounts receivable from contracts with customers amounted to \$393,243, \$499,050, \$609,794 and \$437,435, respectively.

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

D. As of September 30, 2019, December 31, 2018 and September 30, 2018, the Group does not hold any collateral as security for accounts receivable.

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

(3) Inventories

	<u>September 30, 2019</u>		
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 89,842	(\$ 14)	\$ 89,828
Supplies	67,575	( 5,046)	62,529
Work in process	357,735	( 10,530)	347,205
Finished goods	220,589	( 37,567)	183,022
	<u>\$ 735,741</u>	<u>(\$ 53,157)</u>	<u>\$ 682,584</u>

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

  

September 30, 2018			
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 115,494	(\$ 19)	\$ 115,475
Supplies	90,183	( 3,340)	86,843
Work in process	298,594	( 12,933)	285,661
Finished goods	201,480	( 42,782)	158,698
	<u>\$ 705,751</u>	<u>(\$ 59,074)</u>	<u>\$ 646,677</u>

The cost of inventories recognized as expense for the period:

For the three-month periods ended September 30,			
	2019	2018	
Cost of goods sold	\$ 176,216	\$ 317,666	
Loss on physical inventory	1,583	166	
Provision (reversal of allowance) for inventory market price decline (Note)	( 1,153)	1,198	
Revenue from sale of scraps	( 139)	( 160)	
	<u>\$ 176,507</u>	<u>\$ 318,870</u>	

  

For the nine-month periods ended September 30,			
	2019	2018	
Cost of goods sold	\$ 556,509	\$ 882,700	
Loss (gain) on physical inventory	1,315	( 739)	
Provision (reversal of allowance) for inventory market price decline (Note)	( 888)	450	
Revenue from sale of scraps	( 352)	( 441)	
	<u>\$ 556,584</u>	<u>\$ 881,970</u>	

(Note) The Group reversed a previous inventory write-down which was accounted for as reduction of cost of goods sold as certain inventory items which were previously provided with allowance were subsequently sold and scrapped for the three-month and nine-month periods ended September 30, 2019.

(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, 2019								
Cost	\$ 371,065	\$ 594,260	\$ 862,353	\$ 5,444	\$ 18,722	\$ 140,948	\$ 53,833	\$ 2,046,625
Accumulated depreciation	-	( 129,677)	( 738,907)	( 4,136)	( 16,936)	( 121,399)	-	( 1,011,055)
	<u>\$ 371,065</u>	<u>\$ 464,583</u>	<u>\$ 123,446</u>	<u>\$ 1,308</u>	<u>\$ 1,786</u>	<u>\$ 19,549</u>	<u>\$ 53,833</u>	<u>\$ 1,035,570</u>
For the nine-month period ended September 30, 2019								
At January 1	\$ 371,065	\$ 464,583	\$ 123,446	\$ 1,308	\$ 1,786	\$ 19,549	\$ 53,833	\$ 1,035,570
Additions	-	6,102	19,621	-	1,604	2,280	109,235	138,842
Transferred from prepayments for equipment	-	-	-	-	-	-	22,451	22,451
Transferred after acceptance inspection	-	768	11,087	-	582	1,027	( 13,464)	-
Depreciation	-	( 13,625)	( 39,680)	( 198)	( 685)	( 5,571)	-	( 59,759)
Disposals — Cost	-	-	( 1,354)	-	( 83)	-	-	( 1,437)
— Accumulated depreciation	-	-	1,354	-	83	-	-	1,437
Net currency exchange differences	574	1,248	( 356)	( 6)	( 26)	( 61)	-	1,373
At September 30	<u>\$ 371,639</u>	<u>\$ 459,076</u>	<u>\$ 114,118</u>	<u>\$ 1,104</u>	<u>\$ 3,261</u>	<u>\$ 17,224</u>	<u>\$ 172,055</u>	<u>\$ 1,138,477</u>
September 30, 2019								
Cost	\$ 371,639	\$ 602,495	\$ 890,960	\$ 5,389	\$ 20,693	\$ 144,060	\$ 172,055	\$ 2,207,291
Accumulated depreciation	-	( 143,419)	( 776,842)	( 4,285)	( 17,432)	( 126,836)	-	( 1,068,814)
	<u>\$ 371,639</u>	<u>\$ 459,076</u>	<u>\$ 114,118</u>	<u>\$ 1,104</u>	<u>\$ 3,261</u>	<u>\$ 17,224</u>	<u>\$ 172,055</u>	<u>\$ 1,138,477</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, 2018	Land							
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 nine-month period ended September 30, 2018								
At January 1	\$ 414,740	\$ 429,227	\$ 115,119	\$ 1,221	\$ 1,484	\$ 20,089	\$ 17,380	\$ 999,260
Additions	-	2,914	7,602	-	793	6,350	27,403	45,062
Transferred from prepayments for equipment	-	-	-	-	-	-	42,259	42,259
Transferred after acceptance inspection	-	-	48,704	-	-	1,290	( 49,994)	-
Reclassifications	( 45,635)	45,635	-	-	-	-	-	-
Depreciation (Note)	-	( 12,642)	( 40,715)	( 393)	( 699)	( 6,342)	-	( 60,791)
Disposals — Cost	-	-	( 1,144)	( 349)	( 424)	( 427)	-	( 2,344)
— Accumulated depreciation	-	-	1,144	349	424	427	-	2,344
Net currency exchange differences	<u>1,625</u>	<u>2,684</u>	<u>( 75)</u>	<u>( 2)</u>	<u>( 4)</u>	<u>( 8)</u>	<u>-</u>	<u>4,220</u>
At September 30	<u>\$ 370,730</u>	<u>\$ 467,818</u>	<u>\$ 130,635</u>	<u>\$ 826</u>	<u>\$ 1,574</u>	<u>\$ 21,379</u>	<u>\$ 37,048</u>	<u>\$ 1,030,010</u>
September 30, 2018								
Cost	\$ 370,730	\$ 591,752	\$ 855,506	\$ 4,887	\$ 18,423	\$ 140,425	\$ 37,048	\$ 2,018,771
Accumulated depreciation	-	( 123,934)	( 724,871)	( 4,061)	( 16,849)	( 119,046)	-	( 988,761)
	<u>\$ 370,730</u>	<u>\$ 467,818</u>	<u>\$ 130,635</u>	<u>\$ 826</u>	<u>\$ 1,574</u>	<u>\$ 21,379</u>	<u>\$ 37,048</u>	<u>\$ 1,030,010</u>

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

- A. Property, plant and equipment of the Group were all for operating purposes as of September 30, 2019, December 31, 2018 and September 30, 2018.
- B. For the three-month and nine-month periods ended September 30, 2019 and 2018, no borrowing costs were capitalized as part of property, plant and equipment.
- C. Information about the property, plant and equipment that were pledged to others as collateral as of September 30, 2019, December 31, 2018 and September 30, 2018 is provided in Note 8, 'Pledged assets'.

(5) Leasing arrangements — lessee

Effective 2019

- A. The Group leases land in Southern Taiwan Science Park of Ministry of Science and Technology. Rental contracts are typically made for periods of 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.
- B. The Group leases various assets including offices, warehouses and business vehicles. As of September 30, 2019, future lease commitments for short-term leases amounted to \$3,008.
- C. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>September 30, 2019</u>	<u>For the three-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 2019</u>
	<u>Carrying amount</u>	<u>Depreciation charge</u>	<u>Depreciation charge</u>
Land	\$ 131,728	\$ 1,480	\$ 4,440

- D. For the nine-month period ended September 30, 2019, the Group has no additions to right-of-use assets.
- E. The information on income and expense accounts relating to lease contracts is as follows:

	<u>For the three-month period ended September 30, 2019</u>	<u>For the nine-month period ended September 30, 2019</u>
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 599	\$ 1,814
Expense on short-term lease contracts	\$ 2,854	\$ 9,023

- F. For the nine-month period ended September 30, 2019, the Group's total cash outflow for leases was \$14,447.

(6) Intangible assets

	Trademarks	Patents	Software	Turn-key professional technique	Others	Total
<u>At January 1, 2019</u>						
Cost	\$ 578	\$ 9,288	\$ 12,777	\$ 91,779	\$ 60,000	\$ 174,422
Accumulated amortization	( 578)	( 2,528)	( 8,262)	-	( 13,500)	( 24,868)
Accumulated impairment	-	-	-	-	( 24,577)	( 24,577)
Net value	<u>\$ -</u>	<u>\$ 6,760</u>	<u>\$ 4,515</u>	<u>\$ 91,779</u>	<u>\$ 21,923</u>	<u>\$ 124,977</u>
Net value at January 1, 2019	\$ -	\$ 6,760	\$ 4,515	\$ 91,779	\$ 21,923	\$ 124,977
Additions — acquired separately	-	35	84	-	-	119
Amortization	-	( 439)	( 1,844)	-	-	( 2,283)
Net currency exchange differences	-	-	( 42)	( 780)	-	( 822)
Net value at September 30, 2019	<u>\$ -</u>	<u>\$ 6,356</u>	<u>\$ 2,713</u>	<u>\$ 90,999</u>	<u>\$ 21,923</u>	<u>\$ 121,991</u>
<u>At September 30, 2019</u>						
Cost	\$ 578	\$ 9,323	\$ 12,451	\$ 90,999	\$ 60,000	\$ 173,351
Accumulated amortization	( 578)	( 2,967)	( 9,738)	-	( 13,500)	( 26,783)
Accumulated impairment	-	-	-	-	( 24,577)	( 24,577)
Net value	<u>\$ -</u>	<u>\$ 6,356</u>	<u>\$ 2,713</u>	<u>\$ 90,999</u>	<u>\$ 21,923</u>	<u>\$ 121,991</u>

	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	-	-	384	-	-	384
Additions — from internal development	-	-	-	11,768	-	11,768
Additions — depreciation reclassified	-	-	-	37	-	37
Additions — amortization reclassified	-	-	-	17	-	17
Amortization	- ( 437)	( 1,505)	-	-	( 1,942)	
Net currency exchange differences	-	-	-	( 281)	-	( 281)
Net value at September 30, 2018	<u>\$ -</u>	<u>\$ 6,849</u>	<u>\$ 2,861</u>	<u>\$ 91,406</u>	<u>\$ 32,040</u>	<u>\$ 133,156</u>
<u>At September 30, 2018</u>						
Cost	\$ 578	\$ 9,231	\$ 10,451	\$ 91,406	\$ 60,000	\$ 171,666
Accumulated amortization	( 578)	( 2,382)	( 7,590)	-	( 13,500)	( 24,050)
Accumulated impairment	-	-	-	-	( 14,460)	( 14,460)
Net value	<u>\$ -</u>	<u>\$ 6,849</u>	<u>\$ 2,861</u>	<u>\$ 91,406</u>	<u>\$ 32,040</u>	<u>\$ 133,156</u>

A. For the three-month and nine-month periods ended September 30, 2019 and 2018, 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 September 30,	
	2019	2018
General and administrative expenses	\$ 264	\$ 68
Research and development expenses	446	607
	<u>\$ 710</u>	<u>\$ 675</u>
	For the nine-month periods ended September 30,	
	2019	2018
General and administrative expenses	\$ 811	\$ 213
Research and development expenses	1,472	1,729
	<u>\$ 2,283</u>	<u>\$ 1,942</u>

(7) Short-term borrowings

Nature	September 30, 2019	Interest rate range	Collateral
Bank unsecured borrowings	\$ 200,000	0.95% ~ 1.03%	None
Bank secured borrowings	<u>81,480</u>	1.30%	Endorsements and guarantees by the Company
	<u>\$ 281,480</u>		
Nature	December 31, 2018	Interest rate range	Collateral
Bank unsecured borrowings	\$ 120,000	0.99% ~ 1.03%	None
Bank secured borrowings	<u>90,407</u>	1.15% ~ 3.42%	Endorsements and guarantees by the Company
	<u>\$ 210,407</u>		
Nature	September 30, 2018	Interest rate range	Collateral
Bank unsecured borrowings	\$ 120,000	0.99% ~ 1.04%	None
Bank secured borrowings	<u>143,377</u>	1.14% ~ 3.34%	Endorsements and guarantees by the Company
	<u>\$ 263,377</u>		

For more information about interest expense recognized by the Group for the three-month and nine-month periods ended September 30, 2019 and 2018, please refer to Note 6(17), 'Finance costs'.



(8) Other payables

	September 30, 2019	December 31, 2018	September 30, 2018
Dividends payable	\$ 73,807	\$ -	\$ -
Accrued salaries and bonuses	36,154	60,606	77,605
Employees' compensation and directors' and supervisors' remuneration payable	31,000	61,248	72,796
Equipment payable	3,756	14,821	9,192
Others	58,348	59,399	58,645
	<u>\$ 203,065</u>	<u>\$ 196,074</u>	<u>\$ 218,238</u>

(9) Long-term borrowings

Nature	Expiry date	September 30, 2019	Interest rate range	Collateral
Long-term bank borrowings				
Secured borrowings	October 5, 2022 ~ August 25, 2024	\$ 448,387	1.35% ~ 4.43%	Land, buildings and structures
Unsecured borrowings	November 1, 2020 ~ October 5, 2022	160,000	1.25% ~ 1.80%	None
		608,387		
Less: Current portion		( 88,686)		
		<u>\$ 519,701</u>		

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

Nature	Expiry date	September 30, 2018	Interest rate range	Collateral
Long-term bank borrowings				
Secured borrowings	July 25, 2020 ~ August 25, 2024	\$ 529,908	1.37% ~ 4.43%	Land, buildings and structures, and endorsed and guaranteed by the Company
Unsecured borrowings	September 23, 2019 ~ October 5, 2022	68,332	1.29% ~ 1.80%	None
		598,240		
Less: Current portion		( 61,260)		
		<u>\$ 536,980</u>		

For more information about interest expense recognized by the Group for the three-month and nine-month periods ended September 30, 2019 and 2018, please refer to Note 6(17), 'Finance cost'.

(10) Pensions

A.(a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by next March.

(b) No pension cost was recognized under the aforementioned defined benefit pension plan of the Company for the three-month and nine-month periods ended September 30, 2019 and 2018.

(c) Expected contributions to the defined benefit pension plan of the Company for the year ending December 31, 2019 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 and nine-month periods ended September 30, 2019 and 2018 were \$3,739, \$4,419, \$12,240 and \$12,770, respectively.

(11) Share capital - common stock and stock dividends to be distributed

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

	For the nine-month periods ended September 30,	
	2019	2018
Balance at beginning of period	73,807	59,046
Stock dividends	7,381	14,761
Balance at end of period	81,188	73,807

B. On June 12, 2019, the Company's stockholders adopted a resolution to issue shares of common stock due to capitalization of retained earnings of \$73,807 and obtained approval from the SFC. The effective date of capitalization was set on August 7, 2019.

C. Treasury shares

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

	For the nine-month period ended September 30, 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)	-

No treasury shares were reacquired or retired by the Company for the nine-month period ended September 30, 2019.

(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.

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

(d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.

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

E. As of September 30, 2019, the Company's authorized capital was \$1,500,000 (including \$30,000 reserved for employee stock options), and the paid-in capital was \$811,876 (81,188 thousand shares) with par value of \$10 (in dollars) per share.

(12) Capital reserve

<u>For the nine-month period ended September 30, 2019</u>	<u>Share premium</u>	<u>Others</u>	<u>Total</u>
Balances at beginning and end of period	\$ 440,553	\$ 114	\$ 440,667
<u>For the nine-month period ended September 30, 2019</u>	<u>Share premium</u>	<u>Others</u>	<u>Total</u>
At January 1	\$ 462,937	\$ 114	\$ 463,051
Retirement of treasury shares	( 22,384)	-	( 22,384)
At September 30	\$ 440,553	\$ 114	\$ 440,667

- A. Pursuant to the R.O.C. Company Act, capital reserve 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 reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.
- B. Information relating to capital reserve offset by the retirement of treasury shares is provided in Note 6(11), 'Share capital – common stock'.

(13) Retained earnings

- A. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 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, 2018, pursuant to the regulations for the deduction amount to stockholders' equity from other equity items, the Company has set aside special reserve of \$17,047, which cannot be distributed to shareholders.

- D. The Company recognized cash dividends amounting to \$59,045 (\$1.0 (in dollars) per share) and stock dividends amounting to \$147,614 (\$2.5 (in dollars) per share) distributed to owners for the year ended December 31, 2018. On June 12, 2019, the Company's stockholders adopted a resolution to distribute cash dividends and stock dividends for 2018 of \$73,807 (\$1.0 (in dollars) per share) and \$73,807 (\$1.0 (in dollars) per share), respectively.
- E. Information relating to retained earnings offset by the retirement of treasury shares is provided in Note 6(11), 'Share capital – common stock'.

(14) Operating revenue

	For the three-month periods ended September 30,	
	2019	2018
Revenue from contracts with customers	\$ 321,874	\$ 584,667
	For the nine-month periods ended September 30,	
	2019	2018
Revenue from contracts with customers	\$ 1,000,252	\$ 1,674,386

- A. The Group derives revenue from the transfer of goods at a point in time in segments. Please refer to Note 14, 'Segment information' for details.
- B. The Group has recognized revenue-related contract liabilities amounting to \$2,433, \$1,828 and \$3,810, as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively.
- C. The Group has recognized contract liabilities amounting to \$1,828 and \$3,422 at the beginning of 2019 and 2018, respectively. Revenue recognized that were included in the contract liability balance at the beginning of 2019 and 2018 for the three-month and nine-month periods ended September 30, 2019 and 2018 were \$ – , \$13, \$188 and \$1,966, respectively.

(15) Other income

		For the three-month periods ended September 30,	
		2019	2018
Interest income:			
Interest income from bank deposits	\$	556	\$ 1,403
Other interest income		4	-
Other income:			
Other income – others		1,773	634
	\$	<u>2,333</u>	<u>\$ 2,037</u>
		For the nine-month periods ended September 30,	
		2019	2018
Interest income:			
Interest income from bank deposits	\$	2,905	\$ 3,776
Other interest income		10	-
Other income:			
Other income – others		6,957	2,141
	\$	<u>9,872</u>	<u>\$ 5,917</u>

(16) Other gains and losses

		For the three-month periods ended September 30,	
		2019	2018
Currency exchange loss	(\$	9,589)	(\$ 5,133)
Other losses	(	2)	( 5)
	(\$	<u>9,591</u>	<u>(\$ 5,138)</u>
		For the nine-month periods ended September 30,	
		2019	2018
Currency exchange (loss) gain	(\$	342)	\$ 15,817
Other losses	(	2)	( 12)
	(\$	<u>344</u>	<u>\$ 15,805</u>

(17) Finance costs

	For the three-month periods ended September 30,	
	2019	2018
Interest expense:		
Interest expense on bank borrowings	\$ 3,777	\$ 4,225
Interest expense on lease liabilities	599	-
	<u>\$ 4,376</u>	<u>\$ 4,225</u>
	For the nine-month periods ended September 30,	
	2019	2018
Interest expense:		
Interest expense on bank borrowings	\$ 11,053	\$ 12,019
Interest expense on lease liabilities	1,814	-
	<u>\$ 12,867</u>	<u>\$ 12,019</u>

(18) Expenses by nature

	For the three-month period ended September 30, 2019		
	Operating cost	Operating expense	Total
Employee benefit expense	\$ 50,799	\$ 45,038	\$ 95,837
Depreciation	16,220	3,414	19,634
Amortization	-	710	710
	<u>\$ 67,019</u>	<u>\$ 49,162</u>	<u>\$ 116,181</u>
	For the three-month period ended September 30, 2018		
	Operating cost	Operating expense	Total
Employee benefit expense	\$ 89,372	\$ 63,130	\$ 152,502
Depreciation	16,478	3,485	19,963
Amortization	-	675	675
	<u>\$ 105,850</u>	<u>\$ 67,290</u>	<u>\$ 173,140</u>
	For the nine-month period ended September 30, 2019		
	Operating cost	Operating expense	Total
Employee benefit expense	\$ 170,221	\$ 145,616	\$ 315,837
Depreciation	52,994	11,205	64,199
Amortization	-	2,283	2,283
	<u>\$ 223,215</u>	<u>\$ 159,104</u>	<u>\$ 382,319</u>
	For the nine-month period ended September 30, 2018		
	Operating cost	Operating expense	Total
Employee benefit expense	\$ 236,045	\$ 195,952	\$ 431,997
Depreciation	49,941	10,813	60,754
Amortization	-	1,925	1,925
	<u>\$ 285,986</u>	<u>\$ 208,690</u>	<u>\$ 494,676</u>

(19) Employee benefit expense

For the three-month period ended September 30, 2019			
	Operating cost	Operating expense	Total
Wages and salaries	\$ 41,208	\$ 38,944	\$ 80,152
Labor and health insurance expense	5,157	2,939	8,096
Pension costs	2,166	1,573	3,739
Other personnel expenses	2,268	1,582	3,850
	<u>\$ 50,799</u>	<u>\$ 45,038</u>	<u>\$ 95,837</u>
For the three-month period ended September 30, 2018			
	Operating cost	Operating expense	Total
Wages and salaries	\$ 77,872	\$ 57,350	\$ 135,222
Labor and health insurance expense	6,285	2,588	8,873
Pension costs	2,902	1,517	4,419
Other personnel expenses	2,313	1,675	3,988
	<u>\$ 89,372</u>	<u>\$ 63,130</u>	<u>\$ 152,502</u>
For the nine-month period ended September 30, 2019			
	Operating cost	Operating expense	Total
Wages and salaries	\$ 138,480	\$ 128,134	\$ 266,614
Labor and health insurance expense	17,897	8,019	25,916
Pension costs	7,436	4,804	12,240
Other personnel expenses	6,408	4,659	11,067
	<u>\$ 170,221</u>	<u>\$ 145,616</u>	<u>\$ 315,837</u>
For the nine-month period ended September 30, 2018			
	Operating cost	Operating expense	Total
Wages and salaries	\$ 204,182	\$ 177,643	\$ 381,825
Labor and health insurance expense	17,478	8,794	26,272
Pension costs	8,007	4,763	12,770
Other personnel expenses	6,378	4,752	11,130
	<u>\$ 236,045</u>	<u>\$ 195,952</u>	<u>\$ 431,997</u>

- A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be 3% to 8% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration. On May 28, 2018, the Company's stockholders adopted a resolution to amend the Articles of Incorporation of the Company. The ratio shall be 3% to 15% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.
- B. For the three-month and nine-month periods ended September 30, 2019 and 2018, the Company's employees' compensation was accrued at \$7,133, \$21,787, \$24,800 and \$56,561, respectively; while directors' and supervisors' remuneration was accrued at \$1,783, \$5,447, \$6,200 and \$16,235, 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 2018 as resolved by the Board of Directors were \$48,000 and \$13,013, respectively, and the employees' compensation will be distributed in the form of cash. Employees' compensation and directors' and supervisors' remuneration for 2018 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2018 financial statements. The employees' compensation and directors' and supervisors' remuneration for 2018 have not yet been distributed.

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

(20) Income tax

A. Components of income tax expense:

(a) Components of income tax expense:

	<u>For the three-month periods ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Current income tax:		
Income tax incurred in current period	\$ 8,149	\$ 25,845
Deferred income tax:		
Origination and reversal of temporary differences	2,015	5,848
Income tax expense	<u>\$ 10,164</u>	<u>\$ 31,693</u>
	<u>For the nine-month periods ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Current income tax:		
Income tax incurred in current period	\$ 44,271	\$ 90,084
Tax on unappropriated earnings	13,586	19
Prior year income tax underestimation	1,129	4,672
Total current income tax	<u>58,986</u>	<u>94,775</u>
Deferred income tax:		
Origination and reversal of temporary differences	( 7,480)	13,561
Impact of change in tax rate	-	( 1,204)
Total deferred tax	<u>( 7,480)</u>	<u>12,357</u>
Income tax expense	<u>\$ 51,506</u>	<u>\$ 107,132</u>

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

	For the three-month periods ended September 30,	
	2019	2018
Impact of change in tax rate	\$ -	\$ -
	For the nine-month periods ended September 30,	
	2019	2018
Impact of change in tax rate	\$ -	(\$ 182)

B. The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority. There were no disputes existing between the Company and the Authority as of November 6, 2019.

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 Company has assessed the impact of the change in income tax rate and reflected in current profit or loss or other comprehensive income for the origination and reversal of temporary differences.

(21) Earnings per share ("EPS")

	For the three-month period ended September 30, 2019		
	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	\$ 42,085	81,188	\$ 0.52
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 42,085	81,188	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	288	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 42,085	81,476	\$ 0.52

For the three-month period ended September 30, 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	\$ 125,499	81,188	\$ 1.55
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 125,499	81,188	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	576	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 125,499	81,764	\$ 1.53
For the nine-month period ended September 30, 2019			
	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	\$ 131,090	81,188	\$ 1.61
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 131,090	81,188	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	424	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 131,090	81,612	\$ 1.61

For the nine-month period ended September 30, 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	\$ 377,508	81,188	\$ 4.65
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 377,508	81,188	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	380	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 377,508	81,568	\$ 4.63

The abovementioned weighted average number of ordinary shares outstanding has been adjusted retrospectively according to the proportional increase in capital as a result of stock dividends distribution for the year ended December 31, 2018.

(22) Operating leases

Prior to 2019

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 Tainan Science Park. The lease agreement is renewable at the end of the lease term. The Company pays monthly rent. If the announced land values, state-owned land rent rate, or other factors change, the monthly rent paid by the 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 \$5,424 was recognized in profit or loss for the three-month and nine-month period ended September 30, 2018. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018	September 30, 2018
Within one year	\$ 7,594	\$ 7,594
Later than one year but not exceeding five years	22,838	24,722
Exceeding five years	603	617
	<u>\$ 31,035</u>	<u>\$ 32,933</u>

(23) Supplemental cash flow information

A. Investing activities with partial cash payments

	For the nine-month periods ended September 30,	
	2019	2018
Purchase of property, plant and equipment	\$ 138,842	\$ 45,062
Add: Opening balance of notes payable	3,633	4,858
Opening balance of payable for equipment	14,821	5,236
Less: Ending balance of notes payable	( 15,780)	( 4,554)
Ending balance of payable for equipment	( 3,756)	( 9,192)
Cash paid during the period	<u>\$ 137,760</u>	<u>\$ 41,410</u>

B. Investing and financing activities with no cash flow effects

	For the nine-month periods ended September 30,	
	2019	2018
(a) Transferred from prepayments for equipment	<u>\$ 22,451</u>	<u>\$ 42,259</u>
	For the nine-month periods ended September 30,	
	2019	2018
(b) Cash dividends appropriation	\$ 73,807	\$ 59,045
Less: Ending balance of cash dividends payable (listed as 'other payables')	( 73,807)	-
Cash outflows for cash dividends appropriation	<u>\$ -</u>	<u>\$ 59,045</u>

(24) Changes in liabilities from financing activities

	Short-term borrowings	Lease liability	Long-term borrowings	Liabilities from financing activities-gross
At January 1, 2019	\$ 210,407	\$ -	\$ 561,184	\$ 771,591
Effects of retrospective application	<u>-</u>	<u>136,168</u>	<u>-</u>	<u>136,168</u>
Balance at January 1 after adjustments	210,407	136,168	561,184	907,759
Changes in cash flow from financing activities	73,214	( 3,610)	46,303	115,907
Impact of changes in foreign exchange rate	( 2,141)	-	900	( 1,241)
At September 30, 2019	<u>\$ 281,480</u>	<u>\$ 132,558</u>	<u>\$ 608,387</u>	<u>\$ 1,022,425</u>

	Short-term borrowings	Long-term borrowings	Liabilities from financing activities-gross
At January 1, 2018	\$ 214,755	\$ 500,928	\$ 715,683
Changes in cash flow from financing activities	46,731	95,066	141,797
Impact of changes in foreign exchange rate	1,891	2,246	4,137
At September 30, 2018	<u>\$ 263,377</u>	<u>\$ 598,240</u>	<u>\$ 861,617</u>

## 7. RELATED PARTY TRANSACTIONS

### (1) Significant transactions and balances with related parties

None.

### (2) Key management compensation

	For the three-month periods ended September 30,	
	2019	2018
Salaries and other short-term employee benefits	<u>\$ 9,073</u>	<u>\$ 15,153</u>
	For the nine-month periods ended September 30,	
	2019	2018
Salaries and other short-term employee benefits	<u>\$ 25,436</u>	<u>\$ 42,445</u>

## 8. PLEDGED ASSETS

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

Asset pledged	Book value			Purpose of collateral
	September 30, 2019	December 31, 2018	September 30, 2018	
Land (Note)	\$ 371,639	\$ 371,065	\$ 370,730	Guarantee for long — term borrowings
Buildings and structures-net (Note)	424,207	427,078	429,059	Guarantee for long — term borrowings
	<u>\$ 795,846</u>	<u>\$ 798,143</u>	<u>\$ 799,789</u>	

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

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

- (1) As of September 30, 2019, December 31, 2018 and September 30, 2018, the endorsements and guarantees provided by the Company to the subsidiary, cpc Europa GmbH, amounted to \$152,775, \$200,640 and \$159,660, respectively, and the actual amount drawn down was \$45,833, \$12,320 and \$51,801, respectively; the endorsements and guarantees provided by the Company to the subsidiary, CSM Maschinen GmbH, amounted to \$50,925, \$123,200 and \$70,960, respectively, and the actual amount drawn down was \$35,647, \$32,014 and \$ —, respectively; the endorsements and guarantees

provided by the Company to the subsidiary, CHIEFTEK PRECISION INTERNATIONAL LLC, amounted to \$62,080, \$92,145 and \$91,575, respectively, and the actual amount drawn down was \$ —, \$46,073 and \$91,575, respectively.

- (2) As of September 30, 2019, December 31, 2018 and September 30, 2018, the Group's remaining balance due for construction in progress and prepayments for equipment were \$747,078, \$168,110 and \$170,475, respectively.
- (3) On July 5, 2017, the Company entered into a mid-term secured syndicated loan contract for a credit line of \$1,200,000 with 9 financial institutions including E. Sun Commercial Bank, Ltd.. The credit term is 5 years. Under the terms of the syndicated loan, the Company agrees that:
- A. Under the terms of the syndicated loan, the financial ratios stated in the Company's semi-annual reviewed financial statements and annual audited financial statements shall comply with the following financial ratios and will be assessed semi-annually:
- (a) Current ratio (current assets/current liabilities): At least 100%.
- (b) Liability ratio (total liabilities/net equity): Less than 150%.
- (c) Tangible net value (shareholders' equity less intangible assets): At least \$1,000,000.
- B. If the Company violates the above financial covenants, the Company should improve within nine months after the fiscal year or half fiscal year. It will not be considered to default, if the audited or reviewed financial rates comply with the covenants after the improvement period. During the improvement period, the credit line which has not been withdrawn will be frozen, until the financial covenants are met. In addition, for withdrawn credit, its financing rate shall be increased by an additional 0.125% per annum from the date after the notification by the management bank to the date after the completion of improvement.

As of September 30, 2019, the Company has not violated any of the above covenants.

- (4) For the details of operating lease agreements, please refer to Note 6(5), 'Leasing arrangements—lessee' and Note 6(22), 'Operating leases'.

#### 10. SIGNIFICANT DISASTER LOSS

None.

#### 11. SIGNIFICANT SUBSEQUENT EVENTS

None

#### 12. OTHERS

##### (1) Capital management

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

##### (2) Financial instruments

A. Details of the Group's financial instruments by category are provided in Note 6.

## B. Financial risk management policies

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

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

### (a) Market risk

#### I. Foreign exchange risk

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



September 30, 2019			
	Foreign currency		Book value
	amount (in thousands)	Exchange rate	(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 7,951	31.04	\$ 246,809
JPY:NTD	39,077	0.2878	11,246
EUR:NTD	3,055	33.95	103,715
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	6	31.04	193
JPY:NTD	2,662	0.2878	766
EUR:NTD	516	33.95	17,502

December 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	\$ 11,666	30.72	\$ 358,315
JPY:NTD	46,827	0.2782	13,027
EUR:NTD	1,400	35.20	49,287
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	98	30.72	3,013
JPY:NTD	5,316	0.2782	1,479
EUR:NTD	1,071	35.20	37,713

September 30, 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	\$ 11,744	30.62	\$ 359,628
JPY:NTD	121,155	0.2692	32,615
EUR:NTD	1,215	35.48	43,111
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	270	30.53	8,228
JPY:NTD	7,188	0.2692	1,935
EUR:NTD	1,542	35.48	54,697

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 nine-month periods ended September 30, 2019 and 2018 would increase/decrease by \$2,746 and \$2,955, respectively.

- (vi) The total exchange gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three-month and nine-month periods ended September 30, 2019 and 2018 amounted to (\$9,589), (\$5,133), (\$342) and \$15,817, 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 nine-month periods ended September 30, 2019 and 2018, 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 nine-month periods ended September 30, 2019 and 2018 would have decreased/increased by \$884 and \$962, 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 analyzing 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 utilization of credit limits is regularly monitored.
- III. The Company manages their credit risk, if the contract payments are past due over 30 days based on the terms, there has been a significant increase in credit risk on that

instrument since initial recognition and the impairment is assessed when the contract payments are past due over certain days.

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

	For the nine-month periods ended September 30,	
	2019	2018
	Accounts receivable	Accounts receivable
At January 1	\$ 15,885	\$ 10,804
Provision for impairment	6,915	5,397
Effect of foreign exchange	( 699)	( 374)
At September 30	<u>\$ 22,101</u>	<u>\$ 15,827</u>

(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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Floating rate:			
Expiring within one year	\$ 1,414,300	\$ 1,316,080	\$ 1,266,899
Expiring beyond one year	<u>890,000</u>	<u>942,800</u>	<u>943,220</u>
	<u>\$ 2,304,300</u>	<u>\$ 2,258,880</u>	<u>\$ 2,210,119</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.

September 30, 2019	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	\$ 282,692	\$ -	\$ -	\$ -
Notes payable	75,526	-	-	-
Accounts payable	31,713	-	-	-
Other payables	203,065	-	-	-
Lease liability	7,232	7,232	21,697	124,757
Long-term borrowings (including current portion)	99,444	117,355	428,224	-
December 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	\$ 212,427	\$ -	\$ -	\$ -
Notes payable	154,647	-	-	-
Accounts payable	68,940	-	-	-
Other payables	196,074	-	-	-
Long-term borrowings (including current portion)	68,861	85,150	375,126	75,750
September 30, 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	\$ 266,321	\$ -	\$ -	\$ -
Notes payable	220,483	-	-	-
Accounts payable	143,148	-	-	-
Other payables	218,238	-	-	-
Long-term borrowings (including current portion)	71,871	88,394	418,623	76,730

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 September 30, 2019, December 31, 2018 and September 30, 2018, the Group had no fair value financial instruments.

B. Financial instruments not measured at fair value

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

### 13. SUPPLEMENTARY DISCLOSURES

(According to the regulatory requirement, only information for the nine-month period ended September 30, 2019 is disclosed.)

#### (1) Significant transactions information

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

#### (2) Information on investees

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

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

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

### 14. SEGMENT INFORMATION

#### (1) General information

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

#### (2) 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 nine-month period ended September 30, 2019						
	CHIEFTEK PRECISION	Chieftek (Kunshan)	cpc Europa	cpc USA	Others	Total
Segment revenue	\$ 805,324	\$ 217,631	\$ 249,342	\$ 133,226	\$ 8,315	\$ 1,413,838
Inter-segment revenue	401,592	-	3,679	-	8,315	413,586
Revenue from external customers	403,732	217,631	245,663	133,226	-	1,000,252
Interest income	1,069	1,309	-	317	220	2,915
Depreciation and amortization	60,382	346	2,064	1,178	2,512	66,482
Capital expenditure	181,314	170	108	962	4,037	186,591
Interest expense	9,227	-	276	-	3,364	12,867
Segment pre-tax income	175,779	14,616	11,408	12,716	( 3,742)	210,777
Segment assets	2,527,140	351,171	141,926	129,640	219,723	3,369,600
Segment liabilities	1,191,550	3,826	61,086	826	122,879	1,380,167

For the nine-month period ended September 30, 2018						
	CHIEFTEK PRECISION	Chieftek (Kunshan)	cpc Europa	cpc USA	Others	Total
Segment revenue	\$ 1,466,958	\$ 503,121	\$ 254,486	\$ 130,686	\$ 11,389	\$ 2,366,640
Inter-segment revenue	680,841	-	24	-	11,389	692,254
Revenue from external customers	786,117	503,121	254,462	130,686	-	1,674,386
Interest income	1,900	121	-	58	1,697	3,776
Depreciation and amortization	57,121	632	1,713	31	3,182	62,679
Capital expenditure	94,198	-	2,025	1,445	-	97,668
Interest expense	6,930	-	509	-	4,580	12,019
Segment pre-tax income	466,319	74,391	8,759	11,737	( 3,336)	557,870
Segment assets	2,278,370	564,757	145,267	92,556	299,253	3,380,203
Segment liabilities	1,274,221	9,046	71,017	1,005	185,402	1,540,691

(3) Reconciliation for segment income

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

	For the nine-month periods ended September 30,	
	2019	2018
Reportable segments pre-tax income	\$ 214,519	\$ 561,206
Other segments pre-tax (loss) gain	( 3,742)	( 3,336)
Inter segments (gain) loss	( 28,181)	( 74,682)
Profit before income tax	<u>\$ 182,596</u>	<u>\$ 483,188</u>

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Loans to others

For the nine-month period ended September 30, 2019

Table 1

Expressed in thousands of NTD

No.			General ledger	Is a related	Maximum outstanding balance during the nine-month period ended	Balance at	Actual amount	Interest	Nature of	Amount of	Reason for	Allowance	Collateral		Limit on loans	Ceiling on	
(Note 1)	Creditor	Borrower	account	party	September 30, 2019	September 30, 2019	drawn down	rate	loan	with the borrower	short-term financing	for doubtful accounts	Item	Value	(Note 2)	(Note 2)	Footnote
0	CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	Other receivables	Y	\$ 50,560	\$ 49,664	\$ 47,237	2.0%	Short-term financing	\$ -	Operational use	\$ -	—	\$ -	\$ 795,773	\$ 795,773	—

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

(1) Parent company is '0'.

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

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

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



CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others

For the nine-month period ended September 30, 2019

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 September 30, 2019	Outstanding endorsement/ guarantee amount at September 30, 2019	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
		Company name	Relationship with the endorser/ guarantor (Note 2)											
0	CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	1	\$ 994,717	\$ 201,324	\$ 152,775	\$ 45,833	\$ -	8%	\$ 994,717	Y	N	N	—
0	CHIEFTEK PRECISION CO., LTD.	CSM Maschinen GmbH	1	994,717	123,620	50,925	35,647	-	3%	994,717	Y	N	N	—
0	CHIEFTEK PRECISION CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC	1	994,717	153,850	62,080	-	-	3%	994,717	Y	N	N	—

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

(1) Parent company is '0'.

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

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

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

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

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

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

For the nine-month period ended September 30, 2019

Table 3

Expressed in thousands of NTD

							Description and reasons for difference in transaction terms compared to third party transactions					Notes/accounts receivable (payable)	
			Transaction								Percentage of total notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance				Footnote
CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	Subsidiary	(Sales)	(\$ 143,543)	(18%)	(Note 1)	\$ -	(Note 2)	\$ 91,901		21%		—
CHIEFTEK PRECISION CO., LTD.	Chieftek Machinery (Kunshan) Co., Ltd.	Subsidiary	(Sales)	( 182,886)	(23%)	(Note 1)	-	(Note 2)	123,251		28%		—
cpc Europa GmbH	CHIEFTEK PRECISION CO., LTD.	The Company	Purchases	143,543	100%	(Note 1)	-	(Note 3)	( 91,901)		(97%)		—
Chieftek Machinery (Kunshan) Co., Ltd.	CHIEFTEK PRECISION CO., LTD.	The Company	Purchases	182,886	100%	(Note 1)	-	(Note 3)	( 123,251)		(100%)		—

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

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

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

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

September 30, 2019

Table 4

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at September 30, 2019	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
CHIEFTEK PRECISION CO., LTD.	Chieftek Machinery (Kunshan) Co., Ltd.	Subsidiary	\$ 123,251	1.75	\$ -	-	\$ -	\$ -

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES  
Significant inter-company transactions during the reporting period  
For the nine-month period ended September 30, 2019

Table 5

Expressed in thousands of NTD

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	CHIEFTEK PRECISION CO., LTD.	cpc Europa GmbH	1	Sales revenue	(\$ 143,543)	180 days after monthly-closing, T/T	(14%)
				Accounts receivable	91,901	—	3%
				Commission expense	3,262	—	—
				Accrued expenses	( 3,262)	—	—
				Endorsements and guarantees	152,775	—	5%
		CSM Maschinen GmbH	1	Endorsements and guarantees	50,925	—	2%
		CHIEFTEK PRECISION USA CO., LTD.	1	Sales revenue	( 75,163)	180 days after monthly-closing, T/T	(8%)
				Accounts receivable	58,846	—	2%
		Chieftek Machinery (Kunshan) Co., Ltd.	1	Sales revenue	( 182,886)	180 days after monthly-closing, T/T	(18%)
				Accounts receivable	123,251	—	4%
		CHIEFTEK PRECISION INTERNATIONAL LLC.	1	Other receivables	47,869	—	1%
				Endorsements and guarantees	62,080	—	2%
1	CHIEFTEK PRECISION USA CO., LTD.	CHIEFTEK PRECISION INTERNATIONAL LLC.	3	Rent payment	8,315	—	1%
				Refundable deposits	1,552	—	—
2	CSM Maschinen GmbH	cpc Europa GmbH	3	Other income	( 6,362)	—	(1%)
3	Chieftek Precision (Hong Kong) Co., Limited	Chieftek Machinery (Kunshan) Co., Ltd.	3	Dividend Income	( 58,038)	—	(6%)
				Dividends receivable	58,000	—	2%

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

(1) Parent company is '0'.

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

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

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

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

For the nine-month period ended September 30, 2019

Table 6

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2019			Net profit (loss) of the investee for the nine-month period ended September 30, 2019	Investment income (loss) recognized by the Company for the nine-month period ended September 30, 2019	Footnote
				Balance as at September 30, 2019	Balance as at December 31, 2018	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	\$ 297,083	\$ 21,906	\$ 21,906	Subsidiary
	cpc Europa GmbH	Germany	Sale of high precision linear motion components and rendering after-sale services	98,695	98,695	-	100	( 9,067)	11,408	11,408	Subsidiary
	CSM Maschinen GmbH	Germany	Research, manufacture and sale of machineries	726	726	-	100	( 13,196)	( 4,316)	( 4,316)	Subsidiary
	CHIEFTEK PRECISION INTERNATIONAL LLC	United States of America	Lease of real estate property	61,551	61,551	-	100	60,357	( 815)	( 815)	Subsidiary
CHIEFTEK PRECISION HOLDING CO., LTD.	Chieftek Precision (Hong Kong) Co., Limited	Hong Kong	Professional investment	158,304	158,304	5,100,000	100	261,723	9,134	-	Subsidiary (Note 1)
	CHIEFTEK PRECISION USA CO., LTD.	United States of America	Sale of high precision linear motion components and rendering after-sale services	51,526	51,526	1,660,000	100	89,984	12,758	-	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 1:31.04) as at September 30, 2019.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES  
Information on investments in Mainland China - Basic information  
For the nine-month period ended September 30, 2019

Table 7

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, 2019	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the nine-month period ended September 30, 2019		Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2019	Net income of investee for the nine-month period ended September 30, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the nine-month period ended September 30, 2019 (Note 2)	Book value of investments in Mainland China as of September 30, 2019	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2019	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	\$ 158,304	Note 1	\$ 158,304	\$ -	\$ -	\$ 158,304	\$ 9,128	100%	\$ 9,128	\$ 203,715	\$ 65,053	—

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2019	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.	\$ 158,304	\$ 158,304	\$	1,193,660

(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 nine-month period ended September 30, 2019.

(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 1:31.04) as at September 30, 2019.

CHIEFTEK PRECISION CO., LTD. AND SUBSIDIARIES

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

For the nine-month period ended September 30, 2019

Table 8

Expressed in thousands of NTD

Investee in Mainland China	Sales (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing		Interest during the nine-month period ended September 30,		Others
	Amount	%	Amount	%	Balance at September 30, 2019	%	Balance at September 30, 2019	Purpose	Maximum balance during the nine-month period ended September 30, 2019	Balance at September 30, 2019	Interest rate	2019	
Chieftek Machinery (Kunshan) Co., Ltd	\$ 182,886	23%	\$ -	-	\$ 123,251	28%	\$ -	-	\$ -	\$ -	-	\$ -	\$ -