

(English Translation of Financial Statements and Report Originally Issued in Chinese)

PRIMAX ELECTRONICS LTD.

FINANCIAL STATEMENTS

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

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Independent Auditors' Report

To the board of directors of PRIMAX ELECTRONICS LTD.:

Opinion

We have audited the financial statements of PRIMAX ELECTRONICS LTD. (“the Company”), which comprise the balance sheets as of December 31, 2017 and 2016, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained, inclusive of the report from other auditors, is sufficient and appropriate to provide a basis of our opinion.

Other Matter

We did not audit the financial statements of certain investees accounted for using equity method. Those financial statements were audited by other auditors, and our opinion, insofar as it relates to the amounts included for those investments, is based solely on the reports of the other auditors. The Company's investment in these companies constituting 6% and 4% of the total assets, as of December 31, 2017 and 2016, respectively. The related share of profit of associates accounted for using the equity method amounted constituting 17% and 11% of the profit before tax, for the years ended December 31, 2017 and 2016, respectively.

Key Audit Matters

Key audit matters are those matters that, in our professional judgments, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In our professional judgments, key audit matters to be communicated in the independent auditors' report are listed below:

1. Evaluation of inventories

Please refer to Note 4(g) “Inventories”, Note 5 “Significant accounting assumptions and judgments, and major sources of estimation uncertainty”, and Note 6(e) “Inventories” of the financial statements.

Description of key audit matter:

Inventories of the Company are measured at the lower of cost and net realizable value. Due to the fast high-tech revolution, as well as the advancement of production technologies that may lead the dramatic change in customers’ demand, the net realizable value of inventories requires subjective judgments of the management, which is the major source of estimation uncertainty. Therefore, the evaluation of inventories is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the policies of evaluating the inventories of the Company; inspecting whether existing inventory policies are applied; examine the accuracy of the aging of inventories by sampling and analyze the changes of the aging of inventories; sampling the inventories sold in subsequent period to assess whether the allowance for inventories are reasonable.

2. Investments accounted for using equity method

Please refer to Note 4(h) “Investments in subsidiaries”, and Note 5 “Significant accounting assumptions and judgments, and major sources of estimation uncertainty” of the financial statements.

Description of key audit matter:

The Company’s investments accounted for using equity method are all subsidiaries of the Company. Based on the scope and nature of their businesses which may influence the outcome of their operations, the net realizable value of inventories in certain subsidiaries required the managements to make subjective judgments, which is the major source of estimation uncertainty. Therefore, the valuation of inventories of the investments accounted for using equity method is one of the key audit matters for our audit.

In 2014, the Company acquired Tymphany Worldwide Enterprises Ltd. through its subsidiary, Diamond (Cayman) Holdings Ltd., and recognized its goodwill, technologies and customer relations as intangible assets. Due to the rapid industrial transformation, and the assessment of impairment contains estimation uncertainty. Therefore, the assessment of impairment of intangible assets, recognized from the business combination by the subsidiary accounted for using equity method, is one of the key audit matters for our audit.

How the matter was addressed in our audit:

For the principal audit procedures on the valuation of inventories of the investments accounted for using equity method, please refer to key audit matters 1 “Evaluation of inventories”. In addition, the consolidated financial statements of Tymphany Worldwide Enterprises Ltd. and its subsidiaries were audited by other auditors; therefore, we issued audit instructions to their auditors as guidelines to communicate the key audit matters with them and obtained the feedbacks required in the audit instructions.

The principal audit procedures on the assessment of impairment of intangible assets of the investments accounted for using equity method included: evaluating the identification of cash generating units and any indication of impairment relating to intangible assets made by management; acquiring intangible evaluation reports from external expert engaged by the Company; appointing our internal expert to review the evaluation reports and assessing the reasonability of measurements, parameters, and assumptions; evaluating the operation outcomes and comparing them to the past forecasts; making sensitivity analysis for evaluation of impairment losses and evaluating the completeness of disclosure in the financial reports.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investments in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion of the Company.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are MEI-PIN WU and YUNG-HUA HUANG.

KPMG

Taipei, Taiwan (Republic of China)

March 13, 2018

Notes to Readers

The accompanying financial statements are intended only to present the statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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(English Translation of Financial Statements and Report Originally Issued in Chinese)
PRIMAX ELECTRONICS LTD.

Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

Assets		December 31, 2017		December 31, 2016		Liabilities and Equity		December 31, 2017		December 31, 2016	
		Amount	%	Amount	%			Amount	%	Amount	%
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (note 6(a))	\$ 3,979,290	17	4,751,198	18	2170	Notes and accounts payable	28,195	-	783,593	3
1110	Current financial assets at fair value through profit or loss (note 6(b))	93,095	-	141,317	1	2180	Accounts payable to related parties (note 7)	8,339,013	35	9,352,640	35
1170	Accounts receivable, net (note 6(d))	6,256,390	26	7,339,708	27	2120	Current financial liabilities at fair value through profit or loss (note 6(b))	103,107	-	150,430	1
1180	Accounts receivable from related parties, net (notes 6(d) and 7)	29,181	-	513,446	2	2200	Other payables (note 7)	1,828,968	8	2,331,760	8
1200	Other receivables, net (notes 6(d) and 7)	184,718	1	1,050,923	4	2201	Salary payable (note 6(p))	206,129	1	359,279	1
1310	Inventories (note 6(e))	2,128,441	9	2,293,419	8	2300	Other current liabilities	248,553	1	219,856	1
1470	Other current assets	27,641	-	33,532	-	2320	Long-term borrowings, current portion (note 6(k))	135,555	-	382,222	1
		<u>12,698,756</u>	<u>53</u>	<u>16,123,543</u>	<u>60</u>			<u>10,889,520</u>	<u>45</u>	<u>13,579,780</u>	<u>50</u>
Non-current assets:						Non-Current liabilities:					
1523	Available-for-sale financial assets-non-current (note 6(c))	397,252	2	873,921	3	2622	Long-term accounts payable to related parties (note 7)	423,944	2	781,263	3
1550	Investments accounted for using equity method (note 6(f))	10,287,105	43	9,317,894	35	2540	Long-term borrowings (note 6(k))	83,333	-	218,889	1
1600	Property, plant and equipment (note 6(g))	69,036	-	68,785	-	2630	Long-term deferred revenue (note 6(g))	885,580	4	1,159,073	4
1760	Investment property (note 6(h))	251,589	1	255,149	1	2600	Other non-current liabilities (notes 6(m) and (n))	461,235	2	345,574	1
1780	Intangible assets (note 6(i))	18,351	-	22,966	-			<u>1,854,092</u>	<u>8</u>	<u>2,504,799</u>	<u>9</u>
1840	Deferred tax assets (note 6(n))	338,330	1	348,269	1		Total liabilities	<u>12,743,612</u>	<u>53</u>	<u>16,084,579</u>	<u>59</u>
1990	Other non-current assets	68,465	-	73,776	-	3110	Ordinary shares (note 6(o))	4,456,883	18	4,421,343	16
		<u>11,430,128</u>	<u>47</u>	<u>10,960,760</u>	<u>40</u>	3140	Capital collected in advance (note 6(o))	3,085	-	3,024	-
						3200	Capital surplus (notes 6(o) and 6(p))	1,232,490	5	791,466	3
						3310	Legal reserve (note 6(o))	982,041	4	788,634	3
						3320	Special reserve (note 6(o))	97,300	-	97,300	-
						3350	Unappropriated retained earnings (note 6(o))	5,008,344	21	4,779,419	18
						3400	Other equity interest	(394,871)	(1)	118,538	1
							Total equity	<u>11,385,272</u>	<u>47</u>	<u>10,999,724</u>	<u>41</u>
Total assets		<u>\$ 24,128,884</u>	<u>100</u>	<u>27,084,303</u>	<u>100</u>	Total liabilities and equity		<u>\$ 24,128,884</u>	<u>100</u>	<u>27,084,303</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
PRIMAX ELECTRONICS LTD.

Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

		<u>2017</u>		<u>2016</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Operating revenue (notes 6(r) and 7)	\$ 35,023,563	100	45,739,783	100
5000	Operating costs (notes 6(e), (m), (s), 7 and 12)	<u>32,785,654</u>	<u>94</u>	<u>42,106,442</u>	<u>92</u>
	Gross profit	<u>2,237,909</u>	<u>6</u>	<u>3,633,341</u>	<u>8</u>
	Operating expenses (notes 6(m), (s), 7 and 12):				
6100	Selling expenses	605,515	2	670,475	2
6200	Administrative expenses	434,624	1	442,145	1
6300	Research and development expenses	<u>971,418</u>	<u>3</u>	<u>970,860</u>	<u>2</u>
	Total operating expenses	<u>2,011,557</u>	<u>6</u>	<u>2,083,480</u>	<u>5</u>
	Net operating income	<u>226,352</u>	<u>-</u>	<u>1,549,861</u>	<u>3</u>
	Non-operating income and expenses:				
7010	Other income (notes 6(t) and 7)	52,076	-	33,468	-
7020	Other gains and losses (notes 6(c), (u) and 7)	619,291	2	371,406	1
7070	Share of profit of subsidiaries accounted for using equity method	1,291,934	4	424,575	1
7050	Finance costs	<u>(10,820)</u>	<u>-</u>	<u>(31,786)</u>	<u>-</u>
	Total non-operating income and expenses	<u>1,952,481</u>	<u>6</u>	<u>797,663</u>	<u>2</u>
	Profit from operations before tax	2,178,833	6	2,347,524	5
7950	Less: Income tax expense (note 6 (n))	<u>121,418</u>	<u>-</u>	<u>413,454</u>	<u>1</u>
	Profit	<u>2,057,415</u>	<u>6</u>	<u>1,934,070</u>	<u>4</u>
8300	Other comprehensive income (loss):				
8310	Items that may not be reclassified subsequently to profit or loss:				
8311	Actuarial gains (losses) on defined benefit plans	<u>(5,909)</u>	<u>-</u>	<u>(1,340)</u>	<u>-</u>
		<u>(5,909)</u>	<u>-</u>	<u>(1,340)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign operation's financial statements	(112,643)	-	(610,956)	(1)
8362	Unrealized gains on available-for-sale financial assets (note 6(v))	<u>(331,977)</u>	<u>(1)</u>	<u>110,706</u>	<u>-</u>
	Components of other comprehensive income that will be reclassified to profit or loss	<u>(444,620)</u>	<u>(1)</u>	<u>(500,250)</u>	<u>(1)</u>
8300	Other comprehensive income after tax	<u>(450,529)</u>	<u>(1)</u>	<u>(501,590)</u>	<u>(1)</u>
	Comprehensive income	<u>\$ 1,606,886</u>	<u>5</u>	<u>1,432,480</u>	<u>3</u>
	Earnings per share (note 6(q))				
9710	Basic earnings per share (NT dollars)	<u>\$ 4.67</u>		<u>4.40</u>	
9810	Diluted earnings per share (NT dollars)	<u>\$ 4.63</u>		<u>4.36</u>	

See accompanying notes to financial statements.

(English Translation of and Report Originally Issued in Chinese)

PRIMAX ELECTRONICS LTD.**Statements of Changes in Equity****For the years ended December 31, 2017 and 2016****(Expressed in Thousands of New Taiwan Dollars)**

	Share capital		Retained earnings			Total other equity interest			Total equity	
	Ordinary shares	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets		Unearned employee compensation
Balance at January 1, 2016	\$ 4,411,877	15,174	777,368	611,322	97,300	3,951,934	351,045	294,760	(80,399)	10,430,381
Profit	-	-	-	-	-	1,934,070	-	-	-	1,934,070
Other comprehensive income	-	-	-	-	-	(1,340)	(610,956)	110,706	-	(501,590)
Comprehensive income	-	-	-	-	-	1,932,730	(610,956)	110,706	-	1,432,480
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	-	177,312	-	(177,312)	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	(927,933)	-	-	-	(927,933)
Retirement of restricted employee stock	(3,850)	-	(6,350)	-	-	-	-	-	10,200	-
Amortization expense of restricted employee stock	-	-	-	-	-	-	-	-	43,182	43,182
Compensation cost of share-based payment	-	-	2,517	-	-	-	-	-	-	2,517
Exercise of employee stock option	-	19,097	-	-	-	-	-	-	-	19,097
Issuance of ordinary shares for employee stock options and abandonment	13,316	(31,247)	17,931	-	-	-	-	-	-	-
Balance at December 31, 2016	4,421,343	3,024	791,466	788,634	97,300	4,779,419	(259,911)	405,466	(27,017)	10,999,724
Profit	-	-	-	-	-	2,057,415	-	-	-	2,057,415
Other comprehensive income	-	-	-	-	-	(5,909)	(112,643)	(331,977)	-	(450,529)
Comprehensive income	-	-	-	-	-	2,051,506	(112,643)	(331,977)	-	1,606,886
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	-	193,407	-	(193,407)	-	-	-	-
Cash dividends on ordinary share	-	-	-	-	-	(1,111,886)	-	-	-	(1,111,886)
Changes in shares of investment accounted for using equity method	-	-	299,514	-	-	(517,288)	-	-	-	(217,774)
Retirement of restricted employee stock	(940)	-	(2,881)	-	-	-	-	-	3,821	-
Amortization expense of restricted employee stock	-	-	-	-	-	-	-	-	79,420	79,420
Compensation cost of share-based payment	-	-	11,072	-	-	-	-	-	-	11,072
Exercise of employee stock option	-	15,892	-	-	-	-	-	-	-	15,892
Issuance of ordinary shares for employee stock option and abandonment	6,480	(15,831)	11,289	-	-	-	-	-	-	1,938
Issuance of restricted stock	30,000	-	122,030	-	-	-	-	-	(152,030)	-
Balance at December 31, 2017	\$ 4,456,883	3,085	1,232,490	982,041	97,300	5,008,344	(372,554)	73,489	(95,806)	11,385,272

Note : For the years ended December 31, 2017 and 2016, the Directors' remuneration amounted to 34,094 and 36,803, and the employee remuneration amounted to 68,182 and 74,000, respectively. The amounts were deducted from the statements of comprehensive income in 2017 and 2016, respectively.

See accompanying notes to financial statements.

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PRIMAX ELECTRONICS LTD.

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) operating activities:		
Profit before tax	\$ 2,178,833	2,347,524
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	43,534	41,765
Losses related to inventories	112,940	32,516
Amortization of long-term deferred revenue	(378,087)	(336,211)
Provision (reversal of provision) for bad debt expense and sales returns and discounts	37,431	43,345
Interest expense	6,804	31,383
Interest income	(20,293)	(11,599)
Compensation cost of share-based payment	79,420	43,182
Share of profit of subsidiaries accounted for using equity method	(1,291,934)	(424,575)
Gain on disposal of subsidiaries	-	(248,006)
Loss (gain) on disposal of property, plant and equipment	(186)	474
Gain on disposal of available-for-sale financial assets	(330,887)	(140,969)
Total adjustments to reconcile profit (loss)	<u>(1,741,258)</u>	<u>(968,695)</u>
Changes in operating assets and liabilities:		
Accounts receivable, including related parties	1,530,152	3,477,770
Other receivables	842,880	(1,036,774)
Inventories	52,038	225,636
Other current assets	5,891	(5,079)
Deferred tax assets	-	(54,750)
Other operating assets	48,222	(62,265)
Changes in operating assets	<u>2,479,183</u>	<u>2,544,538</u>
Notes and accounts payable, including related parties	(1,769,025)	(422,970)
Salary payable	(151,212)	(52,401)
Other payables	(120,371)	569,820
Other current liabilities	28,697	72,680
Other operating liabilities	(48,548)	132,613
Changes in operating liabilities	<u>(2,060,459)</u>	<u>299,742</u>
Total changes in operating assets and liabilities	<u>418,724</u>	<u>2,844,280</u>
Total adjustments	<u>(1,322,534)</u>	<u>1,875,585</u>
Cash inflow generated from operations	856,299	4,223,109
Interest received	20,293	11,599
Interest paid	(6,736)	(31,315)
Income taxes paid	(417,927)	(234,992)
Net cash flows from operating activities	<u>451,929</u>	<u>3,968,401</u>
Cash flows from (used in) investing activities:		
Proceeds from disposal and settle of share of subsidiaries accounted for using equity method	-	559,498
Acquisition of available-for-sale financial assets	(21,045)	-
Proceeds from capital reduction of available-for-sale financial assets	2,816	1,280
Proceeds from disposal of available-for-sale financial assets	497,186	220,270
Acquisition of property, plant and equipment	(21,309)	(23,062)
Acquisition of long-term deferred revenue	104,594	476,552
Acquisition of unamortized expense	(10,120)	(23,710)
Decrease in refundable deposits	(510)	(441)
Dividends received	23,325	14,692
Other investing activities	1,826	91
Net cash flows from investing activities	<u>576,763</u>	<u>1,225,170</u>
Cash flows from (used in) financing activities:		
Decrease in short-term borrowings	-	(1,120,518)
Repayment of long-term borrowings	(382,223)	(715,556)
Decrease in guarantee deposits	34,936	34,977
Cash dividends	(1,111,886)	(927,933)
Exercise of employee stock options	15,892	19,097
Decrease in long-term accounts payable to related parties	(357,319)	-
Net cash flows used in financing activities	<u>(1,800,600)</u>	<u>(2,709,933)</u>
Net increase (decrease) in cash and cash equivalents	<u>(771,908)</u>	<u>2,483,638</u>
Cash and cash equivalents at beginning of year	<u>4,751,198</u>	<u>2,267,560</u>
Cash and cash equivalents at end of year	<u>\$ 3,979,290</u>	<u>4,751,198</u>

See accompanying notes to financial statements.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

PRIMAX ELECTRONICS LTD. (the “Company”), formerly known as Hong Chuan Investments Ltd., was incorporated on March 20, 2006, and registered under the Ministry of Economic Affairs, ROC. The Company changed its name to Hong Chuan Electronics Ltd. and Primax Electronics Ltd. in October 2007 and February 2008, respectively. The address of the Company’s registered office is No. 669, Ruey Kuang Road, Neihu, Taipei.

Primax Electronics Holdings, Ltd. (Primax Holdings, formerly known as Apple Holdings Ltd.) acquired all shares of the Company from YWAN PANG Management Limited on April 2, 2007. The investment was approved by the Investment Commission, Ministry of Economic Affairs. However, all shares of the Company were sold by Primax Holdings to its stockholders in October 2009.

Based on the resolution approved by the Company’s board of directors on November 5, 2007, the Company resolved to acquire and merge with Primax Electronics Ltd. (“Primax”, a listed company) on December 28, 2007. The Company is the surviving company, and Primax was dissolved upon completion of the merger.

The major business activities of the Company were the manufacture and sale of multi-function printers, scanners, digital camera modules, computer mice, keyboards, track pads, mobile phone accessories, consumer electronics products and shredders.

The Company’s common shares were registered with the Financial Supervisory Commission, ROC (“FSC”) on June 22, 2012, and listed on the Taiwan Stock Exchange (“TWSE”) on October 5, 2012.

(2) Approval date and procedures of the financial statements:

The financial statements were authorized for issuance by the board of directors on March 13, 2018.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, ROC. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Presentation of Financial Statements-Disclosure Initiative”	January 1, 2016

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PRIMAX ELECTRONICS LTD.
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<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendments to IAS 36 “Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non-Financial Assets”	January 1, 2014
Amendments to IAS 39 “Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 “Levies”	January 1, 2014

The Company assessed that the initial application of the above IFRSs would not have any material impact on the financial statements.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017. In addition, based on the announcement issued by the FSC on December 12, 2017, the Company can, and therefore, elected to early adopt the amendments to IFRS 9 “Prepayment features with negative compensation”:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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PRIMAX ELECTRONICS LTD.
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Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification—Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Company had equity investments classified as available-for-sale with a fair value of 397,252 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Company has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Company estimated the application of IFRS 9’s classification requirements on January 1, 2018 resulting in a decrease of 38,042 thousand in other equity interest, as well as an increase of 38,042 thousand in retained earnings.

2) Impairment—Financial assets and contract assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly, since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component. The Company choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Company estimated the application of IFRS 9's impairment requirements would not result in significant impact.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and other equity interest as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

1) Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers’ premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Company has performed an initial assessment indicating the timing of the related risks and rewards transferred is similar to the timing of control transferred. Therefore, the Company believes that there would not be any material impact on its financial statements.

2) Transition

The Company plans to adopt IFRS 15 in its consolidated financial statements using the cumulative effect approach. As a result, there is no need to reproduce the comparative information in previous periods. The cumulative effect of the first application of the principle will adjust the retained earnings of January 1, 2018. The Company plans to use the practical expedients for completed contracts. This means that when a contract is deemed as a completed contracts at the date of adoption (January 1, 2018), it will not be restated.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment of Settlement”	January 1, 2019

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

Those which may be relevant to the Company are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 “Leases”	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Company is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the financial statements.

(a) Statement of compliance

These annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”).

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the financial statements have been prepared on a historical cost basis:

- 1) Derivative financial instruments at fair value through profit or loss are measured at fair value;
- 2) Available-for-sale financial assets are measured at fair value; and
- 3) The defined benefit liabilities are recognized as plan assets less the present value of the defined benefit obligation.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

(ii) Functional and presentation currency

The functional currency is determined based on the primary economic environment in which the Company operates. The Company's financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in the foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss except for the differences relating to available-for-sale equity investment which are recognized in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at the average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes of only part of its investment in an associate or joint venture, including a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

(d) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Time deposits with maturities within three months or less which meet the above definition and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(f) Financial instruments

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instruments.

(i) Financial assets

The Company classifies financial assets into the following categories: available-for-sale financial assets, and loans and receivables.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

1) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses and dividend income, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in other gains and losses under non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in other income under non-operating income and expenses.

2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivables and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

3) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

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PRIMAX ELECTRONICS LTD.
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All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for accounts receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of a receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

Impairment losses and recoveries of accounts receivable are recognized in operating expense; impairment losses and recoveries of other financial assets are recognized in other gains and losses under non-operating income and expenses.

4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss, and it is included in other gains and losses under non-operating income and expenses.

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PRIMAX ELECTRONICS LTD.
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The Company separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss, and it is included in other gains and losses under non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

2) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss, which comprise notes and accounts payable (including related parties), salary payable, other payables and loan and borrowings, are measured at fair value, plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in finance costs under non-operating income and expenses.

3) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in other gains and losses under non-operating income and expenses.

4) Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis when the Company has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

(iii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency exposure. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and included in other gains and losses under non-operating income and expenses. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average-costing method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Investments in subsidiaries

Investments in subsidiaries are accounted for using the equity method. There is no difference between net income and comprehensive income in the Company's financial statements and net income and comprehensive income attributable to stockholders of the parent. The equity in the Company's financial statements and the equity attributable to stockholders of the parent in the Company's consolidated financial statements are also the same. Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. When the Company loses control over its subsidiaries, the Company derecognizes the investment by the book value on the date of loss of control and remeasures the rest of the investments at fair value on the same date.

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its book value at the date of reclassification becomes its cost for subsequent accounting.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss, and it is included in other gains and losses.

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(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

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 shall be depreciated separately.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds and the carrying amount of the item, and it shall be recognized as other gains and losses under non-operating income and expense.

(ii) Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment use.

(iii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure which can be reliably measured will flow to the Company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iv) Depreciation

Depreciation is calculated on the cost of an asset less its residual value on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge shall be recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Buildings and additional equipment: 1 ~ 51 years
- 2) Machinery and equipment: 1 ~4 years
- 3) Other equipment: 1 ~5 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in accounting estimate.

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PRIMAX ELECTRONICS LTD.
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(k) Lease

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term.

(ii) Lessee

Payments made under an operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

Contingent rent is recognized as expense in the periods in which it is incurred.

(l) Intangible assets

Intangible assets that are acquired by the Company are measured at cost, less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

The amortizable amount is the cost of an asset, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- (i) Trademarks 10 years
- (ii) Patents 2.5~10 years
- (iii) Copyrights 15 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as a change in accounting estimates.

(m) Impairment of non-financial assets

Non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount for the individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less costs to sell, or its value in use. If the recoverable amount of an individual asset or a cash-generating unit is less than its carrying amount, the carrying amount of the individual asset or cash-generating unit shall be reduced to its recoverable amount, and that reduction is accounted for as an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

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The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. An impairment loss recognized in prior periods for an individual asset or a cash-generating unit shall be reversed if there has been an improvement in the estimates used to determine the recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount but should not exceed the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(n) Revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that a discount will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. Transfer usually occurs when the goods is received at the customer's warehouse.

(ii) Services

The Company provides services, such as model research, development, and design, to customers. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction, agreed by both sides, at the reporting date.

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, based on the discounted present value of the said defined benefit obligation. The fair value of any plan assets are deducted for purposes of determining the Company's net defined benefit obligation. The discount rate used in calculating the present value is the market yield at the reporting date of government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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PRIMAX ELECTRONICS LTD.
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The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest), and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income and recognized in retained earnings in a subsequent period.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(p) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between the expected and the actual outcomes.

(q) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following exceptions:

- (i) Assets and liabilities that are initially recognized but are not related to a business combination and have no effect on profit or taxable gains (losses) at the time of the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and they shall be adjusted based on the probability that future taxable profit that will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(r) Earnings per share

The Company discloses the basic and diluted earnings per share attributable to ordinary stockholders of the Company. Basic earnings per share is calculated as the profit attributable to the ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares. Dilutive potential ordinary shares comprise employee stock options, employee remuneration, and restricted stock.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

(s) Operating segments

Please refer to the Company's consolidated financial statements for the years ended December 31, 2017 and 2016, for further details.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the financial statements in conformity with the Regulations requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments made in applying the accounting policies that have significant effects on the amounts recognized in the financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(a) Valuation of inventories

As inventories are measured at the lower of cost or net realizable value, the Company estimates the amount due to inventories' obsolescence and unmarketable items at the reporting date and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories.

(b) Valuation of inventories and assessment of impairment of intangible assets of investments accounted for using equity method

Please refer to note 5(a) for inventories valuation. The Company's investments accounted for using equity method include intangible assets from premium investment. The assessment of impairment of intangible assets required the Company to make subjective judgments on cash-generating units, allocate the intangible assets to relevant cash-generating units, and estimate the recoverable amount of relevant cash-generating units. Changes in economic conditions or changes in assessment caused by business strategies could result in significant impairment charges or reversal in future years.

The Company's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Company has established an internal control framework with respect to the measurement of fair value and regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure fair value, then the Company assessed the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy in which such valuations should be classified.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- (i) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (ii) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (iii) Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

For any transfer within the fair value hierarchy, the impact of transfer is recognized on the reporting date. Please refer to note 6(w) for assumptions used in measuring fair value.

(6) Explanation of significant accounts:

- (a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	\$ 451	543
Checking accounts and demand deposits	2,600,847	931,183
Time deposits	<u>1,377,992</u>	<u>3,819,472</u>
	<u>\$ 3,979,290</u>	<u>4,751,198</u>

Please refer to note 6(w) for the currency risk and the interest rate risk of the Company's cash and cash equivalents.

- (b) Financial assets and liabilities at fair value through profit or loss

- (i) The derivative financial instruments were as follows:

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss – current:		
Forward exchange contracts	\$ 77,884	141,317
Foreign exchange swap contracts	<u>15,211</u>	<u>-</u>
	<u>\$ 93,095</u>	<u>141,317</u>
Financial liabilities at fair value through profit or loss – current:		
Forward exchange contracts	\$ (69,167)	(72,909)
Foreign exchange swap contracts	<u>(33,940)</u>	<u>(77,521)</u>
	<u>\$ (103,107)</u>	<u>(150,430)</u>

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

- (ii) The Company held the following derivative financial instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2017 and 2016:

December 31, 2017

Derivative financial instruments	Nominal amount		Maturity date	Predetermined rate
Forward exchange contracts – buy USD / sell TWD	USD	299,000	January 4, 2018~ June 26, 2018	29.437~30.021
Forward exchange contracts – buy TWD / sell USD	USD	276,500	January 4, 2018~ March 26, 2018	29.792~30.328
Forward exchange contracts – buy CNY/ sell USD	USD	6,000	February 26, 2018	6.6875
Forward exchange swap contracts– swap in USD/ swap out TWD	USD	103,500	January 12, 2018~ February 9, 2018	30.052~30.232
Forward exchange swap contracts– swap in TWD/ swap out USD	USD	116,000	January 5, 2018~ June 26, 2018	29.583~30.0155

December 31, 2016

Derivative financial instruments	Nominal amount		Maturity date	Predetermined rate
Forward exchange contracts – buy USD / sell TWD	USD	252,000	January 5, 2017~ March 27, 2017	31.157~32.015
Forward exchange contracts – buy TWD / sell USD	USD	189,500	January 5, 2017~ March 27, 2017	31.765~32.290
Forward exchange swap contracts – swap in TWD / swap out USD	USD	81,000	January 5, 2017~ January 19, 2017	31.245~31.920

- (iii) Please refer to note 6(w) for the liquidity risk of the Company's financial instruments.

- (c) Available-for-sale financial assets – non-current

	December 31, 2017	December 31, 2016
Stocks listed in domestic markets	\$ -	586,404
Stocks unlisted in domestic markets	380,835	287,517
Stocks unlisted in foreign markets	16,417	-
	\$ 397,252	873,921

- (i) WK Technology Fund IV Ltd. refunded \$1,280 and \$2,816 to the Company due to capital reduction in April 2016 and July 2017, respectively.

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- (ii) The Company held 30% shares of Global TEK Fabrication Co., Ltd's shares and sold 20% of them at \$50 per share on October 3, 2016. The total proceeds of \$549,347 were received. The Company recorded the total gain of \$248,004 under other gains or losses, including the amount of \$83,219 from the remaining shares measured at fair value due to losing its control over Global TEK Fabrication Co., Ltd. The Company reclassified the carrying amounts of the remaining shares to available-for-sale financial asset— non-current. Please refer to the Company's consolidated financial statements of 2017 for further information on losing control of subsidiaries.
- (iii) In the second quarter of 2016, the Company sold 841 thousand shares of Nien Made Enterprise Co., Ltd. for \$220,270. The gain from disposal of which was recognized as other gains and losses, amounted to \$140,969, deducting the cost of \$79,301. Also, in the fourth quarter of 2017, the Company sold 1,764 thousand shares of Nien Made Enterprise Co., Ltd. for \$497,186. The gain from disposal of which was recognized as other gains and losses, amounted to \$330,887, deducting the cost of \$166,299.
- (iv) The Company invested \$21,045 in the unlisted company— Grove Ventures, L.P, and classified as available-for-sale financial assets in March 2017.
- (v) The unrealized gains were \$2,288 and \$111,105 for the years ended December 31, 2017 and 2016, respectively, and were recognized as unrealized gains on available-for-sale financial assets. The Company reclassified the realized gains of Nien Made Enterprise amounted to \$330,887 in 2017 as gains from disposal.
- (vi) The Company did not provide any of the aforementioned available-for-sale financial assets as collateral.
- (d) Accounts receivable, and other receivables (including related parties)

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 6,385,246	7,437,179
Accounts receivable – related parties	29,181	513,446
Other receivables	184,718	1,050,923
Less: allowance for doubtful accounts	(101,027)	(76,977)
allowance for sales returns and discounts	<u>(27,829)</u>	<u>(20,494)</u>
Total	<u>\$ 6,470,289</u>	<u>8,904,077</u>

- (i) The Company did not provide any of the aforementioned accounts receivable and other receivables (including related parties) as collateral.
- (ii) Please refer to note 6(w) for the movements in the allowance for doubtful accounts and the credit risk and currency risk for the years ended December 31, 2017 and 2016.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

- (iii) The Company entered into agreements with banks to sell its accounts receivable without recourse. According to the agreements, within the limit of its credit facilities, the Company does not need to guarantee the capability of its customers to pay for reasons other than commercial disputes when transferring its accounts receivable. The Company receives partial advances upon sales of accounts receivable and pays interest calculated based on the interest rates agreed for the period through the collection of the accounts receivable. The remaining amounts are received upon the collection of the accounts receivable, and are recorded as other receivables. In addition, the Company shall pay handling charges based on a fixed rate. As of December 31, 2017 and 2016, the details of transferred accounts receivable which conformed to the criteria for derecognition were as follows:

December 31, 2017							
Buyer	Amount sold NT\$	Credit facilities US\$ (expressed in thousand)	Cash received in advance NT\$	Interest rate	Guarantee (promissory note) expressed in thousands	Amount derecognized NT\$	Amount not received NT\$
Mega International Commercial Bank	\$ -	15,000	-	-	US 3,750	-	-
HSBC Bank	-	45,000	-	-	US 13,500	-	-
Bank of Taiwan	-	29,250	-	-	NT 210,000	-	-
EnTie Bank	81,751	7,000	-	-	-	-	81,751
	<u>\$ 81,751</u>	<u>96,250</u>	<u>-</u>			<u>-</u>	<u>81,751</u>

December 31, 2016							
Buyer	Amount sold NT\$	Credit facilities US\$ (expressed in thousand)	Cash received in advance NT\$	Interest rate	Guarantee (promissory note) expressed in thousands	Amount derecognized NT\$	Amount not received NT\$
Mega International Commercial Bank	\$ 374,057	20,000	336,651	1.75 %	US 5,000	336,651	37,406
HSBC Bank	592,397	64,400	533,157	1.42 %	US 58,000	533,157	59,240
Bank of Taiwan	449,051	26,000	404,146	2.10 %	NT 772,200	404,146	44,905
	<u>\$ 1,415,505</u>	<u>110,400</u>	<u>1,273,954</u>			<u>1,273,954</u>	<u>141,551</u>

- (iv) Please refer to note 9 for guarantee notes provided by the Company to sell its accounts receivable.

- (e) Inventories

	December 31, 2017	December 31, 2016
Raw materials	\$ 9,896	102,684
Finished goods and merchandise	2,118,545	2,190,735
	<u>\$ 2,128,441</u>	<u>2,293,419</u>

The Company did not provide any of the aforementioned inventories as collateral.

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For the years ended December 31, 2017 and 2016, the Company recognized the following items as cost of goods sold:

	2017	2016
Losses on inventory valuation	\$ (23,422)	(10,601)
Losses on disposal of inventories	(90,243)	(19,737)
Gains (losses) on physical inventories, net	<u>725</u>	<u>(2,178)</u>
	<u>\$ (112,940)</u>	<u>(32,516)</u>

(f) Investments accounted for using equity method

The Company's investments accounted for using the equity method at the reporting dates comprise:

	December 31, 2017	December 31, 2016
Subsidiaries	<u>\$ 10,287,105</u>	<u>9,317,894</u>

(i) Please refer to the Company's consolidated financial statements for the year ended December 31, 2017, for details of subsidiaries.

(ii) The Company did not provide investments accounted for using the equity method as collateral.

(g) Property, plant and equipment

The cost, and depreciation of the property, plant and equipment of the Company for the years ended December 31, 2017 and 2016, were as follows:

	Land	Buildings and additional equipment	Machinery and equipment	Other equipment	Testing equipment	Total
Cost or deemed cost:						
Balance on January 1, 2017	\$ 22,879	141,789	71,514	46,264	4,646	287,092
Additions	-	-	6,149	3,596	11,564	21,309
Disposals	-	(116)	(2,593)	(663)	-	(3,372)
Reclassifications	-	-	2,987	8,136	(15,014)	(3,891)
Balance on December 31, 2017	<u>\$ 22,879</u>	<u>141,673</u>	<u>78,057</u>	<u>57,333</u>	<u>1,196</u>	<u>301,138</u>
Balance on January 1, 2016	\$ 22,879	141,789	67,355	44,743	204	276,970
Additions	-	-	10,148	4,580	8,334	23,062
Disposals	-	-	(8,759)	(3,059)	-	(11,818)
Reclassifications	-	-	2,770	-	(3,892)	(1,122)
Balance on December 31, 2016	<u>\$ 22,879</u>	<u>141,789</u>	<u>71,514</u>	<u>46,264</u>	<u>4,646</u>	<u>287,092</u>
Depreciation:						
Balance on January 1, 2017	\$ -	131,935	48,516	37,856	-	218,307
Depreciation	-	353	10,788	5,496	-	16,637
Disposals	-	(116)	(2,099)	(627)	-	(2,842)
Balance on December 31, 2017	<u>\$ -</u>	<u>132,172</u>	<u>57,205</u>	<u>42,725</u>	<u>-</u>	<u>232,102</u>

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

	<u>Land</u>	<u>Buildings and additional equipment</u>	<u>Machinery and equipment</u>	<u>Other equipment</u>	<u>Testing equipment</u>	<u>Total</u>
Balance on January 1, 2016	\$ -	131,577	44,394	35,445	-	211,416
Depreciation	-	358	12,712	4,995	-	18,065
Disposals	-	-	(8,590)	(2,584)	-	(11,174)
Balance on December 31, 2016	<u>\$ -</u>	<u>131,935</u>	<u>48,516</u>	<u>37,856</u>	<u>-</u>	<u>218,307</u>
Carrying amounts:						
Balance on December 31, 2017	<u>\$ 22,879</u>	<u>9,501</u>	<u>20,852</u>	<u>14,608</u>	<u>1,196</u>	<u>69,036</u>
Balance on December 31, 2016	<u>\$ 22,879</u>	<u>9,854</u>	<u>22,998</u>	<u>8,408</u>	<u>4,646</u>	<u>68,785</u>
Balance on January 1, 2016	<u>\$ 22,879</u>	<u>10,212</u>	<u>22,961</u>	<u>9,298</u>	<u>204</u>	<u>65,554</u>

(i) The unamortized deferred revenue of equipment subsidy amounted to \$885,580 and \$1,159,073 for the years ended December 31, 2017 and 2016, respectively.

(ii) The Company did not provide property, plant and equipment as collateral.

(h) Investment property

	<u>Land</u>	<u>Buildings and other equipment</u>	<u>Total</u>
Cost or deemed cost:			
Balance on January 1, 2017	\$ 162,012	172,167	334,179
Additions	-	-	-
Balance on December 31, 2017	<u>\$ 162,012</u>	<u>172,167</u>	<u>334,179</u>
Balance on January 1, 2016	\$ 162,012	172,167	334,179
Additions	-	-	-
Balance on December 31, 2016	<u>\$ 162,012</u>	<u>172,167</u>	<u>334,179</u>
Depreciation and impairment losses:			
Balance on January 1, 2017	\$ 33,941	45,089	79,030
Depreciation	-	3,560	3,560
Balance on December 31, 2017	<u>\$ 33,941</u>	<u>48,649</u>	<u>82,590</u>
Balance on January 1, 2016	\$ 33,941	41,529	75,470
Depreciation	-	3,560	3,560
Balance on December 31, 2016	<u>\$ 33,941</u>	<u>45,089</u>	<u>79,030</u>

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

	<u>Land</u>	<u>Buildings and other equipment</u>	<u>Total</u>
Carrying amounts:			
Balance on December 31, 2017	\$ <u>128,071</u>	<u>123,518</u>	<u>251,589</u>
Balance on December 31, 2016	\$ <u>128,071</u>	<u>127,078</u>	<u>255,149</u>
Balance on January 1, 2016	\$ <u>128,071</u>	<u>130,638</u>	<u>258,709</u>
Fair value:			
Balance on December 31, 2017			\$ <u>555,061</u>
Balance on December 31, 2016			\$ <u>629,690</u>
Balance on January 1, 2016			\$ <u>592,092</u>

- (i) The fair value of investment property is based on the quotation from third parties, which is categorized within Level 3.
- (ii) Investment property comprises a number of commercial properties which are leased to third parties. Each of the leases contains an initial non-cancellable period between 1 and 2 years. Subsequent renewals are negotiated with the lessee, and no contingent rents are charged. Please refer to note 6(l) for further information.
- (iii) The Company did not provide any of the aforementioned investment property as collateral.

(i) Intangible assets

The cost and amortization of the intangible assets of the Company for the years ended December 31, 2017 and 2016, were as follows:

	<u>Trademarks</u>	<u>Patents</u>	<u>Copyrights</u>	<u>Total</u>
Cost:				
Balance on January 1, 2017	\$ 25,584	64,271	30,832	120,687
Acquisition	-	-	-	-
Balance on December 31, 2017	\$ <u>25,584</u>	<u>64,271</u>	<u>30,832</u>	<u>120,687</u>
Balance on January 1, 2016	\$ 25,584	64,271	30,832	120,687
Acquisition	-	-	-	-
Balance on December 31, 2016	\$ <u>25,584</u>	<u>64,271</u>	<u>30,832</u>	<u>120,687</u>
Amortization:				
Balance on January 1, 2017	\$ 18,548	64,271	14,902	97,721
Amortization	2,559	-	2,056	4,615
Balance on December 31, 2017	\$ <u>21,107</u>	<u>64,271</u>	<u>16,958</u>	<u>102,336</u>
Balance on January 1, 2016	\$ 15,990	62,337	12,846	91,173
Amortization	2,558	1,934	2,056	6,548
Balance on December 31, 2016	\$ <u>18,548</u>	<u>64,271</u>	<u>14,902</u>	<u>97,721</u>

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Notes to the Financial Statements

	<u>Trademarks</u>	<u>Patents</u>	<u>Copyrights</u>	<u>Total</u>
Carrying amount:				
Balance on December 31, 2017	\$ <u>4,477</u>	<u>-</u>	<u>13,874</u>	<u>18,351</u>
Balance on December 31, 2016	\$ <u>7,036</u>	<u>-</u>	<u>15,930</u>	<u>22,966</u>
Balance on January 1, 2016	\$ <u>9,594</u>	<u>1,934</u>	<u>17,986</u>	<u>29,514</u>

The Company did not provide any of the aforementioned intangible assets as collateral.

(j) Short-term borrowings

The details were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unsecured bank loans	\$ <u>-</u>	<u>-</u>
Unused credit lines	\$ <u>8,966,896</u>	<u>10,044,220</u>
Annual interest rates	<u>0.97%~1.84%</u>	<u>0.93%~1.27%</u>

(k) Long-term borrowings

<u>December 31, 2017</u>				
	<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Unsecured bank loans	TWD	1.19%~1.48%	2018~2020	\$ 218,888
Less: current portion				(135,555)
Total				<u>\$ 83,333</u>
Unused credit lines				<u>\$ -</u>
<u>December 31, 2016</u>				
	<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Unsecured bank loans	TWD	0.95%~1.56%	2017~2020	\$ 601,111
Less: current portion				(382,222)
Total				<u>\$ 218,889</u>
Unused credit lines				<u>\$ -</u>

- (i) Pursuant to the loan agreements with The Export-Import Bank of the ROC and CTBC Bank, the Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements. As of December 31, 2017, the Company had not violated the financial covenants. The financial covenants include (1) a current ratio of not less than 100%; (2) a financial debt ratio of not greater than 75%; (3) an interest coverage ratio of not less than 400%; and (4) stockholders' equity of not less than \$4,000,000. If the Company violates the financial covenants, the banks have the right to charge a default penalty or to require the Company to improve its financial ratios.

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

(ii) Please refer to note 9 for the details of the outstanding guarantee notes.

(l) Operating lease

(i) Lessee

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2017	December 31, 2016
Less than one year	\$ 93,430	90,708
Between one and five years	-	93,430
	<u>\$ 93,430</u>	<u>184,138</u>

The Company leases a number of offices under operating leases. The lease terms are 15 years.

(ii) Lessor

The Company leases out its investment property under operating leases. Please refer to note 6(h) for further information. Non-cancellable operating leases receivable are as follows:

	December 31, 2017	December 31, 2016
Less than one year	\$ 11,381	10,957
between two and five years	37,135	37,775
More than five years	75,600	84,857
	<u>\$ 124,116</u>	<u>133,589</u>

(m) Employee benefits

(i) Defined benefit plans

Reconciliation of defined benefit obligation at present value and plan asset at fair value are as follows:

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	\$ 156,494	160,593
Fair value of plan assets	88,082	96,865
Deficit in the plan	68,412	63,728
Asset ceiling	-	-
Net defined benefit liability	<u>\$ 68,412</u>	<u>63,728</u>

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PRIMAX ELECTRONICS LTD.
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The Company makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$88,082 at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations for the Company for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Defined benefit obligation on January 1	\$ 160,593	160,913
Business combinations		
Benefits paid	(12,898)	(4,995)
Current service costs and interest cost	2,707	3,417
Remeasurement of net defined benefit liabilities	6,092	1,258
Defined benefit obligation on December 31	<u>\$ 156,494</u>	<u>160,593</u>

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Fair value of plan assets on January 1	\$ 96,865	97,683
Interest income	701	942
Remeasurement of net defined liabilities	183	(271)
Contributions paid	3,231	3,506
Benefits paid	(12,898)	(4,995)
Fair value of plan assets on December 31	<u>\$ 88,082</u>	<u>96,865</u>

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Current service costs	\$ 1,153	1,401
Net interest of net liabilities for defined benefit	<u>853</u>	<u>1,074</u>
Expenses	<u><u>\$ 2,006</u></u>	<u><u>2,475</u></u>

5) Remeasurement of net defined liability (asset) recognized in other comprehensive income

The Company's remeasurement of net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2017 and 2016, was as follows:

	<u>2017</u>	<u>2016</u>
Balance on January 1	\$ 4,421	2,892
Recognized during the period	<u>5,909</u>	<u>1,529</u>
Balance on December 31	<u><u>\$ 10,330</u></u>	<u><u>4,421</u></u>

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate	1.250 %	1.375 %
Future salary increase rate	3.250 %	3.250 %

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date was \$3,192. The weighted-average lifetime of the defined benefit plans is 11 years.

7) Sensitivity analysis

When computing the present value of the defined benefit obligations, the Company uses judgments and estimations to determine the actuarial assumptions, including discount rates and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

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PRIMAX ELECTRONICS LTD.
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If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Influences of defined benefit obligations	
	Increased 0.25%	Decreased 0.25%
December 31, 2017		
Discount rate	\$ (3,420)	3,533
Future salary increase rate	\$ 3,374	(3,283)
December 31, 2016		
Discount rate	\$ (3,586)	3,708
Future salary increase rate	\$ 3,545	(3,447)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. Many assumption changes may affect each other in practice. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There were no change in the method and assumptions used in the preparation of the sensitivity analysis for 2017 and 2016.

(ii) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company contributes a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The Company recognized pension costs under the defined contribution method amounting to \$43,315 and \$41,230 for the years ended December 31, 2017 and 2016, respectively, recorded as operating expenses and operating cost in the statement of comprehensive income.

(n) Income taxes

(i) The components of income tax expenses for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Current tax expense	\$ 35,506	432,225
Deferred tax expense	85,912	(18,771)
Income tax expense	\$ 121,418	413,454

(ii) The Company had no income tax recognized directly in equity or other comprehensive income for the years ended December 31, 2017 and 2016.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

- (iii) Reconciliation of income tax expenses and profit before tax for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Profit before tax	\$ <u>2,178,833</u>	<u>2,347,524</u>
Income tax calculated based on the Company's domestic tax rate	370,401	399,079
Overseas investment gains recognized under the equity method	(168,149)	(47,655)
Investment tax credits accrued	(51,586)	(41,196)
Prior year's income tax adjustment	5,620	7,106
10% surtax on unappropriated earnings	62,744	65,978
Gains on disposal of stocks	(56,251)	(50,023)
Others	<u>(41,361)</u>	<u>80,165</u>
Income taxes expense	<u>\$ 121,418</u>	<u>413,454</u>

- (iv) Deferred tax assets and liabilities

- 1) Unrecognized deferred tax liabilities

The Company is able to control the timing of the reversal of the temporary differences associated with subsidiaries' earnings. Also, the management considered it probable that the temporary differences will not be reversed in the foreseeable future. Hence, such temporary differences were not recognized under deferred tax liabilities. Details were as follows:

	December 31, 2017	December 31, 2016
Aggregate amount of temporary differences related to investments in subsidiaries	\$ <u><u>573,124</u></u>	<u><u>422,133</u></u>

- 2) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2017	December 31, 2016
Deductible temporary differences	\$ <u><u>73,400</u></u>	<u><u>109,500</u></u>

The deductible temporary differences cannot be realized. Therefore, they were not recognized as deferred tax assets.

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

3) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2017 and 2016, were as follows:

	Investment income recognized under the equity method (overseas)	Unrealized foreign exchange gains	Others	Total				
Deferred tax liabilities:								
Balance on January 1, 2017	\$ 136,577	-	16,984	153,561				
Recognized in profit or loss	<u>51,480</u>	<u>24,493</u>	<u>-</u>	<u>75,973</u>				
Balance on December 31, 2017	<u>\$ 188,057</u>	<u>24,493</u>	<u>16,984</u>	<u>229,534</u>				
Balance on January 1, 2016	\$ 112,054	-	5,528	117,582				
Recognized in profit or loss	<u>24,523</u>	<u>-</u>	<u>11,456</u>	<u>35,979</u>				
Balance on December 31, 2016	<u>\$ 136,577</u>	<u>-</u>	<u>16,984</u>	<u>153,561</u>				
	Bad debt in excess of tax limit	Unfunded pension fund contribution	Unrealized sales returns and allowances	Loss on inventory valuation	Deferred granted revenue	Unrealized exchange losses	Others	Total
Deferred tax assets:								
Balance on January 1, 2017	\$ 25,454	14,298	57,615	4,570	197,042	49	49,241	348,269
Recognized in profit or loss	<u>21,818</u>	<u>(208)</u>	<u>42,483</u>	<u>2,781</u>	<u>(46,493)</u>	<u>(49)</u>	<u>(30,271)</u>	<u>(9,939)</u>
Balance on December 31, 2017	<u>\$ 47,272</u>	<u>14,090</u>	<u>100,098</u>	<u>7,351</u>	<u>150,549</u>	<u>-</u>	<u>18,970</u>	<u>338,330</u>
Balance on January 1, 2016	\$ 20,939	14,473	44,241	3,267	173,185	17,339	20,075	293,519
Recognized in profit or loss	<u>4,515</u>	<u>(175)</u>	<u>13,374</u>	<u>1,303</u>	<u>23,857</u>	<u>(17,290)</u>	<u>29,166</u>	<u>54,750</u>
Balance on December 31, 2016	<u>\$ 25,454</u>	<u>14,298</u>	<u>57,615</u>	<u>4,570</u>	<u>197,042</u>	<u>49</u>	<u>49,241</u>	<u>348,269</u>

- (v) Except for 2014, the Company's income tax returns have been examined by the tax authority through the years to 2015.
- (vi) Information related to the unappropriated earnings and tax deduction ratio is summarized below:

	December 31, 2017	December 31, 2016
Unappropriated earnings in 1998 and after	(Note)	<u>\$ 4,779,419</u>
Balance of imputation credit account	(Note)	<u>\$ 508,028</u>
	2017	2016 (actual)
Creditable ratio for earnings distribution to ROC residents stockholders	(Note)	<u>14.50 %</u>

The above information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance, ROC, on October 17, 2013.

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Note: According to the amendments to the “Income Tax Act” enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(o) Capital and other equity

As of December 31, 2017 and 2016, the nominal ordinary shares both amounted to \$5,500,000. Par value of each share is \$10 (dollars), which means in total there were 550,000 thousand authorized ordinary shares, of which 445,688 thousand and 442,134 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

Reconciliation of shares outstanding for the years ended December 31, 2017 and 2016, were as follows:

	Ordinary shares	
(in thousands of shares)	2017	2016
Balance on January 1	442,134	441,188
Exercise of employee stock options	648	1,331
Issuance of restricted stock	3,000	-
Redemption of restricted stock	(94)	(385)
Balance on December 31	445,688	442,134

(i) Ordinary shares

- 1) The Company issued 648 thousand and 1,331 thousand new shares of ordinary shares for the exercise of employee stock options in 2017 and 2016, respectively. The related registration procedures were also completed.
- 2) Employee stock options exercised without registration procedures were recorded as capital collected in advance. The exercise price and units as of December 31, 2017 and 2016, were as follows:

	December 31, 2017	
	Exercised shares (in thousands)	Exercise price
Exercise price per share: \$24.10	128	\$ 3,085
	December 31, 2016	
	Exercised shares (in thousands)	Exercise price
Exercise price per share: \$25.20	120	\$ 3,024

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(ii) Capital surplus

The balances of capital surplus as of December 31, 2017 and 2016, were as follows:

	December 31, 2017	December 31, 2016
Additional paid-in capital	\$ 545,657	508,583
Employee stock options	233,624	229,175
Restricted employee stock options	150,209	53,708
Long-term stock investment	<u>303,000</u>	<u>-</u>
	<u>\$ 1,232,490</u>	<u>791,466</u>

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the capital increase via transferring of the paid-in capital, in excess of par value, should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

According to the articles of the Company, when allocating the earnings for each year, the Company shall first offset its losses in previous year and set aside a legal capital reserve at 10% of the earning left over, until the accumulated legal capital reserve has equaled the total capital of the Company; then set aside a special capital reserve in accordance with relevant laws, the balance of the earnings shall combined into an aggregate amount of undistributed earnings, which shall become the aggregate distributable earnings to be distributed according to the distribution plan proposed by the board of directors and submitted to the stockholders' meeting for resolution.

The Company is at the growth stage and considers its future cash demand, long-term financial plans, benefits to stockholders, and balanced dividends. Earnings distribution is made by stock dividend and cash dividend. The cash dividend shall not be less than 10 percent of the total dividends and could be adjusted depending on the Company's operating condition.

1) Legal reserve

In accordance with the Company Act, 10 percent of the net income after tax should be set aside as legal reserve, until it is equal to share capital. If the Company experiences profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders' meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

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2) Special reserve

By choosing to apply exemptions granted under IFRS 1 “First-time Adoption of International Financial Reporting Standards” during the Company’s first-time adoption of the International Financial Reporting Standards endorsed by the FSC, retained earnings increased by \$97,300 by recognizing the cumulative translation adjustments (gains) on the adoption date as deemed cost. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, the increase in retained earnings due to the first-time adoption of IFRSs shall be reclassified as special reserve, and when the relevant asset is used, disposed of, or reclassified, this special reserve shall be reversed as distributable earnings proportionately. The carrying amount of special reserve amounted to \$97,300 on December 31, 2017.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special earnings reserve resulting from the first-time adoption of IFRSs and the carrying amount of other stockholders’ equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other stockholders’ equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other stockholders’ equity shall qualify for additional distributions.

3) Earnings distribution

On May 25, 2017, and June 20, 2016, the stockholders’ meeting resolved the distribution of earnings for 2016 and 2015, respectively. The distribution were NT\$2.5 and 2.1 (dollars) per share, which amounted to \$1,111,886 and \$927,933, respectively.

(p) Share-based payment

(i) Employee stock options and share-based payment

1) On December 28, 2007, the Company merged with Primax and assumed the outstanding employee stock options of Primax. Based on the swap ratio approved by Primax Holdings’ board of directors, Primax Holdings issued 1,795,879 units of employee stock options in exchange for all of the employee stock options issued by Primax. According to the option plan, each unit could be converted into 1 common share of Primax Holdings. The primary terms and conditions of the employee stock options were as follows:

a) Exercise period:

From the grant dates in May 2005, June and December 2006, and February and March 2007, the options are exercisable at the following rates two years after the grant date. The term of the employee stock options is 5 years. The employee stock options and any right thereof shall not be transferred, pledged, donated, or disposed of in any way, with the exception of inherited options.

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<u>Period following the grant of options</u>	<u>Exercisable percentage (cumulative)</u>
2 years	50 %
3 years	100 %

- b) Procedure for fulfilling obligation: Primax Holdings fulfills its obligation by issuing new ordinary shares.
- 2) Based on the resolution approved in the board of directors' meeting of Primax Holdings held on December 31, 2007, Primax Holdings declared an incentive plan to grant the right to some employees of the Company to participate in the subscription of the non-voting ordinary shares of Primax Holdings. The transaction is a kind of equity-settled share-based payment agreement, and the equity instruments under this agreement were vested at the date of grant. Primax Holdings recognized the compensation cost by using the fair value method. The difference in value between the net value per share of Primax Holdings determined at the grant date and the exercise price per share was recognized as cost of long-term investment in the Company by Primax Holdings in 2007, and was recognized as compensation cost and capital surplus by the Company. Based on the resolution approved in the board of directors' meeting of Primax Holdings held in April 2008, Primax Holdings amended the share-based payment agreement mentioned above, and consequently, the non-voting ordinary shares were replaced by options to purchase them. The amendment had no impact on the accompanying financial statements.
- 3) In addition, Primax Holdings declared an incentive plan to grant stock options to employees of the Company in January, May and November 2008 to participate in the subscription of the non-voting ordinary shares of Primax Holdings. Some of the options are vested at the grant date; the others are vested from two years to five years after the grant date. Primax Holdings recognized the compensation cost by using the fair value method as cost of long-term investment in the Company, and the Company correspondingly recognized it as compensation cost and capital surplus.
- 4) Based on the resolution approved in the board of directors' meetings of Primax Holdings and the Company held in December 2008, the Company issued employee stock options in exchange for part of the unvested or unexercised employee stock options issued by Primax Holdings. Specifically, 2.94 units of employee stock options were issued by the Company in exchange for 1 unit of the employee stock options issued by Primax Holdings. Each unit of the Company's options could be converted into 1 common share of the Company. The exercise price of Primax Holdings' options is USD0.2 per unit; the exercise price of the Company's options is NT\$11.42 (dollars) per unit after the modification. Meanwhile, the Company granted a certain amount of retention bonus to employees at the modification date, and the Company shall pay the retention bonus when the Company's stock options are exercised. The other terms and conditions of the employee stock options are not changed. According to the modification, the Company decreased the capital surplus by \$118,089, and recognized a corresponding increase in retention bonus payable (recorded as accrued expense and other liabilities) on December 30, 2008. The incremental fair value of \$55,308 resulting from the modification will be recognized as compensation cost over the remainder of the vesting period.

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Notes to the Financial Statements

- 5) In accordance with the revised employee stock option plan mentioned above, the Company issued 9,545,248 units of employee stock options in November 2009. Each unit could be converted into 1 ordinary share of the Company.
- 6) In September 2011, the Company's board of directors resolved to issue employee stock options (Plan 3). The plan was approved by the SFB in October 2011, and the maximum number of options authorized to be granted was 5,000 units with each unit eligible to be converted into 1,000 ordinary shares of the Company when exercised. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries in which the Company owns, directly or indirectly, more than fifty percent (50%) of the subsidiary's voting rights. The Company actually issued 1,500 units and 3,500 units in November 2011 and October 2012, respectively, which were evaluated at fair value. In accordance with the employee stock option plan mentioned above, the Company recognized the investment and capital surplus amounting to \$11,072 and \$2,517 in 2017 and 2016, respectively.
- 7) As of December 31, 2017, outstanding employee stock options of the Company for equity-settled share-based payment were as follows:

	Plan 1 (note)	Plan 2 (note)	Plan 3 (note)	
			Issued in November 2011	Issued in October 2012
Modification and grant date	December 30, 2008/ November 12, 2009	December 30, 2008/ November 12, 2009	November 24, 2011	October 22, 2012
Exercise price	11.42	11.42	16.20	24.1
Granted units (thousand)	30,828	7,224	1,500	3,500
Service period (from the grant date of the original stock options)	5 years (May 23, 2005~ November 11, 2014)	6~8 years (January 2, 2008~ November 11, 2017)	5 years (November 24, 2011~ November 23, 2016)	5 years (October 22, 2012~ October 21, 2017)
Vesting period (from the grant date of the original stock options)	2 ~ 3 years	3 ~ 5 years	2 ~ 3 years	2 ~ 3 years

Note Stock options under Plan 1 included those granted by Primax in May 2005, June and December 2006, and February and March 2007; those granted by Primax Holdings in January, May and November 2008; and those granted by the Company in November 2009.

Stock options under Plan 2 included those granted by Primax Holdings in January and May 2008, and those granted by the Company in November 2009.

Stock options under Plan 3 included those granted by the Company in November 2011 and October 2012.

The information on the outstanding employee stock options of Primax Holdings using the Black-Scholes option pricing model to measure the fair value at the grant date was as follows:

Period of stock options	Plan 1	Plan 2
Exercise price of Primax Holdings's stock options (USD)	0.2	0.2
Expected time until expiration (years)	2.37~5	6~8
Stock price per share of Primax Holdings (USD)	0.91677~1	0.91677~0.92827

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Period of stock options	Plan 1	Plan 2
Expected volatility of stock price	34.78%~44.59%	38.98%~48.44%
Expected cash dividend rate	-	-
Risk-free interest rate	2.439%~2.665%	2.509%~2.538%

The Company applied the Black-Scholes option pricing model to measure the fair value of employee stock options granted in November 2009, 2011 and October 2012. The information on share-based payment was as follows:

Period of stock options	Plan 1	Plan 2	Plan 3	
			Issued in November 2011	Issued in October 2012
Exercise price of stock options (NT dollars)	11.42	11.42	18.2	28.25
Expected time until expiration (years)	5	8	5	5
Stock price per share (NT dollars)	16.50	16.50	26.02	28.25
Expected volatility of stock price	45.18%	45.18%	29.12%	32.38%~34.61%
Expected cash dividend rate	-	-	6%	3.77%
Risk-free interest rate	2.26%	2.26%	1.81%	1.425%

- 8) The incremental fair value resulting from the modification described in section (4) above amounted to \$55,308 (including the accrued retention bonus of \$261,721). The measurement basis of share-based payment as of December 30, 2008 (the modification date) was as follows:

	Plan 1		Plan 2	
	Before the modification	After the modification	Before the modification	After the modification
Granted options	Primax Holdings	the Company	Primax Holdings	the Company
Granted units	7,365	21,654	2,331	6,853

The information on the stock options using the Black-Scholes option pricing model to measure the incremental fair value at the modification date was as follows:

	Plan 1		Plan 2	
	Before the modification	After the modification	Before the modification	After the modification
Exercise price	USD0.20	NT\$11.42 (dollars)	USD0.20	NT\$11.42 (dollars)
Expected time until expiration (years)	0.39~3.89	0.39~3.89	3.51~5.85	3.51~5.85
Stock price per share	USD1.12	NT\$11.42 (dollars)	USD1.12	NT\$11.42 (dollars)
Expected volatility of stock price	33.56%~45.36%	33.56%~45.36%	39.30%~45.36%	39.30%~45.36%
Expected dividend rate	-	-	-	-
Risk-free interest rate	1.005%~1.5%	1.005%~1.5%	1.5%~1.95%	1.5%~1.95%

(Continued)

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9) The related information on compensatory employee stock option plans was as follows:

	2017		2016	
	Weighted- average exercise price	Stock options (in thousands)	Weighted- average exercise price	Stock options (in thousands)
Outstanding on January 1	22.16	957	24.66	1,728
Granted during the year	-	-	-	-
Forfeited during the year	15.21	(301)	25.20	(25)
Exercised during the year	24.23	(656)	25.62	(746)
Expired during the year	-	-	-	-
Outstanding on December 31	-	-	22.16	957
Exercisable on December 31	-	-	22.16	957

As of December 31, 2017 and 2016, the information on the employee stock option plans outstanding was as follows:

	December 31, 2017	December 31, 2016
Employee stock option plan 1	-	-
Employee stock option plan 2	-	211
Employee stock option plan 3 -Issued in November 2011	-	-
Employee stock option plan 3 -Issued in October 2012	-	746
Outstanding at end of year	-	957
Weighted-average expected time remaining until expiration (years)	-	0.82

(ii) Restricted stock

1) As of December 31, 2017, the outstanding restricted stock of the Company was as follows:

	Plan 1 (note 1)				Plan 2 (note 1)		Plan 3 (note 1)	
	October 1, 2013	November 20, 2013	February 10, 2014	July 17, 2014	February 24, 2015	August 18, 2015	February 13, 2017	September 7, 2017
Fair value on grant date (per share)	22.80	25.15	27.30	52.00	43.70	38.40	45.80	72.40
Exercise price	Free grants	Free grants	Free grants	Free grants	Free grants	Free grants	Free grants	Free grants
Granted units (thousand shares)	1,450	186	135	220	1,225	1,775	2,450	550
Vesting period	1~3 years (notes 2 and 3)	1~2 years (notes 3 and 4)	1~2 years (notes 3 and 4)	1~2 years (note 3)	1~3years (notes 2 and 3)	1~3 years (note 2)	1~3 years (note 2)	1~3 years (note 2)

(Continued)

PRIMAX ELECTRONICS LTD.
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Note 1: Plan 1 –After the stockholders’ meeting on June 25, 2013, the Company decided to issue shares of restricted stock to those full-time employees who meet the Company’s requirements. The restricted stock has been registered with and approved by the Securities and Futures Bureau of the FSC. The board of directors’ meeting resolved to issue 1,450 thousand shares, 186 thousand shares, 135 thousand shares, and 220 thousand shares on August 13 and November 12, 2013, and January 22 and June 27, 2014, respectively.

Plan 2 –After the stockholders’ meeting on June 24, 2014, the Company decided to issue shares of restricted stock to those full-time employees who meet the Company’s requirements. The restricted stock has been registered with and approved by the Securities and Futures Bureau of the FSC. The board of directors’ meeting resolved to issue 1,225 thousand shares and 1,775 thousand shares on January 28 and August 13, 2015, respectively.

Plan 3 –After the shareholders’ meeting on June 20, 2016, the Company decided to issue shares of restricted stock to those full-time employees who meet the Company’s requirements. The restricted stock has been registered with and approved by the Securities and Futures Bureau of the FSC. The board of directors’ meeting resolved to issue 2,450 thousand shares and 550 thousand shares on January 23 and August 10, 2017, respectively.

Note 2: If the employees continue to provide service to the Company and meet the prior year’s performance indicator, 30% of the restricted stock shall be vested in year 1 after the grant date, and the remaining 30% and 40% shall be vested in year 2 and year 3, respectively, after the grant date.

Note 3: If the employees continue to provide service to the Company and meet the prior year’s performance indicator, 50% of the restricted stock shall be vested in year 1 after the grant date, and the remaining 50% shall be vested in year 2 after the grant date.

Note 4: If the employees continue to provide service to the Company and meet the prior year’s performance indicator, the restricted stock shall be vested in year 1 after the grant date.

The restricted stock is kept by a trust, which is appointed by the Company, before it is vested. These shares shall not be sold, pledged, transferred, gifted, or, by any other means, disposed of to third parties during the custody period. The voting rights of these shares are executed by the custodian, and the custodian will act based on law and regulations. If the shares remain unvested after the vesting period, the Company will cancel the unvested shares thereafter.

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PRIMAX ELECTRONICS LTD.
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2) The related information on restricted stock of the Company was as follows:

(Thousand shares)	2017	2016
Outstanding on January 1	1,771	3,270
Granted during the year	3,000	-
Forfeited during the year	-	-
Vesting during the year	(743)	(1,214)
Expired during the year	(94)	(285)
Outstanding on December 31	<u><u>3,934</u></u>	<u><u>1,771</u></u>

(iii) Expenses and liabilities attributable to share-based payment were as follows:

	2017	2016
Restricted stock	<u>\$ 79,420</u>	<u>43,182</u>
Salary payable:		
Current	<u>\$ -</u>	<u>1,938</u>

(q) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the years ended December 31, 2017 and 2016, based on the profit and the weighted-average number of ordinary shares outstanding was as follows:

	2017	2016
Profit of the Company for the year	<u>\$ 2,057,415</u>	<u>1,934,070</u>
Weighted-average number of ordinary shares (thousand shares)	<u>440,907</u>	<u>439,169</u>
Basic earnings per share (NT dollars)	<u>\$ 4.67</u>	<u>4.40</u>

Weighted-average number of ordinary shares (thousand shares)

	2017	2016
Ordinary shares on January 1	440,363	437,818
Exercise of employee stock options	152	760
Vesting of restricted stock	392	591
Ordinary shares on December 31	<u><u>440,907</u></u>	<u><u>439,169</u></u>

(Continued)

PRIMAX ELECTRONICS LTD.
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(ii) Diluted earnings per share

The calculation of diluted earnings per share for the years ended December 31, 2017 and 2016, based on the profit and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares was as follows:

	<u>2017</u>	<u>2016</u>
Profit of the Company for the year	<u>\$ 2,057,415</u>	<u>1,934,070</u>
Weighted-average number of ordinary shares (diluted / thousand shares)	<u>444,846</u>	<u>443,212</u>
Diluted earnings per share (NT dollars)	<u>\$ 4.63</u>	<u>4.36</u>
	<u>2017</u>	<u>2016</u>
Weighted-average number of ordinary shares on December 31 (basic)	440,907	439,169
Effect of employee stock options	529	745
Estimated effect of employee stock bonuses	1,117	2,174
Effect of restricted stock	<u>2,293</u>	<u>1,124</u>
Weighted-average number of ordinary shares on December 31 (diluted)	<u>444,846</u>	<u>443,212</u>

(r) Operating revenue

The details of operating revenue for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Goods sold	<u>\$ 34,135,266</u>	<u>44,778,842</u>
Services rendered	<u>888,297</u>	<u>960,941</u>
Total	<u>\$ 35,023,563</u>	<u>45,739,783</u>

(s) Employee's, directors' and supervisors' remuneration

In accordance with the Articles of incorporation, the Company should contribute 2 to 10 percent of the profit as employee remuneration and less than 2 percent as directors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

Details of remuneration to employees and directors for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Employee remuneration	<u>\$ 68,182</u>	<u>74,000</u>
Directors' remuneration	<u>34,094</u>	<u>36,803</u>
	<u>\$ 102,276</u>	<u>110,803</u>

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PRIMAX ELECTRONICS LTD.
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The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during each period. The differences between the amounts distributed and those accrued in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

The differences between the amounts approved in the directors' meeting and those recognized in the financial statements for the distributions of earnings for 2016 and 2015 were as follows:

	2016		
	Actual earnings distributed	Accrued in the financial statements	Difference
Employee remuneration			
Stock	\$ -	-	-
Cash	74,000	74,000	-
Directors' remuneration	36,800	36,803	3
	2015		
	Actual earnings distributed	Accrued in the financial statements	Difference
Employee remuneration			
Stock	\$ -	-	-
Cash	78,500	78,269	(231)
Directors' remuneration	32,000	31,907	(93)

The differences were accounted for as changes in accounting estimates and recognized as profit or loss in the year 2017 and 2016. Information about the remuneration to employee and directors approved in the board of directors' meetings can be accessed in the Market Observation Post System website.

(t) Other income

The other income for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Interest revenue of cash in banks	\$ 20,293	11,599
Rent revenue	8,458	7,177
Cash dividend revenue	23,325	14,692
	\$ 52,076	33,468

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

(u) Other gains and losses

The details of other gains and losses for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Net losses on financial assets/liabilities measured at fair value through profit or loss	\$ (10,012)	(9,113)
Foreign currency exchange gains, net	57,284	160,646
Gains on sale of available-for-sale financial assets	330,887	140,969
Gains on disposal of subsidiaries	-	248,006
Compensation loss	-	(180,000)
Other	241,132	10,898
	<u>\$ 619,291</u>	<u>371,406</u>

(v) Reclassification adjustments of components of other comprehensive income

The reclassification adjustment for other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Unrealized gains or losses of available-for-sale financial assets, net of tax:		
Net changes in fair value	\$ (1,090)	251,675
Net changes in fair value reclassified to profit or loss	(330,887)	(140,969)
Net changes in fair value recognized in other comprehensive income	<u>\$ (331,977)</u>	<u>110,706</u>

(w) Financial instruments

(i) Credit risk

The aging analysis of accounts, and other receivables (including related parties) that were past due but not impaired was as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Past due 0-30 days	\$ 365,148	505,192
Past due 31-90 days	14,794	208,462
Past due 91-180 days	7,381	10,926
Past due 181-365 days	473	4,028
Past due over a year	88,597	-
	<u>\$ 476,393</u>	<u>728,608</u>

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The Company assesses the uncollectible amount of accounts and other receivables (including related parties) based on the aging analysis, the collection history, the customers' current financial status and the insurance status, and recognizes an allowance for doubtful debts accordingly. After the Company's assessment, there is no significant change in the customers' credit quality and the collectability of related receivables.

The movements in the allowance for the years ended December 31, 2017 and 2016, were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2017	\$ -	76,977	76,977
Impairment loss recognized (reversal amount)	66,591	(36,495)	30,096
Amounts written off	-	-	-
Exchange differences on translation of foreign currency	-	(6,046)	(6,046)
Balance on December 31, 2017	<u>\$ 66,591</u>	<u>34,436</u>	<u>101,027</u>
	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2016	\$ -	19,647	19,647
Impairment loss recognized	-	57,778	57,778
Amounts written off	-	-	-
Exchange differences on translation of foreign currency	-	(448)	(448)
Balance on December 31, 2016	<u>\$ -</u>	<u>76,977</u>	<u>76,977</u>

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
December 31, 2017							
Non-derivative financial liabilities:							
Notes and accounts payable	\$ 28,195	28,195	28,195	-	-	-	-
Accounts payable - related parties	8,339,013	8,339,013	8,339,013	-	-	-	-
Other payables	1,334,403	1,334,403	1,334,403	-	-	-	-
Long-term accounts payable to related parties	423,944	423,944	-	-	-	423,944	-
Long-term borrowings	218,888	221,752	108,721	28,532	56,677	27,822	-
Guarantee deposits	160,639	160,639	-	-	-	-	160,639
Derivative financial liabilities:	103,107	-	-	-	-	-	-
Outflow	-	3,187,373	3,187,373	-	-	-	-
Inflow	-	(3,089,268)	(3,089,268)	-	-	-	-
	<u>\$ 10,608,189</u>	<u>10,606,051</u>	<u>9,908,437</u>	<u>28,532</u>	<u>56,677</u>	<u>451,766</u>	<u>160,639</u>

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6~12 months</u>	<u>1~2 years</u>	<u>2~5 years</u>	<u>Over 5 years</u>
December 31, 2016							
Non-derivative financial liabilities:							
Notes and accounts payable	\$ 783,593	783,593	783,593	-	-	-	-
Accounts payable - related parties	9,352,640	9,352,640	9,352,640	-	-	-	-
Other payables	1,520,893	1,520,893	1,520,893	-	-	-	-
Long-term accounts payable to related parties	781,263	781,263	-	-	-	781,263	-
Long-term borrowings	601,111	609,653	277,546	110,096	137,431	84,580	-
Guarantee deposits	125,703	125,703	-	-	-	-	125,703
Derivative financial liabilities:	150,430	-	-	-	-	-	-
Outflow	-	2,766,941	2,766,941	-	-	-	-
Inflow	-	(2,615,359)	(2,615,359)	-	-	-	-
	<u>\$ 13,315,633</u>	<u>13,325,327</u>	<u>12,086,254</u>	<u>110,096</u>	<u>137,431</u>	<u>865,843</u>	<u>125,703</u>

The Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to foreign currency risk

The Company's significant exposure to foreign currency risk was as follows:

	<u>December 31, 2017</u>			<u>December 31, 2016</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rat</u>	<u>TWD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:TWD	\$ 348,026	29.848	10,387,878	416,943	32.279	13,458,517
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:TWD	339,620	29.848	10,136,980	376,297	32.279	12,146,505

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts and other receivables (including related parties), loans and borrowings, notes and accounts payable (including related parties), and other payables (including related parties) that are denominated in foreign currency.

A weakening (strengthening) of 5% of the TWD against the USD as of December 31, 2017 and 2016, would have increased or decreased the net profit before tax by \$12,545 and \$65,601, respectively. The analysis is performed on the same basis for both periods.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

3) Exchange gains and losses on monetary items

The Company's exchange gains and losses on monetary items (including realized and unrealized) translated to the Company's functional currency were as follows:

	2017		2016	
	Exchange gains and losses	Average exchange rate	Exchange gains and losses	Average exchange rate
TWD	\$ 57,284	1	160,646	1

(iv) Interest rate analysis

Please refer to note 6(x) for the interest rate exposure of financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of non-derivative financial instruments on the reporting date. Regarding liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.25% when reporting to management internally, which also represents the Company management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 0.25%, and assumed all other variables remain constant the net profit before tax would have increased or decreased by \$9,400 and by \$10,374 for the years ended December 31, 2017 and 2016, respectively. This is mainly due to bank savings and borrowings with variable interest rates.

(v) Other price risk

If the market price of the equity securities had changed on the reporting date, the influence on other comprehensive income are as follows (The analysis is performed on the same basis for both periods, and assumes all other variable remain constant):

	2017		2016	
Prices of securities at the reporting date	Other comprehensive income after tax		Other comprehensive income after tax	
Increasing 10%	\$	-		58,640
Decreasing 10%	\$	-		(58,640)

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PRIMAX ELECTRONICS LTD.
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(vi) Fair value

1) Kinds of financial instruments and fair value

The carrying amount and fair value of the Company's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

		December 31, 2017				
		Fair Value				
		Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets at fair value						
through profit or loss – current	\$ <u>93,095</u>	-	-	93,095	93,095	
Available-for-sale financial assets						
– non-current	\$ <u>397,252</u>	-	-	397,252	397,252	
Loans and receivables						
Cash and cash equivalents	\$ 3,979,290					
Notes and accounts receivable (including related parties)	6,285,571					
Other receivables	184,718					
Refundable deposits	<u>26,719</u>					
Total	<u>\$ 10,476,298</u>					
Financial liabilities at fair value						
through profit or loss – current	\$ <u>103,107</u>	-	-	103,107	103,107	
Financial liabilities carried at						
amortized cost						
Borrowings	\$ 218,888					
Notes and accounts payable (including related parties)	8,367,208					
Other payables	1,828,968					
Long-term accounts payable to related parties	423,944					
Salary payable	206,129					
Guarantee deposits	<u>160,639</u>					
Total	<u>\$ 11,205,776</u>					

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PRIMAX ELECTRONICS LTD.
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		December 31, 2016			
		Fair Value			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss – current	\$ <u>141,317</u>	-	-	141,317	141,317
Available-for-sale financial assets – non-current	\$ <u>873,921</u>	586,404	-	287,517	873,921
Loans and receivables					
Cash and cash equivalents	\$ 4,751,198				
Notes and accounts receivable (including related parties)	7,853,154				
Other receivables	1,050,923				
Refundable deposits	<u>26,209</u>				
Total	\$ <u>13,681,484</u>				
Financial liabilities at fair value through profit or loss – current	\$ <u>150,430</u>	-	-	150,430	150,430
Financial liabilities carried at amortized cost					
Borrowings	\$ 601,111				
Notes and accounts payable (including related parties)	10,136,233				
Other payables	2,331,760				
Long-term accounts payable to related parties	781,263				
Salary payable	359,279				
Guarantee deposits	<u>125,703</u>				
Total	\$ <u>14,335,349</u>				

2) Valuation techniques for financial instruments measured at fair value

If a financial instrument has a quoted price in an active market, the quoted price is used as fair value. The quoted price of a financial instrument obtained from major exchanges and over-the-counter markets are the basis used to determine the fair value of a listed company's stock and the quoted prices in an active market.

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. If these conditions can not be reached, then the market is non-active. In general, a market with low trading volume or high bid-ask spreads is an indication of a non-active market.

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The Company uses the following methods in determining the fair value of its financial instruments without a quoted price in an active market:

- a) The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value is estimated on the basis of the contract's spot exchange rate and swap point.
 - b) Available-for-sale financial assets – non-current are investments in domestic or foreign non-listed stock. If the price of capital increase by cash is reliable, the fair value will be estimated on the issuance price of ordinary shares, while others will be based on market approach of comparable business. For stocks in the emerging market, the estimated fair value is adjusted for the lack liquidity. When prices listed in the emerging market are available, the fair value is estimated on the basis of unadjusted prior trade prices.
- 3) There is no transferring of fair value hierarchy for 2017 and 2016.
 - 4) Reconciliation of Level 3 fair values

	2017			2016		
	Fair value through profit or loss	Available for sale	Total	Fair value through profit or loss	Available for sale	Total
Balance on January 1	\$ (9,113)	287,517	278,404	26,287	16,297	42,584
Recognized in profit or loss	(10,012)	-	(10,012)	(9,113)	-	(9,113)
Recognized in other comprehensive income	-	91,506	91,506	-	(3,000)	(3,000)
Acquisition / disposal	9,113	18,229	27,342	(26,287)	274,220	247,933
Balance on December 31	\$ (10,012)	397,252	387,240	(9,113)	287,517	278,404

- 5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Company's financial instruments that use Level 3 inputs to measure fair value include "financial assets and liabilities at fair value through profit or loss", "derivative financial instruments" and "available-for-sale financial assets – equity investments". Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationships between significant unobservable inputs and fair value
Available-for-sale financial assets – equity securities not listed on emerging stock market	Guideline Public Company method	Lack-of-Marketability Discount (10% on December 31, 2017)	The Higher the Lack-of-Marketability Discount is, the lower the fair value will be

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<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationships between significant unobservable inputs and fair value</u>
Available-for-sale financial assets – equity securities not listed on emerging stock market	(note 1)	(note 1)	(note 1)
Financial assets and liabilities at fair value through profit or loss	(note 2)	(note 2)	(note 2)

note 1: The fair value is based on unadjusted prior trade prices, therefore there is no need to show the sensitivity analysis of unobservable inputs.

note 2: The fair value is based on the quotation of a third party, therefore there is no need to show the sensitivity analysis of unobservable inputs.

6) Sensitivity analysis for fair values of financial instruments using Level 3 Inputs

The Company's fair value measurement on financial instruments is reasonable. However, the measurement would be different if different valuation models or valuation parameters are used. For financial instruments using level 3 inputs, if the valuation parameters changed, the impact on net income or loss and other comprehensive income or loss are as follows:

	<u>Input</u>	<u>Variation</u>	<u>Other comprehensive income</u>	
			<u>Advantageous changes</u>	<u>Disadvantageous changes</u>
December 31, 2017				
Available-for- sale financial assets-equity securities listed on emerging stock market	Discount of lack Marketability	±10%	<u>\$ 37,468</u>	<u>(37,468)</u>

(x) Financial risk management

(i) Overview

The Company has exposure to the following risks from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

This note presents information on exposure to each of the above risks and on the objectives, policies, and processes for measuring and managing risk. For detailed information, please refer to the related notes on each risk.

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(ii) Structure of risk management

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The board of directors oversees the management's monitoring of the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The board of directors is assisted in its oversight role by an internal auditor. The internal auditor undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the board of directors.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, accounts and other receivables (including related parties), and derivative instruments.

1) Cash and cash equivalents

The Company had deposited \$3,935,028 (including restricted deposits) in HSBC Bank and 8 other financial institutions, and \$4,634,282 (including restricted deposits) in DBS Bank and 7 other financial institutions, representing 16% and 17% of total assets, as of December 31, 2017 and 2016, respectively. The Company believes that there is no significant credit risk from the above-mentioned financial institutions.

2) Accounts receivable

Sales to individual customers (including related parties) constituting over 10% of total revenue for the years ended December 31, 2017 and 2016, totaled 15% and 21%, respectively. As of December 31, 2017 and 2016, 10% and 7%, respectively, of the ending balance of accounts receivable (including related parties) was accounted for by those customers. In order to reduce credit risk, the Company assesses the financial status of the customers and the possibility of collection of receivables on a regular basis. The above-mentioned customers are profitable and have a good credit record, and the Company did not suffer any significant credit loss from those customers during the financial reporting period.

3) Derivative instruments

The Company entered into derivative instrument contracts with reputable and creditworthy financial institutions. The Company believes that the risk that these financial institutions may default on these contracts is relatively low and anticipates no significant credit loss.

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PRIMAX ELECTRONICS LTD.
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(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Company had unused bank facilities of \$8,966,896 and \$10,044,220 as of December 31, 2017 and 2016, respectively.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Company is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the functional currency. These transactions are denominated in USD.

The Company uses forward exchange contracts and foreign exchange swap contracts to hedge its currency risk. The Company makes performance reports and reviews operating strategy regularly, and believes that there is no significant risk because the gains or losses from exchange rate fluctuation will mostly be offset by the hedged item.

2) Interest rate risk

The Company's main assets and liabilities with a floating-interest-rate basis are deposits and borrowings. The Company believes that cash flow risk arising from interest rate fluctuation is insignificant.

3) Other market price risk

The Company is exposed to equity price risk due to the investments in listed equity securities. Those equity securities are strategic investments and is not held for trading. All of the equity securities have been disposed in 2017.

(y) Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, retained earnings, other equity, and non-controlling interests.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

The Company sets its objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return to stockholders, to safeguard the interest of related parties, and to maintain an optimal capital structure to reduce the cost of capital.

The Company's debt ratio as of December 31, 2017 and 2016, were 53% and 59%, respectively.

(7) Related-party transactions:

- (a) Parent company and ultimate controlling company

<u>Name of related party</u>	<u>Relationship with the Group</u>
Primax Industries (Cayman Holding) Ltd. (Primax Cayman)	A subsidiary
Primax Technology (Cayman Holding) Ltd. (Primax Tech.)	A subsidiary
Destiny Technology Holding Co., Ltd. (Destiny BVI.)	A subsidiary
Primax Destiny Co., Ltd. (Destiny Japan)	A subsidiary
Diamond (Cayman) Holdings Ltd. (Diamond)	A subsidiary
Gratus Technology Corp. (Gratus Tech.)	A subsidiary
Primax Industries (Hong Kong) Ltd. (Primax HK)	A subsidiary
Tymphany Worldwide Enterprises Ltd. (TWEL)	A subsidiary
Dongguan Primax Electronic & Telecommunication Products Ltd. (PCH2)	A subsidiary
Primax Electronics (KS) Corp., Ltd. (PKS1)	A subsidiary
Primax Electronics (Chongqing) Corp., Ltd. (PCQ1)	A subsidiary
Polaris Electronics Inc.(Polaris)	A subsidiary
Destiny Electronic Corp. (Destiny Beijing)	A subsidiary
Premium Loudspeakers (Hui Zhou) Co., Ltd. (Premium Huizhou)	A subsidiary
Tymphany Acoustic Technology HK Ltd. (TYM Acoustic HK)	A subsidiary
Dongguan Tymphany Acoustic Technology Co., Ltd. (Tymphany Dongguan)	A subsidiary
TYMPHANY ACOUSTIC TECHNOLOGY (UK) LIMITED (TYM UK)	A subsidiary
Tymphany Acoustic Technology Europe, s.r.o. (TYM Acoustic Europe)	A subsidiary
TYP Enterprises, Inc.(TYP)	A subsidiary
Tymphany HK Ltd.(TYM HK)	A subsidiary

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PRIMAX ELECTRONICS LTD.
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<u>Name of related party</u>	<u>Relationship with the Group</u>
Tymphany Acoustic Technology Limited (TYM Acoustic)	A subsidiary
TYMPHANY LOGISTICS, INC (TYML)	A subsidiary
Dong Guan Dong Cheng Tymphany Acoustic Technology Co., Ltd. (TYDC)	A subsidiary
Ya Xing Huang and his family members	Key management personnel of the subsidiary Global TEK. (The Company disposed parts of shares of Global TEK and lost control of the subsidiary in October 2016.)
Primax Electronics Korea Co., Ltd. (Primax Korea)	A subsidiary (Primax Korea was closed and finished the liquidation process in March 2016)
Global TEK Fabrication Co., Ltd. (Global TEK)	A subsidiary (The Company disposed parts of shares of Global TEK and lost control of the subsidiary in October 2016.)
Global TEK Co., Ltd. (GT)	A subsidiary (The Company disposed parts of shares of Global TEK and lost control of the subsidiary in October 2016.)
Global TEK Fabrication Co., Ltd.(Samoa) (GTF-S)	A subsidiary (The Company disposed parts of shares of Global TEK and lost control of the subsidiary in October 2016.)
GP Tech, Inc. (GP)	A subsidiary (The Company disposed parts of shares of Global TEK and lost control of the subsidiary in October 2016.)
Global TEK Fabrication Co., Ltd. (HK) (GTF-HK)	A subsidiary (The Company disposed parts of shares of Global TEK and lost control of the subsidiary in October 2016.)
Global TEK Co., Ltd (Samoa) (GTS)	A subsidiary (The Company disposed parts of shares of Global TEK and lost control of the subsidiary in October 2016.)
WUXI GLOBAL TEK FABRICATION CO., LTD. (WUXI GLOBAL TEK)	A subsidiary (The Company disposed parts of shares of Global TEK and lost control of the subsidiary in October 2016.)
GLOBAL TEK (XI' AN) CO., LTD. (GLOBAL TEK XI' AN)	A subsidiary (The Company disposed parts of shares of Global TEK and lost control of the subsidiary in October 2016.)
GLOBAL TEK CO. (WUXI), LTD. (GLOBAL TEK WUXI)	A subsidiary (The Company disposed parts of shares of Global TEK and lost control of the subsidiary in October 2016.)

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

(b) Significant transactions with related-party

(i) Sales

The amounts of sales by the Company to related parties and the outstanding balances were as follows:

	Sales		Accounts receivable – related parties	
	2017	2016	December 31, 2017	December 31, 2016
Subsidiaries	<u>\$ 3,089,818</u>	<u>4,445,229</u>	<u>29,181</u>	<u>513,446</u>

The sales prices for related parties and other customers were not significantly different. The credit terms for other customers are within 90 days, but they can be lengthened for related parties.

(ii) Purchases

The amounts of purchases by the Company from related parties and the outstanding balances were as follows:

	Purchases		Accounts payable – related parties	
	2017	2016	December 31, 2017	December 31, 2016
PCH2	\$ 26,362,084	18,234,471	6,137,747	6,971,192
Primax HK	-	16,357,886	-	-
PCQ1	5,278,105	5,189,828	1,748,395	1,922,281
Others (note)	<u>1,224,274</u>	<u>1,476,216</u>	<u>452,871</u>	<u>459,167</u>
	<u>\$ 32,864,463</u>	<u>41,258,401</u>	<u>8,339,013</u>	<u>9,352,640</u>

Note: Individual amount not exceeding 10%.

The prices of purchases were determined based on the cost plus a reasonable profit margin. The payment terms of related parties and other vendors are 60 days to 360 days and 20 days to 120 days, respectively.

Accounts payable to subsidiaries over normal payment terms agreed by both sides was reclassified to long-term payable. On December 31, 2017 and 2016, long-term accounts payable to related parties were \$423,944 and \$781,263, respectively.

(iii) Purchase of service

The amounts of purchase of service by the Company from its related parties and the outstanding balances were as follows:

	Purchase of service		Other payables	
	2017	2016	December 31, 2017	December 31, 2016
Subsidiaries	<u>\$ 40,733</u>	<u>28,448</u>	<u>3,242</u>	<u>1,540</u>

(Continued)

PRIMAX ELECTRONICS LTD.
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(iv) Receivable and payable on behalf of related parties

The other payables arising from receiving the equipment subsidy on behalf of subsidiaries amounted to \$16,322 and \$9,828 for the years ended December 31, 2017 and 2016.

The other receivables arising from the materials purchased on behalf of the subsidiaries amounted to \$94,599 and \$854,518 for the years ended December 31, 2017 and 2016.

(v) Property transaction – disposal of equity securities

Details of the Company's disposal of its investment accounted by equity method to its related parties were as follows:

Relationship	Account	2017				2016			
		Trading quantities	Trading targets	Proceeds from disposal	Gains or losses from disposal	Trading quantities	Trading targets	Proceeds from disposal (note)	Gains or losses from disposal
Other related parties	Investment using equity method	-	-	-	-	11,020 (thousand)	Shares	549,347	164,785

Note: Pricing was based on the Global TEK's financial statements audited by other auditors and the opinion for reasonable transaction price issued by Sosian accounting firm.

The Company had received all the proceeds as of December 31, 2016.

(vi) Guarantees and endorsements

The amounts of guarantee the Company provided to subsidiaries were as follows:

	December 31, 2017	December 31, 2016
Purchasing of raw materials	<u>\$ 313,404</u>	<u>338,930</u>

(vii) Lease

The Company leased out its investment properties to its subsidiaries as office buildings and entered into 15-years lease contract by reference of the rental price of the nearby offices. The rental income in 2017 and 2016 amounted to \$9,914 and \$8,640 and there were no receivables on December 31, 2017 and 2016. Please refer to note 6(l) for non-cancellable receivable.

(c) Key management personnel compensation

	2017	2016
Short-term employee benefits	\$ 122,978	121,107
Post-employment benefits	1,111	1,129
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	<u>40,783</u>	<u>17,088</u>
	<u>\$ 164,872</u>	<u>139,324</u>

Please refer to note 6(p) for information related to share-based payments.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

(8) Pledged assets: None

(9) Commitments and contingencies:

- (a) For the detail of the Company's guarantees provided to subsidiaries, please refer to notes 7 and 13.
- (b) The following are savings accounts provided by the Company to the banks in order for the bank to issue a guarantee letter to customs as guarantee deposits.

	December 31, 2017	December 31, 2016
Guarantee letters	<u>\$ 6,000</u>	<u>6,000</u>

- (c) Guarantee notes provided as part of agreements with banks to sell its accounts receivable and to acquire long-term borrowings were as follows:

	December 31, 2017	December 31, 2016
Sales of accounts receivable	<u>\$ 724,878</u>	<u>2,805,777</u>
Long-term borrowings	<u>\$ 880,000</u>	<u>2,160,000</u>

- (d) The Company entered into lease agreements for its office. Please refer to note 6(l) for future rent payables.

(10) Losses due to major disasters: None

(11) Subsequent events:

- (a) According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing with 2018. This increase does not affect the amounts of the current or deferred income taxes recognized in 2017. However, it will increase the Company's current or deferred tax charge accordingly in the future. If the new tax rate is applied in calculating the taxable temporary differences and tax losses recognized in 2017, the deferred tax assets and deferred tax liabilities would increase by \$55,383 and \$36,184, respectively.
- (b) In order to expand the business scale and strengthen the Company's competitiveness in the market, the board of directors' meeting resolved to acquire 37% shares of Belfast Limited, a company that engages in the manufacturing of electric power steering system and adaptive front lighting system, with an approximate amount of USD\$48,100 on November 10, 2017 by participating in its capital increase by cash, and purchasing its outstanding shares. Until March 13, 2018, this investment has been approved by Investment Commission, Ministry of Economics Affairs, ROC. (MOEA), and its amount USD\$48,100 has been exported in January, 2018.
- (c) Due to response to the capital expenditure for the property, plant and equipment in the future, and expanding the working capital of Premium Huizhou, the board of directors' meeting resolved to increase its investment in Premium Huizhou amounting to USD\$45,000 on March 13, 2018.

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PRIMAX ELECTRONICS LTD.
Notes to the Financial Statements

(12) Other:

Employee benefit, depreciation, and amortization expenses are summarized by function as below:

By item	By function	2017			2016		
		Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefits							
Salaries		102,796	1,135,525	1,238,321	153,736	1,178,444	1,332,180
Labor and health insurance		6,619	73,508	80,127	6,883	68,929	75,812
Pension		3,463	41,858	45,321	3,699	40,006	43,705
Others		4,226	52,820	57,046	5,963	53,531	59,494
Depreciation		7	16,630	16,637	7	18,058	18,065
Amortization		-	23,337	23,337	-	20,140	20,140

The average number of the Company's employees for the years ended December 31, 2017 and 2016, was 811 and 783, respectively.

(13) Other disclosures:**(a) Information on significant transactions:**

The following were the information on significant transactions required by the Regulations for the Company:

(i) Loans to other parties:

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
1	PKS1	The Company	Other receivables	Y	781,263	423,944	423,944	-	Necessary to loan to other parties	-	Operating capital	-	-	-	867,628	867,628
2	Tymphany Dongguan	TYDC	Other receivables	"	38,341	-	-	2%	"	-	"	-	-	-	364,980	364,980
3	TYM HK	TYM Acoustic HK	Other receivables	"	863,693	761,124	722,322	2%	"	-	Investment capital	-	-	-	747,124	747,124

Note 1: After approval by the Board of directors, PKS1, Tymphany Dongguan and TYM HK can lend the individual and total amount shall not exceed its net worth in the latest financial statements to parent company and subsidiaries whose voting shares are 100% owned, directly or indirectly.

(ii) Guarantees and endorsements for other parties:

(In Thousands of New Taiwan Dollars)

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	The Company	PCH2	The subsidiary of Primax HK and Primax Tech.	3,415,582	338,930	313,404	-	-	2.75 %	9,108,218	Y	-	Y
1	PCH2	PCQ1	The same parent company	1,501,202	193,674	131,331	16,938	-	2.62 %	4,003,206	-	-	Y
"	"	PKS1	"	1,501,202	167,398	164,164	56,552	-	3.28 %	4,003,206	-	-	Y

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Note 1: The amount of the guarantee to a company shall not exceed 30% of the Company's net worth in the latest financial statements. The total amount of the guarantee to total company shall not exceed 80% of the Company's net worth in the latest financial statements.

Note 2: The amount of the guarantee to a company shall not exceed 30% of the PCH2 net worth in the latest financial statements. The total amount of the guarantee to total company shall not exceed 80% of the PCH2 net worth in the latest financial statements.

- (iii) Securities held as of December 31, 2017 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Shares:							
	Green Rich Technology Co., Ltd.	-	Available-for-sale financial asset-non-current	359	2,000	3.59	2,000	
	WK Technology Fund IV LTD.	-	"	230	2,004	0.38	2,004	
	Changing Information Technology Inc.	-	"	179	2,102	1.62	2,102	
	Formosoft International Inc.	-	"	53	-	0.76	-	
	Syntronix Corp.	-	"	6	49	0.02	49	
	Ricavision International Inc.	-	"	917	-	2.04	-	
	Global TEK	-	"	5,510	374,680	9.18	374,680	
	Grove Ventures, L.P.	-	"	-	16,417	2.73	16,417	
					<u>397,252</u>			
Primax Tech.	Shares:							
	Echo. Bahn.	-	Available-for-sale financial asset-non-current	400	-	11.90	-	
	WK Global Investment III Ltd.	-	"	473	5,745	1.32	5,745	
					<u>5,745</u>			

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWDS\$300 million or 20% of the Company's paid-in capital:

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales			Ending Balance		
					Shares (thousands)	Amount	Shares (thousands)	Amount	Shares (thousands)	Price	Cost	Gain (loss) on disposal	Shares (thousands)	Amount
TYM Acoustic HK	TYM Acoustic Europe	Investment accounted for using equity method	Initial Offerings	None	-	-	187,800	653,796	-	-	-	-	187,800	545,980 (note 2)
TYM HK	Premium Hui Zhou	"	TWEL	The Group	-	410,738	-	-	-	569,138	643,733	- (note 1)	-	-
TWEL	Premium Hui Zhou	"	TYM HK	"	-	-	-	569,138	-	-	-	-	-	1,514,469 (note 2)
TWEL	TYM HK	"	TYM Acoustic HK	"	144,395	1,540,112	-	-	144,395	714,258	837,712	- (note 1)	-	-
TYM Acoustic Diamond	TYM HK	"	TWEL	"	-	-	144,395	714,258	-	-	-	-	144,395	747,124 (note 2)
	TWEL	"	UIDL, SC and XT	Substantive related parties	38,501	2,904,380	16,500	723,139	-	-	-	-	55,001	3,187,565 (note 3)

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Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales			Ending Balance		
					Shares (thousands)	Amount	Shares (thousands)	Amount	Shares (thousands)	Price	Cost	Gain (loss) on disposal	Shares (thousands)	Amount
TWEL	Premium Hui Zhou	"	TZBV, SC and Bochuang	"	-	586,768	-	-	-	479,752	479,752	-	-	1,514,469 (note 3)
The Company	Shares: Nien Made Enterprise Co., Ltd.	Available-for-sale financial assets	Initial offerings	None	1,763,621	586,404	-	-	1,763,621	497,186	166,299	330,887	-	-
PCH2	Financial instruments of floating income and capital	Held-for-trading financial assets	"	"	-	-	-	1,450,402	-	1,455,108	1,450,402	4,706 (note 3)	-	-
"	Money market fund of RMB	"	"	"	-	-	-	9,146,504	-	9,167,750	9,144,803	21,246 (note 3)	-	-
PCQ1	Money market fund of RMB	"	"	"	-	-	-	3,684,887	-	3,705,442	3,694,627	20,555 (note 3)	-	-
PKS1	Money market fund of RMB	"	"	"	-	-	-	550,197	-	558,263	555,556	8,066 (note 3)	-	-

Note 1: The amount is the capital surplus derived from the differences between the selling price and the cost during the restructuring in the third quarter of 2017, in which there were no related gains (losses) of disposal.

Note 2: The differences between the ending balance and the purchasing price is the investment income (losses) accounted for using equity method, differences between purchasing price and net worth, as well as the capital increase and the adjustment of exchange differences on translation.

Note 3: Gains of disposal include valuation and exchange differences on translation.

- (v) Acquisition of individual real estate with amount exceeding the lower of TWD\$300 million or 20% of the Company's paid-in capital: None
- (vi) Disposal of individual real estate with amount exceeding the lower of TWD\$300 million or 20% of the Company's paid-in capital: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of TWD\$100 million or 20% of the Company's paid-in capital:

Name of company	Related party	Nature of relationship	Purchase/Sale	Transaction details			Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
				Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Primax Cayman	Subsidiary	Purchase	140,623	- %	60 days	Price agreed by both side	The same as general purchasing	(31,085)	-%	
"	PCH2	The subsidiary of Primax HK	Purchase	26,362,084	81 %	"	"	"	(6,137,747)	(73)%	
"	PKS1	The subsidiary of Primax HK	Purchase	1,079,140	3 %	360 days	"	"	(421,786)	(5)%	
"	PCQ1	The subsidiary of Primax HK	Purchase	5,278,105	16 %	60 days	"	"	(1,748,395)	(21)%	
"	Polaris	The subsidiary of Primax Tech	(Sale)	(2,886,921)	(8) %	90 days	"	The same as general selling	22,202	-%	
"	TYM HK	The subsidiary of TYM Acoustic HK	(Sale)	(202,897)	(1) %	60 days	"	"	6,979	-%	
Primax Cayman	The Company	Parent	(Sale)	(140,623)	(100) %	"	"	"	31,085	100%	
"	PCH2	The subsidiary of Primax HK	Purchase	140,623	100 %	"	"	The same as general purchasing	(16,045)	(100)%	

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
PCH2	The Company	The parent of Primax Cayman	(Sale)	(26,362,084)	(82) %	"	"	The same as general selling	6,137,747	82%	
"	Primax Cayman	The parent of Primax HK	(Sale)	(140,623)	- %	"	"	"	16,045	-%	
PKS1	The Company	The parent of Primax Cayman	(Sale)	(1,079,140)	(100) %	360 days	"	"	421,786 (note 1)	100%	
PCQ1	The Company	The parent of Primax Cayman	(Sale)	(5,278,105)	(90) %	60 days	"	"	1,748,395	90%	
Polaris	The Company	The parent of Primax Tech.	Purchase	2,886,921	100 %	90 days	"	The same as general purchasing	(22,202)	(100)%	
Premium Hui Zhou	TYM HK	The subsidiary of TYM Acoustic HK	(Sale)	(5,073,442)	(92) %	60 days	"	The same as general selling	1,888,768	93%	
Tymphony Dongguan	TYM HK	The subsidiary of TYM Acoustic HK	(Sale)	(11,102,092)	(97) %	"	"	"	4,873,979	97%	
TYDC	TYM HK	The subsidiary of TYM Acoustic HK	(Sale)	(1,246,821)	(99) %	"	"	"	65,706	80%	
TYM Acoustic HK	TYM Acoustic Europe	Subsidiary	Purchase	1,281,595	96 %	90 days	"	The same as general purchasing	(437,898)	(93)%	
TYM HK	The Company	The parent of Diamond	Purchase	202,897	1 %	60 days	"	"	(6,979)	-%	
"	Premium Hui Zhou	The parent of TYM Acoustic HK	Purchase	5,073,442	27 %	"	"	"	(1,888,768)	(26)%	
"	Tymphony Dongguan	The subsidiary of Premium Hui Zhou	Purchase	11,102,092	60 %	"	"	"	(4,873,979)	(67)%	
"	TYDC	The subsidiary of Tymphony Dongguan	Purchase	1,246,821	7 %	"	"	"	(65,706)	(1)%	
TYM Acoustic Europe	TYM Acoustic HK	Parent	(Sale)	(1,281,595)	(93) %	"	"	"	437,898	93%	

Note 1: Accounts receivables over payment terms have been classified as other receivables-non-current.

(viii) Receivables from related parties with amounts exceeding the lower of TWD\$100 million or 20% of the Company's paid-in capital:

Name of company	Counter-party	Nature of relationship	Ending balance (note 2)	Turnover rate	Overdue		Amounts received in subsequent period (note 1)	Allowance for bad debts
					Amount	Action taken		
PCH2	The Company	The parent of Primax Cayman	6,137,747	4.02 %	-	-	5,399,648	-
PKS1	The Company	The parent of Primax Cayman	845,730	2.60 %	423,944	Reclassify to Long-term payable, and enhance the control of receivables	133,362	-
PCQ1	The Company	The parent of Primax Cayman	1,748,395	2.88 %	-	-	973,149	-
Premium Hui Zhou	TYM HK	The subsidiary of TYM Acoustic HK	1,888,768	3.53 %	-	-	649,807	-
Tymphony Dongguan	TYM HK	The subsidiary of TYM Acoustic HK	4,873,979	3.66 %	-	-	3,699,981	-
TYM Acoustic Europe	TYM Acoustic HK	Parent	437,898	5.85 %	-	-	316,220	-

Note 1: Amounts were collected as of March 13, 2018.

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(ix) Trading in derivative instruments: Please refer to note 6(b) in the consolidated financial statements for the year ended December 31, 2017.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2017 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2017			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Carrying value			
The Company	Primax Cayman	Cayman Islands	Holding company	2,540,588	2,540,588	8,147,636	100.00	5,135,159	963,666	853,625	
"	Primax Tech.	Cayman Islands	Holding company	897,421	897,421	285,067	100.00	2,021,715	204,489	154,146	
"	Destiny BVI.	Virgin Island	Holding company	30,939	30,939	1,050	100.00	14,551	(10,972)	(10,972)	
"	Destiny Japan	Japan	Market development and customer service	7,032	7,032	0.50	100.00	16,386	1,025	1,025	
"	Diamond	Cayman Islands	Holding company	2,517,298	2,517,298	84,050	100.00	3,089,647	293,587	293,587	
"	Gratus Tech.	USA	Market development and customer service	9,330	9,330	300	100.00	9,647	523	523	
	Total			<u>6,002,608</u>	<u>6,002,608</u>			<u>10,287,105</u>	<u>1,452,318</u>	<u>1,291,934</u>	
Primax Cayman	Primax HK	Hong Kong	Holding company and customer service	2,375,164	2,375,164	602,817	100.00	5,346,825	967,397	967,397	
Primax Tech.	Polaris	USA	Sale of multi-function printers and computer peripheral devices	52,680	52,680	1,600	100.00	373,193	8,712	8,712	
Diamond	TWEL	Cayman Islands	Holding company	2,711,450	2,515,800	55,001	100.00	3,187,565	500,879	298,734	(note 3)
Premium Huizhou	TYM Acoustic HK	Hong Kong	Research and development, design, and sale of audio accessories, amplifiers and their components	19,497	-	5,000	100.00	147,011	(14,475)	(22,017)	(note 2)
TYM Acoustic HK	TYM HK	Hong Kong	Holding company and sale of audio accessories, amplifiers and their components	76,280 (note 1)	-	144,395	100.00	747,124	376,600	20,869	(note 2)
"	TYP	USA	Market development and customer service of amplifiers and their components	15 (note 1)	-	0.5	100.00	8,200	3,748	892	(note 2)
"	TYM UK	United Kingdom	Research and development, design of audio accessories, amplifiers and their components	15,631	-	400	100.00	16,624	563	563	
"	TYM Acoustic Europe	Czech	Manufacture, install and repair of audio accessories and their components	653,796	-	187,800	100.00	545,980	29,907	29,907	
"	Tymphony Acoustic	Taiwan	Research and development, design, and sale of audio accessories, amplifiers and their components	-	-	-	100.00	-	-	-	
TYM HK	TYML	USA	Sales of audio accessories, amplifiers and their components	6,628	6,628	200	100.00	10,057	1,219	3,447	

Note 1: The amount is the initial investment costs from the original stockholders prior to the acquisition of the Company through Diamond.

Note 2: The information is represented after the restructuring in the third quarter of 2017.

Note 3: The information is represented after the acquiring 30% of the capital from minority interest in the fourth quarter of 2017.

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(c) Information on investments in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2017 (note 2)	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2017	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
PCH2	Manufacture of multifunctional peripherals, computer mice, mobile phone accessories, consumer electronics products, and shredders	2,037,050	Indirect investment through Primax Cayman and Primax Tech.	1,773,902	-	-	1,636,597	613,116	100%	613,116	5,004,008	-
Destiny Beijing	Research and development of computer peripheral devices and software	40,353	Indirect investment through Destiny BVI.	33,893	-	-	31,340	(10,972)	100%	(10,972)	14,547	-
PKS1	Manufacture of computer, peripherals and keyboards	891,956	Indirect investment through Primax Cayman	710,138	-	-	656,656	(35,216)	100%	(35,216)	867,628	-
PCQ1	Manufacture of computer, peripherals and keyboards	572,472	Indirect investment through Primax Cayman	645,580	-	-	596,960	176,309	100%	176,309	1,076,168	-
Premium Hui Zhou	Research and development, design, and sale of audio accessories, amplifiers and their components	1,311,036	Indirect investment through Diamond	2,711,436	-	-	2,507,232	265,156	66.44%	194,561	1,514,469	-
Tymphany Dongguan	"	149,240	"	16,140	-	-	14,924	197,738	66.44%	129,391	242,493	-
TYDC	"	91,360	"	-	-	-	-	5,320	66.44%	3,432	64,726	-

Note 1: The above information on the exchange rate is as follows: HKD:TWD 3.8183; USD:TWD 29.8480; CNY:TWD 4.5680.

Note 2: The differences between the accumulated out flow of investments and paid in capital was derived from the currency exchange on translation, capital increase from retained earning and working capital.

(ii) Limitation on investment in Mainland China:

Name of Company	Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
The Company	5,526,547	6,282,248	None (note)

Note: The Company has received the Certificate issued by the Industrial Development Bureau, Ministry of Economic Affairs, allowing it to start the operating of its headquarters.

The above investment income (losses) in mainland China, except for PCH2, Destiny Beijing, PKS1, and PCQ1, which were based on financial statements audited by the Company's auditors, others were based on the audited results of other auditors.

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(iii) Significant transactions:

The significant inter-company transactions with the subsidiaries in Mainland China, which were eliminated in the preparation of the consolidated financial statements, are disclosed in “Information on significant transactions”.

(14) Segment information:

Please refer to the Company’s consolidated financial statements for the year ended December 31, 2017, for details.

PRIMAX ELECTRONICS LTD.**Statement of cash and cash equivalents****December 31, 2017****(Expressed in thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Cash on hand		\$ 451
Checking accounts and demand deposits		2,600,847
Time deposits	USD46,167 thousand ; Exchange rate29.848	<u>1,377,992</u>
		<u>\$ 3,979,290</u>

Statement of accounts receivable

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Accounts receivable:		
Corporation P	Operating revenue	\$ 644,354
Corporation A	"	611,451
Corporation U	"	355,049
Other (individual amount not exceeding 5%)	"	<u>4,774,392</u>
Total		6,385,246
Less: Allowance for doubtful accounts		(101,027)
Allowance for sales returns and discounts		<u>(27,829)</u>
Net accounts receivable		<u>\$ 6,256,390</u>

PRIMAX ELECTRONICS LTD.**Statement of other receivables****December 31, 2017****(Expressed in thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Other receivables—related parties	Payable on behalf of related parties	\$ 94,599
Receivables due to sale of accounts receivable	Remaining receivables due to sale of accounts receivable	81,751
Other (individual amount not exceeding 5%)		<u>8,368</u>
Total		<u><u>\$ 184,718</u></u>

Statement of inventories

<u>Item</u>	<u>Cost</u>	<u>Net realizable value</u>
Finished goods and merchandises	\$ 2,179,971	2,164,677
Less: Provision for finished goods and merchandises	<u>(61,426)</u>	
Subtotal	<u>2,118,545</u>	
Raw material	9,948	<u>10,285</u>
Less: Provision for raw material	<u>(52)</u>	<u><u>2,174,962</u></u>
Subtotal	<u>9,896</u>	
Net amount	<u><u>\$ 2,128,441</u></u>	

PRIMAX ELECTRONICS LTD.

Statement of changes in available-for-sale financial asset — non-current

From January 1 to December 31, 2017

(Expressed in thousands of New Taiwan Dollars)

Name of investee	Beginning Balance		Additions		Disposal		Other adjustments (note)		Ending Balance		Pledged or guaranteed
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	
Green Rich Technology Co., Ltd.	359	\$ 4,000	-	-	-	-	-	(2,000)	359	2,000	None
WK Technology Fund IV Ltd.	512	3,820	-	-	-	-	(282)	(1,816)	230	2,004	"
Changing Information Technology Inc.	179	2,802	-	-	-	-	-	(700)	179	2,102	"
Formosoft International Inc.	53	646	-	-	-	-	-	(646)	53	-	"
Syntronix Corp.	6	749	-	-	-	-	-	(700)	6	49	"
Global TEK Co., Ltd.	5,510	275,500	-	-	-	-	-	99,180	5,510	374,680	"
Nien Made Enterprise Co., Ltd.	1,764	586,404	-	-	1,764	(166,299)	-	(420,105)	-	-	"
Ricavision International Inc.	917	-	-	-	-	-	-	-	917	-	"
Grove Ventures, L.P	-	-	-	21,045	-	-	-	(4,628)	-	16,417	"
		<u>\$ 873,921</u>		<u>21,045</u>		<u>(166,299)</u>		<u>(331,415)</u>		<u>397,252</u>	

Note: Other adjustments comprise capital reduction to refund and unrealized gains or losses on available-for-sale financial assets.

PRIMAX ELECTRONICS LTD.

Statement of changes in investment accounted for using equity method

From January 1 to December 31, 2017

(Expressed in thousands of New Taiwan Dollars)

Name of investee	Beginning Balance		Additions		Disposal		Other adjustments		Ending Balance			Market value or book value	Pledged of guaranteed
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount (Note1)	Number of shares	Percentage of holding shares	Amount		
Primax Industries (Cayman Holding) Ltd.	8,147,636	\$ 4,336,069	-	-	-	-	-	799,090	8,147,636	100.00 %	5,135,159	5,356,284	None
Primax Technology (Cayman Holding) Ltd.	285,067	1,922,225	-	-	-	-	-	99,490	285,067	100.00 %	2,021,715	2,105,199	"
Destiny Technology Holding Co., Ltd	1,050	26,320	-	-	-	-	-	(11,769)	1,050	100.00 %	14,551	14,551	"
Primax Destiny Co., Ltd.	0.5	16,146	-	-	-	-	-	240	0.5	100.00 %	16,386	16,386	"
Diamond (Cayman) Holdings Ltd.	84,050	3,007,259	-	-	-	-	-	82,388	84,050	100.00 %	3,089,647	3,089,647	"
Gratus Technology Corp.	300	9,875	-	-	-	-	-	(228)	300	100.00 %	9,647	9,647	"
		<u>\$ 9,317,894</u>		<u>-</u>		<u>-</u>		<u>969,211</u>			<u>10,287,105</u>	<u>10,591,714</u>	

Note 1: Adjustments under equity method valuation.

PRIMAX ELECTRONICS LTD.**Statement of changes in property, plant and
equipment****From January 1 to December 31, 2017****(Expressed in thousands of New Taiwan Dollars)**

Please refer to note 6(g) for Property, plant and equipment.

Statement of changes in investment property

Please refer to note 6(h) for Investment property.

Statement of notes and accounts payable

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Corporation b	Operating cost	\$ 19,300
Corporation a	"	8,079
Other (individual amount not exceeding 5%)		<u>816</u>
		<u><u>\$ 28,195</u></u>

PRIMAX ELECTRONICS LTD.**Statement of other payables****December 31, 2017****(Expressed in thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Expense payables	Payables for allowance for sales return and discount	\$ 737,212
	Research and development expense for projects and inspection	450,387
	Employee and director remuneration	340,128
	Taxes related to income and tariff	132,174
Others (note)	Accounts payable for maintenance and equipment, labor and health insurance and employee benefits	169,067
Total		<u>\$ 1,828,968</u>
Note : individual amount not exceeding 5%		

PRIMAX ELECTRONICS LTD.**Statement of other current liabilities****December 31, 2017****(Expressed in thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Sales revenue received in advance	Advance sales receipts — non-related parties	\$ 231,497
Other (note)		<u>17,056</u>
Total		<u><u>\$ 248,553</u></u>

Note : individual amount not exceeding 5%

Statement of other non-current liabilities

<u>Item</u>	<u>Amount</u>
Deferred tax liabilities — non-current	\$ 229,534
Guarantee deposits	160,639
Accrued pension liabilities	68,412
Other (note)	<u>2,650</u>
	<u><u>\$ 461,235</u></u>

Note : individual amount not exceeding 5%

PRIMAX ELECTRONICS LTD.**Statement of long-term borrowings****December 31, 2017****(Expressed in thousands of New Taiwan Dollars)**

Creditor	Description	Amount	Term of contract	Interest rate	Pledged on guaranteed
CTBC Bank	Long-term borrowings	\$ 80,000	2015.1~2018.1	Note 1	None
The Export-Import Bank of the Republic of China	"	138,888	2015.2~2020.2	Note 2	"
	Less: Current portion	<u>(135,555)</u>			
Total		<u>\$ 83,333</u>			

Note 1: Interest rate is calculated by US CD rate plus 0.30% per annum.

Note 2: Interest rate is calculated by TAIBOR plus 0.48% per annum.

PRIMAX ELECTRONICS LTD.
Statement of operating revenue
From January 1 to December 31, 2017
(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Quantity (in thousands)</u>	<u>Amount</u>
Operating revenue:		
Computer peripherals	79,715	\$ 20,463,268
Non-Computer peripherals	77,460	<u>14,443,138</u>
		34,906,406
Less: Sales returns		(65,261)
Sales discounts		<u>(705,879)</u>
		34,135,266
Net service revenue		<u>888,297</u>
Net operating revenue		<u><u>\$ 35,023,563</u></u>

PRIMAX ELECTRONICS LTD.**Statement of operating costs****From January 1 to December 31, 2017****(Expressed in thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Amount</u>
Raw material On January 1, 2017	\$ 102,736
Add: Purchases	662,710
Less: Raw material on December 31, 2017	(9,948)
Sales of raw material	<u>(755,498)</u>
Raw material used	-
Manufacturing overhead	<u>130,474</u>
Manufacturing cost	130,474
Add: Finished goods and merchandises on January 1, 2017	2,228,739
Purchases from triangular trade	31,357,296
Gain on physical finished goods and merchandises	725
Less: Finished goods and merchandises on December 31, 2017	(2,179,971)
Loss on disposal of inventories	<u>(90,243)</u>
Cost of finished goods and merchandises	31,447,020
Service costs	470,196
Sales of raw material	755,498
Loss on inventory valuation, obsolescence and physical inventories	22,697
Loss on disposal of inventories	<u>90,243</u>
Operating costs	<u><u>\$ 32,785,654</u></u>

PRIMAX ELECTRONICS LTD.

Statement of selling, administrative, research and development expenses

From January 1 to December 31, 2017

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Selling expenses</u>	<u>Administrative expenses</u>	<u>Research and development expenses</u>
Salaries	\$ 268,875	256,997	609,653
Rent expense	17,542	23,139	48,870
Travel allowance	40,825	11,317	64,071
Service expense	31,084	65,013	13,522
Storage fee	58,603	-	-
Bad debt expense	30,096	-	-
Freight expense	35,133	47	822
Other expense (note)	<u>123,357</u>	<u>78,111</u>	<u>234,480</u>
Total	<u>\$ 605,515</u>	<u>434,624</u>	<u>971,418</u>

Note : individual amount not exceeding 5%