

**PRiMAX**

Primax Electronics Ltd.

# 2017 Annual Report

**PRiMAX**

**Primax Electronics Ltd.**

No.669, Ruiguang Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)

Tel: +886-2-2798-9008

[www.primax.com.tw](http://www.primax.com.tw)



- 1. Names, titles, telephone numbers and e-mail addresses of the Spokesperson and Deputy Spokesperson:**  
Spokesperson: Sean Lin / Title: Special Assistant to the Chairman / Telephone: +886-2-2798-9008 / E-mail: [IR@primax.com.tw](mailto:IR@primax.com.tw)  
Deputy Spokesperson: Cherryie Chen / Title: Investor Relation Manager / Telephone: +886-2-2798-9008 / E-mail: [IR@primax.com.tw](mailto:IR@primax.com.tw)
- 2. Registered address and telephone of corporate headquarters**  
Registered address of corporate headquarters: No. 669, Ruiguang Road, Neihu District, Taipei City / Telephone: +886-2-2798-9008
- 3. Name, address, website, and telephone number of share registration and transfer agent**  
Name: SinoPac Securities / Address: 3F, No. 17, Bo'ai Road, Zhongzheng District, Taipei City / Telephone: +886-2-2381-6288  
Website: <http://www.sinopac.com>
- 4. Names, address, website, and telephone number of the CPA, CPA firms retained for service in the most recent period**  
Names of CPAs: MEI-PIN WU, YUNG-HUA HUANG / Name of CPA firm: KPMG Taiwan  
Address: 68F., No.7, Section 5, Sinyi Road, Sinyi District, Taipei City / Telephone: +886-2-8101-6666  
Website: <http://www.kpmg.com.tw>
- 5. Names of the exchanges in foreign countries where the stock of PRIMAX is listed for trading and the means for inquiry of the securities:**  
None
- 6. Company website:** [http:// www.primax.com.tw](http://www.primax.com.tw)



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# 1、Letter to Shareholders

Dear shareholders,

As an export-oriented industry, the electronic manufacturing industry of Taiwan was conditioned by global economic performance in 2017, which hampered its speed of recovery. The foreign exchange rate on the market was also unfavorable such that business performance and revenues were under strong pressure. Despite the severe challenges of the external operating environment, PRIMAX continued its conservative business strategy and sought stable growth and optimization of its profit position. Through cautious investment and joint ventures, PRIMAX preserved resources for growth in the next stage.

The continued expansion and growth in demand for the application of consumer electronics like the introduction of the twin-lens to smart phones and other smart devices and the launch of smart speakers contributed to the thriving of the non-PC peripherals business of PRIMAX. This is the operation that PRIMAX has been working on for years and allowed the Company to successfully join the development and manufacturing of products of major firms in 2017, with customer orders and revenue moving upward at a significant level. In the wake of the thriving gaming market, PRIMAX has continued its competitive advantage in PC peripherals after years of hard work. This has helped to strengthen the bond between the Company and other leading firms in gaming joint ventures. PRIMAX has continued to launch new gaming products, and can incrementally achieve successful transformation in the business of PC peripherals with a solid foundation of revenue and profits.

As always, PRIMAX is persistent in high standards for product quality and yield rate, and has furthered its investment in fortifying the automated production process. PRIMAX will continue to control manufacturing costs for higher efficiency. With a steady stream of revenue, PRIMAX has achieved a higher level of gross margin in 2017 as compared with the same period of the previous year. PRIMAX also sees the importance of the research and development of new technologies and new products in the future, and will exercise proper control of its spending by aiming at only precise objectives so that its business performance will yield a larger share of profits in 2017.

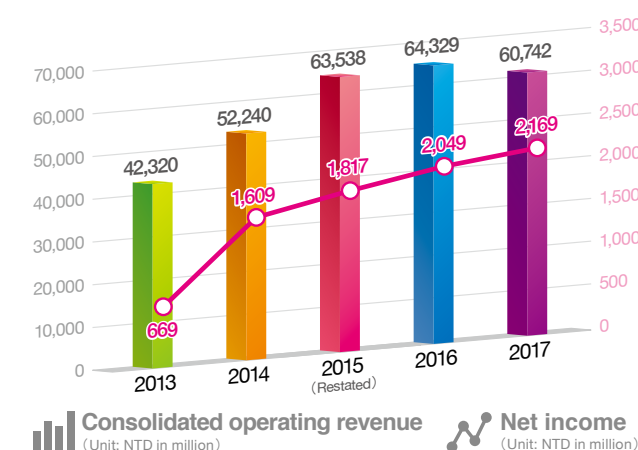
The company's 2017 business operations is reported as follows:

## 1. Business Operation in 2017

### (1) Financial Results

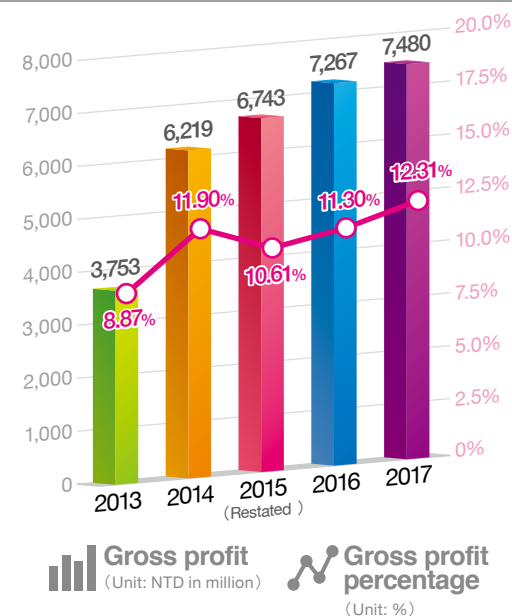
The global economy hasn't recovered significantly as expected. The overall growth of smartphones and mobile devices has been slow, and the significant appreciation of the Taiwan currency against the U.S. dollar, so PRIMAX consolidated operating revenue for 2017 is NT\$ 60,741,692 thousand, which is slightly decreased by 5.58% compared with that in 2016 which is NT\$64,329,462 thousand. However, because of continued efforts to improve product technology, and actively investing in automation manufacturing processes and efforts to strengthen research and development resources, the consolidated net income for 2017 is NT\$2,168,981 thousand, which was an increase of approximately 5.87% compared with that of 2016 which is NT\$2,048,662 thousand.

Trend chart of consolidated operating revenue and net income

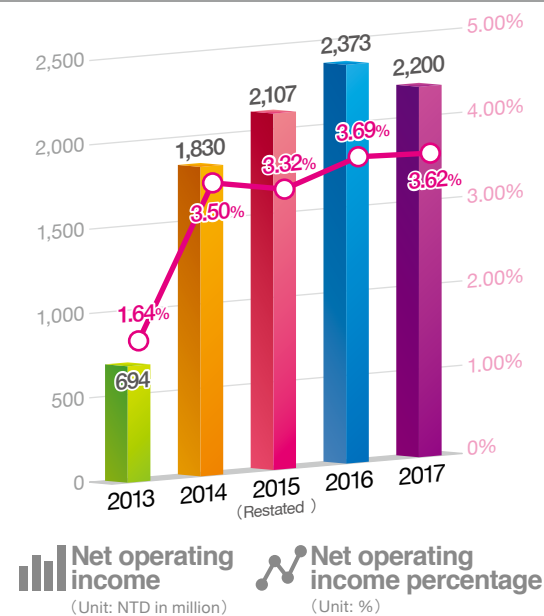




Trend chart of gross profit and gross profit percentage



Trend chart of net income and net operating income percentage



## (2) Budget Execution

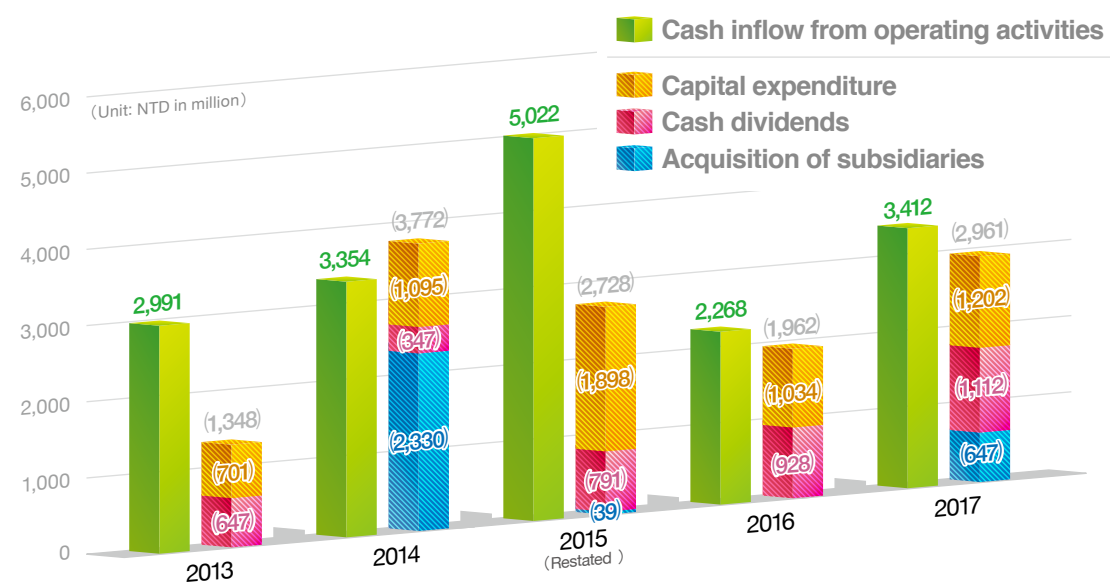
It is not applicable, since no financial forecast was published in 2017.

## (3) Cash Flow Analysis

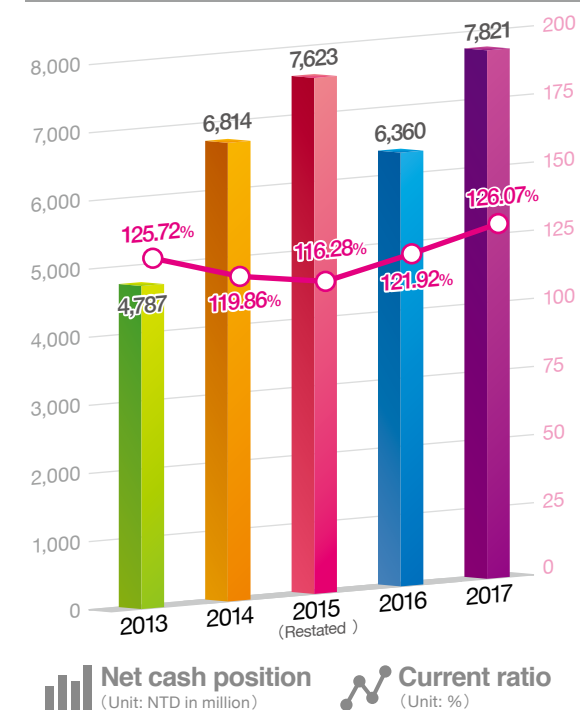
Unit: NT\$1,000

Item	2017	2016	Net change
Net cash inflow from operating activities	3,412,165	2,268,257	1,143,908
Net cash outflow from investing activities	(1,452,394)	(717,299)	(735,095)
Net cash outflow from financing activities	(451,649)	(2,615,165)	2,163,516

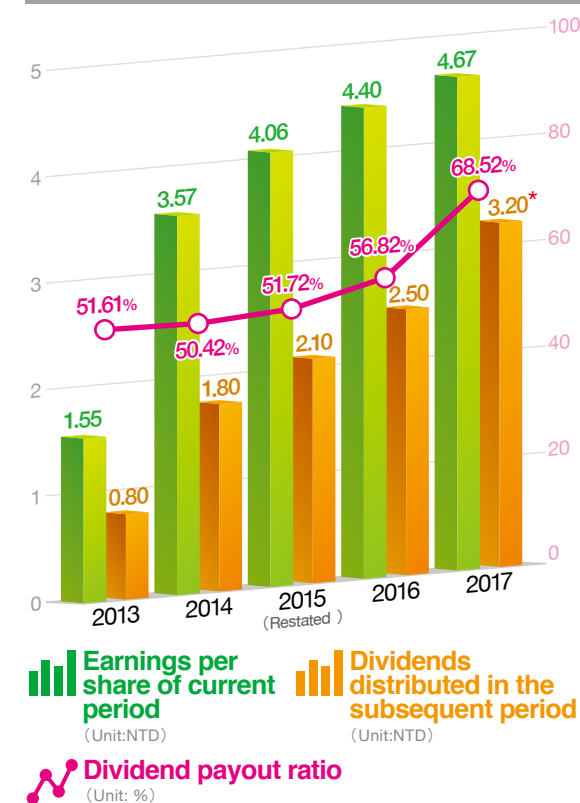
Operating funds and its distribution diagram



Trend chart of net cash position and current ratio



Trend chart of earnings per share, dividends per share, and dividend payout ratio



\*Note: The earnings distribution proposal for 2017 will be implemented after resolved by the shareholders' meeting which will be held on May 30, 2018.

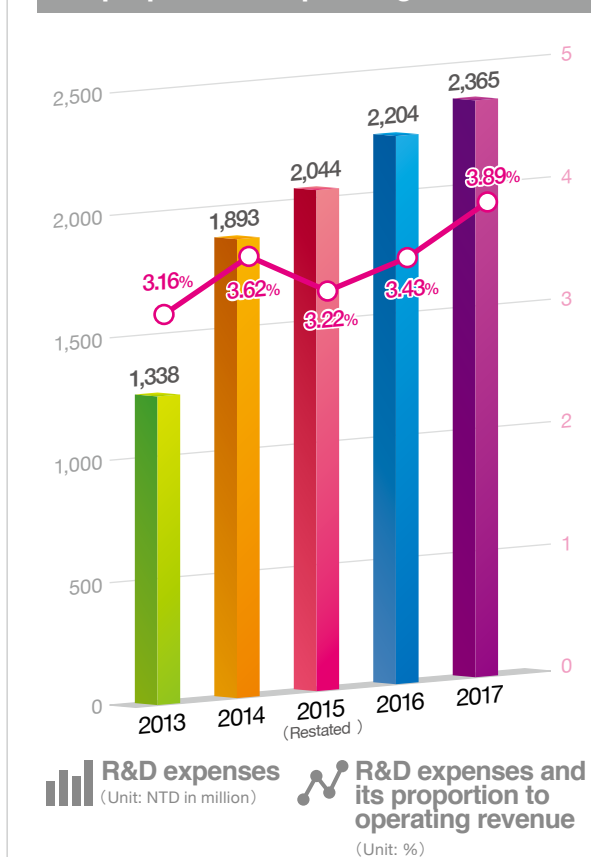
## (4) Profitability Analysis

Item	2017	2016
Return on shareholders' equity (%)	17.20	16.28
Operating income to paid-in capital (%)	49.33	53.65
Pre-tax income to paid-in capital (%)	63.85	62.48
Net margin (%)	3.57	3.18
Earnings per share (NT\$)	4.67	4.40

## (5) R&D Investments

Primax group spent NT\$ 2,364,974 thousand on research and development in 2017. These investments were mainly for new products and new technology developments, as well as manufacturing process improvements, mainly automation.

Trend chart of R&amp;D expenses and its proportion to operating revenue





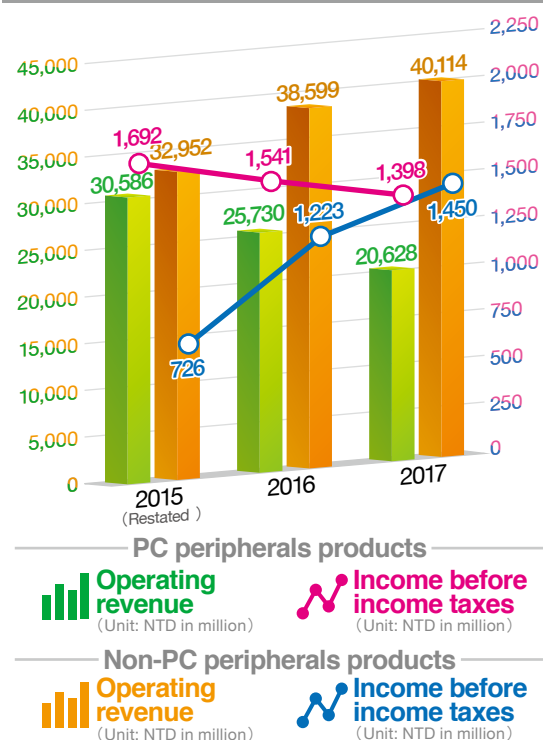
## 2. 2018 Business Strategy and Technology Developments

The Group will continue to focus on the stable growth of total revenue in the development of strategy and product planning for the future, and will match this with good quality products in development. In the wake of Industry 4.0, the Group will further introduce related applications in smart manufacturing so as to upgrade core competence in overall manufacturing capacity.

### Strengthen the cornerstones of PC peripheral products, expand audio products domains, purpose automotive electronics

In business development, Tymphony's audio products of the non-PC peripheral business for the year 2017 performed soundly in revenue and gradually emerged as a revenue and profit center of the Group. It is expected that demand for high-end applications such as audio electronic items including smart speakers and wireless earphones, as well as lens modules will continue to grow in 2018. The Group will stabilize the manufacturing and development of related products for further growth in revenue. PRIMAX will also keep abreast the development trends in the market particularly its persistence in the research and development of applications deriving from cloud technology, portable devices, AI, digital home and IoT development for

Trend chart of the development of PC and Non-PC peripheral products



better business opportunities in the high-end audio electronic product and lens related product markets.

In the domains of automotive electronics in the non-PC peripheral products, by the end of the year 2017, PRIMAX made a significant step in the deployment of vehicles peripherals by investing in a shareholding of 37% in Belfast Limited, a Tier1 automotive electronic system supplier. The Company's primary products include EPS (Electric Power Steering System) and ADF (Adaptive Front-Lighting System), which are the critical technologies for the future development of electric vehicles and driverless/autopilot. With the investment and cooperation, the technology, vertical integration, and market development will be integrated and synergized, and provide PRIMAX with new energy for the growth in the future.

In PC peripherals, PRIMAX successfully entered the production of gaming products with the return of a steady stream of income, and will make the best use of technologies and design capacity accumulated over the years to develop new applications for technology to align with the trend of development in the market and customer needs. In a well-developed and saturated market, the search for the specific new techniques and new application, as well as transformation and growth in the PC peripherals business will hopefully bring in profits.

### Enhance the advantages of the automation manufacturing process and move toward to the smart manufacturing and industry 4.0.

Finally, the development of smart manufacturing and Industry 4.0 compels the Group to introduce a more in-depth automated production process, and make the best use of information technology to bolster the transmission of information on manufacturing so as to reduce the cost of manufacturing, upgrade yield rate, and enhance the utility of production capacity.

In sum, PRIMAX will continue to gain a larger share of all related products on the market, extend the products and technologies on hand to different areas of application and platforms, and conduct more efficient assessment and control of all its investments to respond to global macroeconomic changes and tackle challenges from competitors, which will be necessary for achieving stable growth in business performance and profit in the mid to long run.

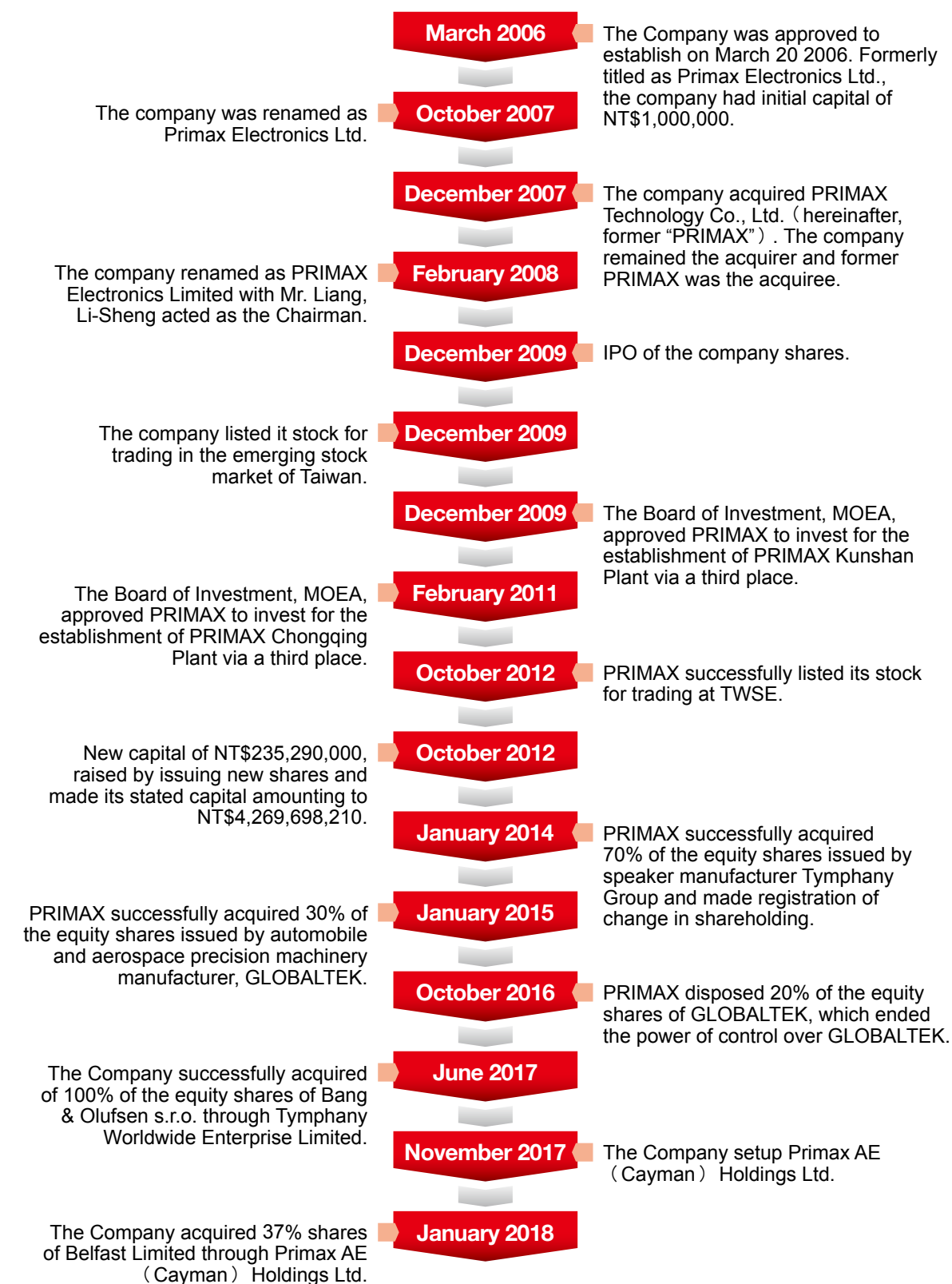
Chairman: Liang, Li-Sheng  
General Manager: Yang, Hai-Hung

## 2、Company Profile



## 1. Establishment date : March 20, 2006

## 2. Company background

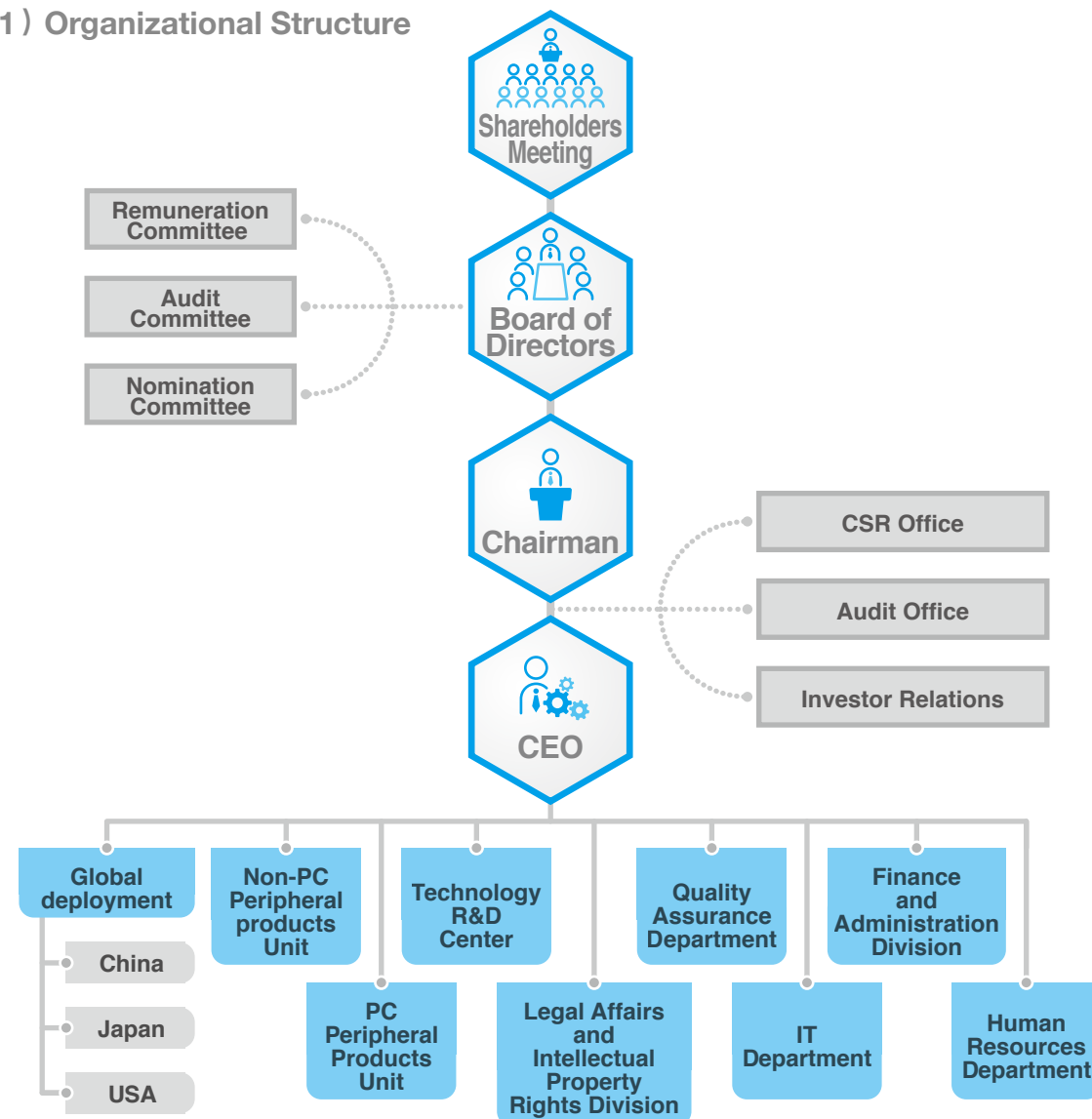


## 3. Corporate Governance Report



# 1. Organizational system

## (1) Organizational Structure



## (2) The business operations of each main department

Department	Main job responsibilities
Remuneration Committee	<ol style="list-style-type: none"> <li>1. Enact the policy, system and standard and structure of remuneration to the directors (including the Chairman), general manager, and vice general manager in accordance with the Company's objectives, operational performance and competitive environment, and has it reviewed as required.</li> <li>2. Periodically assess the operational performance of the chairman, general manager, and vice general manager and approve the contents and amount of their respective salaries and compensation.</li> <li>3. Assess and approve the welfare standard of the general manager and vice general manager.</li> </ol>
Audit Committee	<ol style="list-style-type: none"> <li>1. Supervising the adequate presentation of the Company's financial statements.</li> <li>2. Supervising the commission (discharge) of the CPAs and their independence and performance.</li> <li>3. Supervising the effective implementation of the Company's internal control.</li> <li>4. Supervising the Company's compliance with the relevant laws and regulations.</li> <li>5. Supervising the control of the Company's existing or potential risks.</li> <li>6. Supervising the performance of the Company's internal audit department.</li> </ol>

Department	Main job responsibilities
Nomination Committee	<ol style="list-style-type: none"> <li>1. Locate the right persons to the seats of Directors and Senior Managers and propose a list of qualified candidates to the Board.</li> <li>2. Review the list of candidates recommended by the Shareholders or the Board, and give recommendations to the Board to determine if it is necessary for a replacement.</li> </ol>
CSR Office	<p>The CSR Office is established by the Chairman with the authorization of the Board of Directors:</p> <ol style="list-style-type: none"> <li>1. Responsible for enacting CSR policies, systems or related management approach</li> <li>2. Assist each department to promote and implement corporate social responsibility projects in response to the Company's economic, environmental and social issues</li> <li>3. Study domestic and foreign benchmark enterprises' best practices of business sustainable practices and provide advice and guidance to the relevant departments for practice in order to continue to strengthen the Company's competitiveness of its sustainable operations</li> </ol>
Audit Office	Review and audit the implementation of the internal control system, and regularly report it to the Board of Directors and management, and measure operational efficiency with recommendations for improvement suggested in a timely manner in order to ensure effective implementation of the internal control system and to improve the effectiveness of the overall organization
Investor Relations	A spokesman system and operation, investor relations activities and opinions process, external information disclosure, and media publishing and contact related business
Quality Assurance Department	<ol style="list-style-type: none"> <li>1. Quality system planning and supervision</li> <li>2. Design quality and technology upgrade</li> <li>3. Product quality upgrade</li> <li>4. Customer complaints process and improvement</li> <li>5. Employee quality training plan and implementation</li> </ol>
Legal Affairs and Intellectual Property Rights Division	Intellectual property rights management and legal affairs handling
Finance and Administration Division	<ol style="list-style-type: none"> <li>1. Dealing with accounting, finance, tax and shareholder service matters</li> <li>2. Supporting project implementation and promotion</li> </ol>
Human Resources Department	<ol style="list-style-type: none"> <li>1. Employees and Human Resource Management</li> <li>2. Salary and benefits management</li> <li>3. Education and Training and Development</li> <li>4. General Affairs Services</li> <li>5. Health and Safety Management</li> </ol>
Product Business Group	<p>It is divided into PC peripheral products and non-PC peripheral products; also, each business group is in charge of research and development and marketing.</p> <p><b>R&amp;D:</b> New product research, design and development New product project assessment, analysis and planning New product manufacturing technology and document and data transfer</p> <p><b>Marketing:</b> Product planning, marketing and market development</p>
Technology R&D Center	Be responsible for the research, design and development of the core technology of all products.
IT Department	<ol style="list-style-type: none"> <li>1. Organize and plan the safety, implementation and system integration of the Company's electronic information</li> <li>2. The enactment and maintenance of computerized information management system and current manual processes analysis and future operating process design</li> <li>3. The new application system planning and development and the function expansion and update of the developed application system</li> <li>4. User education and training and operational planning</li> <li>5. Disaster recovery management planning and execution</li> <li>6. Equipment Planning and Management</li> <li>7. Computer operation management</li> </ol>



## 2. Profiles of the Directors, Supervisors, General Manager, Vice General Manager, Assistant General Manager, department heads, and branch officers

### (1) Directors and Supervisors

#### Directors and Supervisors (1)

April 1, 2018 / Unit: Shares / %

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when elected		Current shareholding		Spouse & Minor Shareholding				Shareholding by Nominee Arrangement		Main experience (education and degree)	Currently hold a position with the Company and others	Other officers, directors, or supervisors who are a spouse or a relative within the second degree of kinship		
							Shares	%	Shares	%	Shares	%			Shares	%			Title	Name	Relationship
Chairman	Republic of China	Liang, Li-Sheng	Male	06.29.2015	3 years	10.23.2009 (Note 9)	1,500,001	0.34	1,500,001	0.34	0	0			0	0	Department of Business Administration, Tamkang University Chairman of Primax Electronics Ltd.	Note 1	Director / General Manager	Yang, Hai-Hung	In-law
Director/General Manager	Republic of China	Yang, Hai-Hung	Male	06.29.2015	3 years	10.23.2009 (Note 9)	1,962,465	0.45	1,962,465	0.44	0	0			0	0	Master of Mechanical Engineering, University of Texas, USA General Manager of Products Division of PRIMAX	Note 2	Chairman	Liang, Li-Sheng	In-law
Director	Republic of China	Yang, Chi-Ting	Male	06.29.2015	3 years	03.11.2011	1,926,963	0.44	1,926,963	0.43	1,900,962	0.43			0	0	MBA, University of Southern California, USA Chailease Holding Company Limited Chief Auditor	Note 3	—	—	—
Director	Republic of China	Pan, Yung-Chung	Male	06.29.2015	3 years	09.05.2014	8,291,046	1.89	7,455,046	1.67	0	0			0	0	Department of Electronics, Feng Chia University General Manager of Business Department of PRIMAX	Note 4	Director / General Manager of Business Department	Pan, Yung-Tai	Brothers
Director / General Manager of Business Department General Manager	Republic of China	Pan, Yung-Tai	Male	06.29.2015	3 years	09.05.2014	4,617,987	1.05	4,764,599	1.07	815,517	0.18			0	0	Department of Mechanical Engineering, Chung Yuan Christian University General Manager of Business Department of PRIMAX	Note 5	Director	Pan, Yung-Chung	Brothers
Director	Republic of China	Tsao, Chung-Feng	Male	06.29.2015	3 years	06.29.2015	3,078,651	0.70	3,212,651	0.72	406,586	0.09			0	0	EMBA, National Taiwan University PRIMAX Vice General Manager	Note 6	—	—	—
Independent Director	Republic of China	Ku, Tai-Chao	Male	06.29.2015	3 years	03.30.2010	0	0	0	0	0	0			0	0	Bachelor of Law, National Taiwan University Vice President of Taiwan Stock Exchange Corporation	None	—	—	—
Independent Director	Republic of China	Wei, Yung-Tu	Male	06.29.2015	3 years	06.29.2015	500,000	0.11	620,000	0.14	0	0			1,000,000	0.22	MBA, University of Georgia USA President of Deloitte & Touche	Note 7	—	—	—
Independent Director	Republic of China	Cheng, Chih-Kai	Male	06.29.2015	3 years	06.29.2015	0	0	0	0	0	0			0	0	Department of Management Science, National Chiao Tung University Senior Vice President of Synnex USA	Note 8	—	—	—

Note 1: Primax Tech. (Cayman Holding) Ltd. Director;Polaris Electronics,Inc. Director; Destiny Tech Holding Co.,Ltd. Director; Primax Ind. (Cayman Holding) Ltd. Director; Primax Ind (HK) Ltd. Director; Beijing Destiny Electronic Technology Corporation, Chairman; Diamond (Cayman) Holdings Ltd. Representative of Institutional Director; Tymphany Worldwide Enterprises Ltd. Representative of Institutional Director; Alpine Asia Investment Limited Director; Gratus Technology Corp. Director; Tymphany Logistics, Inc. Director; Tymphany Acoustic Technology Ltd. Director; Premium Loudspeakers (Huizhou) Co., Ltd. Representative of Institutional Director; Primax AE (Cayman) Holdings Ltd. Director.

Note 2: Primax Ind. (Cayman Holding) Ltd. Director; Polaris Electronics, Inc. Director; Primax Tech. (Cayman Holding) Ltd. Director; Primax Ind (HK) Ltd. Director; Primax Electronics (KunShan) Co., Ltd. Legal Representative and Executive Director; Primax Electronics (Chongqing) Corp., Ltd. Legal Representative and Executive Director; Beijing Destiny Electronic Technology Co., Ltd. Director; Tymphany Worldwide Enterprises Ltd. Representative of Institutional Director; GLOBAL-TEK, Representative of Institutional Director; Campbell Technology Corporation Director; Gratus Technology Corp. Director; Primax Destiny Co. Ltd. Director.

Note 3: Chailease Auto Rental Co., Ltd Chairman and General Manager, Apex Credit Chairman and General Manager, and Fina Finance & Trading Co., Ltd. Supervisor.

Note 4: Tymphany Worldwide Enterprises Ltd. Representative of Institutional Director; TYP Enterprises, Inc. Director; Tymphany HK Ltd. Director; Premium Loudspeakers (Huizhou) Co., Ltd. Representative of Institutional Director and General Marager; Dongguan Tymphany Acoustic Technology Co., Ltd. Executive Director and General Manager; Dongguan Dongcheng Tymphany Acoustic Technology Co., Ltd. Executive Director and General Manager; Tymphany Acoustic Technology HK Ltd. Director; Tymphany Acoustic Technology Ltd., Director.

Note 5: Tymphany Worldwide Enterprises Ltd. Representative of Institutional Director, Tymphany Acoustic Technology Ltd. Director.

Note 6: Belfast Limited Group Vice General Manager of Operation.

Note 7: Cathay Financial Holdings Co., Ltd. Independent Director; Cathay United Bank Independent Director; Synnex Technology International Corp. Independent Director; Far Eastern Department Store, Independent Director; MITAC Holding Corporation, representative of Institutional Director; Vanguard International Semiconductors Corp., Director; Chilsin Electronics Corporation, Representative of the Institutional Supervisor; Iron Force Industrial Co., Ltd. Director; Yong Qin Co., Ltd Chairman; Kaimei Electronics Corporation Representative of the Institutional Supervisor.

Note 8: Crown Bioscience Director; Ureka Therapeutics (California) , Director; B Current Impact Investment Inc., Chairman; Social Enterprise Insights, Director; Gaatu Holding, Director; H3 Platform, Director; B Current Impact Investment Inc. II Chairman; Acorn Pacific Ventures Partner.

Note 9: Based on the date of election after the acquisition date of PRIMAX.

#### Directors and Supervisors (2)

April 1, 2018

Conditions	Whether meet one of the following professional qualification requirements together with at least five years of work experience?			Meet the independence criteria (Note)										Number of other public companies in which the individual is concurrently serving as an Independent Director
	An instruction or higher position in a Department of Commerce, Legal Affairs, Finance, Accounting, or Other Academic Department related to the business needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist who has passed a national examination and been awarded a Certificate in a profession necessary for the business of the Company	With work experience in the areas of commerce, legal affairs, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10	
Name														
Liang, Li-Sheng	—	—	√		√		√	√	√	√		√	√	0
Yang, Hai-Hung	—	—	√			√		√	√	√		√	√	0
Yang, Chi-Ting	—	—	√	√	√	√	√	√	√	√	√	√	√	0
Pan, Yung-Tai	—	—	√					√	√	√		√	√	0
Pan, Yung-Chung	—	—	√					√	√	√		√	√	0
Tsao, Chung-Feng	—	—	√		√	√	√	√	√	√	√	√	√	0
Ku, Tai-Chao	—	—	√	√	√	√	√	√	√	√	√	√	√	0
Wei, Yung-Tu	—	√	√	√	√	√	√	√	√	√	√	√	√	3
Cheng, Chih-Kai	—	—	√	√	√	√	√	√	√	√	√	√	√	0

Note: Please tick √ the corresponding boxes if directors or supervisors have qualified any of the following conditions during the two years prior to being elected or during the term of office.

(1) Not an employee of the Company or any of its affiliates.

(2) Not a director or supervisor of the Company or any of its affiliates (The same does not apply, however, if the person is an independent director of the Company, its parent company, or its subsidiary and established in accordance with applicable domestic laws or the laws of the host countries) .

(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under someone else's name (s) , in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top-10 in holdings.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

(5) Not a director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.

(6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Company.

(7) Not a professional individual or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal affairs, financial, accounting services, or consultation to the Company or to any affiliate of the Company, or a spouse thereof. This rule shall be waived for members of the remuneration committee established by companies listed in TWSE or Gre Tai Securities Market who perform the function of the committee in accordance with Article VII of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

(8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.

(9) Not been a person of any conditions defined in Article 30 of the Company Law.

(10) Not a governmental, juridical person, or its representative as defined in Article 27 of the Company Law.



(2) Profiles of the General Manager, Vice General Manager, Assistant General Manager, department heads, and branch officers

April 1, 2018 / Unit: Shares / %

Title	Nationality	Name	Gender	Date Elected	Shareholding		Spouse & Minor Shareholding				Shareholding by Nominee Arrangement		Main experience (education and degree)	Currently serving duties at other company	Manager who is the spouse or a relative within the second degree of kinship		
					Shares	%	Shares	%			Shares	%			Title	Name	Relationship
Director/General Manager	Republic of China	Yang, Hai-Hung	Male	07.02.2010	1,962,465	0.44	0	0			0	0	· Master of Mechanical Engineering, University of Texas, USA · General Manager of Products Division of PRIMAX	Note 1	—	—	—
Director / General Manager of Business Department	Republic of China	Pan, Yung-Tai	Male	12.28.2007 (Note 7)	4,764,599	1.07	815,517	0.18			0	0	· Department of Mechanical Engineering, Chung Yuan Christian University · General Manager of Business Department of PRIMAX	Note 2	—	—	—
General Manager of Operations	Republic of China	Kuo, You-Min	Male	01.15.2018	0	0	0	0			0	0	· Industrial Marketing, MBA, University of North Carolina at Chapel Hill · Senior Vice President, Hon Hai Group	None	—	—	—
Senior Vice General Manager	Republic of China	Hsiao, Ying-Yee	Male	09.19.2016	60,000	0.01	0	0			0	0	· Swiss Business School EMBA · CFO of CMC Magnetics co., Ltd.	Note 3	—	—	—
Vice General Manager	Republic of China	Chou, Yen-Chou	Male	01.17.2011	492,000	0.11	0	0			0	0	· Doctoral of Industrial Engineering, University of Cincinnati USA · Senior Assistant General Manager of Operations, Hon Hai Group	Note 4	—	—	—
Vice General Manager	Republic of China	Lee, Chiu-Sheng	Male	10.01.2014	510,000	0.11	24,000	0.01			0	0	· Department of Industrial Engineering, National Tsing Hua University · FOXCONN VP Operations	Note 5	—	—	—
Vice General Manager	Republic of China	Chiang, Yan-Ying	Female	04.01.2015	590,106	0.13	0	0			0	0	· Department of Labor Relations, Chinese Culture University; EMBA, National Chengchi University · PRIMAX Senior Assistant General Manager	None	—	—	—
Vice General Manager	Republic of China	Chang, Ching-Kai	Male	04.01.2015	762,703	0.17	0	0			0	0	· Department of Information Engineering, Tamkang University · PRIMAX Senior Assistant General Manager	None	—	—	—
Vice General Manager	Republic of China	Chang, Yao-Han	Male	10.07.2015	233,000	0.05	0	0			0	0	· Graduate Institute of International Affairs and Strategic Studies, Tamkang University · PRIMAX Senior Assistant General Manager	None	—	—	—
Vice General Manager	Republic of China	Wei, Hao-San	Male	10.07.2015	446,732	0.10	10,000	0.002			0	0	· Electrical Engineering Institute, California State University, Long Beach (USA) · PRIMAX Senior Assistant General Manager	Note 6	—	—	—
Vice General Manager	Republic of China	Chuo, Yu-Shan	Male	01.01.2017	30,000	0.01	0	0			0	0	· EMBA, NCCU · General Manager, Automotive Electronics Division, Quanta Storage Inc.	None	—	—	—
Vice General Manager	Republic of China	Tseng, Chien-Yu	Male	09.18.2017	0	0	0	0			0	0	· Institute of Applied Chemistry, National Chiao Tung University · Senior Vice General Manager, Hon Hai Group	None	—	—	—
Assistant General Manager	Republic of China	Chang, Shu-Chuen	Female	11.15.2017	0	0	0	0			0	0	· Institute of Accounting, National Cheng Kung University · Assistant General Manager, Finance Department, Lian Hwa Foods Corp.	None	—	—	—

Note 1: Primax Ind. (Cayman Holding) Ltd. Director; Polaris Electronics, Inc. Director; Primax Tech. (Cayman Holding) Ltd. Director; Primax Ind (HK) Ltd. Director; Primax Electronics (Kunshan) Co., Ltd. Legal Representative and Executive Director; Primax Electronics (Chongqing) Corp. Ltd. Legal Representative and Executive Director, Beijing Destiny Electronic Technology Corporation Director; Tymphany Worldwide Enterprises Ltd. Representative of Institutional Director; GLOBAL-TEK Representative of Institutional Director; Campbell Technology Corporation Director; Gratus Technology Corp. Director; and Primax Destiny Co. Ltd. Director.

Note 2: Tymphany Worldwide Enterprises Ltd. Representative of Institutional Director and Tymphany Acoustic Technology Ltd. Director.

Note 3: Primax Destiny Co. Ltd. Director; Primax Tech. (Cayman Holding) Ltd. Director; Primax Ind. (Cayman Holding) Ltd. Director; Diamond (Cayman) Holdings Ltd. Representative of Institutional Director; Premium Loudspeakers (Huizhou) Co., Ltd. Supervisor; Dongguan Tymphany Acoustic Technology Co., Ltd. Supervisor; Dongguan Dongcheng Tymphany Acoustic Technology Co., Ltd. Supervisor; Tymphany Acoustic Technology Ltd. Supervisor; Primax AE (Cayman) Holdings Ltd. Director.

Note 4: Primax Destiny Co. Ltd. Supervisor.

Note 5: Dongguan Primax Electronic Telecommunication Products Co., Ltd. Director and General Manager; Primax Electronics (Kunshan) Co., Ltd. General Manager; and Primax Electronics (Chongqing) Corp. Ltd. General Manager.

Note 6: Primax Destiny Co. Ltd. Director, Beijing Destiny Electronic Technology Corporation General Manager.

Note 7: The inauguration date refers to the base date of the Company's merging PRIMAX.



### 3. Profiles of the Remuneration to Directors, Supervisors, General Manager, and Vice General Managers in the most recent year

#### (1) Remuneration to Directors in the most recent year (2017)

Unit: NT\$1,000 / 1,000 shares

Title	Name	Remuneration to Directors										Ratio of total remuneration (A+B+C+D) to net income (%) (Note 1)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of total remuneration (A+B+C+D+E+F+G) to net income (%) (Note 1)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A) (Note 4)		Pension (B)		Compensation to Directors (C) (Note 2) (Note 5)		Bonus to Directors (D) (Note 6)						Salary, Bonuses and Allowances (E)		Pension (F)		Profit Sharing-Employee Bonus (G) (Note 3)						
		The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities			The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	Cash	Stock	Cash	Stock	The Company	All Consolidated Entities	
Chairman	Liang, Li-Sheng	14,452	14,452	0	0	3,611	3,611	0	0			0.88	0.88	0	0	0	0	0	0	0	0	0.88	0.88	0
Director / General Manager	Yang, Hai-Hung	0	0	0	0	30,389	30,389	796	796			1.52	1.52	29,767	29,767	0	0	7,950	0	7,950	0	3.35	3.35	0
Director	Yang, Chi-Ting																							
Director	Pan, Yung-Chung																							
Director / General Manager of Business Department	Pan, Yung-Tai																							
Director	Tsao, Chung-Feng																							
Independent Director	Ku, Tai-Chao																							
Independent Director	Wei, Yung-Tu																							
Independent Director	Cheng, Chih-Kai																							

Note 1: The net income of the Company in 2017 amounted to NT\$2,057,415 thousand.

Note 2: Refers to the earnings distribution proposal in the most recent year (2017) resolved by the Board (03.13.2018) for an amount of NT\$34,000 thousand to be distributed as remuneration to directors. The remuneration amount to be distributed in current year will be proportionally to the amount distributed last year.

Note 3: Refers to the earnings distribution proposal in the most recent year (2017) resolved by the Board (03.13.2018) for an amount of NT\$68,260 thousand to be distributed as remuneration to employees. The remuneration amount to be distributed in current year will be proportionally to the amount distributed last year.

Note 4: Remuneration to chairman is proposed by Human Resource Department taking the competitive environment and operating risk into consideration and complying with the corporate management policy and bonus plan, approved by the Remuneration Committee assessing the performance of chairman, and resolved by the Board.

Note 5: The net income before deducting the remuneration to employees and to directors in 2017 is NT\$2,281,709 thousand, and the proportion of remuneration to directors is 1.49 percent. After the conclusion of the Remuneration Committee, the agenda of remuneration to directors is proposed to the Board and resolved in the shareholders' meeting.

Note 6: Reimbursement of meals, accommodation and transportation is on an actual out-of-pocket basis.



Range of remuneration paid to each director of the Company	Name of director			
	Total remuneration paid (A+B+C+D)		Total remuneration paid (A+B+C+D+E+F+G)	
	The Company	All Consolidated Entities	The Company	All Consolidated Entities
Less than NT\$2,000,000	—	—	—	—
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive)	Yang, Hai-Hung Pan, Yung-Tai Pan, Yung-Chung Tsao, Chung-Feng Yang, Chi-Ting Wei, Yung-Tu Ku, Tai-Chao Cheng, Chih-Kai	Yang, Hai-Hung Pan, Yung-Tai Pan, Yung-Chung Tsao, Chung-Feng Yang, Chi-Ting Wei, Yung-Tu Ku, Tai-Chao Cheng, Chih-Kai	Yang, Chi-Ting Wei, Yung-Tu Pan, Yung-Chung Ku, Tai-Chao Cheng, Chih-Kai	Yang, Chi-Ting Wei, Yung-Tu Pan, Yung-Chung Ku, Tai-Chao Cheng, Chih-Kai
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)	—	—	Tsao, Chung-Feng	Tsao, Chung-Feng
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)	—	—	Pan, Yung-Tai	Pan, Yung-Tai
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)	Liang, Li-Sheng	Liang, Li-Sheng	Liang, Li-Sheng Yang, Hai-Hung	Liang, Li-Sheng Yang, Hai-Hung
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)	—	—	—	—
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)	—	—	—	—
NT\$100,000,000 and more	—	—	—	—
<b>Total</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>



(2) Remuneration to General Manager and Vice General Manager in the most recent year (2017)

Unit: NT\$1,000 / 1,000 shares

Title	Name	Salary (A)		Pension (B)		Bonuses and Allowances (C)		Profit Sharing-Employee Bonus (D) (Note 1)				Ratio of total remuneration (A+B+C+D) to net income (%) (Note 2)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company		All Consolidated Entities		The Company	All Consolidated Entities	
								Cash	Stock	Cash	Stock			
Director / General Manager	Yang, Hai-Hung	30,746	31,884	0	0	49,661	49,661	16,520	0	16,520	0	4.71%	4.77%	None
Vice General Manager (Note 3)	Chuo, Yu-Shan													
Director / General Manager of Business Department	Pan, Yung-Tai													
Vice General Manager (Note 4)	Tseng, Chien-Yu													
Director and Vice General Manager (Note 5)	Tsao, Chung-Feng													
Vice General Manager	Chou, Yen-Chou													
Vice General Manager	Lee, Chiu-Sheng													
Vice General Manager	Chiang, Yan-Ying													
Vice General Manager	Chang, Ching-Kai													
Vice General Manager	Wei, Hao-San													
Vice General Manager	Chang, Yao-Han													
Senior Vice General Manager	Hsiao, Ying-Yee													

Note 1: Refers to the earnings distribution proposal in the most recent year (2017) resolved by the Board (03.13.2018) for an amount of NT\$68,260 thousand to be distributed as remuneration to employees. The remuneration to General Manager and Vice General Manager had not yet been discussed by the Remuneration Committee as of the printing date of the annual report; therefore, the remuneration amount to be distributed in current year will proportionally refer to the amount distributed last year.

Note 2: The net income of the Company in 2017 amounted to NT\$2,057,415 thousand.

Note 3: Chuo, Yu-Shan was transferred to Vice General Manager on 01.01.2017.

Note 4: Tseng, Chien-Yu assumed office on 09.18.2017.

Note 5: Tsao, Chung-Feng resigned as Vice General Manager on 02.28.2018.

Range of remuneration paid to each General Manager and Vice General Manager of the Company	Name of General Manager and Vice General Manager	
	The Company	All Consolidated Entities
Less than NT\$2,000,000	Tseng, Chien-Yu	Tseng, Chien-Yu
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive)	Tsao, Chung-Feng Chang, Yao-Han Chuo, Yu-Shan	Tsao, Chung-Feng Chang, Yao-Han Chuo, Yu-Shan
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)	Lee, Chiu-Sheng Chiang, Yan-Ying Chang, Ching-Kai Chou, Yen-Chou Pan, Yung-Tai Hsiao, Ying-Yee	Lee, Chiu-Sheng Chiang, Yan-Ying Chang, Ching-Kai Chou, Yen-Chou Pan, Yung-Tai Hsiao, Ying-Yee
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)	Wei, Hao-San	Wei, Hao-San
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)	Yang, Hai-Hung	Yang, Hai-Hung
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)	—	—
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)	—	—
NT\$100,000,000 and more	—	—
<b>Total</b>	<b>12</b>	<b>12</b>

(3) Names of the managers receiving remuneration to employee in the most recent year (2017) and the distribution implemented

Unit: NT\$1,000 / 1,000 shares

Title	Name	Stock amount (Note 1)	Cash amount (Note 1)	Total	Ratio of total amount to net income (%) (Note 2)
Director / General Manager	Yang, Hai-Hung	—	16,650	16,650	0.81%
Vice General Manager (Note 3)	Chuo, Yu-Shan				
Director/General Manager of the Business Department	Pan, Yung-Tai				
Vice General Manager (Note 4)	Tseng, Chien-Yu				
Director and Vice General Manager (Note 5)	Tsao, Chung-Feng				
Vice General Manager	Chou, Yen-Chou				
Vice General Manager	Lee, Chiu-Sheng				
Vice General Manager	Chiang, Yan-Ying				
Vice General Manager	Chang, Ching-Kai				
Vice General Manager	Wei, Hao-San				
Vice General Manager	Chang, Yao-Han				
Senior Vice General Manager	Hsiao, Ying-Yee				
Assistant General Manager (Note 6)	Chang, Shu-Chuen				

Note 1: Refers to the earnings distribution proposal in the most recent year (2017) resolved by the Board (03.13.2018) for an amount of NT\$68,260 thousand to be distributed as remuneration to employees. The remuneration to General Manager and Vice General Manager had not yet been discussed by the Remuneration Committee as of the printing date of the annual report; therefore, the remuneration amount to be distributed in current year will proportionally refer to the amount distributed last year.

Note 2: The net income of the Company in 2017 amounted to NT\$2,057,415 thousand.

Note 3: Chuo, Yu-Shan was transferred to Vice General Manager on 01.01.2017.

Note 4: Tseng, Chien-Yu assumed office on 09.18.2017.

Note 5: Tsao, Chung-Feng resigned as Vice General Manager on 02.28.2018.

Note 6: Chang, Shu-Chuen assumed office on 11.15.2017.

(4) The ratio analysis of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, general manager, and vice general manager of the Company to the net income in the proprietary or independent financial report; in addition, the policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance and future risk.

- The ratio analysis of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, general manager, and vice general manager of the Company to the net income in the proprietary or independent financial report:



Identity	Ratio of total remuneration to net income (loss)			
	2016		2017	
	The Company	Consolidation	The Company	Consolidation
Director	4.81%	4.81%	4.23%	4.23%
Supervisors	N/A	N/A	N/A	N/A
General Manager / Vice General Manager	4.84%	4.90%	4.71%	4.77%

2. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance:

- (1) The Company's remuneration to Directors includes directors' compensation. Remuneration to Directors is distributed by the Company's annual profit, if applicable, with less than two percent appropriated as remuneration to directors in accordance with the Articles of Association, resolved by the Remuneration Committee, proposed to and resolved by the Board of Directors and reported to the shareholders' meeting. Also, reasonable remuneration distributed by taking the Company's operating results, performance contributed by Directors, and performance evaluation of the Board into consideration. Remuneration to chairman is proposed by Human Resource Department taking the competitive environment and operating risk into consideration and complying with the corporate management policy and bonus plan, approved by the Remuneration Committee assessing the performance of chairman, and resolved by the Board.
- (2) The remuneration to the General Manager and Vice General Manager is defined by the job position held, the operating scale, the competitive environment, the industry standard, the operating performance, and individual performance about goal achievement, and proposed by Human Resource Department complying with the the Company's policy of remuneration to managers and bonus plan, approved by the Remuneration Committee assessing the performance of chairman, and resolved by the Board. Related reasonableness of performance evaluation and remuneration is reviewed by the Remuneration Committee and the Board, and reviewed the remuneration policy based on actual operation and related regulations at all times.

## 4. Corporate governance operation

### (1) Board of Directors operation:

The attendance of the directors and supervisors for the 10 Board meetings (A) held by the Company as of the printing date of the annual report (7 meetings in 2017 and 3 meetings in 2018) as follows:

Title	Name	Attendance in Person B	Actual number of meeting attended by proxies	Attendance Rate (%) [B/A]	Remark
Chairman	Liang, Li-Sheng	10	0	100	—
Director	Yang, Hai-Hung	9	1	90	—
Director	Yang, Chi-Ting	10	0	100	—
Director	Pan, Yung-Tai	9	1	90	—
Director	Pan, Yung-Chung	9	1	90	—
Director	Tsao, Chung-Feng	9	1	90	—
Independent Director	Ku, Tai-Chao	9	1	90	—
Independent Director	Wei, Yung-Tu	10	0	100	—
Independent Director	Cheng, Chih-Kai	10	0	100	—

#### Other mandatory notes:

- I. If any of the following applies to the operation of the Board, specify the date, the session, the content of the motion, the opinions of independent directors, and the responses to the opinions of the independent directors:
  - (1) Particulars inscribed in Article 14, Paragraph 3 of the Securities and Exchange Act: As of the printing date of the annual report, the resolutions of the Board were approved by all the attendees.
  - (2) Further to the aforementioned issues, other resolutions of the Board with opposite or qualified opinions with record or written statement from the independent directors: None.
- II. In circumstances where Directors should be excused from participation from the proposal with a conflict of interest, specify the names of the Directors, the content of the motions, the reasons for avoiding the conflict of interests, and the voting. Attendance of the Directors high and they participated in voting in line with their assigned duties. The following are in circumstances showing their act of avoidance of the conflict of interests:

- (1) In the session held on January 23, 2017, the Board was in discussion of Motion No. 1 pertaining to the annual bonus for senior managers of the Company in 2016. Directors Yang Hai-Hung, Pan Yung-Tai, Pan Yung-Chung, and Tsao Chung-Feng were parties concerned and were excused from the discussion and voting of this motion to avoid the conflict of interest; Motion No. 2 in the session was pertinent to the annual bonus for the Chairman in 2016. The Chairman was the party concerned and was excused from the discussion and voting on the motion to avoid the conflict of interest; Motion No. 3 in the session was pertinent to the remuneration to employees in 2016. Directors Yang Hai-Hung and Pan Yung-Tai were parties concerned and were excused from the discussion and voting to avoid a conflict of interest; Motion No. 4 in the session was pertinent to the 1st issuance of RSA in 2016. Directors Yang Hai-Hung and Pan Yung-Tai were parties concerned, and were excused from the discussion and voting to avoid a conflict of interest.
- (2) In the session held on March 7, 2017, the Board was in discussion of Motion No. 4 was pertinent to the salary adjustment of senior managers of the Company in 2017, and Motion No. 5 was pertinent to bonus plan for senior management and key officers in 2017. Directors Yang Hai-Hung, Pan Yung-Tai, and Tsao Chung-Feng were parties concerned in the two motions and were excused from the discussion and voting on the motions to avoid a conflict of interest; Motion No. 6 was pertinent to the standard of performance and bonus plan for the Chairman in 2017. The Chairman was the party concerned and was excused from the discussion and voting on the motion to avoid a conflict of interest.
- (3) In the session held on May 11, 2017, the Board was in discussion of Motion No. 1 in Point 2 was pertinent to the amendment to the bonus plan for the Chairman in 2016. The Chairman was the party concerned and was excused from the discussion and voting on the motion to avoid a conflict of interest. Motion No. 2 was pertinent to the amendment to the bonus plan for senior managers in 2016. Director Yang Hai-Hung was the party concerned and was excused from the discussion and voting on the motion to avoid a conflict of interest.
- (4) In the session held on August 10, 2017, the Board was in discussion of Motion No. 1 was pertinent to the 2nd issuance of RSA in 2016. Directors Pan Yung-Tai, Pan Yung-Chung, and Tsao Chung-Feng were parties concerned in the motion and were excused from the discussion and voting on the motion to avoid a conflict of interest.
- (5) In the session held on January 31, 2018, the Board was in discussion of Motion No. 9 was pertinent to annual bonus for senior managers of the Company in 2017, Motion No. 11 was pertinent to remuneration to employees in 2017, and Motion No. 12 was pertinent to the 1st issuance of RSA in 2017. Directors Yang Hai-Hung, Pan Yung-Tai, and Tsao Chung-Feng were parties concerned in these motions and were excused from the discussion and voting on the motions to avoid a conflict of interest. Director Pan Yung-Chung was also excused from the discussion and voting on the motions to avoid the conflict of interest. Motion No. 10 was pertinent to the annual bonus for the Chairman in 2017. The Chairman was the party concerned and was excused from the discussion and voting on the motion to avoid a conflict of interest.
- (6) In the session held on March 13, 2018, the Board was in discussion of Motion No. 13 was pertinent to reviewing the competitiveness for remuneration and benefit of managers in 2017 and salary adjustment for the year 2018. Directors Yang Hai-Hung and Pan Yung-Tai were parties concerned in these motions and were excused from the discussion and voting on the motions to avoid a conflict of interest. Director Pan Yung-Chung and Tsao Chung-Feng were also excused from the discussion and voting on the motions to avoid the conflict of interest.
- (7) In the session held on April 13, 2018, the Board was in discussion of Motion No. 5 was pertinent to bonus plan for senior management and key officers in 2018. Directors Yang Hai-Hung and Pan Yung-Tai were parties concerned in the motion and were excused from the discussion and voting on the motions to avoid a conflict of interest. Director Pan Yung-Chung and Tsao Chung-Feng were also excused from the discussion and voting on the motions to avoid the conflict of interest; Motion No. 6 in the session was pertinent to remuneration adjustment for the Chairman in 2018 and Motion No. 7 was pertinent to the standard of performance and bonus plan for the Chairman in 2018. The Chairman was the party concerned and was excused from the discussion and voting on the motion to avoid a conflict of interest.

III. The objective of enhancing the functions of the Board of Directors (such as, setup an Audit Committee, enhance the transparency of information, etc.) in current year and in the most recent year, and the assessment of its implementation.

#### 1. The objective of enhancing the functions of the Board of Directors

- (1) The Company's Board of Directors had resolved on January 12, 2011 to have the Remuneration Committee setup. The Remuneration Committee members were appointed in accordance with Article 5 of the Company's "Remuneration Committee Charter". The Remuneration Committee under the Board of Directors is aimed to strengthen the function of the Board of Directors.
- (2) The Company's Board of Directors had resolved on July 7, 2015 to have the Audit Committee setup. The Audit Committee members were appointed in accordance with Article 4 of the Company's "Audit Committee Charter". The Audit Committee under the Board of Directors is aimed to strengthen the function of the Board of Directors.
- (3) The Company established the Nomination Committee with the resolution by the Board of the Directors on March 7, 2017. The Nomination Committee members were appointed in accordance with Article 4 of the Company's "Nomination Committee Charter". The Nomination Committee under the Board of Directors is aimed to strengthen the function of the Board of Directors.
- (4) Substantiate corporate governance and improve information transparency: the Board of Directors is operated in accordance with the "Rules of Procedure for Board of Directors Meetings". The Company's board meeting is convened in accordance with the "Rules of Procedure for Board of Directors Meetings" adequately.
- (5) Advanced study of directors and supervisors: The Company arranges advanced studies for directors and supervisors to help them obtain necessary information conveniently in order to maintain their core values and professional strengths and abilities.

2. Assessment of the execution: The Company upholds the principle of transparent operation to have important resolutions published on the MOPS after the board meeting in order to protect the interests of shareholders.



## (2) The operation of the Audit Committee or the Supervisors' participating in the operation of the Board:

- The Company's Audit Committee is with three members appointed. The tenure of the current term is from July 7, 2015 to July 6, 2018.
- The attendance of the independent directors for the 6 Audit Committee meetings (A) held by the Company as of the printing date of the annual report (5 meetings in 2017 and 1 meeting in 2018) as follows:

Title	Name	Actual number of meeting attended in person (B)	Actual attendance rate (%) (B/A)	Remark
Independent Director	Ku, Tai-Chao	6	100	—
Independent Director	Wei, Yung-Tu	6	100	—
Independent Director	Cheng, Chih-Kai	6	100	—

### Other mandatory notes:

- If any of the following applies to the operation of the Audit Committee, specify the date, the session, the content of the motions, the resolution of the Audit Committee, and responses to the opinions of the Audit Committee.
  - Particulars inscribed in Article 14, Paragraph 5 of the Securities and Exchange Act: As of the printing date of the annual report, the resolutions of the Company's Audit Committee were approved by all the attendees.
  - Further to the aforementioned issues, other motions not passed by the Audit Committee but resolved at the consent of more than two-thirds of the Directors: None.
- In circumstances where Independent Directors should be excused from participation from the proposal with a conflict of interest, specify the names of the Independent Directors, the content of the motions, the reasons for avoiding the conflict of interests, and the voting: None.
- The communication among the Independent Directors, Internal Auditor, and CPAs:
  - The Company's Internal Auditor communicates with the Independent Directors on the audit findings in the meetings of the Audit Committee regularly and reports on the implementation of internal audit and the follow-up with defects detected in the audits. In the meetings, the committee requires that the level of risk shall be specified in the audit report and report on the outcome of internal audit on the risk attribute inherent to the operation cycle. Recommendations prescribed the Independent Directors shall be executed at once. The Company's Audit Committee has a good communication with the Internal Auditor in the conduct of internal audits.
  - The Company's contracted CPAs report financial statements audit or review result and other mandatory communicating matters in the Audit Committee meeting on a quarterly basis; in addition, the contracted CPAs already explained and discussed about new type audit report and key audit matters with the Audit Committee before the contracted CPAs audited financial statements in 2017. The Audit Committee has a good communication with the contracted CPAs.

## (3) How does the Company's corporate governance differ from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?

Assessment items		Operation		How does the Company's corporate governance differ from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
		Yes	No	
I. The Company's equity structure and shareholders' equity	Does the Company have the Corporate Governance Best-Practice Principles enacted and disclosed in accordance with the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies?"	V		No significant difference
	Has the Company enacted internal operating procedures for handling shareholders' suggestions, doubts, disputes, and litigation matters, and has it handled in accordance with the procedures accordingly?	V		No significant difference
	Has the Company had the list of the major shareholders who actually controlled the Company and the ultimate controllers of the major shareholders?	V		
	Has the Company established and implemented the risk control and firewall mechanisms between the Company and the affiliated companies?	V		
	Has the Company enacted internal standards to prohibit insiders from using undisclosed information to trade marketable securities?	V		

Assessment items		Operation			How does the Company's corporate governance differ from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?																																																																																																				
		Yes	No	Summary																																																																																																					
III. Composition of the Board of Directors and its duties	Has the Board of Directors had the diversification policy defined and implemented for the sake of the directors?	V		<p>The Company enacted Corporate Governance Best Practice Principles, and has disclosed on the official website and the MOPS. The diversification of the members of the Board is stated in Article 20:</p> <p>The Board of Directors should be diversified and have different professional backgrounds, work fields, genders, the knowledge, skills, and features necessary to perform their duties. To achieve the ideal goal of corporate governance, the Board of Directors should have the following capabilities:</p> <p>(1) Operational judgment capability. (2) Accounting and financial analysis capability. (3) Operational and management capability. (4) Crisis management capability. (5) Industry knowledge. (6) International market perspective. (7) Leadership capability. (8) Decision-making capability.</p> <p>There are no female directors in the Board of Directors of the Company currently. However, one female independent director candidate had been nominated at the shareholders meeting in 2018. The candidates for the Board of Directors to substantiate diversification are as follows: (1 to 8 identical to the eight capabilities above)</p> <table><tr><th>董事候選人</th><th>Gender</th><th>(1)</th><th>(2)</th><th>(3)</th><th>(4)</th><th>(5)</th><th>(6)</th><th>(7)</th><th>(8)</th></tr><tr><td>Liang, Li-Sheng</td><td>Male</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr><tr><td>Yang, Hai-Hung</td><td>Male</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr><tr><td>Yang, Chi-Ting</td><td>Male</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr><tr><td>Pan, Yung-Tai</td><td>Male</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr><tr><td>Pan, Yung-Chung</td><td>Male</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr><tr><td>Representative of Sunshine Coast Services Limited: Chen, Jie Chi</td><td>Male</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr><tr><td>Ku, Tai-Chao</td><td>Male</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr><tr><td>Cheng, Chih-Kai</td><td>Male</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr><tr><td>Chen, Su-Zhen</td><td>Female</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr></table>	董事候選人	Gender	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Liang, Li-Sheng	Male	V	V	V	V	V	V	V	V	Yang, Hai-Hung	Male	V	V	V	V	V	V	V	V	Yang, Chi-Ting	Male	V	V	V	V	V	V	V	V	Pan, Yung-Tai	Male	V	V	V	V	V	V	V	V	Pan, Yung-Chung	Male	V	V	V	V	V	V	V	V	Representative of Sunshine Coast Services Limited: Chen, Jie Chi	Male	V	V	V	V	V	V	V	V	Ku, Tai-Chao	Male	V	V	V	V	V	V	V	V	Cheng, Chih-Kai	Male	V	V	V	V	V	V	V	V	Chen, Su-Zhen	Female	V	V	V	V	V	V	V	V	No significant difference
	董事候選人	Gender	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)																																																																																															
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Has the Company, in addition to the Remuneration Committee and Audit Committee, voluntarily setup other functional committee?	V		<p>The Company established the Nomination Committee on March 7, 2017. In the future, the Company will establish various functional committees where necessary. Regarding "Nomination Committee Charter", please refer to the website or MOPS.</p>																																																																																																						
Has the Company enacted the "Rules Governing the Performance Evaluation of the Board of Directors" and the assessment methods, and has the performance evaluation performed regularly every year?	V		<p>The Company has enacted the "Rules Governing the Performance Evaluation of the Board of Directors" on November 10, 2016, and was disclosed on the website and MOPS. It stipulates that the Company has to conduct an internal performance evaluation of the Board of Directors at least once a year, and an external independent institution or experts to conduct an evaluation at least once every three years and has to conduct an annual performance evaluation at the end of the year. The result of the performance evaluation of the Board of Directors will be completed prior to the date of the nearest meeting of the Board in the subsequent year. The scope of the evaluation includes the performance evaluation of the Board of Directors as a whole, individual board member and functional committees. The methods of evaluation include internal self-evaluation of the Board of Directors, self-evaluation of directors, or other adequate methods of performance evaluation.</p> <p>The performance evaluation of the Board of Directors and the Directors and functional committees like the Audit Committee, and the Remuneration Committee in 2017 has been conducted by the CPAs of KPMG, Lin, Pao-Chu. The evaluation consisted of an questionnaire survey, data analysis and interviews.</p>																																																																																																						



Assessment items		Operation						How does the Company's corporate governance differ from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?												
Yes	No	Summary																		
III. Composition of the Board of Directors and its duties	V	The evaluation result and the issues requiring further improvement in 2018 were presented to the Board Meeting held in January 2018. KMPG classified the result of the evaluation into five levels.						No significant difference												
		<table><tr><th>Significant Improvement Required</th><th>Improvement Required</th><th>Fair</th><th>Good</th><th>Excellent</th><th>N/A</th></tr><tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>Not included in scoring</td></tr></table>							Significant Improvement Required	Improvement Required	Fair	Good	Excellent	N/A	1	2	3	4	5	Not included in scoring
		Significant Improvement Required	Improvement Required	Fair	Good	Excellent	N/A													
		1	2	3	4	5	Not included in scoring													
		Comprehensive evaluation result: The performance evaluation result of the Board, the Directors, the Audit Committee, and the Remuneration Committee ranged from good to excellent.																		
		Note on the levels of scoring:																		
		<table><tr><td>Excellent</td><td>In compliance with Best Practices at an international standard of corporate governance.</td></tr><tr><td>Good</td><td>In compliance with Best Practices at a domestic standard of corporate governance.</td></tr><tr><td>Fair</td><td>In compliance with domestic law or general standards.</td></tr><tr><td>Improvement Required</td><td>Does not comply with applicable legal rules and general standards, but not at significant level.</td></tr><tr><td>Significant Improvement Required</td><td>Severe shortcomings.</td></tr></table>							Excellent	In compliance with Best Practices at an international standard of corporate governance.	Good	In compliance with Best Practices at a domestic standard of corporate governance.	Fair	In compliance with domestic law or general standards.	Improvement Required	Does not comply with applicable legal rules and general standards, but not at significant level.	Significant Improvement Required	Severe shortcomings.		
		Excellent	In compliance with Best Practices at an international standard of corporate governance.																	
		Good	In compliance with Best Practices at a domestic standard of corporate governance.																	
		Fair	In compliance with domestic law or general standards.																	
Improvement Required	Does not comply with applicable legal rules and general standards, but not at significant level.																			
Significant Improvement Required	Severe shortcomings.																			
The content for the performance evaluation of the Board of Directors includes 9 dimensions in 89 topics, which are specified below: (1) Establishment of a competent Board. (2) Effective operation of the Board of Directors. (3) Professional development and continuing education. (4) Foresight in corporate management. (5) Execution of assigned duties. (6) The function of the management. (7) Creation of corporate culture. (8) Communication with stakeholders. (9) Performance evaluation.																				
The content of the performance evaluation of the Directors includes 6 dimensions in 27 topics, which are specified below: (1) Control of the objectives and mission of the Company. (2) Recognition of the authority and responsibility of the Directors. (3) Professional development and continuing education. (4) Execution of assigned duties. (5) Level of participation in the operation of the Company. (6) Cultivation of internal relations and communication.																				
The content of performance evaluation of the Audit Committee includes 7 dimensions in 88 topics, which are specified below: (1) Establishment of a competent Audit Committee. (2) Effective operation of the Audit Committee. (3) Professional development and continuing education. (4) Execution of assigned duties. (5) Establishment of channels for complaints. (6) Relationship with the Board of Directors. (7) Performance evaluation.																				
The content of performance evaluation of the Remuneration Committee includes 6 dimensions in 54 topics, which are specified below: (1) Establishment of a competent Remuneration Committee. (2) Effective operation of the Remuneration Committee. (3) Professional development and continuing education. (4) Execution of assigned duties. (5) Relationship with the Board of Directors. (6) Performance evaluation.																				
According to the performance evaluation conclusions of the Board of Directors in 2017, three recommendations for optimization are proposed: (1) Increasing the number of female board members could be considered. (2) The succession plan for directors and the management team can be included in the work plan of the Nomination Committee to meet the talent requirements of the company in the mid-term to long-term development. (3) According to the overall requirements of the company, arrange advanced courses on specific subjects to assist the individual director in performing the director's functions.																				

Assessment items	Operation			How does the Company's corporate governance differ from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	Summary	
III. Composition of the Board of Directors and its duties			<p>The Audit Committee has the contracted CPA's independence and performance assessed regularly every year in accordance with the "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies" and "Audit Committee Charter", which are specified follows:</p> <ol style="list-style-type: none"> <li>(1) Review CPA's resume.</li> <li>(2) He/she is not a director, supervisor, manager, or does not hold a position with other companies that may affect job responsibility or cause a conflict of interest.</li> <li>(3) The same CPA is not contracted as the auditor for seven consecutive years.</li> <li>(4) The declaration of independence is obtained from the commissioned CPA annually.</li> <li>(5) Auditing and tax service quality and timeliness is reviewed.</li> <li>(6) No litigation or any disciplinary action is received from the competent authorities.</li> <li>(7) The scale of operation and reputation of the CPA Firm is reviewed.</li> <li>(8) Interaction with the management and internal auditor.</li> </ol> <p>The most recent review was completed on March 6, 2017, when the Audit Committee was considered and the above requirements were met.</p>	No significant difference
IV		V	<p>Has the TWSE/GTSM-listed company established a full-time (part-time) position for handling issues of corporate governance or appointed designated personnel to administer corporate governance (including but not limiting to providing information to the Directors and Supervisors for the execution of their assigned duties, handling affairs about Board meeting and Shareholders Meeting, company registration and registration of change, and preparation for Board meetings minutes and Shareholders Meetings minutes) ?</p> <p>The CSR Office is the unit responsible for the advocacy of corporate governance. The Finance and Administration Division is the executive unit. There is a designated personnel responsible for the implementation of the corporate governance and is supervised by the Chief Financial Officer. The major function is:</p> <ol style="list-style-type: none"> <li>(1) Establishment of an effective framework for corporate governance.</li> <li>(2) Provide information required by the directors to execute their business, organize and retain relevant information of the Board of Directors and meeting minutes.</li> <li>(3) Organize the shareholders' meeting and relevant issues.</li> <li>(4) Processing company registration changes and relevant issues.</li> </ol> <p>The implementation in 2017 is as follows:</p> <ul style="list-style-type: none"> <li>• Organize and plan the annual schedule for the Board of Directors and each functional committee to assure compliance with relevant laws and regulations.</li> <li>• Organize regular communication meetings for independent directors, CPAs, and internal audit supervisors.</li> <li>• Support in coordinating adequate training courses for directors to guarantee that they reach the annual training hours required.</li> <li>• Negotiated with the external experts on the performance evaluation of the Board of Directors for 2017, completed the evaluation and proposed to the Board of Directors in January, 2018.</li> <li>• Register the date of the shareholders' meeting in 2017 to comply with the statutory requirements and prepare the relevant information and annual reports both in Chinese and English for the meetings.</li> <li>• The company performance of corporate governance in the previous year proposed to the Board of Directors on May 11, 2017.</li> </ul>	No significant difference



Assessment items				Operation	How does the Company's corporate governance differ from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?																																						
		Yes	No	Summary																																							
V	Has the Company established channels for communications with the stakeholders (including but not limiting to shareholders, employees, customers and suppliers) , and "Stakeholders" section page for stakeholder relation on the official website of the Company with proper responses to the issues of corporate social responsibility of high concern to the stakeholders?	V		<p>Through various tools and channels, the Company recruits all stakeholders and identifies six stakeholders according to the principle of AA1000 SES, including employees, non-profit organizations, shareholders, customers, suppliers, and the government and their valuable feedback. Communicate critical corporate responsibility issues and potential business opportunities. The main concerns and communication channels of the six stakeholders are as follows:</p> <table><tr><th>Stakeholders</th><th>Concerned issues</th><th>Communication channels</th></tr><tr><td rowspan="5">Employees</td><td>Labor relations</td><td rowspan="5"><b>Contact person:</b> Li, Hong-Da, Senior Assistant General Manager (TEL: 02-2798-9008#1020)  · Labor-Management Meeting · Employee performance interview · Employee Welfare Committee meeting · Satisfaction survey · Internal promotional channels (E-mail, digital bulletin boards, posters and bulletin boards)</td></tr><tr><td>Relations between employee and employer</td></tr><tr><td>Training and education</td></tr><tr><td>Occupational safety and health</td></tr><tr><td>Employee diversified and equal opportunities</td></tr><tr><td rowspan="3">Non-profit organizations</td><td>Regulations compliance of environmental protection</td><td rowspan="3"><b>Contact person :</b> Li, Hong-Da, Senior Assistant General Manager (TEL: 02-2798-9008#1020)  · Phone interview · Face to face interview · Email contact</td></tr><tr><td>Wastewater and scrap Effluents</td></tr><tr><td>Indirect economic impacts</td></tr><tr><td rowspan="3">Shareholders</td><td>Anti-corruption</td><td rowspan="3"><b>Contact person :</b> Lin, Chun-Hsien, Spokesman (TEL: 02-2798-9008#1988) · Annual shareholders' meeting · Quarterly operation performance presentation and conference call · Monthly revenue announcement · Domestic interview conference · Overseas investor forum</td></tr><tr><td>Economic performance</td></tr><tr><td>Regulations compliance of social and economic</td></tr><tr><td rowspan="4">Customer</td><td>Customer privacy</td><td rowspan="4"><b>Contact person :</b> Li, Hong-Da, Senior Assistant General Manager (TEL: 02-2798-9008#1020)  · GP, CSR, EICC, QPA/QSA audit · Customer environmental/GP requirements · Customer satisfaction survey · Customer and supplier conference · Product RFQ</td></tr><tr><td>Child laborer</td></tr><tr><td>Customer health and safety</td></tr><tr><td>Forced and compulsory labor</td></tr><tr><td rowspan="4">Supplier</td><td>Supplier environment assessment</td><td rowspan="4"><b>Contact person :</b> Li, Hong-Da, Senior Assistant General Manager (TEL: 02-2798-9008#1020)  · New AVL assessment/ declaration · Environment requirements of PRIMAX and its customers · Annual audit · Suppliers training (GHG/CFP/GP) · Suppliers Conference</td></tr><tr><td>Regulations compliance of environmental protection</td></tr><tr><td>Regulations compliance of social and economic</td></tr><tr><td>Wastewater and scrap</td></tr><tr><td rowspan="4">Government</td><td>Regulations compliance of social and economic</td><td rowspan="4"><b>Contact person :</b> Li, Hong-Da, Senior Assistant General Manager (TEL: 02-2798-9008#1020)  · Official documents back and forth · Market Observation Post System (MOPS)</td></tr><tr><td>Employee diversified and equal opportunities</td></tr><tr><td>Anti-corruption</td></tr><tr><td>Market position</td></tr></table>	Stakeholders	Concerned issues	Communication channels	Employees	Labor relations	<b>Contact person:</b> Li, Hong-Da, Senior Assistant General Manager (TEL: 02-2798-9008#1020)  · Labor-Management Meeting · Employee performance interview · Employee Welfare Committee meeting · Satisfaction survey · Internal promotional channels (E-mail, digital bulletin boards, posters and bulletin boards)	Relations between employee and employer	Training and education	Occupational safety and health	Employee diversified and equal opportunities	Non-profit organizations	Regulations compliance of environmental protection	<b>Contact person :</b> Li, Hong-Da, Senior Assistant General Manager (TEL: 02-2798-9008#1020)  · Phone interview · Face to face interview · Email contact	Wastewater and scrap Effluents	Indirect economic impacts	Shareholders	Anti-corruption	<b>Contact person :</b> Lin, Chun-Hsien, Spokesman (TEL: 02-2798-9008#1988) · Annual shareholders' meeting · Quarterly operation performance presentation and conference call · Monthly revenue announcement · Domestic interview conference · Overseas investor forum	Economic performance	Regulations compliance of social and economic	Customer	Customer privacy	<b>Contact person :</b> Li, Hong-Da, Senior Assistant General Manager (TEL: 02-2798-9008#1020)  · GP, CSR, EICC, QPA/QSA audit · Customer environmental/GP requirements · Customer satisfaction survey · Customer and supplier conference · Product RFQ	Child laborer	Customer health and safety	Forced and compulsory labor	Supplier	Supplier environment assessment	<b>Contact person :</b> Li, Hong-Da, Senior Assistant General Manager (TEL: 02-2798-9008#1020)  · New AVL assessment/ declaration · Environment requirements of PRIMAX and its customers · Annual audit · Suppliers training (GHG/CFP/GP) · Suppliers Conference	Regulations compliance of environmental protection	Regulations compliance of social and economic	Wastewater and scrap	Government	Regulations compliance of 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			Stakeholders	Concerned issues	Communication channels																																						
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Assessment items	Operation			How does the Company's corporate governance differ from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	Summary	
VI  Has the Company commissioned a professional stock affairs agency to handle the affairs related to shareholders meeting?	V		The Company has "SinoPac Securities Stock Affairs Agency" commissioned to handle the related matters.	No significant difference
VII. Information disclosure  Has the Company setup website to disclose financial operations and corporate governance information?	V		The Company has setup the websites with the "Investment" section for full disclosure about financial business and corporate governance.	No significant difference
	V		Does the Company have other information disclosure methods adopted (such as, setting up an English website, designating specific individuals to be responsible for the Company's information collection and disclosure, substantiating a spokesperson system, record about conferences of institutional investors uploaded to the company's website, etc.) ?	No significant difference
VIII  Does the Company have any other important information that can help understand the Company's corporate governance operation (including but not limited to the interests of employees, employee care, investor relations, supplier relations, the rights of stakeholders, the continuing education of the directors and supervisors, the implementation of risk management policy and risk measurement standard, the implementation of customer policy, the liability insurance acquired by the Company for the directors and supervisors, etc.) ?	V		<ol style="list-style-type: none"> <li>1. The Company has committed based on the Labor Standards Law to protect the basic rights of employees and has set up the Employee Welfare Committee in accordance with the Employee Welfare Act. The existing welfare system includes: a periodical health check, birthday and three festival gifts (vouchers), weddings and funeral subsidy, scholarships and financial aid, domestic and overseas travel subsidy, emergency assistance loans, year-end party and lotteries, and other community activities.</li> <li>2. The Company attaches great importance to the harmonious labor relations. For safeguarding employees' rights and benefits, employees can perform a two-way communication for the Company's systems and work environmental issues through department meetings, staff seminars, labor relation meetings, employee suggestion boxes, etc.; also, regularly inspect and maintain the safety and health of the working environment in order to ensure employees' work safety and health.</li> <li>3. The Company has a smooth communication channel constructed with the employees, bankers, customers, vendors, and other stakeholders of the Company in order to protect the legitimate interests of all parties.</li> <li>4. The Company has established the procedures for customer management service, customer satisfaction surveys, and handling customer complaint. Regarding customer grievance, properly identify the root cause of the problem and accountability, and evaluate customer satisfaction periodically to ensure providing customers with the best services.</li> <li>5. The Company has various internal regulations and internal control systems enacted lawfully, a variety of risk management and assessment performed; in addition, the internal audit office will have the implementation of internal control system audited periodically and occasionally.</li> <li>6. Continuing education of Directors: Please refer to the Annual Report "2017 the Directors' Continuing Education" (page. 27).</li> <li>7. The Company has purchased liability insurance for the directors and supervisors every year.</li> </ol>	No significant difference
IX  Specify the measures taken for improvement of corporate governance with reference to the evaluation of corporate governance by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the most recent year, and the issues pending on improvement at top priority (Skip if not included in evaluation).  The corporate governance evaluation results of the Company were ranked at 21%-35% in 2015; ranking was improved to top 5% in 2016. In 2017, the company continued to make efforts on the unsatisfied projects in corporate governance evaluations, including arranging the regular shareholders' meeting of 2017 earlier in May. And shortening the period between ex-dividend date and payable date when distributing cash dividends in order to protect shareholders' equity. Also, the Nomination Committee was established in March 7, 2017 by the Company responsible for the nomination and review of Directors and senior managers to have a more efficient implementation of the Board diversification policy.				



**Continuing education / Training of the Directors in 2017:**

Title	Name	Date	Host by	Course Title	Hours of study	Total hours of continuing education in 2017
Director	Liang, Li-Sheng	09.28.2017	TWSE	2017 Economic Forum for the Remembrance of Mr. Hsu Yuan-Tung	3	6
		10.25.2017	Taiwan Corporate Governance Association	The 13th International Summit of Corporate Governance: Enhance the Competence of Directors for the Creation of Corporate Value	3	
Director	Yang, Hai-Hung	04.07.2017	Securities and Futures Institute	2017 Insider Trading and Corporate Social Responsibility Conference	3	6
		07.13.2017	Securities and Futures Institute	The Civil Liability of Insiders Under Corporate Governance and the Securities and Exchange Act	3	
Director	Pan, Yung-Tai	07.14.2017	TWSE	2017 Conference of Law and Compliance of Insider Trading in Equity for Listed Companies and Public Companies	3	6
		10.25.2017	Taiwan Corporate Governance Association	The 13th International Summit on Corporate Governance: Enhance the Competence of Directors for the Creation of Corporate Value	3	
Director	Pan, Yung-Chung	04.07.2017	Securities and Futures Institute	2017 Insider Trading and Corporate Social Responsibility Conference	3	6
		10.25.2017	Taiwan Corporate Governance Association	The 13th International Summit on Corporate Governance: Enhance the Competence of Directors for the Creation of Corporate Value	3	
Director	Tsao, Chung-Feng	07.28.2017	Taiwan Corporate Governance Association	The Rapidly Changing Technological Environment, the Path Directors Led Companies Should Take	3	6
		08.18.2017	Taiwan Corporate Governance Association	Topics of Strategy, Competitive Power, Risk and Crisis Concerning the Board	3	
Director	Yang, Chi-Ting	07.07.2017	TWSE	2017 Conference of Law and Compliance of Insider Trading in Equity for Listed Companies and Public Companies	3	6
		08.10.2017	Taiwan Corporate Governance Association	The Law and Case Studies on Third Party Payments	3	
Independent Director	Ku, Tai-Chao	07.28.2017	Taiwan Corporate Governance Association	The Rapidly Changing Technological Environment, the Path Directors Led Companies Should Take	3	6
		08.29.2017	Taiwan Corporate Governance Association	The Irreversible Trend of CSR and Sustainability Governance	3	
Independent Director	Wei, Yung-Tu	01.24.2017	Taiwan Corporate Governance Association	Focus on the Amendment to the Company Act Related to Corporate Governance for TWSE/GTSM-listed Companies	3	16
		04.07.2017	Securities and Futures Institute	2017 Insider Trading and Corporate Social Responsibility Conference	3	
		08.29.2017	Taiwan Corporate Governance Association	The Unseen Hand Behind Corporate Governance – Unveiling the Secrets of the “Company Secretary”	1	
		09.06.2017	Taiwan Corporate Governance Association	Supervision of Directors and Supervisors on the Management of Information Risk	3	
		11.15.2017	Taiwan Institute of Banking and Finance	Lecture on Corporate Governance	3	
		12.26.2017	Taiwan Institute of Banking and Finance	Seminar on Practice of the Board and Corporate Governance	3	
Independent Director	Cheng, Chih-Kai	06.15.2017	Securities and Futures Institute	Study on the Legal Issues Related to Insider Trading	3	6
		11.16.2017	Securities and Futures Institute	An Analysis of Early Warning and Types of Corporate Financial Crises	3	

**(4) If the Company has a Remuneration Committee setup, the composition, mandate, and operation of the Committee should be disclosed accordingly:**

To improve corporate governance and strengthen the function of the Board of Directors, PRIMAX had established the Remuneration Committee in 2011 to assist the Board of Directors assessing and verifying the remuneration policy and system of the Chairman and managers. The Board of Directors has three members appointed to form the Remuneration Committee in accordance with the Company's “Remuneration Committee Charter”. The Remuneration Committee shall meet at least twice a year and there were 4 meetings convened in the most recent year.

**1. Information of the Remuneration Committee members**

Identity	Conditions	Whether with more than five years of work experience or not? And the following professional qualifications			Meet the independence criteria (Note)								Number of other pulicc ompanies in which the individual is concurrently serving as an Independent Director	Remark
	Name	An instruction or higher position in a Department of Commerce, Legal Affairs, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College, or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist who has passed a national examination and been awarded a Certificate in a profession necessary for the business of the Company	With work experience in the areas of Commerce, Legal Affairs, Finance, or Accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Ku, Tai-Chao	—	—	V	V	V	V	V	V	V	V	V	0	—
Independent Director	Cheng, Chi-Kai	—	—	V	V	V	V	V	V	V	V	V	0	—
Others	Yao, Heng-Shan	—	—	V	V	V	V	V	V	V	V	V	0	—

Note: Please tick the corresponding boxes ☒ if the member has qualified any of the following conditions during the two years prior to being elected or during the term of office.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates. However, the same does not apply if the person is an independent director of the Company, its parent company, or its subsidiary and established in accordance with applicable domestic laws or the laws of the host countries.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under someone else's name (s), in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top-10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal affairs, financial, accounting services, or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
- (8) Not been a person of any conditions defined in Article 30 of the Company Law.

**2. The operation of the Remuneration Committee**

- (1) The Company's Remuneration Committee is with three members appointed.
- (2) The tenure of the current term is from July 7, 2015 to June 28, 2018. There were four Remuneration Committee meetings (A) held in the most recent year with the attendance of the members as follows:

Title	Name	Actual number of meeting attended in person (B)	Actual number of meeting attended by proxies	Actual attendance rate (%) (B/A)	Remark
Convenor	Ku, Tai-Chao	4	0	100%	—
Member	Cheng, Chih-Kai	4	0	100%	—
Member	Yao, Heng-Shan	4	0	100%	—

**Other mandatory notes:**

- If the Board of Directors has decided not to accept or amend the proposal of the Remuneration Committee, specify the date of the Board meeting, the term, the content of the motion, the resolution of the Board meeting, and the Company's handling the opinions of the Remuneration Committee (such as, if the remuneration resolved in the Board meeting is better than the proposal of the Remuneration Committee, the difference amount and the root cause should be specified) : **None**.
- For resolutions of the Remuneration Committee, if members have the opposite or qualified opinion with record or written statement, specify the date of the Remuneration Committee meeting, the term, the content of the motion, the opinions of all members, and the handling the opinions of the members should be specified: **None**.

**(5) CSR performance: The systems and measures adopted by the Company for the tasks of environmental protection, community involvement, social contribution, social services, social welfare, consumer rights, human rights, security and health, and other social responsibility activities, and the performance.**

Assessment items	Operation			How does the Company's corporate social responsibility differ from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	Summary	
I. Substantiating and promoting corporate governance	Has the Company setup the corporate social responsibility(CSR) policies or systems, and reviewed the effectiveness of the implementation?	V	The Company's "Primax Corporate Social Responsibility Best Practice Principles" were enacted and approved by the Board of Directors for publication. The result of the implementation for 2017 was disclosed in the CSR Report in detail.	No significant difference
	Has the Company held the CSR education and training programs regularly?	V	The Company follows the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies" thereby holds training regularly to reinforce their knowledge in this regard. A meeting for charity was held in 2017, as well as a ceremony about the carbon-reduction label and the presentation of corporate social responsibility.	
	Has the Company designated a specific (part-time) unit to promote corporate social responsibility with the management authorized by the Board of Director to handle the process and report the result to the Board of Directors?	V	The CSR office was established by the Chairman with the authorization of the Board of Directors. Designated personnel are in charge of proposing, formulation, executing and reviewing the policy, system, relevant guidelines and solid promotional plan of the corporate social responsibility; also, to report it to the Board of Directors regularly at least once a year. Under the CSR Office there are groups of corporate governance, green operations, and social care to implement the different dimensions of the corporate social responsibility.	
	Has the Company setup a reasonable remuneration policy, had the employee performance evaluation system and corporate social responsibility policies combined, and established a clear and effective reward and discipline system?	V	The Company has regularly participated in external remuneration survey to ensure the competitiveness of remuneration and to be referred for the making of internal remuneration policies. Moreover, in addition to the security of a fixed annual salary, performance bonus will be distributed according to the annual achievement of the Company and personal performance and contribution of each employee, without discrimination against gender, religion, race, and nationality.	
II. The development of sustainable environment	Is the Company committed to enhance the utilization efficiency of resources and the use of renewable materials with low environmental impact?	V	The Company has the concept of environmental protection substantiated in the green design and green management proactively while providing products and services; in addition, the raw materials used in the products are in line with international environmental standards and customer requirements. Mouse products were granted a carbon-reduction label by the Environmental Protection Administration in 2017.	No significant difference
	Has the Company based on the characteristics of the industry to establish an appropriate environmental management system?	V	The Company has established a green procurement management system and the control in manufacturing process and materials to ensure the products in line with environmental requirements; moreover, a dedicated unit is assigned to maintain the production plant environment quality in China and to strengthen the implementation of energy-saving and carbon reduction measures.	
	Has the Company paid attention to the impact of climate change on operating activities and implemented greenhouse gas inventory, and enacted corporate energy-saving and carbon reduction strategies and greenhouse gases reduction strategies?	V	The Company has enacted the "Greenhouse Gas Inventory and Voluntary Reduction Declaration", and is committed to greenhouse gas inventory in order to actually grasp the situation of gas emissions and initiate further greenhouse gas reductions voluntary plan according to the inventory result.	

Assessment items	Operation			How does the Company's corporate social responsibility differ from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	Summary	
Has the Company enacted the relevant management policies and procedures in accordance with the relevant regulations and international bill of human rights?	V		The "Regulations Governing the Recruitment and Employment of Personnel" established by the Company are duly in compliance with applicable labor laws, the internationally recognized principles of basic human right such as EICC, and has regularly reviewed and revised the internal code of the Company governing human resources. The Company also seeks to protect the rights of the employees provided by law and adopted the non-discriminatory and equity policy in employment so as to develop an atmosphere of "friendly workplace" and the realization of the corporate philosophy of the "Best Employer".	No significant difference
Has the Company established an employee grievance mechanism and channel, and has employee complaints handled properly?	V		The Company has established the "Procedures for Ethical Management and Guidelines for Conduct" with proper regulation of the reporting system and operation. The Company has established a mail box for listening to the opinions of the employees and conducted surveys on employee opinions, held labor-management meetings, and established channels for employees in filing complaints directly with the supervisor/HR Department for better understanding between the management and the employees. Through the handling of complaints, the Company shows its concern and value for every opinion of the employees.	
Has the Company offered employees a safe and healthy working environment, and provided employees with safety and health education on a regular basis?	V		Primax factories are located in China while the R&D Office is in Taiwan Headquarters. Primax has the related management measures implemented as follows to provide employees with a safe and healthy working environment: <b>1. Education and Training:</b> It includes first aid, mechanical safety, ESH risk identification, occupational health, emergency response, etc., also, the health education seminar for health improvement. <b>2. Risk Control:</b> Fire alarm and chemical spill drills. <b>3. Health Check:</b> In addition to regular health checks, provide specific physical check service to the position holders with higher risks, such as, serum ALT, hearing tests, ECG, etc., especially those employees who are associated with the operation of X-ray; also, additional full body check service of the skin, liver, kidney, and lymph nodes. <b>4. Medical care:</b> Primax has clinic/medical center setup in the factory and office area with medical staff stationed regularly to serve. Each department is also equipped with medical kits to provide staff with emergency medical treatment, disease prevention, medical information and other services. <b>5. The Company's plants in China were accredited with OHSAS 18001 in the Occupational Safety and Health Management System.</b>	
Has the Company established a regular communication mechanism with the staff, and reasonably given employees a notice of operating change that may have a significant impact on the Company?	V		The Company provides employees with a regular communication mechanism. The CEO holds a meeting with employees every six months to communicate the Company's overall business plans and prospects, achievements and corporate culture focus. The Business Unit Head convenes a meeting on a quarterly basis to ensure that the department colleagues grasp the business overview. The labor-management meeting is held on a quarterly basis to communicate important corporate matters and measures. The Company also encourages the executives and colleagues to conduct an one-on-one interview occasionally in order to maintain good interaction.	No significant difference
Has the Company established an effective career-training program for employees?	V		The Company's learning and development is based on the core structure of occupational function to be tightly integrated with the Company's future development strategies and objectives. The training system is divided into three categories: Professional occupational function training, supervisor talent training, and general occupational function training.	
Has the Company enacted relevant consumer protection policy and grievance procedure regarding R&D, procurement, production, operation, and service process?	V		The Company has established the procedures for customer management service, customer satisfaction surveys, and handling customer complaint. Regarding customer grievances, properly identify the root cause of the problem and accountability, and evaluate customer satisfaction periodically to ensure providing customers with the best services.	
Has the Company handled the marketing and labeling of products and services in compliance with relevant regulations and international norms?	V		The Company has the concept of environmental protection substantiated in the green design and green management proactively while providing products and services in order to comply with laws, meet customer requirements, and fulfill responsibilities as global citizens. In addition to meeting green product-related laws and regulations (such as, RoHS, REACH, ErP ....) and customer requirements, establish response capabilities of the staff within the organization and suppliers, and conduct related training and integration with information management systems (PLM) to substantiate the green product policy.	



Assessment items		Operation		How does the Company's corporate social responsibility differ from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
		Yes	No	
III. Maintaining social welfare	Has the Company assessed whether the suppliers have a record of impacting the environment and society before conducting businesses with such suppliers?	V		No significant difference
	Are the contracts signed with the Company's major suppliers containing the clause allowing the Company to have the contracts canceled or canceled at any time when the suppliers violate their corporate social responsibility policy that have significant impact on the environment and society?	V		
IV. Strengthening information disclosure	Has the Company disclosed the relevant and reliable information about corporate social responsibility on its website and MOPS?	V		No significant difference

V. If the Company has established the corporate social responsibility best practice principles in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies", elaborate the difference between the practice and the documented principles:

The Company has established the "PRIMAX Corporate Social Responsibility Best Practice Principles" and implemented these principles in the aspects of corporate governance, concern for the employees, safeguarding the community, and protection of the earth. The practice is congruent with the principles. For information about corporate governance, refer to the section of "Corporate Governance Operation". For information on concern for the employees, safeguarding the community, and protection of the earth, refer to the CSR report of the year.

VI. Other important information that helps understand the operation of corporate social responsibility

- The Company has employee management in accordance with the Labor Standards Law and other relevant labor laws and regulations, and has designated personnel to handle various matters in order to protect the interests of employees.
- The Company has arranged the safety and health tasks, the necessary health and safety, training, the disaster prevention measures training, and health check for employees to perform job responsibility in accordance with the Labor Safety and Health Act.
- The Company takes responsibility for consumer protection and product safety, and actively solves the product problems raised by customers.
- The Company takes the health of its employees as a vital responsibility, and spares no effort in the advocacy for the physical and psychological health of the employees by organizing ball games, development of different types of social clubs, subsidies for extreme sports such as road running race and mounting the Yushan, challenging human limits, calorific value indicators in the employee cafeteria, disease prevention, stress control, and lectures on withdrawal from smoking, and also a service hotline for the assistance of EAP employees.
- The execution and implementation of corporate governance, green operations, and social care team under the CSR Office of the Company were in 2017 as follows:
  - Corporate governance:**
    - To schedule the shareholders' meeting of the year 2017 earlier in May.
    - When distributing cash dividends, shorten the period between ex-dividend date and payable date within thirty days.
    - The Nomination Committee was established on March 7, 2017 by the company which is responsible for the nomination and review of directors and senior managers to have a more efficient implementation of the Board diversity policy.
  - Green operations:**
    - Greenhouse Gas Emissions and Emission Intensity: The total greenhouse gas emitted by the PRIMAX in 2017 was 89,784.313 tons of CO<sub>2</sub>e/year, compared with 92,169.231 tons CO<sub>2</sub>e/year in 2016, a decrease of 2.59%. In 2017, the emission intensity of greenhouse gas was 14.78 kg CO<sub>2</sub>e/NT\$10,000, and was 3.17% higher than the 14.32kg CO<sub>2</sub>e/ NT\$10,000 in 2016. The main reason is that the effect of exchange rate fluctuations on operating revenue in 2017 is less than in 2016.
    - The total energy consumed by PRIMAX in 2017 was 364,774,583,852 KJ, which was 2.86% lower than the 375,499,191,256 KJ in 2016. The energy consumption intensity in 2017 was 60,053.4 KJ/NT\$10,000 revenue which was 2.88% higher than 58,371.3 KJ/NT\$10,000 revenue in 2016. The main reason is that the effect of exchange rate fluctuations on operating revenue in 2017 is less than in 2016.
    - The Company has begun to inspect greenhouse gas emissions of employees' flight trips since 2017. To calculate the carbon emissions based on the Carbon Emissions Calculator announced by International Civil Aviation Organization (ICAO). The total CO<sub>2</sub>e generated because of the Company's employee flight travel is 872.316 tons of CO<sub>2</sub>e in 2017 and obtained a verification statement from a third-party inspector.
    - In December 2016, the Company won the carbon-label certificate granted by Taiwan's Environmental Protection Administration (EPA) of the wireless mouse, and further obtained the carbon-reduction label certificate in December 2017 of the wireless mouse from EPA. The greenhouse gas emission reduction of the entire wireless mouse reached 19%. It's the first carbon-reduction label certificate of wireless mouse, and also the first carbon-reduction label certificate for electronic products.

<ul style="list-style-type: none"> <li>In 2017, the subsidiary Dongguan Primax Electronic &amp; Telecommunication Products Ltd. was awarded the blue label of Eco-Friendly Enterprise in Environmental Protection Credit Rating, the green supply chain certification for Dongguan City with a four-star rating, and was awarded the "Green Manufacturing Enterprise in My Heart" medal by China Quality Management Association for Electronics Industry.</li> <li>In 2017, there are six major expenditure categories for environmental protection expenses, including environmental protection equipment and engineering, management systems, human resources, inspection equipment, energy saving investment, and information management system expenses. Total environmental protection expenses for the year 2017 are NT\$56,239,529 is higher than that for 2016 are NT\$12,952,107.</li> <li>Regarding the management of supplier's social responsibility, the Company audited 11 major suppliers in 2017 and helped to correct audited findings. Risk survey was conducted for 73 suppliers through an online questionnaire, 11 suppliers were identified with potential risk, and performed an on-site assessment by a third party authentic surveyor. Also, three sessions of supplier social responsibility training were conducted, and 96 partners from 138 suppliers joined the training. The main topics of the training are to communicate and promote the management of corporate social responsibility and execution of particular requirements.</li> </ul> <p><b>(3) Social care team:</b></p> <ul style="list-style-type: none"> <li>The Volunteer Club was established in 2017. A total of 189 volunteers participated in volunteer activities.</li> <li>Primax signed Memorandum of Understanding with the House of Dreams Youth Development Association in April 2017. NTD 10 million will be donated within five years to support it for the education and life requirement of disadvantaged teenagers.</li> <li>In July 2017, to support the Cheng-Zhi Education Foundation, KIST Taitung Taoyuan Elementary School project, Primax will donate NTD 10 million within six years in rural education.</li> <li>The Volunteer Club was established in 2017. A total of 189 people participated in volunteer activity during the year, including the activities of the grandparents walking organized by the Hondao Senior Citizen's Welfare Foundation, the one-day tour to Nangang, the shopping with the elders in the cold winter, and the combination of the volunteers from Taiwan and China to build cattle sheds in the mountains area of Yunnan Province.</li> </ul> <p><b>(4) On May 11, 2017, the CSR Office reported to the Board of Directors on the implementation of corporate social responsibility and various promotion plans.</b></p>	<p>VII. If the Company's Corporate Social Responsibility Report passes the validation standards of relevant certification institution, it should be specified: The Company compiled its CSR Report of 2017 in accordance with the GRI Standards version, and be certified by SGS in accordance with the AA1000 Class I High Assurance Verification.</p>
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## (6) Substantiating ethical corporate management and policies:

Assessment items		Operation		How does the Company's ethical corporate management differ from the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
		Yes	No	
I. Enacting ethical corporate management policies and programs	Has the Company explicitly expressed the ethical corporate management policies and approaches in the Articles of Association and external documents, and the commitment of having the management policies substantiated by the Board of Directors and the management?	V		<ol style="list-style-type: none"> <li>The Company has enacted the "Procedures for Ethical Management and Guidelines for Conduct" to ensure the management in compliance with the related regulations for the TWSE/GTSM listed companies or other behavioral guidelines.</li> <li>The Company's "Rules of Procedure for Board of Directors Meetings" is with the Director's "avoiding conflict of interest" clause included. For the Directors or their representatives of institution with a conflict of interest against the motion to be resolved in the board meeting that is detrimental to the Company's best interest, the conflicting directors or representatives may state their opinions and inquiries but may not participate in discussion and voting. In addition, they should be excused from the discussion and voting in the meeting, and may not vote on behalf of other directors.</li> <li>The Company has enacted the "Rule Governing the Prevention of Insider Trading" to explicitly define that directors, supervisors, managers, and employees should exercise due diligence as a good administrator, loyalty, and good faith to conduct business, and to sign a confidentiality agreement not to disclose any material information to any third party.</li> </ol>
	Has the Company setup the program to prevent unethical conduct, and has the operating procedures, guidelines for conduct, and disciplinary act and grievance system enacted in each program and executed accordingly?	V		In addition to enacting the "Procedures for Ethical Management and Guidelines for Conduct", the Company's "Work Rules" and "Code of Conduct" are also introduced to require employees comply with the laws and ethics. In addition, the Company requires suppliers and subcontractors to sign the "Supplier Declaration" in order to establish a fair, honest, trustworthy, and transparent trading environment.
	Has the Company adopted preventive measures for the events stated in Article 7, Paragraph 2 of the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies" or other operating activities with a higher risk of unethical conduct within the business scope?	V		It is clearly defined in the Company's "Procedures for Ethical Management and Guidelines for Conduct" not to provide or accept illegal gains, prohibiting facilitation payments, and other prevention program and operating procedures; moreover, regulating the procedures for political contributions, charitable donations, and sponsorship program.

Assessment items	Operation		How does the Company's ethical corporate management differ from the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	
II. Substantiating ethical corporate management		V	The Company has the ethical corporate management evaluation procedure, prior to establishing a business relation, clearly defined in the "Procedures for Ethical Management and Guidelines for Conduct". It prohibits the Company from dealing with any unethical companies and requires having the ethical corporate management clauses included in the contracts to be signed by the Company and the counterparty.
		V	The Company has designated the Human Resources Department to promote the ethical corporate management and to report the execution status to the Board of Directors. For any unethical conduct occurred, the designated unit will have the process and subsequent discussion and corrective action reported to the Board of Directors.
		V	1. The Company's "Rules of Procedure for Board of Directors Meetings" and "Procedures for Ethical Management and Guidelines for Conduct" are with the Director's "avoiding conflict of interest" clause included. For the Directors or their representatives of institution with a conflict of interest against the motion to be resolved in the board meeting that is detrimental to the Company's best interest, the conflicting directors or representatives may state their opinions and inquiries but may not participate in discussion and voting. In addition, they should be excused from the discussion and voting in the meeting, and may not vote on behalf of other directors. 2. Employees with conflicts of interest against the business executed by them should have it reported to the direct supervisor and the designated unit.
		V	The Company has an accounting system and internal control system enacted in accordance with the relevant laws and regulations. The Audit Office has regularly checked the compliance of the accounting system and internal control system and has the result reported to the Board of Directors.
		V	The Company regularly holds various types of communication meetings, advocacy videos, and carnival games every year to convey the value of integrity in a straightforward manner. Each newcomer must take an 8-hour orientation within one month after on-board date, and an hour of ethics and integrity training should be included. There were a total of 10,767 newcomers in 2017. The total training hours were 10,767 hours. The training rate was 100%. In the year 2017, Tymphony Group conducted an hour of RBA basic training. A total of 1,590 employees participated the training, including 587 indirect employees and 1,003 direct employees, which accounted for 50% of all employees stated in the CSR report, total training hours were 1,590 hours.
			It is in conformity with the ethical corporate management code without any significant nonconformity identified.

Assessment items	Operation		How does the Company's ethical corporate management differ from the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	
III. The operation of the Company's whistleblowing system		V	The Company has the award and punishment, grievance system, and disciplinary action stipulated in the "Procedures for Ethical Management and Guidelines for Conduct", and has ethical corporate management included in the Code of Conduct and human resources policies.
		V	The Company has established a system for filing complaints synonymously. In addition, a designated unit for handling business secret has also been established for the management of the business secret, retention of secrets and confidentiality procedure. The performance will be reviewed regularly to ensure sustainability and effectiveness.
		V	The Company has the relevant norms included in the "Procedures for Ethical Management and Guidelines for Conduct" to ensure that whistleblowers will not be treated improperly.
IV. Strengthening information disclosure		V	Please refer to the MOPS ( <a href="http://newmops.twse.com.tw/">http://newmops.twse.com.tw/</a> ) or the Company's website ( <a href="http://www.primax.com.tw/">http://www.primax.com.tw/</a> ) for the ethical corporate management best practice principles. Please also refer to the annual CSR report for the relevant information of activity promotion.
V. If the Company has the ethical corporate management best practice principles enacted in accordance with the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies", please state the difference between its operations and the enacted Principles: No significant difference.  The Human Resources Department is the designated unit to have the Ethical Corporate Management Best Practice Principles, Code of Conduct, and related approaches enacted, to clearly prohibit accepting any illegal gains; also, to advocate the importance of ethics and moral value through internal training and promotion activities, to establish a whistleblowing system, and to ensure an effective operation.			It is in conformity with the ethical corporate management code without any significant nonconformity identified.
VI. Other important information that helps understand the operation of ethical corporate management (such as, the Company's discussing and amending its Ethical Corporate Management Best Practice Principles and others): (I) Require the Company's suppliers and subcontractors to sign the "Supplier Declaration". (II) It is clearly defined in the Company's "Procedures for Ethical Management and Guidelines for Conduct" that colleagues should explain the Company's ethical corporate management policy and the relevant regulations to the counterparty throughout the business process, and should specifically disclaim, directly or indirectly, any offer, promise, request, or accept illegal gains in any form or name, including kickbacks, commissions, facilitation payments, or any illegal gains offered or received from other channels. (III) Strengthen advocating the importance of integrity and moral at the orientation scheduled for newcomers.			
(7) If the Company has the corporate governance best practice principles enacted and the relevant regulations, the inquiry approaches should be disclosed:  Please visit the MOPS ( <a href="http://newmops.twse.com.tw/">http://newmops.twse.com.tw/</a> ) or the Company's website ( <a href="http://www.primax.com.tw/">http://www.primax.com.tw/</a> ) for the Company's corporate governance best practice principles and the relevant regulations.			
(8) Other important information that helps understand the operation of corporate governance: <b>None</b>			



(9) The following matters should be disclosed for the implementation of internal control systems.

1. Internal Control Statement

PRIMAX Electronics Limited  
Statement of Internal Control System

Date :March 13, 2018

The Company's self-examination of internal control system in 2017 is declared as follows:

1. The Company is fully acknowledged that it is the responsibility of the Board of Directors and the management to establish, executes, and maintains the internal control system. The Company has already had established such a system. The objective is to achieve effectiveness and efficiency of operation (including profitability, performance, assets security, etc.), reliability, timeliness, and transparency of reporting and in compliance with the relevant laws, regulations, and bylaws, and with reasonable assurance provided.
2. Internal control system has its inherent limitations, regardless how perfect the design is. An effective internal control system can only provide a reasonable assurance for the achievement of the three objectives referred to above. Moreover, due to changes in the environment and situation, the effectiveness of the internal control system may thus vary along with it. However, the Company's internal control system is designed with a self-monitoring mechanism. Therefore, the Company will be able to take action to have deficiencies corrected upon identification.
3. The Company is based on the effectiveness criteria of internal control system in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "Regulations") to determine whether the design and implementation of internal control system is effective or not. According to the effectiveness criteria of internal control system in the "Regulations Governing Establishment of Internal Control Systems by Public Companies", the internal control system is classified into five constituent elements in accordance with the management and control process, including: 1. control environment, 2. risk assessment, 3. control activities, 4. information and communication, and 5. monitoring activities. Each composing element contains a number of projects. Aformentioned elements please refer to the "Regulations Governing Establishment of Internal Control Systems by Public Companies" for the projects in the preceding paragraph.
4. The Company has adopted the internal control system criteria in the preceding paragraph to assess the effectiveness of the design and implementation of internal control system.
5. The Company based on the assessment result in the preceding paragraph, believes that the Company's internal control system on December 31, 2017 (including the supervision and management of subsidiaries), including understanding the results of effectiveness and efficiency of operation, reliability, timeliness, and transparency of reporting and in compliance with the relevant laws, regulations, and bylaws, and the design and implementation of internal control system is effective and can provide reasonable assurance of achieving the above objectives.
6. This Statement will be the focus of the Company's annual report and prospectus, and it will be published to the public. If the information disclosure in the preceding paragraph involves fraudulent, concealment, and any false presentation, the relevant legal obligation for such violation will be handled in accordance with Article 20, Article 32, Article 171, and Article 174 of the Securities Exchange Act.
7. This Statement has been resolved by the Board of Directors on March 13, 2018 with the presence of 9 Directors in common consent.

PRIMAX Electronics Limited

Chairman:



Signature

General Manager:



Signature

2. If the internal control system is commissioned to CPAs for project review, the CPA's review report should be disclosed: **None**.

(10) The Company and its internal staff had been disciplined lawfully; the disciplinary action had been brought against the internal staff for violating internal control system, major deficiencies, and the corrective action in the most recent year and as of the printing date of the annual reports: **None**.

(11) Important resolutions of the shareholders' meeting and board meeting in the most recent year and as of the printing date of the annual report.

1. Important resolution of the shareholders' meeting and its implementation.

Time	Important Issues
05.25.2017	1. Passed the motion on Business Report and Financial Statements in 2016. <b>Status:</b> Resolved by the shareholders' meeting. 2. Passed the motion on the earnings distribution in 2016. <b>Status:</b> July 2, 2017 was the ex-dividend date and July 28, 2017 was the payable date with cash dividend at NT\$2.5 per share. 3. Passed the motion on issuing "RSA". <b>Status:</b> Approved by FSC on October 31, 2017 and became effective within 1 year thereafter. 4. Passed the motion on the removal of the non-compete restriction on the Directors. <b>Status:</b> The non-compete restriction on the Directors was removed. 5. Passed the amendment to the "Regulations of the Shareholders' Meeting Proceedings". <b>Status:</b> Subsequent action will be taken in accordance with the amended version.

2. Important resolutions of the Board of Directors

Time	Important issues
01.23.2017	1. Passed the motion on the annual bonus for senior managers in 2016. 2. Passed the motion on the annual bonus for the Chairman in 2016. 3. Passed the motion on remuneration to employees in 2016. 4. Passed the motion on the 1st issuance of RSA in 2016. 5. Passed the motion on the establishment of the Nomination Committee and "Nomination Committee Charter". 6. Passed the motion on the budget for operation plan in 2017.
03.07.2017	1. Passed the motion on Business Report and Financial Statements in 2016. 2. Passed the motion on the earnings distribution in 2016. 3. Passed the motion on salary adjustment of senior managers in 2017. 4. Passed the motion on bonus plan for senior management and key officers in 2017. 5. Passed the motion on the standard of performance and bonus plan for the Chairman in 2017. 6. Passed the motion on the issuance of RSA 2017. 7. Passed the motion on the new issuance of RSA in 2017. 8. Passed the motion on the remuneration to Directors and employees in 2016. 9. Passed the motion on the nomination of members for the 1st term of the Nomination Committee. 10. Passed the motion on the removal of the non-compete restriction on the Directors. 11. Passed the amendment to the "Regulations of the Shareholders' Meeting Proceedings". 12. Passed the motion on the date, time, place, and content of major motions for the Shareholders' Meeting in 2017.
05.11.2017	1. Passed the motion on replacing the contracted CPAs to Wu Mei-Pin CPA, and Huang Yung-Hua, CPA due to the internal adjustment of the CPA firm. 2. Passed the motion on 1st quarter of 2017 Financial Statements. 3. Passed the motion on the amendment to the bonus plan for the Chairman in 2016. 4. Passed the motion on the amendment to to the bonus plan for senior managers in 2016. 5. Passed the motion on the amendment to the "Audit Committee Charter". 6. Passed the motion on the disposal of long-term equity investments.
06.06.2017	1. Passed the motion on the ex-dividend date and the payable date with cash dividend for the earnings distribution for 2016.
08.10.2017	1. Passed the motion on 2nd quarter of 2017 Financial Statements. 2. Passed the motion on the 2nd issuance of RSA in 2016.
11.10.2017	1. Passed the motion on investment in Belfast Group.
11.14.2017	1. Passed the motion on 3rd quarter of 2017 Financial Statements. 2. Passed the motion on assessing the independence of the contracted CPAs regularly 3. Passed the motion on the change in the accounting officer in charge of the Company. 4. Passed the motion on the amendment to the "Rules of Procedure for Board of Directors Meetings". 5. Passed the motion on the amendment to the "Regulations of Governing the Duties of Independent Directors". 6. Passed the motion on the "Audit Committee Charter". 7. Passed the motion on the disposal of long-term equity investments.

Time	Important issues
01.31.2018	1. Passed the motion on the budget for operation plan in 2018. 2. Passed the motion on the annual bonus for senior managers in 2017. 3. Passed the motion on the annual bonus for the Chairman in 2017. 4. Passed the motion on the remuneration to employees in 2017. 5. Passed the motion for the 1st issuance of RSA in 2017.
03.13.2018	1. Passed the motion on Business Report and Financial Statements in 2017. 2. Passed the motion on the assessment of IFRS 16: "Leasing" 3. Passed the motion on the earnings distribution in 2017. 4. Passed the motion on the amendment to the "Regulations Governing Acquisition or Disposal of Assets". 5. Passed the motion on the amendment to the "Articles of Association". 6. Passed the motion on re-elect all directors. 7. Passed the motion on the removal of the non-compete restriction on the Directors. 8. Passed the motion on the date, time, place, and content of major motions for the Shareholders' Meeting in 2018. 9. Passed the motion on the formulation of the procedures for nomination of candidates for the directors (including independent directors) about the agenda of electing directors in the shareholders' meeting of 2018. 10. Passed the motion on the candidates of Directors. 11. Passed the motion on the amendment to the "Nomination Committee Charter". 12. Passed the motion on reviewing the competitiveness for remuneration and benefit of managers and salary adjustment for the year 2018. 13. Passed the motion on the remuneration to Directors and employees in 2017. 14. Passed the motion on the increasing capital of Premium Loudspeakers (Huizhou) Co. Ltd.
04.13.2018	1. Passed the motion on increasing the candidates of Directors. 2. Passed the motion on bonus plan for senior management and key officers in 2018. 3. Passed the motion on remuneration adjustment for the Chairman in 2018. 4. Passed the motion on the standard of performance and bonus plan for the Chairman in 2018.

(12) For resolutions of the Board of Directors with the opposite or qualified opinions with record or written statement from the Directors or supervisors in the most recent year and as of the printing date of the annual report, please specify the content: **None**.

(13) The summary of the resignation and discharge of the Company's Chairman and General Manager, Accounting Officer, Finance Officer, Internal Auditor, and R&D Officer in the most recent year and as of the printing date of the annual report:

April 15, 2018

Title	Name	Date of office	Date of departure	Reason for resignation or discharge
Vice General Manager	Tsao, Chung-Feng	February 1, 2001	February 28, 2018	Resign and Transfer to Belfast Limited Group as Vice General Manger of Operation
Assistant General Manager	Pan, Yen-Jen	July 15, 2013	November 14, 2017	Resign and Transfer to Tymphany Group as Chief Financial Officer

## 5. CPAs fees

Name of CPA firm	Name of CPAs	Audit period	Remark
KPMG	Wu, Mei-Pin Huang, Yung-Hua	2017	—

Unit: NT\$1,000

Audit fees classification		Audit fees	Non-audit fees	Total
Range of Amount				
1	Under 2,000	—	—	—
2	2,000 (inclusive) ~ 4,000	—	—	—
3	4,000 (inclusive) ~ 6,000	—	—	—
4	6,000 (inclusive) ~ 8,000	—	—	—
5	8,000 (inclusive) ~ 10,000	9,320	—	9,320
6	10,000 and more	—	—	—

For the CPAs fee containing any of the following circumstances, the following information should be disclosed:

(1) If the non-audit fee paid to auditors, the audit firm, and its affiliates accounted for more than one-fourth of total audits fees, the audit fee and non-audit fee amount and non-audit service content should disclosed.

Unit: NT\$1,000

Accounting Firm	Name of CPA	Audit fee	Non-audit fee					CPA's Audit period	Remark
			System design	Industrial and commercial registration	Human Resources	Others	Subtotal		
KPMG	Wu, Mei-Pin	9,320	0	0	0	0	0	2017 The full year	—
	Huang, Yung-Hua								

(2) If the audit firm was replaced and the audit fee paid to the new audit firm was less than the payment of the previous year, the audit fee amount before and after the replacement and the reasons called for the replacement should be disclosed: **None**.

(3) If the audit fee reduced more than 15% from the year before, the decrease of the audit fee amount and ratio and the reason for such decrease should be disclosed: **None**.

## 6. CPAs replacement

(1) Information of former CPAs:

Item	Explanation
Date of replacement	02.21.2017
Reason for replacement and explanation	KPMG internal work adjustment
Please indicate whether the termination or rejection of the commission is initiated by the consigner or the CPAs.	None
Please state the opinions other than an unqualified opinion were rendered in the Auditor's Report within the last two years and the root causes.	None
Whether different from the opinion of the issuer or not?	None
Other disclosures (Article 10, Part 1- (4) ~ (7) of Section 6, of this standard should be disclosed)	None

(2) About the successor CPAs

Item	Explanation
Accounting Firm	KPMG
CPA	Wu, Mei-Pin Huang, Yung-Hua
Date of Engagement	02.21.2017
The advisory matters and results prior to the commission regarding the accounting treatment or accounting principle of specific transactions and the possible audit opinion on the financial report.	None
The written opinion of the successor CPAs regarding the oppositions to the opinions of the former CPA's.	None

(3) Reply of the former CPAs to Article 10, Paragraph 6, Part1 and Part 2,Section 3, of this standard: **None**.

**7. If the Company's Chairman, General Manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its CPA or at an affiliated enterprise, their names, titles, and the service time with the accounting firms and affiliated enterprise should be disclosed: None.**



## 8. The change in equity transfer and equity pledge of the directors, supervisors, managers, and shareholders with over 10% shareholding in the most recent year and as of the printing date of the annual report

### (1) Changes in equity transfer and equity pledge

Title	Name	2017		2018 to March 31	
		Change in quantity of shareholding	Change in quantity of shares under lien	Change in quantity of shareholding	Change in quantity of shares under lien
Chairman	Liang, Li-Sheng	0	0	0	0
Director / General Manager	Yang, Hai-Hung	0	0	150,000	0
Director	Yang, Chi-Ting	0	0	0	0
Director	Pan, Yung-Chung	(809,000)	(2,334,000)	0	2,800,000
Director / General Manager of Business Department	Pan, Yung-Tai	36,000	0	60,000	0
Director	Tsao, Chung-Feng	0	0	0	0
Independent Director	Ku, Tai-Chao	0	0	0	0
Independent Director	Wei, Yung-Tu	0	0	0	0
Independent Director	Cheng, Chih-Kai	0	0	0	0
General Manager of Operations	Kuo, You-Min (Note 1)	0	0	0	0
Senior Vice General Manager	Hsiao, Ying-Yee	0	0	60,000	0
Vice General Manager	Chou, Yen-Chou	(420,000)	0	15,000	0
Vice General Manager	Lee, Chiu-Sheng	51,000	0	75,000	0
Vice General Manager	Chiang, Yan-Ying	(80,500)	0	25,000	0
Vice General Manager	Chang, Ching-Kai	96,500	0	35,000	0
Vice General Manager	Chang, Yao-Han	74,000	0	35,000	0
Vice General Manager	Wei, Hao-San	(23,000)	0	60,000	0
Vice General Manager	Chuo, Yu-Shan	0	0	30,000	0
Vice General Manager	Tseng, Chien-Yu (Note 2)	0	0	0	0
Assistant General Manager	Chang, Shu-Chuen (Note 3)	0	0	0	0
Assistant General Manager	Pan, Yen-Jen (Note 4)	0	0	0	0

Note 1: Assumed office on 01.15.2018.

Note 2: Assumed office on 09.18.2017.

Note 3: Assumed office on 11.15.2017.

Note 4: Relieved office on 11.14.2017.

(2) The counterparty of equity transfer is a related party: **None**

(3) The counterparty of equity pledge is a related party: **None**

## 9. The Top-Ten shareholders who are related party mutually, or spouse, and relatives within the second degree of kinship

April 1, 2018 / Unit: Shares

Name	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees.		Remark
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Alpine Asia Investments Limited	27,751,062	6.21%	0	0	0	0	Campbell Technology Corporation (Director: Yang, Hai-Hung)	Kindred within the 2nd tier	—
JPMorgan Chase Bank N.A. Taipei Branch in custody for Franklin Templeton Investment Funds - Templeton Asian Smaller Companies Fund	11,219,000	2.51%	0	0	0	0	None	None	—
Campbell Technology Corporation	10,204,909	2.28%	0	0	0	0	Alpine Asia Investments Limited (Director: Liang, Li-Sheng)	Kindred within the 2nd tier	—
Pictet Global Selection Fund – Global High Yield Emerging Equities Fund	9,757,000	2.18%	0	0	0	0	None	None	—
Fidelity Select Portfolios: Technology Portfolio	9,076,000	2.03%	0	0	0	0	None	None	—
JPMorgan Chase Bank N.A. Taipei Branch in custody for Schroder International Selection Fund Emerging Asia	8,999,000	2.01%	0	0	0	0	None	None	—
JPMorgan Chase Bank N.A., Taipei Branch in custody for Franklin Templeton Investment Funds-Templeton Emerging Markets Smaller Companies Fund	8,462,700	1.89%	0	0	0	0	None	None	—
Lazard Emerging Markets Small Cap Equity Trust	8,068,000	1.81%	0	0	0	0	None	None	—
Pan, Yung-Chung	7,455,046	1.67%	0	0	0	0	None	None	—
Yeh, Yu-Fen	7,380,227	1.65%	0	0	0	0	None	None	—

## 10. The stock shares of one invested business held by the Company, the Company's directors, supervisors, and managers, and the business controlled by the Company directly or indirectly, and the consolidated shareholding ratio

December 31, 2017 / Unit: 1,000 shares / %

Long-term Investment	Ownership by PRIMAX		Ownership by Directors, Managers and Directly/ Indirectly Owned Subsidiaries		Total Ownership	
	Shares	%	Shares	%	Shares	%
Dongguan Primax Electronic Telecommunication Products Co., Ltd.	— (Note 1)	100.00	—	—	— (Note 1)	100.00
Primax Electronics (KunShan) Co., Ltd.	— (Note 1)	100.00	—	—	— (Note 1)	100.00
Primax Electronics (Chongqing) Co., Ltd.	— (Note 1)	100.00	—	—	— (Note 1)	100.00
Beijing Destiny Electronic Technology Co., Ltd.	— (Note 1)	100.00	—	—	— (Note 1)	100.00
Primax Destiny Co.,Ltd.	0.5	100.00	—	—	0.5	100.00
Polaris Electronics Inc.	1,600	100.00	—	—	1,600	100.00
Primax Industries (Hong Kong) Ltd.	602,817	100.00	—	—	602,817	100.00
Primax Technology (Cayman Holding) Ltd.	285,067	100.00	—	—	285,067	100.00
Primax Industries (Cayman Holding) Ltd.	8,147,636	100.00	—	—	8,147,636	100.00
Destiny Technology Holding Co., Ltd.	1,050	100.00	—	—	1,050	100.00
Diamond (Cayman) Holdings Ltd.	84,050	100.00	—	—	84,050	100.00
Gratus Technology Corp.	300	100.00	—	—	300	100.00
Tymphany Worldwide Enterprises Ltd.	55,001	100.00	—	—	55,001	100.00
TYP Enterprises, Inc. (Note 2)	0.50	66.44	—	—	0.50	66.44
Tymphany HK Ltd. (Note 2)	144,395	66.44	—	—	144,395	66.44
Tymphany Logistics, Inc. (Note 2)	200	66.44	—	—	200	66.44
Premium Loudspeakers (Huizhou) Co., Ltd. (Note 2)	— (Note 1)	66.44	—	—	— (Note 1)	66.44
Dongguan Tymphany Acoustic Technology Co., Ltd. (Note 2)	— (Note 1)	66.44	—	—	— (Note 1)	66.44
Dongguan Dongcheng Tymphany Acoustic Technology Co., Ltd. (Note 2)	— (Note 1)	66.44	—	—	— (Note 1)	66.44
Tymphany Acoustic Technology HK Ltd. (Note 2)	5,000	66.44	—	—	5,000	66.44
Tymphany Acoustic Technology (UK) Ltd. (Note 2)	400	66.44	—	—	400	66.44
Tymphany Acoustic Technology Europe, s.r.o. (Note 2)	187,800	66.44	—	—	187,800	66.44
Tymphany Acoustic Technology Ltd. (Note 2)	— (Note 1)	66.44	—	—	— (Note 1)	66.44
Primax AE (Cayman) Holdings Ltd. (Note3)	—	—	—	—	—	—

Note 1: It is a company with limited liability; therefore, no stock shares issued.

Note 2: Indirectly holding of 66.44% of the shares through Tymphany Worldwide Enterprises Ltd.

Note 3: The Company remitted funds into Primax AE (Cayman) Holdings Ltd. in January 2018.

## 4. Capital Overview



# 1. Capitalization

March 8, 2018 / Unit: share

Type of stock shares	Authorized capital stock			Remark
	Outstanding stock shares	Unissued stock shares	Total	
Common stock	446,916,324	53,083,676	500,000,000	Listed in TWSE

March 8, 2018 / Unit:NT\$1,000 / thousand shares

Year / Month	Issuing price	Authorized capital stock		Paid-in capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital increase by Assets other than cash	Others
2006.03	10	100	1,000	100	1,000	Initial capital stock	None	Note 1
2007.06	10	90,000	900,000	85,400	854,000	Capital increase in cash for NT\$853,000 thousand	None	Note 2
2007.09	10	400,000	4,000,000	321,500	3,215,000	Capital increase in cash for NT\$2,361,000 thousand	None	Note 3
2007.11	10	400,000	4,000,000	379,000	3,790,000	Capital increase in cash for NT\$575,000 thousand	None	Note 4
2009.11	10	500,000	5,000,000	379,935	3,799,349	Conversion of employee stock warrant for NT\$9,349 thousand	None	Note 5
2010.04	10	500,000	5,000,000	383,079	3,830,791	Conversion of employee stock warrant for NT\$31,442 thousand	None	Note 6
2010.09	10	500,000	5,000,000	385,336	3,853,364	Conversion of employee stock warrant for NT\$22,573 thousand	None	Note 7
2011.01	10	500,000	5,000,000	386,397	3,863,965	Conversion of employee stock warrant for NT\$10,601 thousand	None	Note 8
2011.03	10	500,000	5,000,000	397,475	3,974,746	Conversion of employee stock warrant for NT\$110,781 thousand	None	Note 9
2011.12	10	500,000	5,000,000	398,439	3,984,399	Conversion of employee stock warrant for NT\$9,653 thousand	None	Note 10
2012.04	10	500,000	5,000,000	401,080	4,010,798	Conversion of employee stock warrant for NT\$26,399 thousand	None	Note 11
2012.05	10	500,000	5,000,000	401,458	4,014,582	Conversion of employee stock warrant for NT\$3,785 thousand	None	Note 12
2012.10	10	500,000	5,000,000	403,441	4,034,408	Conversion of employee stock warrant for NT\$19,826 thousand	None	Note 13
2012.10	10	500,000	5,000,000	426,970	4,269,698	Capital increase in cash for NT\$235,290 thousand	None	Note 13
2013.03	10	500,000	5,000,000	428,966	4,289,658	Conversion of employee stock warrant for NT\$19,960 thousand	None	Note 14
2013.05	10	500,000	5,000,000	431,346	4,313,457	Conversion of employee stock warrant for NT\$23,799 thousand	None	Note 15
2013.10	10	500,000	5,000,000	432,796	4,327,957	New shares of restricted employee shares at NT\$ 14,500 thousand as stock dividend	None	Note 16

Note 1: Fu-Jian-Shang-Zi No. 09574650700 Letter dated 03.20.2006.  
 Note 2: Jing-Shou-Shang-Zi No. 09601140030 Letter dated 06.26.2007.  
 Note 3: Jing-Shou-Shang-Zi No. 09601235870 Letter dated 09.27.2007.  
 Note 4: Jing-Shou-Shang-Zi No. 09601273090 Letter dated 11.07.2007.  
 Note 5: Jing-Shou-Shang-Zi No. 09801254590 Letter dated 11.04.2009.  
 Note 6: Jing-Shou-Shang-Zi No. 09901076470 Letter dated 04.16.2010.  
 Note 7: Jing-Shou-Shang-Zi No. 09901206110 Letter dated 09.13.2010.  
 Note 8: Jing-Shou-Shang-Zi No. 10001005610 Letter dated 01.11.2011.

Note 9: Jing-Shou-Shang-Zi No. 10001060980 Letter dated 03.31.2011.  
 Note 10: Jing-Shou-Shang-Zi No. 10001275550 Letter dated 12.05.2011.  
 Note 11: Jing-Shou-Shang-Zi No. 10101059950 Letter dated 04.09.2012.  
 Note 12: Jing-Shou-Shang-Zi No. 10101091810 Letter dated 05.22.2012.  
 Note 13: Jing-Shou-Shang-Zi No. 10101211370 Letter dated 10.12.2012.  
 Note 14: Jing-Shou-Shang-Zi No. 10201041250 Letter dated 03.07.2013.  
 Note 15: Jing-Shou-Shang-Zi No. 10201096770 Letter dated 05.28.2013.  
 Note 16: Jing-Shou-Shang-Zi No. 10201214400 Letter dated 10.22.2013.

Year / Month	Issuing price	Authorized capital stock		Paid-in capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital increase by Assets other than cash	Others
2013.12	10	500,000	5,000,000	433,573	4,335,733	1. Conversion of employee stock warrant for NT\$5,916 thousand 2. New shares of restricted employee shares at NT\$ 1,860 thousand as stock dividend	None	Note 17
2014.03	10	500,000	5,000,000	433,981	4,339,813	1. Conversion of employee stock warrant for NT\$2,730 thousand 2. New shares of restricted employee shares at NT\$ 1,350 thousand as stock dividend	None	Note 18
2014.06	10	500,000	5,000,000	433,831	4,338,313	1. Conversion of employee stock warrant for NT\$750 thousand 2. Cancellation of new restricted employee shares for NT\$2,250 thousand	None	Note 19
2014.08	10	500,000	5,000,000	434,051	4,340,513	1. New shares of restricted employee shares at NT\$2,200 thousand as stock dividend	None	Note 20
2014.12	10	500,000	5,000,000	434,658	4,346,578	1. Conversion of employee stock warrant for NT\$7,015 thousand 2. Cancellation of new restricted employee shares for NT\$950 thousand	None	Note 21
2015.03	10	500,000	5,000,000	438,649	4,386,487	1. Conversion of employee stock warrant for NT\$27,659 thousand 2. New shares of restricted employee shares at NT\$ 12,250 thousand as stock dividend	None	Note 22
2015.06	10	500,000	5,000,000	439,529	4,395,287	1. Conversion of employee stock warrant for NT\$8,800 thousand	None	Note 23
2015.09	10	500,000	5,000,000	441,214	4,412,137	1. New shares of restricted employee shares at NT\$ 17,750 thousand as stock dividend 2. Cancellation of new restricted employee shares for NT\$900 thousand	None	Note 24
2016.01	10	500,000	5,000,000	441,188	4,411,877	1. Conversion of employee stock warrant for NT\$1,640 thousand 2. Cancellation of new restricted employee shares for NT\$1,900 thousand	None	Note 25
2016.03	10	500,000	5,000,000	441,794	4,417,938	1. Conversion of employee stock warrant for NT\$7,061 thousand 2. Cancellation of new restricted employee shares for NT\$1,000 thousand	None	Note 26
2016.06	10	500,000	5,000,000	441,903	4,419,028	1. Conversion of employee stock warrant for NT\$2,390 thousand 2. Cancellation of new restricted employee shares for NT\$1,300 thousand	None	Note 27
2016.09	10	500,000	5,000,000	441,748	4,417,478	Cancellation of new restricted employee shares for NT\$1,550 thousand	None	Note 28

Note 17: Jing-Shou-Shang-Zi No. 10201247440 Letter dated 12.11.2013.  
 Note 18: Jing-Shou-Shang-Zi No. 10301032580 Letter dated 12.11.2013.  
 Note 19: Jing-Shou-Shang-Zi No. 10301102920 Letter dated 06.12.2014.  
 Note 20: Jing-Shou-Shang-Zi No. 10301160910 Letter dated 08.14.2014.  
 Note 21: Jing-Shou-Shang-Zi No. 10301251420 Letter dated 12.12.2014.  
 Note 22: Jing-Shou-Shang-Zi No. 10401045290 Letter dated 03.24.2015.

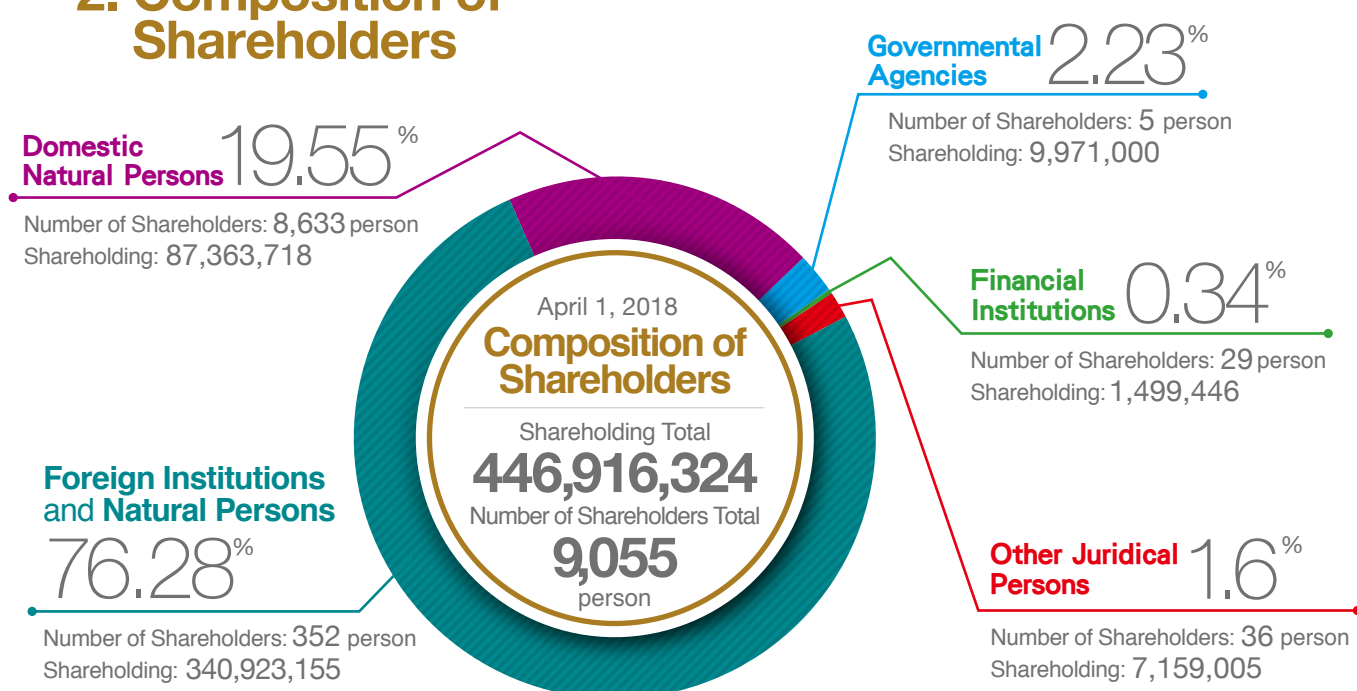
Note 23: Jing-Shou-Shang-Zi No. 10401110510 Letter dated 06.29.2015.  
 Note 24: Jing-Shou-Shang-Zi No. 10401190870 Letter dated 09.17.2015.  
 Note 25: Jing-Shou-Shang-Zi No. 10401282090 Letter dated 01.04.2016.  
 Note 26: Jing-Shou-Shang-Zi No. 10501040780 Letter dated 03.08.2016.  
 Note 27: Jing-Shou-Shang-Zi No. 10501121270 Letter dated 06.04.2016.  
 Note 28: Jing-Shou-Shang-Zi No. 10501222010 Letter dated 09.21.2016.

Year / Month	Issuing price	Authorized capital stock		Paid-in capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital increase by Assets other than cash	Others
2016.12	10	500,000	5,000,000	442,134	4,421,343	Conversion of employee stock warrant for NT\$3,865 thousand	None	Note 29
2017.02	10	500,000	5,000,000	444,704	4,447,043	1. Conversion of employee stock warrant for NT\$1,200 thousand 2. Stock dividend – new restricted employee shares for NT\$24,500 thousand	None	Note 30
2017.03	10	500,000	5,000,000	444,754	4,447,543	Conversion of employee stock warrant for NT\$500 thousand	None	Note 31
2017.06	10	500,000	5,000,000	444,779	4,447,793	Conversion of employee stock warrant for NT\$250 thousand	None	Note 32
2017.08	10	500,000	5,000,000	444,697	4,446,973	Cancellation of new restricted employee shares for NT\$820 thousand	None	Note 33
2017.10	10	500,000	5,000,000	445,247	4,452,473	New shares of restricted employee shares at NT\$ 5,500 thousand as stock dividend	None	Note 34
2017.12	10	500,000	5,000,000	445,688	4,456,883	1. Conversion of employee stock warrant for NT\$4,530 thousand 2. Cancellation of new restricted employee shares shares at NT\$ 120 thousand	None	Note 35
2018.02	10	500,000	5,000,000	446,788	4,467,883	New shares of restricted employee shares at NT\$ 11,000 thousand as stock dividend	None	Note 36
2018.03	10	500,000	5,000,000	446,916	4,469,163	Conversion of employee stock warrant for NT\$1,280 thousand	None	Note 37

Note 29: Jing-Shou-Shang-Zi No. 10501279810 Letter dated 12.02.2016.  
Note 30: Jing-Shou-Shang-Zi No. 10601026170 Letter dated 02.24.2017.  
Note 31: Jing-Shou-Shang-Zi No. 10601038880 Letter dated 03.27.2017.  
Note 32: Jing-Shou-Shang-Zi No. 10601071370 Letter dated 06.03.2017.  
Note 33: Jing-Shou-Shang-Zi No. 10601125590 Letter dated 08.30.2017.

Note 34: Jing-Shou-Shang-Zi No. 10601143730 Letter dated 10.13.2017.  
Note 35: Jing-Shou-Shang-Zi No. 10601167890 Letter dated 12.19.2017.  
Note 36: Jing-Shou-Shang-Zi No. 10701019540 Letter dated 02.23.2018.  
Note 37: Jing-Shou-Shang-Zi No. 10701024500 Letter dated 03.08.2018.

## 2. Composition of Shareholders



## 3. Distribution Profile of Share Ownership

April 1, 2018 / Unit: person / shares

Shareholder Ownership (Unit: Share)	Number of Shareholders	Shareholding	Holding Percentage (%)
1 to 999	290	37,812	0.0085%
1,000 to 5,000	6,772	13,545,215	3.0308%
5,001 to 10,000	877	7,119,387	1.5930%
10,001 to 15,000	255	3,362,401	0.7524%
15,001 to 20,000	172	3,225,779	0.7218%
20,001 to 30,000	139	3,660,929	0.8192%
30,001 to 50,000	120	4,939,910	1.1053%
50,001 to 100,000	114	8,350,107	1.8684%
100,001 to 200,000	66	9,801,079	2.1930%
200,001 to 400,000	73	20,253,877	4.5319%
400,001 to 600,000	39	18,877,282	4.2239%
600,001 to 800,000	22	15,201,635	3.4014%
800,001 to 1,000,000	20	18,258,463	4.0854%
Over 1,000,001	96	320,282,447	71.6650%
<b>Total</b>	<b>9,055</b>	<b>446,916,324</b>	<b>100.00%</b>

## 4. List of Major Shareholders

April 1, 2018 / Unit: Shares

Name of Major Shareholders	Shares	Shareholding	Holding Percentage (%)
Alpine Asia Investments Limited		27,751,062	6.21%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Franklin Templeton Investment Funds - Templeton Asian Smaller Companies Fund		11,219,000	2.51%
Campbell Technology Corporation		10,204,909	2.28%
Pictet Global Selection Fund – Global High Yield Emerging Equities Fund		9,757,000	2.18%
Fidelity Select Portfolios: Technology Portfolio		9,076,000	2.03%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Schroder International Selection Fund Emerging Asia		8,999,000	2.01%
JPMorgan Chase Bank N.A., Taipei Branch in custody for Franklin Templeton Investment Funds-Templeton Emerging Markets Smaller Companies Fund		8,462,700	1.89%
Lazard Emerging Markets Small Cap Equity Trust		8,068,000	1.81%
Pan, Yung-Chung		7,455,046	1.67%
Yeh, Yu-Fen		7,380,227	1.65%



## 5. Market price, net worth, earnings, and dividends per share within two (2) years and the related information

Item	Year	2016	2017
Market price per share	Highest Market Price	51.5	90
	Lowest Market Price	34.2	41.9
	Average Market Price (Note 1)	42.45	63.67
Net worth per share	Before Distribution	25.05	25.82
	After Distribution	22.55	22.62
Earnings per share	Weighted average shares (thousand shares)	439,169	440,907
	Earnings per share	4.4	4.67
Dividend per share (note 2)	Cash dividend (Note 4)	2.5	3.2
	Stock dividend	From retained earnings	0
		From capital reserve	0
	Accumulated Undistributed Dividends		0
Analysis of ROI (Note 3)	Price/Earning (P/E) ratio	9.65	13.63
	Price/Dividend (P/D) ratio	16.98	19.90
	Cash dividend yield rate (%)	5.89%	5.03%

Note 1: The annual average market price is calculated according to the annual sales value and volume.

Note 2: The proposal for distribution of income for 2017 was passed by the Board on March 13, 2018, but not yet presented in the shareholder's meeting for resolutions.

Note 3: P/E ratio = Current average closing price per share / Earnings per share.

P/D ratio = Current average closing price per share / Cash dividend per share.

Cash dividend yield rate = Cash dividend per share / Current average closing price per share.

Note 4: The dividend payout ratio for distribution of earnings in 2015 and 2016 were 51.72% and 56.82%, respectively. The expected dividend payout ratio for the distribution of income in 2017 is 68.52%.

## 6. The Company's dividend policy and its implementation

### (1) Dividend policy enacted in the Company's Articles of Association:

If PRIMAX made a profit, it shall be used for write-off loss carried forward, followed by the appropriation of 10% as legal reserve. No appropriation for legal reserve will be necessary if the amount of such reserve is equal to the paid-in capital of PRIMAX. As required by law, the appropriation or reversal of special reserve shall be pooled up into the undistributed earnings at the beginning of period as accumulated earnings distributable to the shareholders. The Board shall prepare the plan for distribution and present before the General Meeting of shareholders for approval.

The Company's dividend policy is to be determined by the Board of Directors by referring to the Company's operating conditions, capital expenditure budget, future fund needs and long-term financial planning; also, by taking the interest of shareholders and the balance of dividend into consideration. According to current dividend policy and without any specific conditions taken into consideration, it is for an amount not less than 50% of the net income. The earnings distribution is with stock dividend or cash dividend distributed. The cash dividend distribution ratio shall not be less than 10% of the total dividend, provided that the proportion of cash dividends paid may be adjusted in accordance with the overall operating conditions of the year.

### (2) The distribution of dividend proposed in current year:

The proposal of the distribution of income in 2017 was passed by the Board of Directors in a session dated on March 13, 2018 whereby cash dividend to the shareholders will amount to NT\$1,430,068,237. (The dividend payout ratio of approximately 68.52%.) The proposal will be resolved in the Shareholders' Meeting dated on May 30, 2018 and then processed accordingly.

## 7. The impact of the stock dividend proposed in the shareholders' meeting on the Company's business performance and the earnings per share: No dividend distribution scheduled

## 8. Remuneration to employees, directors and supervisors

### (1) The percentage or range of earnings as remuneration to employees and remuneration to directors and supervisors defined in the Company's Articles of Association

The Company's annual profits, if applicable, should be with 2-10% appropriated as remuneration to employees and with less than 2% appropriated as remuneration to directors in accordance with the amendment of the Articles of Association proposed in the shareholders' meeting. If the Company is with accumulated losses, an amount for making up the losses should be reserved in advance before appropriating remuneration to employees and remuneration to directors according to the ratio referred to above.

The remuneration to employees paid with stock or cash in the preceding paragraph is also available to the qualified employees of the subsidiaries.

The annual profits stated in the second paragraph refer to the net income before tax and before deducting the remuneration to employees and remuneration to directors.

The remuneration to employees and remuneration to directors must be with the consent of the majority of the presenting directors in the Board meeting that is with two thirds of the directors attended; in addition, the resolution must be reported in the shareholders' meeting.

### (2) The accounting treatment for the estimation basis used to estimate current remuneration to employees and remuneration to directors and supervisors, the number of shares applied for the calculation of stock dividend to employees as remuneration, and the difference between the actual distribution amount and the estimated amount.

The Company's remuneration to employees and remuneration to directors according to the Company Law and the Company's Articles of Association is in conformity with the requirements of (96) Ji-Mi-Zi No. 052 Letter of the Accounting Research and Development Foundation. While preparing interim and annual financial statements, estimate the remuneration to employees and remuneration to directors in advance that are to be booked in the respective account as operating cost or operating expense according to the nature of such remuneration paid. The difference between the earnings distribution resolved in the shareholders meeting and the estimated distribution amount in the financial statements should be treated as change in estimates and it is to be booked as profit or loss.

### (3) The distribution of remuneration resolved by the Board of Directors:

1. The remuneration to employees and remuneration to directors and supervisors paid with cash dividend or stock dividend. If the actual expense amount differs from the estimated amount, the amount of difference, root cause, and accounting treatment should be disclosed.

The Company's Board of Directors resolved on March 13, 2018 to have remuneration to employees in cash and remuneration to directors distributed for an amount of NT\$68,260,000 and NT\$34,000,000, respectively, which was different from the estimated amount of NT\$68,181,524 and NT\$34,094,258

by an amount of NT\$78,476 and- NT\$94,258 due to a change in accounting estimates. Once the actual distribution amount is resolved in the shareholders' meeting and the change in estimate is not significant enough to have the financial statements recomposed, the amount of difference will be recognized as profit or loss in the following year.

2. The ratio of remuneration to employees paid with stock dividend to the total of net income and remuneration to employees:

The Company has not proposed the distribution of stock dividend to employees; therefore, it is not applicable.

(4) If the actual distribution of remuneration to employees, directors, and supervisors in the previous year (including number of shares distributed, amount, and stock price) was different from the remuneration to employees, directors, and supervisors recognized, the amount of difference, root cause, and accounting treatment should be detailed.

The Company had cash dividend to employees and remuneration to directors distributed in 2016 for an amount of NT\$74,000,000 and NT\$36,800,000, respectively, which was different from the estimated amount of NT\$74,000,000 and NT\$36,803,496 by an amount of NT\$0 and NT\$3,496 due to a change in estimates. Also, the change in estimate was not significant enough to have the financial statements recomposed; the amount of difference would be recognized as profit or loss in the following year.

## 9. The Company's buying back shares: None

## 10. The process of corporate bonds, preferred stock, and GDR: None

## 11. Employee stock warrant status

(1) Outstanding employee stock warrant status and its impact on shareholders' equity

The Company merged the former Primax on December 28, 2007 and acquired its related employee stock warrant previously issued; also, it was exchanged for the employee stock warrant issued by Primax Electronics Holdings, LTD. (British Cayman Islands) as the main business entity in 2008; also, all rights and obligations were the same as those offered by the former Primax Electronics Holdings, LTD. (British Cayman Islands) had intended to propose a dissolution and liquidation plan in 2009; therefore, it was again exchanged for the employee stock warrant issued by Primax as the main business entity and with all rights and obligations same as those offered by Primax Electronics Holdings, LTD. (British Cayman Islands). The Company's Board of Directors for

the issuance of stock and employee stock warrant had the 2008 1st and 2nd employee stock warrant issuance and subscription approach amended on November 12, 2009 that was approved by the Securities and Futures Bureau with SFC.Far.Zi No. 0980062637 Letter issued on December 1, 2009. In addition, the Company in consideration of the annual expansion of the scale of operation, in order to strengthen the existing management team, has the 2011 employee stock warrant issuance and stock subscription approach enacted on September 30, 2011 that was approved by the Securities and Futures Bureau with SFC.Far.Zi No. 1000051000 Letter issued on October 26, 2011. The Company's respective issuance of employee stock warrant is shown as follows:

April 15, 2018

Type of Stock Option	1st tranche ESOP in 2008 (Note 1)	ESOP issued in 2011 (Note 2)
The effective date of declaration	12.1.2009	10.26.2011
Issuance date (Note 3)	11.12.2009	10.22.2012
Duration	8 years	5 years
Number of stock warrant issued (Note 4)	370,440	3,500
Ratio of number of stock option to the total number of outstanding shares (%)	0.08	0.79
Subscription period	A 43% stock option can be exercised starting from the 4th year to the end of the 6th year and the remaining 57% stock option can be exercised starting from the 6th year to the end of the 8th year.	A 50% stock option can be exercised at the end of the 2nd year; also, a 100% stock option can be exercised at the end of the 3rd year till the expiry date.
Mode of exercise	Exchange for new shares	Exchange for new shares
Period and ratio restricted for subscription (%)	Note 1	Note 2
Quantity of shares acquired through exercise of ESOP	159,289	2,495,500
Amount of stock option exercised	1,819,081	64,650,600
Quantity of shares not being subscribed under ESOP (Note 5)	211,151	1,004,500
Subscription price per share for the unexercised options	11.42	24.1
Quantity of shares not being subscription under the exercise of options in proportion to total outstanding shares (%)	0.05	0.23
The impact on shareholders' equity	The stock warrant will be executed annually after three years and five years from the issuing date; also, the former shareholding's equity will be diluted year after year with a limited dilution effect.	The stock warrant will be executed annually after two years and three years from the issuing date; also, the former shareholding's equity will be diluted year after year with a limited dilution effect.

Note 1: The employee stock warrant issued currently is for 8 years starting from the issuing date of the former Primax Electronics Holdings, Ltd. employee stock warrant and it is executed in accordance with the following schedule in a lump sum. The stock option that was not exercised on the expiry date will be deemed as a waiver and the stock option holders may not assert their stock option rights.

### Schedule:

A 43% stock option can be exercised starting from the 4th year to the end of the 6th year.

A 57% stock option can be exercised starting from the 6th year to the end of the 8th year.

If the employees with the stock warrant had left the employment for any reason or had committed severe negligence of violating labor contracts or work rules, or poor job performance, the Company is entitled to have the outstanding stock warrant withdrawn and then have it reissued. The stock warrant recovered and then re-issued is effective starting from the re-issuing date. However, if the employees after the Company's public offering had left the employment for reasons or had committed severe negligence of violating labor contracts or work rules, or poor job performance, the Company is entitled to have the outstanding stock warrant withdrawn and then have it canceled.

It was issued on November 12, 2009 and had expired.

Note 2: The current employee stock warrant is for five years. A 50% stock option can be exercised after having the "employee stock warrant" issued for two years starting from the issuing date and a 100% stock option can be exercised after three years from the issuing date. If the employees after receiving the stock warrant had left the employment for any reason or had committed severe negligence of violating labor contracts or work rules, or poor job performance, the Company is entitled to have the outstanding stock warrant withdrawn and then have it canceled. The stock option that is not exercised on the expiry date will be deemed as a waiver and the stock option holders may not assert their stock option rights. The issuing date of October 22, 2012 had expired.

Note 3: Except for the stock warrant issued on November 12, 2009, November 24, 2011, and October 22, 2012, the issuing date of the remaining stock warrants by Primax Electronics Holdings, LTD (British Cayman Islands) and former Primax as the main business entities referred to the employee stock warrant issued on December 30, 2008 by the Company as the business entity.

Note 4: That was the units issued on December 1, 2009 and October 26, 2011 with the approval of the Financial Supervisory Commission, respectively. In addition, except for the 2011 employee stock warrant subject to the subscription of 1,000 shares per unit while the remaining respective employee stock warrant is subject to 1 share per unit.

Note 5: It is the net balance of the issued unit deducting the unit executed, invalid, and cancelled unit (excluding the forgone unit).



(2) The names of the managers who have acquired ESOP and the top 10 employees acquiring ESOP, and the status of subscription of shares.

April 15, 2018 / Unit: NT\$1,000 / 1,000 shares / %

	Title	Name	Number of Options Granted	The quantity of subscription units in proportion to the total subscription quantity	Exercised			The quantity of subscription units in proportion to the total subscription quantity	Unexercised			The quantity of subscription units in proportion to the total subscription quantity
					Number of Options Granted	Price Per Share	Value of Shares		Number of Options Granted	Price Per Share	Value of Shares	
Managers	Director / General Manager	Yang, Hai-Hung	620	0.14	159	11.42	1,819	0.17	211	11.42	3,014	0.07
	Vice General Manager	Chou, Yen-Chou										
	Vice General Manager	Chang, Ching-Kai										
	Vice General Manager	Wei, Hao-San										
	Vice General Manager	Chang, Yao-Han										
	Vice General Manager	Tseng, Chien-Yu										
Employee (Note 1)	Senior Assistant General Manager (Note 2)	Luo, Ming-Deh	500	0.11	125	27.70	3,462	0.11	-	-	-	-
	Senior Assistant General Manager	Chen, Ying-Shou										
	Assistant General Manager	Lin, Chun-Hsien										
	Assistant General Manager	Chen, Kuang-Tzer										
	Assistant General Manager	Chen, Wei-Wu										
	Senior Manager	Ma, Yu-Cheng										
	Senior Manager (Note 3)	Tseng, Mei-Hui										
	Senior Manager	Huang, Xi-Xiang										
	Senior Manager	Liu, Sen-Xiang										
	Manager	Ling, Rai-Yuan										

Note 1: The top-ten employee stock warrant subscribers refer to the employees other than the managers.

Note 2: Resigned on May 15, 2017.

Note 3: Resigned on January 25, 2018.

Note 4: The un-exercise stock warrants were expired.

Note 5: A total of 446,916,324 shares were issued on April 15, 2018.

(3) The private placement of employee stock warrant in the last three years:  
None

## 12. The process of new restricted employee shares

(1) The process of new restricted employee shares without fulfilling the vested conditions completely and its impact on shareholders:

April 15, 2018

Type of new restricted employee shares	The second issue in 2014	The first issue in 2016	The second issue in 2016	The first issue in 2017
The effective date of declaration	10.6.2014	10.18.2016	10.18.2016	10.31.2017
Issuing date	08.18.2015	02.13.2017	09.07.2017	02.08.2018

Type of new restricted employee shares	The second issue in 2014	The first issue in 2016	The second issue in 2016	The first issue in 2017
Number of new restricted employee shares issued (shares)	1,775,000	2,450,000	550,000	1,100,000
Issuing price	0	0	0	0
Ratio of the number of new restricted employee shares issued to total outstanding shares (%)	0.40	0.55	0.12	0.25
Vested conditions of the new restricted employee shares	Shall comply with the Company's operating results and individual performance as defined in the Rules.			
The limitation of rights of the new restricted employee shares	1. Employees may not have the new restricted employee shares sold, mortgaged, transferred, gifted, pledged, or disposed in any form before fulfilling the vested conditions. 2. The attendance, motion, speech, and voting right of the shareholders' meeting should be implemented in accordance with the trust and depository contracts. 3. Except for the limitations in the preceding paragraph, the other rights of the new restricted employee shares received according to the Rules, including but not limited to stock dividends, bonuses and rights to additional paid-in capital, stock subscription from cash capital increase, voting right, etc., before fulfilling the vested conditions, are without any limitation same as the Company's common stock issued.			
The custody of new restricted employee shares	It is handled in accordance with the trust depository method.			
The process of new restricted employee shares received or subscribed before fulfilling the vested conditions	The new restricted employee shares received but not yet fulfilling the vested conditions will be called back without compensation by the Company and it will then be canceled.			
Number of new restricted employee shares called or buyback (shares)	254,000	21,000	20,000	0
Number of new restricted employee shares derestricted (shares)	939,000	735,000	0	0
Number of new restricted employee shares (shares)	582,000	1,694,000	530,000	1,100,000
Ratio of the number of new restricted employee shares to the total outstanding shares (%)	0.13	0.38	0.12	0.25
The impact on shareholders' equity	No significant impact.	No significant impact.	No significant impact.	No significant impact.

Note: A total of 446,916,324 shares were issued on April 15, 2018.

(2) The name of the managers received new restricted employee shares and the top-ten employees and the number of shares obtained by each of the employees:

April 15, 2018

Title	Name	Number of new restricted employee shares	Ratio of the number of new restricted employee shares to the total outstanding shares	Released				Unreleased			
				Number of shares	Issuing price	Amount of issuance	Released Restricted Shares as a Percentage of Shares Issued	Number of shares	Issuing price	Amount of issuance	Unreleased Restricted Shares as a Percentage of Shares Issued
Managers	General Manager	Yang, Hai-Hung	0.62%	753,000	0	0	0.17%	2,007,000	0	0	0.45%
	General Manager of Business Department	Pan, Yung-Tai									
	General Manager of Operations	Kuo, You-Min									
	Senior Vice General Manager	Hsiao, Ying-Yee									
	Vice General Manager	Chou, Yen-Chou									
	Vice General Manager	Tseng, Chien-Yu									
	Vice General Manager	Chuo, Yu-Shan									
	Vice General Manager	Lee, Chiu-Sheng									
	Vice General Manager	Chiang, Yan-Ying									
	Vice General Manager	Chang, Ching-Kai									
	Vice General Manager	Chang, Yao-Han									
	Vice General Manager	Wei, Hao-San									

Title	Name	Number of new restricted employee shares	Ratio of the number of new restricted employee shares to the total outstanding shares	Released				Unreleased			
				Number of shares	Issuing price	Amount of issuance	Released Restricted Shares as a Percentage of Shares Issued	Number of shares	Issuing price	Amount of issuance	Unreleased Restricted Shares as a Percentage of Shares Issued
Employee	Senior Assistant General Manager	Chang, Chen-Deh	0.36%	552,000	0	0	0.12%	1,063,000	0	0	0.24%
	Senior Assistant General Manager	Huang, Chien-Nan									
	Senior Assistant General Manager	Zhou, Yi-De									
	Senior Assistant General Manager	Shan, Yi-Kuang									
	Senior Assistant General Manager	Chen, Ying-Shou									
	Senior Assistant General Manager	Chang, Shi-Peng									
	Assistant General Manager	Liou, Rai-Ming									
	Assistant General Manager	Fu, Yan-Zong									
	Assistant General Manager	Hu, Ching-Yuan									
	Assistant General Manager	Hung, Chi-Ming									
	Assistant General Manager	Lu, Yu-Hung									
	Assistant General Manager	Chih, Chao-Hsi									

Note: A total of 446,916,324 shares were issued on April 15, 2018.

### 13. Stock acquisition or transfer from other companies with new shares issued

- (1) Stock acquisition or transfer from other companies with new shares issued in the most recent year or as of the printing date of the annual report: **None.**
- (2) Stock acquisition or transfer from other companies with new shares issued resolved in the Board meeting in the most recent year or as of the printing date of the annual report: **None.**

### 14. Fund plan and its execution

#### (1) Project content:

The prior issuance or private placement of marketable securities that was not yet completed or it was completed within the last three years without significant effect up to the last quarter prior to the printing date of the annual report: Not Applicable.

#### (1) Project execution:

Analyze the intended use of each project in the preceding paragraph up to the prior quarter of the printing date of the annual report, the execution, and comparison with the expected effect: Not Applicable.

## 5、Operation Overview



# 1. Business content

## ( 1 ) Business Scope

### 1. The main business operations of the Company

• CB01020 Business equipment manufacturing industry	• F113050 Computer and multifunction products wholesale industry
• CC01030 Electrical appliances and audio-video electronic products manufacturing industry	• F118010 Information software wholesale industry
• CC01060 Wired communication machinery equipment manufacturing industry	• F213030 Computers and multifunction product retail industry
• CC01070 Wireless communication machinery equipment manufacturing industry	• F218010 Information software retail industry
• CC01080 Electronic components manufacturing industry	• C805050 Industrial plastic products manufacturing industry
• CC01101 Controlled telecommunications radio frequency equipment manufacturing industry	• CA02010 Metal structures and architectural components manufacturing industry
• CC01110 Computer and peripheral equipment manufacturing industry	• CA02090 Metal wire products manufacturing industry
• CE01030 Optical instrument manufacturing industry	• F401010 International trade industry
• F401021 Controlled telecommunications radio frequency equipment importing industry	• F114030 Wholesale of Parts and Accessories for Automobiles and Motorcycles
• I301010 Information software services industry	• F214030 Retailing of Parts and Accessories for Automobiles and Motorcycles
	• ZZ99999 In addition to the chartered business, the business not-prohibited or non-restricted by law is also permitted for operation.

## 2. Business ratio

Unit: NT\$1,000 / %

Item	Year	2017	
		Total Sales	(%) of Total Sales
PC peripherals products		20,628,258	33.96
Non-PC peripherals products		40,113,434	66.04
<b>Total</b>		<b>60,741,692</b>	<b>100.00</b>

## 3. The Company's current products ( services )

PC peripherals products	Non-PC peripherals products
<b>① Computer input device</b> <ul style="list-style-type: none"> <li>Traditional optical mouse</li> <li>Advanced Laser mouse</li> <li>Wireless radio frequency optical and laser mouse</li> <li>Bluetooth mouse</li> <li>Wireless Bluetooth dual-mode mouse</li> <li>Wireless presenter</li> <li>Mini Mouse</li> <li>Wired keyboard</li> <li>Wireless keyboard</li> <li>Bluetooth keyboard</li> <li>Mechanical keyboard</li> <li>Game mouse and keyboard</li> <li>Backlit keyboard</li> <li>Notebook computer keyboards</li> <li>Ultra-thin tablet PC keyboard</li> <li>Keyboard module</li> <li>Smart TV remote control</li> <li>Living room input device</li> <li>MFi (Made for iPod, Made for iPhone) Wired Keyboard</li> <li>Bluetooth wireless game joystick</li> <li>Games peripherals</li> </ul> <b>② Notebook computer touch panel</b>	<b>① Mobile device components products</b> <ul style="list-style-type: none"> <li>Mobile phone built-in camera and fingerprint identification module                             <ul style="list-style-type: none"> <li>24-megapixel OIS camera module</li> <li>13-megapixel + 13-megapixel dual-camera module</li> <li>5/8-megapixel prime lens camera module (front lens)</li> <li>13/16/20-megapixel close-loop fast automatic focus camera module.</li> <li>13/16/20/24-megapixel OIS + automatic focus camera module</li> <li>Phase difference fast focus camera module</li> <li>13-megapixel + 13-megapixel dual-lens camera module</li> <li>20-megapixel + 12-megapixel dual-lens zoom lens module</li> <li>20-megapixel + 12-megapixel dual-lens</li> <li>8-20-megapixel small camera module</li> <li>3D/2.5D facial recognition module</li> <li>3D depth sensor module</li> <li>Optical fingerprint reading module</li> <li>Capacitive fingerprint identification module</li> <li>Ultrasonic fingerprint identification module</li> <li>Smart lock fingerprint reading module</li> </ul> </li> <li>Communications peripheral equipment                             <ul style="list-style-type: none"> <li>Bluetooth headphones / Bluetooth stereo headphones / Bluetooth stereo module / Bluetooth desktop / car handsfree device / Bluetooth USB audio frequency signal receiver</li> <li>Bluetooth GPS receiver / Bluetooth USB data transmission receiver</li> <li>Desktop charging cradle / car charger / USB charging cable / Portable power supply unit / wireless charger / wireless charging module</li> <li>MP3 charging dock / radio wired control device / remote control</li> <li>Phone data transmission lines / USB Card Receiver</li> </ul> </li> </ul>

## Non-PC peripherals products

### ② Business equipment products

- Image Scanner
  - Flatbed scanner
  - Automatic document feeder (ADF)
  - Automatic reversing document feeder (ARDF)
  - Double-sided automatic document feeder (DADF)
  - Office scanner module
  - Scanner module software and firmware development

#### Printer

- Black and white and color laser printer control panel development
- Black and white and color laser printer software and firmware development
- Dot matrix business printer
- Thermal printer
- Portable thermal photograph printer

#### Multifunction Printers

- Black and white and color laser Multifunction Printers
- Multifunction Printers control panel development
- Multifunction Printers software and firmware development

#### Fax machine

- Black and white fax machine

#### Information processing device

- Computer terminals
- Mobile Internet devices
- Point of sales (POS)
- Cash register (CR)
- Lottery Machines

#### Office automation products

- Shredder
- Laminator
- Binding machine
- Paper cutter

#### Smart network camera

- Surveillance camera
- Conference camera

### ③ Digital home and audio products

- Portable wireless networks storage device
- Bluetooth portable speaker
- One-piece sound bar (2.1, 5.1 sound track)
- Dolby Amos specification one-piece sound bar
- Computers / audio speakers
- Headphones
- In-ear wireless headphones
- Speaker driver

### ④ Automotive Electronics and related products

- Automotive lens modules
  - Car reverse camera module
  - Unmanned vehicle camera module
  - Motion detection camera module

## 4. New products ( service ) development plan

### PC peripherals products

Computer input device mouse and keyboard	Tablet phone game controller
Backlit keyboard	Living room input device
Keyboard module	Thin mechanical keyboard
Bluetooth and wireless controller and presenter	Thin film keyboard
Game mouse and keyboard	Tablet PC high-speed transmission expansion port
Game console peripherals	Audio conference keyboard
Multi-point touch panel	The first 30W high power NB-PC wireless charging device
Smart TV remote control	Rechargeable wireless mouse
Ultra-thin tablet PC keyboard and leather keyboard	Portable rechargeable wireless mouse pad
Capacitive stylus pen	
Bluetooth stylus pen	

### Non-PC peripherals products

#### ① Mobile device components products

- Full HD slim NB camera module
- 360° panorama / Sports camera
- Surveillance camera
- Phone fingerprint identification module
- Credit card fingerprint identification module
- Smart lock fingerprint reading module
- Automotive ADAS 3-phase camera module
- Driving recorder
- Wearable camera

#### ② Business equipment products

- Commercial double-sided automatic document feeder (DADF) scanner
- Commercial network scanner
- High-speed multifunction printer scanner module
- High-speed color laser printer control panel development
- Barcode label black and white / color printer
- High-speed B & W / Color Laser multifunction product control panel development
- Mobile Internet devices
- Point of Sales (POS) service machine control board development
- Portable photo printer and Internet of Things (IoT) interface development

#### ③ Digital home and audio products

- Home Network Attached Storage (NAS) device
- Portable Wireless Network Attached Storage hard drive
- Digital home entertainment media server
- Digital home wireless audio system
- Digital home-related applied software
- Portable Wireless Speaker
- Voice control sound system
- Noise resistance earphones
- Sports earphones with health status measurement function
- In-ear separate receiver wireless headphones

#### ④ Automotive Electronics and related products

- Car reverse camera module
- Unmanned megapixel vehicle camera module
- Motion detection camera module

#### ⑤ Wireless charging products

- 1~15W headsets, wearables, smart shoe wireless charger module
- 15W iPhone wireless quick charging module
- 15W iPhone wireless quick charging panels, charging set
- 15W iPhone wireless quick charging automotive phone holder
- 15W iPhone wireless quick smart charging automotive phone holder
- 60W~120W high power wireless charging device

## (2) Industry Overview

### 1. Industry current status and development

#### (1) PC peripherals products

PRIMAX's PC peripheral products are mainly the keyboard and mouse of the desktop and notebook computer; also, the market change of such product line is closely related to the development of personal computers. The shipment volume of desktop PCs and NB PCs in the global market and Taiwan has slowed down over the years. Tablet PCs and detachable tablet PCs did not bring about new momentum. The PC industry is moving towards the direction of "the big is getting bigger". Currently, the top 6 PC brands monopolize almost 80% of the market share worldwide. After years of development with the top 6 brands, the Group was not affected in the PC market as a whole. There is one point that worth mentioning. The recent mushrooming of the Gaming market is just like the eruption of a volcano that has triggered demand in the PC industry. As a result, there are a number of Gaming PC brands that have emerged stimulating the demand for peripherals as input for Gaming. The Group has successfully secured a number of Gaming Brand and Gaming PC brand customers. It is expected that there will be sustainable growth in 2018.

#### (2) Non-PC peripherals products

##### ① Mobile device components products

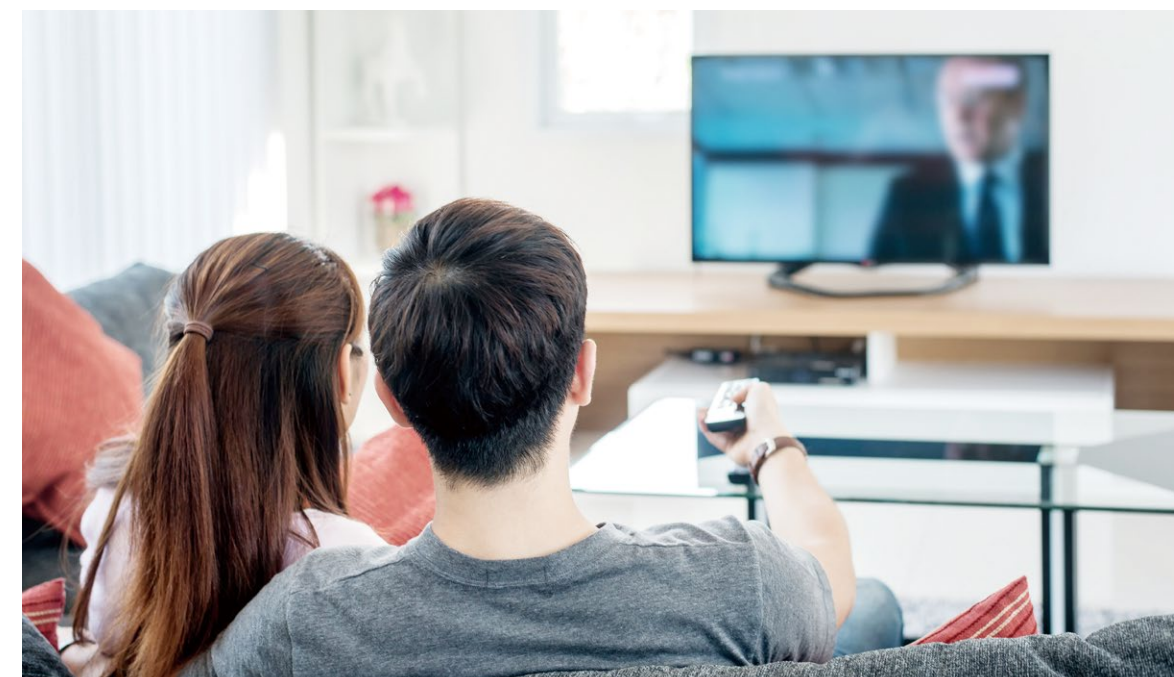
According to the figures released by IDC, the global shipment of smart phones in 2017 was about 1.49 billion units, which was almost the same as the previous year. This figure also indicated the decline of major markets of the world. However, the markets in the newly emerging economies showed significant growth, which implies that the cycle for replacement of new phones in the well-developed market tended to be deferred. According to the forecasts of the analysts, the market in 2018 will be on the decline or just the same as the previous year particularly the main market. For this reason, most famous brands in the world will tend to reach out to the newly emerging markets of India and Indonesia in particular. Localized manufacturing will emerge as the primary mission of major cell phone makers. Accordingly, major peripheral components firms are planning to respond to the change. Pushed by the continued innovation of mobile apps, the integrated application of the ecology chain has started to ferment, including mobile payment, the IoT of many things, providing endless space for people to make improvements to our way of life. As such, the

demand for related parts and components for mobile devices, such as camera lens modules, fingerprint recognition, wireless chargers, and even different kinds of sensors will be on the rise. In 2018, the demand for high-end camera lenses will continue to grow. Optical shake-proof, quick focusing, slim and small and double-lenses will be the main stream of development. This will be echoed by the challenge of encapsulation technology and production capacity planning for camera lens makers. Mobile payment appears to be the order of the day, which entails a considerable proportion of demand for the functions of fingerprint recognition and facial recognition.

##### ② Business equipment products

The Company deals with a wide range of business machines including scanners, printers, multiple-purpose printers (business machine), fax machine, data processors (such as: computer terminal, cashier machine), and office automation products (such as: paper shredder, laminator), of which scanners and multiple-purpose business machines are the hot items.

Scanners, printers and business machines are products of mature technologies. Although high resolution and network connection of the products are still in demand, the price falls without a pause. The sluggish economy worldwide also mired the growth of the emerging market, to the extent that the sale of printer and business machine hardware has been on the decline. According to a survey report on the printer market of China in 2016 released by IDC, the total volume of the assembly of new machines fell and the volume of the assembly of mainstream printer firms also fell. In the wake of poor economic performance, the purchase from the government and the small and medium enterprises shrunk significantly. At the same time, the buying habit and demand of individual consumers also changed significantly. Price and promotion by advertising are no longer the primary factors affecting the choice of the consumers for products. Instead, the price/performance ratio, reliability, and service gradually emerged as the factors critical for the decision of the consumers. The prevalence of mobile devices (smart phones and tablet PC) and the popularity of digital process also inflicted impact on the printer market that drove down the quantity of printer sale without a pause. Yet, a report released by IDC suggested that there will be 2.3% CAGR from 2014 to 2019, which draws the attention of the firms once again



to the management of the printer market. The rapid growth of smart phone and tablet PC drove the firms to develop innovative application in large scale, such as cloud printing and cloud scanning functions. With these functions, users just need to use their mobile devices to send document for printing through Wi-Fi, or directly access to the image of the documents. These brand new functions emerged as a basic function for multiple-purpose business machine. The demand for these new functions and the expansion of the emerging market helped to boost the growth of A4 low-end black and white and color printers.

##### ③ Digital home and audio products

The home network environment is maturing along with the increasing popularity of the broadband network and transmission speed, and the increase of Wi-Fi products, smartphone, tablet PC and related commodities, the network / computer / mobile device (smartphone / tablet computer) and TV / electrical appliances interface and operating system has a blurred boundary. Different platforms and devices can be all connected and become a seamless audio and video entertainment environment. The user interface is also more intuitive and user-friendly. Digital home-related products and applications have become an inevitable trend and it becomes the highlight of current consumer electronics and the favorite of major electronics exhibitions, such as, CES, CeBIT, IFA, etc. The use of digital home audio/video streaming along with the upgrade of wireless network broadband (IEEE802.11n MIMO, ac MU-

MIMO) has better met consumer's expectations and led to the development of related products and services.

Each leading brand will continue to introduce more high-end related products recently, from UHD 4k LCD TV, all kinds of set-top boxes (such as, Apple TV, Roku, Google Chromecast, and Amazon Fire TV), Internet storage devices (e.g. NAS, DLNA wireless storage, etc.), audio and video entertainment servers (such as, Xbox One and PS4), wireless audio systems (e.g. Sound bar) ... etc. Both hardware manufacturers and Internet service providers had striven to upgrade product specifications and to improve sales in the last year. Although the product line and technology of each company may be different, from the perspective of market applications, audio/video streaming and cloud computing concepts related hardware and software applications have become the focus of the digital home product growth in the next few years.

The four screens and one cloud (TV screen, computer screen, mobile phone screen, tablet PC screen, and home private cloud) environment based on making the living room as a home entertainment center have met the consumer demands for video data storage (Personal Cloud) and convergence and sharing needs between devices. No matter if it is for hardware or software, the consumer demand for digital video, photos,



music, file storage and management, and sharing and streaming is real and has helped create many new business opportunities.

Smart sound system emerged as the market for international big firms after the exploding growth of digital home. For upgrading their competitive power, the smart sound system firms understand the demand of the users with innovation and improvement so as to further the development. Easy to carry is vital for mobile smart hardware in the era of mobile network. However, some smart sound systems are still in big size with an attempt to keep the quality of sound and the number of speakers contained in the system that additional batteries are required for a longer stand-by mode. The size of the smart sound system will become smaller if the condition of sound quality could give way and make smart sound system function normally without connecting to power supply after installing a battery.

The sound quality of Smart audio had been criticized severely throughout the course of development in 2015. The Company aims to provide a high-quality sound experience, to invest sufficiently in R&D and the simulation of user aspect for stable sound quality, experience, and product. The over-emphasizing on smart audio products will have the essence of audio lost, because sound is closely interacting with human lives; therefore, the long-term use of smart audio should be for the pursuit of "good sound." Therefore, in 2016, the smart audio manufacturers will gradually return to basics to create high-quality sound first before addressing the concern of being smart. At the same time, if smart audio is to become an important tool to the control digital home; it must be able to bring convenience to users, rather than complicated operation or cumbersome and impractical features. For product developers in an era of the Internet, it must be able to expand the user base, for example, to obtain the support of partners by opening the connection port in order to enhance the control over the digital home.

In 2016, the new trend for smart sound system is the inclusion of voice assistance function that made it the center of control for smart home. Voice assistance function has attracted the attention of all sectors after the launch of Siri service by Apple. The handset is portable and convenient to carry. Yet, there is still limitation inherent to the device in certain situations and actual lives. In other words,

one must take it out for using. In the advent of smart sound through voice assistance, the habit of using changed. Consumers just need to speak it out and get response. This makes voice assistance into application of daily lives possible. Accordingly, smart sound market can be upgraded and expanded to a new domain.

2017 was a glamorous year for smart sound systems. Smart sound systems help to integrate a variety of services and smart devices and emerged as a vital part of our daily lives. Practical and feasible modes of business emerged in the areas of shopping, education, security, and home control. The leader of the industry, Amazon, has sold millions units of the product, and opened to all sound system makers to connect to the services. The smart sound system of Google has the record of selling 1 unit per minute, which closely follows the footprint of Amazon. These imply that we have made the right investment in the right products. We are moving forward at a high speed.

#### ④Wireless chargeing products

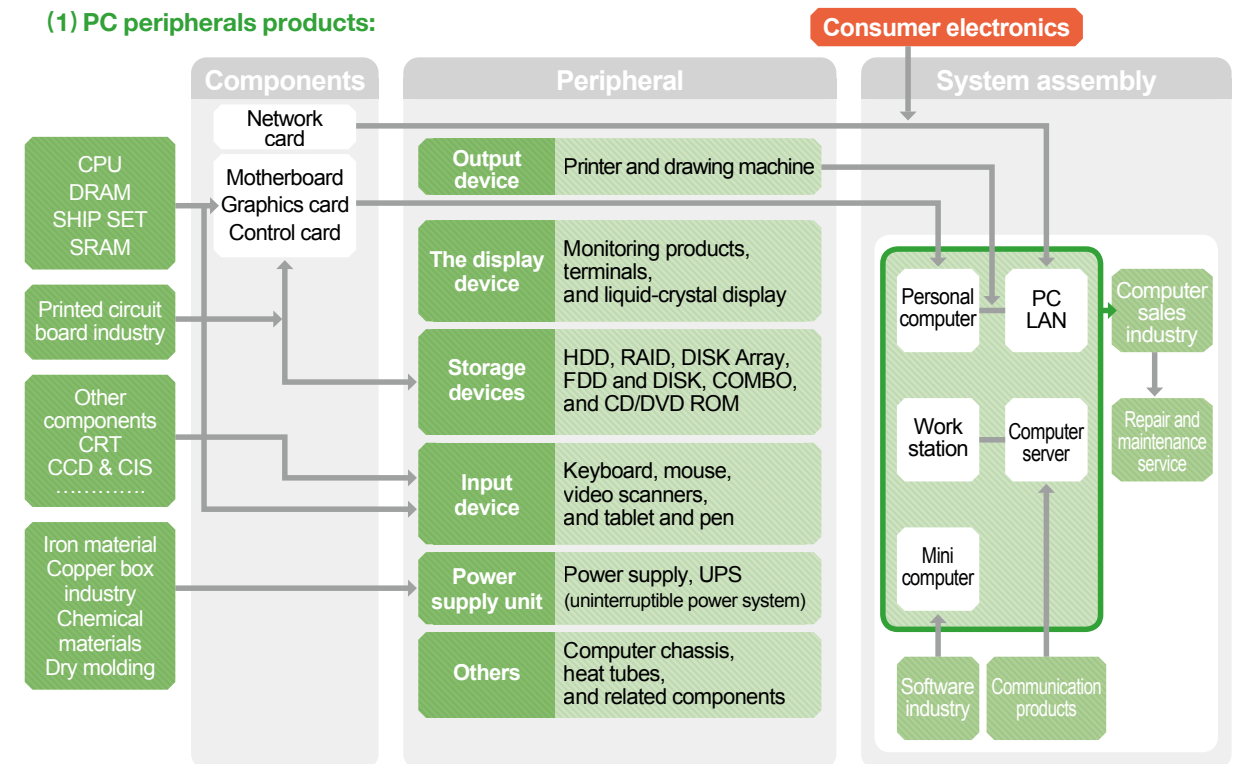
After the price war and technology advancement of wireless chargers over the last 10 years, WPC specifications (known as Qi in the market) appears to be the winner with the backing of major phone makers (such as Apple, Samsung) in 2017 and will trigger another wave of demand.

According to the Q2 2017 Report of HIS, the shipment volume of wireless charging and receiving devices was 205 million units in 2016 of which 38% were wireless charging transmitting devices. The two will achieve compound growth of more than 30% in the next 5 years. It is estimated that the shipment volume in 2020 will be as many as 2 billion units. This great success will no less be the contribution of its application to mobile communication devices and consumer electronics. The new generation of iPhone will be designed for built-in wireless charging, which will prompt further growth.

There are two categories of popular devices in market for the time being. One is the low to mid power wireless charging devices for consumer electronics or portable communication devices while the other is ultra-high power vehicle use wireless charging devices. Currently, the former is at a larger quantity and accounts for more than 90% of the demand in market. Manufacturers tend to focus on this category of products.

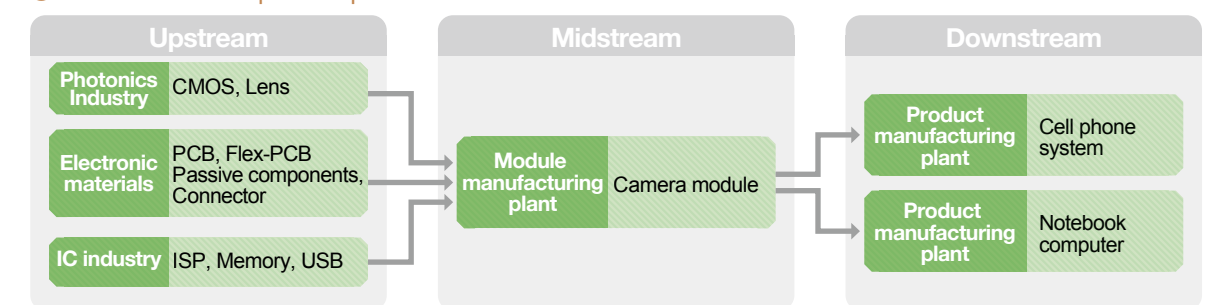
## 2. The association of upstream, midstream and downstream of industries

### (1) PC peripherals products:

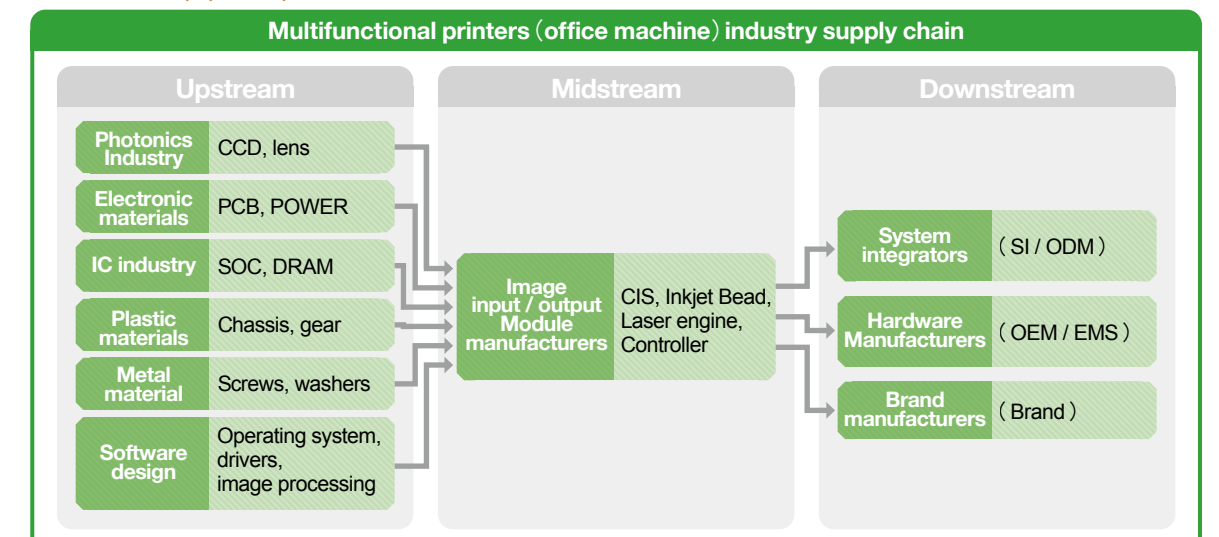


### (2) Non-PC peripherals products:

#### ① Mobile device components products:



#### ② Business equipment products:



Multi-function printers (multi-function products, MFP) are composed of several important modules, namely, document scanners, printers (head), control panels, operating panels, automatic document feeders (ADF), and paper trays. An image sensor is the key component of the Document Scanner, including CCD and CMOS techniques that are mostly controlled by Japanese manufacturers, mainly supplied by Sony and Toshiba. Midstream suppliers provide scan modules, including a sensors, mirrors, and lamps. Downstream system suppliers provide a complete scanner, including image scanning module, motor control, image capture control circuit, data transfer control circuit, chassis and software. System suppliers also offer automatic document feeder (ADF) that is combined with the scanner to perform continuous scanning function.

PRIMAX's upstream suppliers are all world-renowned companies with a long-term and stable cooperative relationship established; therefore, the product quality and delivery have never encountered any raw materials supply shortages, interruption or delay, and the risk of PRIMAX's facing the impact of changes in upstream operation is very low. PRIMAX has striven to reduce production costs and improve product quality by actively developing high-speed multifunction printer module and enhancing firmware and software applied programs and system integration technology. In addition, in response to customer's product strategy in the emerging markets, PRIMAX has also developed a number of mid-end and low-end black and white laser printers and multifunction printers with very competitive quality and cost.

### ③ Digital home and audio products:

In the area of digital home and audio products, the Company has provided various forms of designs and manufacturing of audiovisual related products such as speakers, passive speakers, wireless sound system, wireless earphones, TV Sound bar, and camera-based video devices. In addition, there are also the personal storage devices such as Wireless Flash Drive and Wi-Fi Hard Drive.

### ④ Wireless charging products

The Company focused its design of wireless charging devices on module and product development, design, and assembly, from choosing the MCU/chip platform to the design of circuit boards, coils, cooling material and module, to the design and manufacturing of products for commercialization, calibration and testing. The Company can provide a full-range of design, manufacturing and service, and can provide accreditation service for customers in related charging devices such as Qi, improvement of efficiency and performance, and adjustment of product customization. The Company is a professional supplier for the full-range service solution of products.

### ⑤ Automotive camera modules:

The use of the Advanced Driver Assistance System, also known as ADAS in motor vehicles to achieve unmanned driving will be an irreversible trend of development in the future. Machine vision has emerged as one of the standard sensor systems of motor vehicles in the future, among other things. This includes the investment of massive resources by key players like SONY, On-Semi, OmniVision and ST in the development of automotive image

sensor solutions. It is estimated that automotive electronics will exceed 50% of the cost of a motor vehicle by 2020, and the market size worldwide will be USD\$ 500 billion. In the wake of the development of unmanned driving, ADAS will be integrated with vehicle-mounted data communication products to further achieve the safety function of voluntary control. The sale of optical cameras that play the role of sensors in ADAS devices (Camera Module) will be as high as USD\$ 5.5 billion in 2018, and will enjoy annual compound growth of 23.6% in the next 5 years. Automotive camera modules will be in high demand in the future. This is one of the markets that the automotive electronics function of the Group will focus on.

## 3. Product development trends

### (1) PC peripherals products

PRIMAX's PC peripherals are mainly used with desktop computers, notebook computers and personal digital information products. The PC peripherals market competition will be more severe due to the PC market shrinking and brand concentration effect. In response to the development trend of downstream product applications, keyboard and mouse manufacturers will respond to a wide array of market needs such as responding to the peripherals of Gaming, the future smart home, mobile device peripherals, IA (information home appliance) products, Internet of Things (IoT), wearable products, and current consumer's personal and human needs, and continue to research and develop the peripheral input devices for network television, entertainment computers, game consoles, mobile devices, etc. in order to improve the added value of products and increase the technology gap from competitors; therefore, working towards high value-added products R&D is the future trend of the industry.

### (2) Non-PC peripherals products

#### ① Mobile device components products

The camera modules of PRIMAX will mainly be applied to high-end smart phones. Over the years, cell phones have moved towards "a large screen in overall proportion". This is just like the iPhone X with a big screen or a full screen. Under this trend, there is no room for the fingerprint recognition module dictating use of the Under Display Fingerprint ID Module, or Face ID instead. Likewise, the space for housing the camera module is also narrowed. The HoC (Holder on Chip) encapsulation

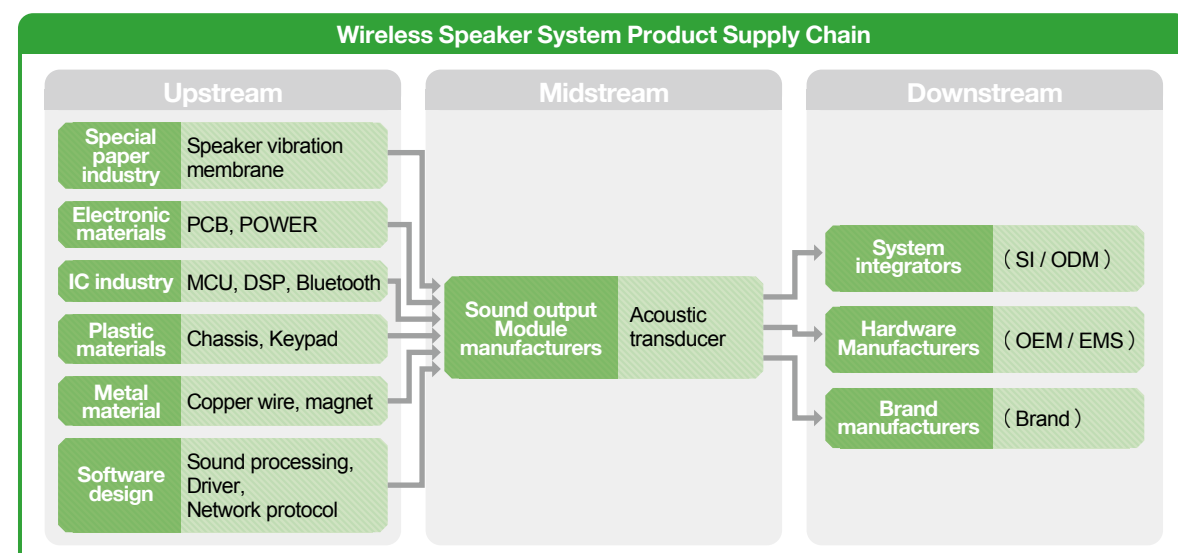
technology, a patented product of PRIMAX, could help to downsize the dimension of camera modules significantly while maintaining the optical function of the camera.

The trend of housing fingerprint recognition modules for optical cell phone. There is little space for housing optical fingerprint recognition modules underneath the screen and extremely high precision in encapsulation is required. PRIMAX possesses the best precision encapsulation technology in the industry and is among the few enterprises that can provide optical fingerprint recognition modules underneath the screen.

Industry peers have proposed the MoC (Molding on Chip) production process in the encapsulation of micro camera modules. This helps to effectively condense the dimension of micro camera modules, but the price is high, the delivery lead-time is long, the yield rate is low, and the investment for the equipment is high, which makes it not a preferable option for the cell phone industry. The patented HoC (Holder on Chip) encapsulation technology of PRIMAX is based on the equipment in service and is the same size as the MoC. It can be available at the price, delivery, and yield rate approximating conventional encapsulation. This will emerge as the mainstream encapsulation technology for micro camera modules in the future.

#### ② Business equipment products

With the rapidly growing sales of smartphones and tablet PC, consumers through Wi-Fi connection can have a photo shot and printed at the same time, and can have a document printed directly from the mobile device (ex: Apple AirPrint®) or store the scanned document images directly into the smartphones or tablets PC. The new functions of cloud printing (such as HP ePrint and Google Cloud Print) and scan-to-cloud are derived and met the needs of family life, entertainment and work at the same time. In order to meet the printing needs (convenience, easy operations, compatibility, consistent print quality, etc.) of mobile device users in various brands and platforms, the multifunction printer leaders, such as, Hewlett-Packard, Canon, Xerox, and Samsung, had set up the Mopria Alliance, jointly in September 2013 and enacted mobile printing standards, established a unified printing protocol, and initially focused on Android platform mobile devices. Currently, Mopria





Alliance has 20 company members, including the multifunction printer brands, control panel chip design companies and application software development companies in the USA and Japan.

It is undeniable that smartphones and tablet PC have caused quite an impact on the printer industry, especially on the inkjet printer. In order to increase revenues and profitability, brand manufacturers have proposed "Managed Print Solution" to help companies reduce hardware equipment expenditures and printing costs. The leading manufacturers have proposed a comprehensive office document digitization process solution towards the development of a "Service-lead" business model and a customized system solution and service according to the characteristics of each industry. The most obvious example among them is Xerox, followed by other leading brands, such as HP, Canon, Lexmark, Ricoh, etc. Focus on the middle- and low-end laser A4 MFP development and mobile devices support that will need hardware significantly in the future.

### ③ Digital home and audio products

Along with the popularity of broadband network and increasing transmission speed, and the increase of wireless network products, smartphones, tablet PC and related applications of commodities, the consumer demand for digital information storage management and sharing, and the synchronized interaction between digital products is growing rapidly that has also activated the demand for personal Cloud or family Cloud technologies and products. In addition, the digital home-related products and functions have been further extended to individual mobile devices, such as Apple AirPlay and iTunes and cloud digital program services such as Apple TV, Google Chromecast, Roku, Amazon Fire TV and other set-top box providing digital content services, such as Netflix, Hulu, HBO, cable television, sports channels and so on. The constant upgrade of wireless network bandwidth (5G WiFi, IEEE802.11ac) will accelerate the development of digital home related industries. Product range includes network storage devices, portable wireless hard drive, digital home audio and video multimedia server, home control and security monitoring, and digital home wireless audio system and so on. The emergence of voice assistance function made the device of microphone receiver a new function in demand further to speakers in sound system.



In the past, microphone was mostly a single headpiece matched with Bluetooth sound system for receiving voice in teleconferencing. In the era of voice assistance, single piece of microphone cannot satisfy the needs any more. The matrix type microphone, full-range voice detector with identification of the sources of voices in precision, emerged as a critical new technology. At the same time, microphone matching with a back-end voice processor and voice identification processor and related software also advanced in the same pace. This will be the next wave of audio products.

### ④ Automotive camera module :

Enhancement of the sensor power and judgment of the external environment: the advancement of hardware, the optimization of the capacity of camera modules in the collection of the actual road situation data and algorithm methods mean many actual driving situations could be incrementally controlled by the vehicle system. Examples are the identification of other vehicles and lanes, pedestrians and traffic signals, and the combined use of dimensional vision and navigation.

The miniaturization of automotive camera modules: the application of automotive camera modules to sense the external environment of the vehicle is moving towards the inclusion of functioning inside the vehicle for detecting fatigue, the calibration of HUD, and real-time monitoring. Users are highly sensitive to the existence of this type of camera.

For this reason, automotive plants highly value the dimension and concealment of this type of camera module. This will be the direction for development in the future.

Moving towards higher definition: higher definition in megapixels means more detail and more data. The conventional megapixel camera module will no longer satisfy needs in providing sufficient information for the judgment of the back-end system in the era of unmanned driving. The upcoming 2M/5M or higher camera module will be the basic requirement of the ADAS system L3 and above.

## 4. Product competition

### (1) PC peripherals products

Keyboard and mouse are the input devices of personal computers. Although currently there are voice inputs, sensing inputs and other input methods available for choice; they are in no position to replace the leading role of keyboard inputs in the sense of input recognition, input efficiency and end-use scenarios. However, current information and electronic products are moving towards lightweight, small and easy to carry. In order to allow consumers to easily receive or transmit information, the application of the touch panel is emerging. The current application of the touch panel is for portable electronic products. The Desktop computers and Notebook computers are both still with the keyboard input used currently. According to market survey and feedback, prolonged use of the touch panel has caused considerable inconvenience, for example, typing sensitivity and user's prolonged use resulting

in sore hands. Therefore, currently, the touch panel input is only used for portable electronic products. For desktop and notebook computers, there is no solution for an absolute replacement available currently.

### (2) Non-PC peripherals products

#### ① Mobile device components products

The mobile phone industry takes billion of units of production and there are many competitors in the industry. Currently, there are 70 camera module suppliers in the world but less than 20 of which can supply more than a million pieces of products with full product line for camera monthly. The market is so huge that new entrants have been attracted to the competition ceaselessly. This is particularly the case in the vertical integration of related industries and the horizontal integration with mobile devices and other product lines. The competition from these two posed the gravest threat. The profit margin in this industry fell significantly and quickly since 2015. It was exacerbated with the requirement of great capital investment in the capacity of high-end items that the module suppliers tended to be in the world of survival to the fittest. Yet, the continued expansion of capacity led to excessive production capacity since 2016. Firms tended to become irrational in taking purchase orders. As a result, there will be a reshuffle of the module suppliers to certain degree and small firms will be ousted or moving to the emerging market or niche market. Fingerprint module technology entails low entrance barrier and competitive has been getting increasing keen. PRIMAX will map out its overall strategy with reference to the intensity of competition.



## ② Business equipment products

The sale of the inkjet model is with the biggest market share (around 60%). The low-price black and white laser printers and multifunction printers are growing rapidly in the emerging markets and facing severe competition. By product categories, the future growth rate of multifunction printers will be greater than printers. In summary, laser multifunction printer is with great market potential. Taking advantage of the fast, automatic scanning and double-sided copying to continuously meet consumer demands for wireless network function and continuously upgrade product digitalization applications. The substitution of the product is without significant risks; also, price, environmental protection, energy saving, printing costs, wireless network printing and localized design are the keys to triumphing in the fierce competition.

## ③ Digital home and audio products

Further to the quest for stable development of the product lines being carried, PRIMIX also proactively develops new product lines with strong market potential. Currently, digital home and related application is the gravity of development and the products are Network Attached Storage (NAS), portable wireless HDD, home digital audiovisual multimedia servers, digital home wireless sound system, and personal portable wireless speakers.

The market for home-network storage device remains in a preliminary stage with a low household penetration rate, mainly due to consumer's being unfamiliar with the product functions. Therefore, manufacturers must be more focused on advertising and communications with consumers and continue to focus on innovation, research and development and improving the user operation interface. In addition to traditional home-network storage devices, wireless portable hard drive is another business opportunity. Due to the explosive growth in smartphones and tablet PC that are with limited storage capacity and standby battery life, the wireless portable hard drive is not only helpful in expanding data storage capacity, but also in being the backup power source when the mobile device is out of power, a very user-friendly and practical design.

In addition, the market of technology consumer products also thrived with the rising demand for smart phone, which also triggered a number

of personal wireless multimedia entertainment needs. PRIMAX has long been engaging in the development of image processing and wireless Bluetooth communication technology, and the study on wireless audiovisual data transmission sharing since 2012. Two products are the gravity of study:

(1) Wireless storage devices; and (2) Digital wireless sound equipment. Smart phone featured high resolution screen and powerful processor that allows for the playing of high definition films and smart phone also has its fatal problem of small and expensive internal storage space. As such, it cannot be used as a computer that can be easily connected to an external HDD and wireless storage device emerged as the best solution. PRIMAX has also noticed that sound system featuring Bluetooth connectivity will be the mainstream product in the future. The prices of products of this kind varied widely. From USD10 a piece to almost USD1,000 a piece. Sound system of this kind is no longer a high-end item that only people with high income, who are usually at the 30s or 40s, can afford. Now, this kind of products is also affordable to the young people. Lowering the barrier for buying the products entailed many competitors in the market. Likewise, traditional sound system brand oriented towards high-end items tended to launch products for players at entry level. They wish to earn the brand loyalty of the consumers at young age. Such change in market prompts the traditional sound system brands to release more OEM products that give PRIMAX much better business opportunity.

The rise of smart sound system featuring voice assistance function also brings about new impact and business opportunity to the market. The symbolic item is the Echo of Amazon. Fortified with its extensive e-Commerce channels and strong cloud computer processor, the products quickly won positive and vigorous response from market after launching. It took only a little more than one year to sell a million units. This really is a great success in sound system products. In keeping up with the competition, Google will launch the same type of smart sound system featuring voice assistance function at the end of 2017, the Google Home. They are not traditional sound system maker but e-Commerce giant or Internet guru, and they launch sound products with their advantages of strong network connection and cloud computing capacity that can match good sound quality. This will bring account great change in market.

Under such competitive environment, firms must keep abreast of critical sound engineering capacity and high quality capacity in mass production in order to excel in the competition.

## ④ Wireless charging products

PRIMAX began to invest in the research and development of related products in 2007, and provided design, manufacturing, and OEM production service for world renowned cell phone brands, consumer electronic products, PCs, peripherals, and even sporting goods brands and manufacturers on wireless charging products. PRIMAX has a track of record of millions of units of production and has breakthroughs in the development and extensive application of various types of critical advanced technologies. An example is the 15W quick charging device for Samsung products in 2017, the 30W mid to high power PC wireless charging devices, and the 1st Qi wireless charging and power supply mouse/mouse pad with mass production launched in 2018, as well as the 15W iPhone wireless quick charging device.

In the future, PRIMAX will take advantage of its experience and technological know-how accumulated over the last 10 years to design different types of high performance, low energy consumption, and high power output wireless charging devices to satisfy the needs of big

customers in wireless charging devices and the development of related new technologies so that wireless charging will become a part of our daily lives in modern society and to help change the power consumption habits of people.

## ⑤ Automotive camera module:

Currently, the shipment market of OE automotive camera modules is still monopolized by Tier One suppliers. The reason is simple. The OE automotive camera is a standardized item that cannot be purchased or used independently. Related specifications and requirements must be matched with the system end controlled by Tier One. As such, Autoliv/Continental/Mcnex/Bosch/Delphi are the principal suppliers of OE for the time being. Because of the high precision and stability requirements for automobile lenses, the utilization of the AA (Active Alignment) manufacturing process has become the trend of the industry. The Group has had more than a decade of experience in AA manufacturing processes on consumer lens modules already, based on this, we will expand our products to the automobile industry, and this is where the current niche is.

Tier One does not make all automotive camera modules. Currently, a fair quantity of well-developed products are purchased through the supply from Tier Two. These include Panasonic/Truly/Jabil/Liteon.

## (3) Technologies and R&D Overview

### 1. R&D Expenses overview

Unit: NT\$1,000

Year	R&D expense	Percentage of operating revenue
2017	2,364,974	3.89%

### 2. The technologies and products successfully developed in the most recent year and as of the printing date of the annual report.

Year	R&D achievements
2010	<ul style="list-style-type: none"> <li>Designed and developed Bluetooth wireless keyboard for Tablet PC.</li> <li>Designed and developed 3-megapixel OIS automatic focusing camera module.</li> <li>Designed and developed high-efficiency multifunction wireless charging platform.</li> <li>Designed and developed Bluetooth low energy-consumption equipment.</li> <li>Designed and developed Thermal Printer and color management technology.</li> </ul>
2011	<ul style="list-style-type: none"> <li>Designed and developed 8-megapixel OIS automatic focusing camera module.</li> <li>Design and developed touch screen multimedia PC peripherals.</li> <li>Design and developed backlit keyboard.</li> <li>Designed and developed Wi-Fi mouse.</li> <li>Designed and developed Wi-Fi Keyboard.</li> </ul>



Year	R&D achievements
2012	<ul style="list-style-type: none"><li>• Designed and developed 13-megapixel OIS automatic focusing camera module.</li><li>• Designed and developed Smart TV remote control.</li><li>• Designed and developed multi-point touch panel and automatic stylus pen.</li><li>• Designed and developed NFC (Near Field Communication technology) paired with Bluetooth Keyboard Mouse.</li><li>• Designed and developed network multimedia storage device.</li><li>• Designed and developed compound real document scanner.</li></ul>
2013	<ul style="list-style-type: none"><li>• Designed and developed tablet PC thin keyboard.</li><li>• Designed and developed new generation low power-consumption Bluetooth 4.0 input device.</li><li>• Designed and developed dual-mode (low power-consumption Bluetooth, 2.4G) wireless mouse.</li><li>• Designed and developed low power-consumption Bluetooth 4.0 stylus pen.</li><li>• Designed and developed hand-gesture identification keyboard.</li><li>• Designed and developed Smart TV remote control with voice input.</li><li>• Designed and developed 13 megapixel OIS + automatic focusing camera module.</li><li>• Designed and developed multi-lens suspension control (hand gesture recognition) camera module.</li><li>• Designed and developed new generation high-capacity network multimedia wireless storage device.</li><li>• Designed and developed wireless network printer control panel.</li><li>• Designed and developed full-function multifunction printer single-chip control panel.</li><li>• Designed and developed new generation color multifunction printer control panel.</li><li>• Designed and developed high-speed high-quality color scanner module.</li><li>• Designed and developed high-speed ultra-thin double-sided color scanner module.</li><li>• Designed and developed eyeball identification dual-lens camera module.</li></ul>
2014	<ul style="list-style-type: none"><li>• Designed and developed new style thin multicolor backlit keyboard.</li><li>• Designed and developed new generation wearable devices.</li><li>• Designed and developed mobile device game peripherals.</li><li>• Designed and developed integrated keyboard protection set.</li><li>• Designed and developed mechanical game keyboard.</li><li>• Designed and developed Smart TV remote control with voice commands.</li><li>• Designed and developed 16-megapixel, 20-megapixel, and 26-megapixel OIS + fast focusing camera module.</li><li>• Designed and developed 24-megapixel OIS automatic focusing camera modules.</li><li>• Designed and developed global minimum 13-megapixel autofocus camera module.</li><li>• Designed and developed ultra-thin speakers.</li><li>• Designed and developed new structural reverse push-pull speaker units.</li></ul>
2015	<ul style="list-style-type: none"><li>• Designed and developed IoT device platform, gateways, and terminal device.</li><li>• Designed and developed automatic noise-cancelling headphones.</li><li>• Designed and developed headphone and wearable device containing bio-sensing function.</li><li>• Designed and developed array microphone with voice identification feature.</li><li>• Designed and developed wireless audio and headphone that can play network streaming music synchronously.</li><li>• Designed and developed new generation wireless storage and access device with high-speed communications capabilities.</li><li>• Designed and developed 21-megapixel +5-megapixel double lens module, the highest standard of the industry.</li><li>• Designed and developed 3-megapixel vehicle use double-lens camera module.</li><li>• Designed and developed multilayer thin film multicolor backlight module for keyboard.</li><li>• Designed and developed ultra-thin membrane keyboard.</li><li>• Designed and developed new generation folding Bluetooth low power-consumption keyboard.</li><li>• Designed and developed keyboard with multi-operating system switching function.</li><li>• Designed and developed USB Type-C keyboard and mouse.</li><li>• Designed and developed high-power wireless charging module.</li><li>• Designed and developed low-profile loudspeaker transducer.</li><li>• Designed and developed battery modules positioning structure and battery module.</li></ul>
2016	<ul style="list-style-type: none"><li>• Designed and developed 13-megapixel +13-megapixel double lens module, the highest standard of the industry.</li><li>• Designed and developed 24-megapixel optical anti-shake camera module.</li><li>• Designed and developed 3-megapixel vehicle use double-lens camera module.</li><li>• Designed and developed capacitive fingerprint identification module (spray-on and Porcelain Veneer).</li><li>• Designed and developed ultrasonic fingerprint identification module.</li><li>• Designed and developed thin mechanical game keyboard.</li><li>• Designed and developed a keyboard with voice input.</li></ul>

Year	R&D achievements
2017	<ul style="list-style-type: none"><li>• Designed and developed voice assistance module featuring matrix microphone.</li><li>• Designed and developed slim home entertainment sound bar</li><li>• Designed and developed home entertainment system will full support to Dolby.</li><li>• Designed and developed wireless earbuds.</li><li>• Designed and developed voice input and gesture recognition smart speaker.</li><li>• Designed and developed 180-degree remote control Surveillance Camera.</li><li>• Designed and developed multiple-lens 360-degree wireless and real-time transmission 4K Video camera system.</li><li>• Designed and developed double-optical components paper feeding scanning module.</li><li>• Designed and developed a new generation of mid-end paper feeding scanning module.</li><li>• Designed and developed a new generation of low-end paper feeding scanning module.</li><li>• Designed and developed paper jamming detection technology module.</li><li>• Designed and developed image dynamic correction technology.</li><li>• Designed and developed Bluetooth mobile labeling machine.</li><li>• Designed and developed palm thermal label printer.</li><li>• Designed and developed sportive camera stabilizing rod.</li><li>• Designed and developed sportive camera control extension rod.</li><li>• Designed and developed a new generation mid to high speed wireless online printer control panel.</li><li>• Design and development of the 1st 30W NB PC wireless charging device in the world.</li><li>• Design and development of the 1st 5W smart shoe wireless charging device of the world.</li><li>• Design and development of 15W Qi accredited wireless charging automotive phone holder.</li><li>• Design and development of the 5-15W wireless charging panel and related products.</li></ul>
2018	<ul style="list-style-type: none"><li>• Design and development of matrix loud speakers combining a variety of speakers.</li><li>• Design and development of matrix loud speakers.</li><li>• Design and development of the structural optical facial recognition module.</li><li>• Design and development of the depth recognition module.</li><li>• Design and development of the ultra-small encapsulation module.</li><li>• Design and development of the 3-phase camera focusing module.</li><li>• Design and development of the automotive 3-phase camera module.</li><li>• Design and development of a new generation of A3 DADF scanners.</li><li>• Design and development of a keyboard using the Mini LED multiple color backlight module.</li><li>• Design and development of the composite mechanical keyboard.</li><li>• Design and development of the new generation of high speed wireless signal input design, development of the 15W Qi accredited quick charger for Samsung, and iPhone quick wireless charging panel.</li><li>• Design and development of the 1-15W headphones, wearables, and smart shoe wireless charging set.</li><li>• Design and development of the 15W iPhone wireless quick charging module.</li><li>• Design and development of the 15W iPhone wireless quick charging panel, charging stand.</li><li>• Design and development of the 15W iPhone wireless quick charging automotive phone holder.</li><li>• Design and development of the 15W iPhone wireless quick charging smart automotive phone holder.</li><li>• Design and development of 60W-120W high power wireless charging devices.</li></ul>

Note: the above includes technologies and products successfully developed by PRIMAX.

( 4 ) Long-term and short-term business development plan

1. Short-term business development plan

( 1 ) PC peripherals products

- a. Grasped the technological development trend of mouse, keyboard, Multiple-color backlight keyboard module, Gaming peripherals, and smart remote control, and continue to research and develop new products in order to facilitate business promotion.
- b. Established a key components supply chain and establish the VMI / JIT system to effectively reduce inventory stock and to resolve material shortage problems.
- c. Improved plant productivity, reduce costs, and continue to strengthen OEM/EMS business in order to increase turnover stably and improve gross profit rate. Grasped mobile application and related technology development trend.

( 2 ) Non-PC peripherals products

① Mobile device components products

With the advantage of accreditation by a few big European and American brands, we committed the best of our effort in the market of China. Positioned on the basis of our success in the past, PRIMAX has successfully made the four major cell phone makers its customers. The primary strategy in the short run is the proper deployment of the entire group on the basis of existing customer relation. In the area of camera module, PRIMAX will introduce double-lens in full effort and regain the advantage of leadership in technology. In the area of fingerprint module, PRIMAX seeks to satisfy the needs of the customers and maintain its leading position. The keen and irrational competition compelled PRIMAX to go for devices of high added value in full effort and reinforce its partnership strategy with the suppliers in order to maintain its advantageous position.

In the cultivation of customer relation, PRIMAX takes the upgrade of gross margin from customers as a key indicator. Further to the emerging market, PRIMAX seeks to target strategic customers in depth and in scope of operation. In addition to the share of existing product line, PRIMAX also introduce the new related product line of cell phone for a larger share.

Autonomous automated production, high speed high-end production process with high profile 5S management will be the gravity of production in this year. In addition, the growth in sales orders drives for the expansion of production capacity for high-end products, which will be the mission for sustainable growth.

## ② Business equipment products

PRIMAX actively developed a high-speed low-cost scanner module with mass production initiated successfully. Advanced commercial scanner and module products will soon be ready for mass production with the global business expanded actively. In terms of the design and production of laser printers and multifunction products, in addition to securing the existing customers, the mission is to develop a more competitive platform continuously and actively compete for the new product development projects of American and Japanese customers. A number of projects are currently in progress and will gradually be ready for mass production this year. Barcode label printer is another new product line. The first generation products are already under mass production and with good market feedback. The new generation product will soon be ready for mass production. The image module and MFP OEM business is growing stably and the mission is to actively compete for new customers and new products business. In terms of office automation products, along with the continuous improvement of in-house technologies, a number of important patents have been obtained and new customers have been solicited successfully. Also, PRIMAX has transformed into an ODM business operation successfully and worked with customers to actively develop new products.

## ③ Digital home and audio products

PRIMAX, in addition to continuing the in-depth development of the existing product line, will actively

develop new product lines in order to secure a leading position on the next wave of digitalization in the sense of product design and key technology. The digital home-related products that are currently under active development are expected to create new profit momentum and generate profits. Currently, in addition to mastering the network storage device and digital home multimedia streaming related technology trends, we will continue to develop new platforms and software to facilitate business promotion and to actively establish a supply chain of key components. In terms of internal R&D programs, continue to strengthen software development ability and establish a long-term relationship with the software solutions providers in order to grasp the development trends of the related technologies. PRIMAX seeks to further cultivate its relations with major customers both in depth and in scope with a wider array of products. Currently, the major customers of PRIMAX are the leaders in market and they are congruent with the growth strategy of the Company. PRIMAX will gain a larger share in market and surpass its competitors.

PRIMAX will advance the market of earphones and will further develop its business operation on the basis of existing customers and leading brands in market.

## 2. Long-term business development plan

### (1) PC peripherals products

Continue to upgrade automation capabilities, reduce labor costs and labor shortage, and enhance lean productivity and technology strength. Develop new product lines (such as wearable devices, mobile device game peripherals, etc.) in order to develop new businesses and increase turnover.

### (2) Non-PC peripherals products

#### ① Mobile device components products

The large customer base and the targeted key parts and components suppliers of lens module/fingerprint module in the upstream (such as image chips, optical lens, motor, IR screened glass, and ceramic) will be the bargaining chip for PRIMAX in its long-term strategy for achieving effective strategic cooperation. With close partnership, PRIMAX can maintain an edge in cost competition, technology advantage and resources guarantee. In addition, PRIMAX will (1) expand its operation in supporting customers in broadening the entire product line of

camera lens module/fingerprint module in depth and will support customer-defined physical platform, including TV, wearable devices, tablet PC, mobile phone, and even vehicle use equipment for the needs of strategic customers and similar technology modules so derived; (2) expand other product lines of the customers in scope with the use of package deal to ensure sustained competitive advantage.

In terms of client management, gradually invest in and manage the customers markets other than cell phone application that will soon flourish with remarkable results expected next year.

## ② Business equipment products

PRIMAX will continue to expand the technology and business of scanners and multi-function products, becoming the World No. 1 ODM Company. On the other hand, in response to the huge market demand for wireless broadband and mobile multimedia devices, PRIMAX has actively supported the development, integration and application upgrade of the mobile device scanning and printing related technologies. PRIMAX has accumulated profound ability and experience in the high-end scanner, automatic document feeder, automatic binding machine, and control panel design. PRIMAX will be able to expand such products businesses successfully with over two decades of experience in developing and producing image products and embedded devices. In terms of office automation products, continue to invest in technology development to lead the market in energy-saving, system integration and excellent user-friendly design and to grow together with the target key customers.

## ③ Digital home and audio products

In terms of long-term business development plans regarding new product development, PRIMAX, in addition to developing and expanding the technology and business of wireless network storage devices and digital home related products continuously, it will work closely with key customers to jointly develop new products to meet market demand and to create a win-win situation. In terms of customer base, we will expand the Company's existing customer base and target the leading brands in the market, including cooperating with the consumer electronics manufacturers in Europe, USA and Japan, leading the market in energy-saving, system integration, and excellent user-



friendly design and growing together with the target key customers. In addition to the development of hardware products, on the other hand, in response to the emerging cloud computing applications, PRIMAX will continue to upgrade the development, integration and application capabilities upgrade of the related software technologies. PRIMAX will be able to expand the business of such products and services with the profound design, R&D, management and execution capacity.

In the development of audio products in the long run, the sale of speakers will be further expanded. Further to promote the using of self-made speakers to existing system customers with full range, the sale of independent speaker units will also be intensified. This will help to achieve the growth of business and also promote the visibility and reputation of the independent sound system quality of PRIMAX, and is a joint effort with system development operation.

The development of the emerging market will be the intensification of developing the customers in China and Europe. China is an emerging big market for sound system products and will be an emerging market for voice assistance smart sound system in the future. In Europe, many traditional sound system firms quest for industrial transformation that PRIMAX can demonstrate its strength in help them in transformation.



## 2. Market and production and sales overview

### (1) Market analysis

#### 1. Sales area of major commodities

By area	Year	2016		2017	
		Amount (NT\$1,000)	%	Amount (NT\$1,000)	%
China		35,009,994	54.42	32,911,250	54.18
USA		14,221,870	22.11	13,508,587	22.24
Others		15,097,598	23.47	14,321,855	23.58
<b>Total</b>		<b>64,329,462</b>	<b>100.00</b>	<b>60,741,692</b>	<b>100.00</b>

#### 2. Market share

PRIMAX is a professional manufacturer for PC peripheral products, mobile devices components, business equipment, and related products of digital home with a good reputation earned in the industry. Due to PRIMAX's wide product range that can be used on the mouse, keyboards, touch panel, notebook computers, mobile phones, headphones, charging cradles, printers, scanners and audio products, PRIMAX has started entering the automotive electronics market since 2015. The final products in use are quite different; therefore, there is no complete and objective market share statistics available for reference.

#### 3. Future market supply and demand and growth

##### (1) PC peripherals products

PRIMAX's peripheral products include keyboards, mouse, mobile device peripherals, etc., mainly used with computers and tablet PC products of which the keyboard and mouse are the main sales items.

In general, the overall performance of the PC market in 2017 was better than the anticipation of analysts with further marginal growth. Despite the optimism of the PC market in the analysis, the rise of the global Gaming market triggered the demand for high-end PCs. According to the analysis of JPR, the peripherals of Gaming will have a market size of approximately USD\$ 5 billion with anticipated annual growth of 13% until 2020. As early as 2015, PRIMAX started to reach out to the few world renowned Gaming brands and has performed ideally. The outcome is positive so far. In contrast, the unit price of gaming product shipments is high such that it can help to fill the gap left behind by PCs and tablet PCs, and has contributed to revenue growth.

##### (2) Non-PC peripherals products

###### ① Mobile device components

PRIMAX's mobile devices components include camera modules, fingerprint recognition modules, Bluetooth headphone of communication peripherals, charging cradles, wireless charging, etc., of which, the sale of the camera module is the most prominent. Mainly used in notebook computers, smart phones, tablet PCs and other information, communications and consumer electronics products; therefore, the future changes in consumer demands will be closely related to notebook computers, smart phones and tablet PCs.

The shipment volume of Notebook PC in 2010 exceeded 200 million units. However, the shipment of Notebook PC turned sluggish in the last few years at just about 250 million units annually. Since the built-in camera module of Notebook PC is a standard device, the shipment volume of built-in camera module of Notebook PC will commensurate with the shipment volume of Notebook PC. Tablet PC has its heyday in 2012~2013 but started to decline in 2014 (except Apple, which still enjoyed stable growth). The estimation for the year 2018 will keep the same. The sales of mobile phones have slowed down but the multi-camera modules on mobile phones have become a trend (front camera, dual main camera, face recognition). Therefore, it is expected that the demand for mobile phone camera still has some growth. With the growth of shipment of mobile phone worldwide and the increased matching rate between camera module and audiovisual lens for mobile phones, the shipment volume of mobile phone camera module grew annually. With the prevalence of 3G and 4G, and the forthcoming 5G mobile network, the built-in sub camera for mobile phone (which is the visual lens) will increase in

proportion year after year and will take the lead in driving the shipment of smart phone. There will be more than 70% of smart phone featuring a front camera and a rear camera. The ranking of brands is reshuffling all the times worldwide and the makers of China have earned the top 6 positions. In addition, some makers in India have their brands ranking around the 10th place. These indicated the dynamic and momentum of the high growth in the emerging market.

###### ② Business equipment products

Due to intense market competition, multi-function products (MFP) terminal prices continue to fall, with inkjet and black and white laser models, in particular. The consumer inkjet models sales will continue to decline due to the sluggish global economic growth. However, PRIMAX's focus of laser models will continue to grow slightly; also, the demand by emerging markets for MFP will continue to grow. Mature markets like Europe, USA and Japan will continue to demand more color MFP, mainly due to the switch from black and white to color MFP. The demand for printers and MFPs will continue to grow due to the impact of mobile devices and the digitalization trend; also, it is expected to have another wave of growth momentum created by relying on the upgrading performance, combined with digital workflow management capabilities, deepening vertical industrial custom-made practice, integrating the innovative applications of cloud services and focusing on the application of A4 low-end laser MFP and communication products.

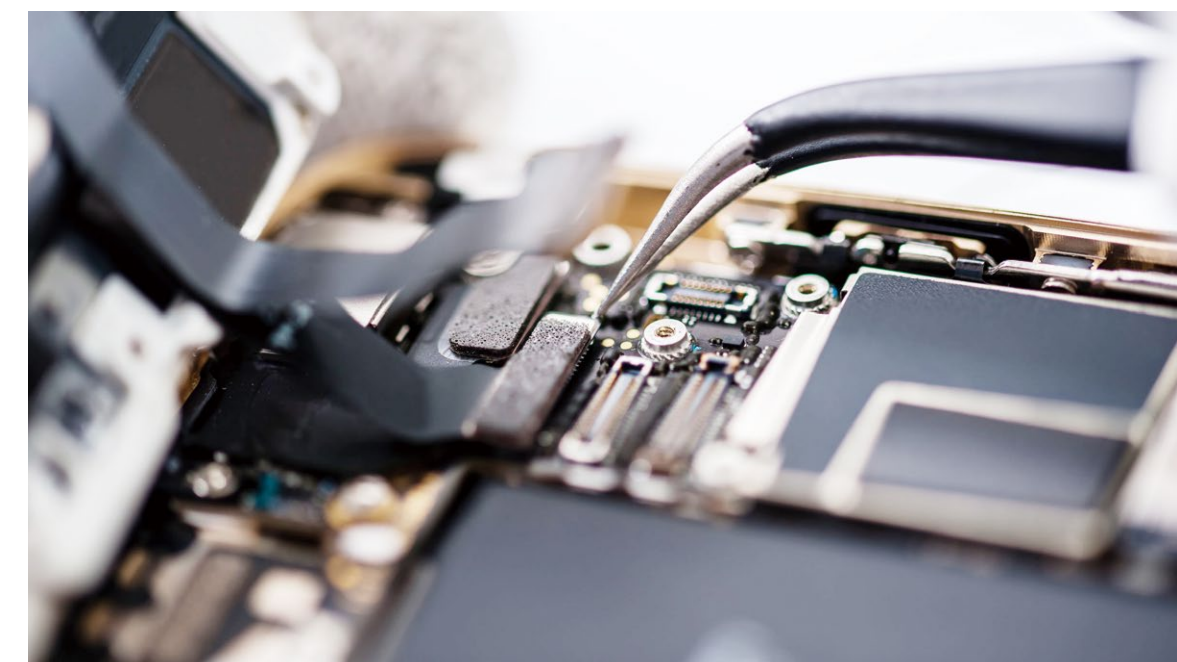
###### ③ Digital home and audio products

The continued decline of the price of full high definition TV (FHD TV) and the sustained growth of the demand of Ultra High Definition 4K TV (UHD 4K), and perpetual upgrade of personal portable devices, multimedia game and audiovisual streaming box, the broadband of cable network (10/100Gb), the ceaseless improvement of wireless broadband technology (IEEE802.11ac, 4G), the prevalence and diversity of cloud audiovisual streaming service, and the increasing abundance of high quality multimedia content allow for the colorful and plentiful presentation of home products. The continual launch of innovative devices, application and service will no doubt drive for further growth in the future.

The mushrooming of the voice assistance sound system market and the rapid development of AI in the last two years will contribute to the ample supply of smart sound system featuring network connectivity, voice assistance and connectivity to cloud and even new breed of products containing smart sound system module in the future. There will be a new wave of growth with quantum force in the sound system business.

###### ④ Wireless charging products

The popularity of smart phones, tablet PCs, and wearable devices, wireless products have become an indispensable part of our daily lives. With the introduction of the Samsung flagship models and all models of Apple in 2017, the growth of wireless charging will be an irreversible trend. Indeed, most



cell phone makers have geared up for the market. Currently, the high-tag flagship models are still the major items for introduction.

In addition, suppliers of other consumer electronics and PC products also hope to introduce functions helpful to the consumers within their limited scope of function. Wireless charging will be helpful for consumers and is a function with differentiation and high added-value. For this reason, most big firms followed the footsteps of Apple and prepared to introduce wireless charging functions to some of their products.

According to IHS, the demand in 2024 will be as many as 2 billion units. This is a lucrative business opportunity mostly coming from the built in wireless charging function of cell phone. What could be inferred is that the models for wireless charging currently available, ranging from high-end flagship models to mid to low-end market, will bring about business opportunities much as the camera module, Bluetooth, WiFi, touch panel, and fingerprint recognition did in the past, and make wireless charging devices another key component and vital peripheral product among other electronic items.

#### 4. Competitive niches

##### A. Sufficient production capacity and economies of scale

The consumer electronics product life cycle is shortening. All manufacturers strive to contribute by investing resources in new product development and cost reduction; therefore, Original Equipment Manufacturing (OEM) has become the mainstream practice in markets under the consideration of reducing costs and speeding up production. In this trend, the manufacturers with experience in the related products and sufficient production capacity are preferred by international corporations for the OEM business. PRIMAX has decades of experience in the development, design and production of image products and embedded devices; also, it has strong and experienced R&D teams and strict manufacturing and quality control processes. PRIMAX with the support of its strong R&D teams can immediately adjust the production process upon the customers' request and help customers optimize existing products; also, it can immediately respond to customer demands.

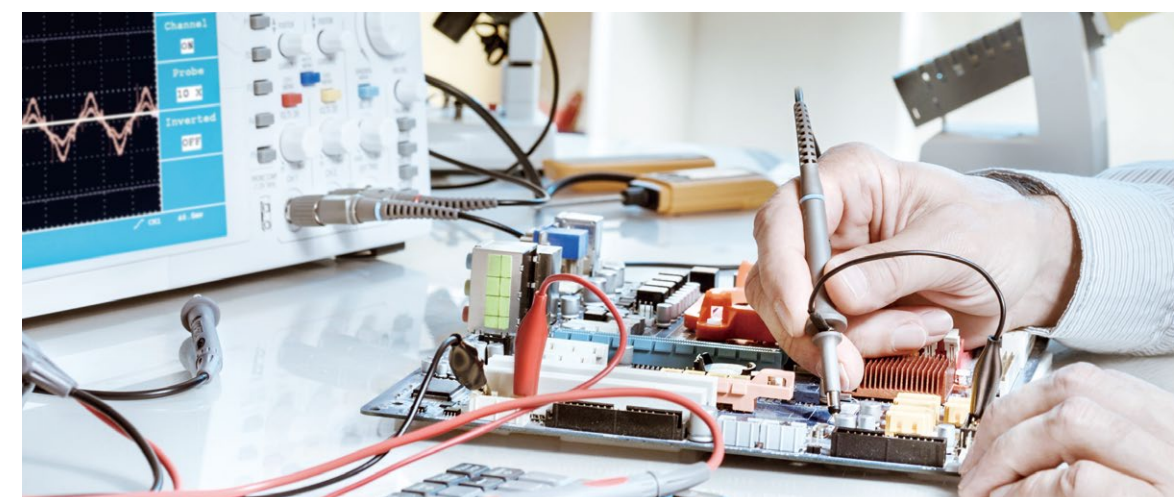
PRIMAX has four production sites setup in China, including Dongguan, Kunshan, Chongqing and Huizhou, and continues to expand production capacity, possessed production capacity with "economies of scale" effect and flexible production planning. Such economies of scale, flexible production planning, and professional process technology have prevented competitors from entering the market easily. Moreover, such rich production resources have provided PRIMAX with advantages in competition for international companies OEM businesses.

##### B. Global Logistics Production

PRIMAX provides services to clients with global logistics, in addition to providing quality products to customers. PRIMAX also provides logistics services to customers. PRIMAX is with excellent process management capability, flexible production, comprehensive production and sales network from Dongguan, Kunshan, Chongqing, and Huizhou, and for the purpose of staying close to its customers with services provided, delivery is made through the global instant supply warehouse (such as, USA, the Netherlands, China, etc. ) in order to shorten product delivery time, provide customers with the a stable and fast supply, and enable customers to establish a minimum inventory and reduce the backlog of funds; therefore, logistics service is one of the competitive niches of PRIMAX.

##### C. Maintain strong partnerships with international companies

Ever since its establishment, PRIMAX has paid perpetual attention to the research and development of PC peripherals, mobile device components, business equipment, digital home and audio products. The quality and stability of products are highly recognized by our customers with continued purchase. The main customers of PRIMAX are famous international big firms. PRIMAX can fully utilize its customer relation to acquire update market information through preliminary validation and authentication of products on the setup of specification and technological innovation so that PRIMAX can keep abreast of the market trend. For years, PRIMAX has cultivated strong bonding with upstream and downstream industries, and will be a vital partner to the big firms in the development of new products.



##### D. People-machine interface integration technology and software development capacity

PRIMAX has experienced and qualified software development team with hardware, software, and people-machine interface R&D capabilities that will not only take the initiative to help customers improve product operation interface, but also actively develop highly user-friendly software and have it converted into consumer electronics products that are well accepted by the general public, such as, personal network server, wireless hard drive, and other emerging new technology products. Such effort of developing new applications by having the existing technologies integrated is beneficial to future development.

##### E. More than 10 years of experience in wireless charging hardware and software design and mass production capacity

Wireless charging involves wireless and electromagnetic theories. Industry specifications and the advantage of the economy of scale are yet to be unified so there is no principal specification or leadership to follow. For this reason, many small firms have entered into this market. Most famous brands require a diversity of product designs, and are capable of controlling the design and optimization of products and even the accreditation and mass production of finished products. They expect firms of a fair size with design and development capacities at the same level. This gives an edge to PRIMAX.

PRIMAX began to attract the attention of famous cell phone and consumer electronic brands

10 years ago, and has continued to introduce products of famous brands in wireless charging. The models include a variety of receiving devices (cell phone case, smart sound speakers, NB PC, headsets, and mouse), transmission devices (charging panel, charging stand, automotive charging phone holder, wearable charging base unit, and mouse pad). PRIMAX is at international standard in design, manufacturing, testing, and quality assurance requirements, which outperformed other competitors in wireless charging devices in the short run. Currently, PRIMAX continues to attract the attention of famous brands with inquiries about wireless charging devices and even proposals for joint ventures.

#### 5. Advantages and disadvantages of future development and the responsive strategies

##### Advantages:

##### A. International manufacturers continue to outsource OEM businesses to reduce costs

International brand manufacturers for operating branding business continuously, maintaining R&D technology and reducing production costs have the production operations commissioned to professional OEM factories in order to concentrate on the design, marketing and R&D to simplify management complexity, to improve operational efficiency, to streamline the organizational structure at the same time, to pool resources, to reduce production costs, to enhance brand value and to increase market share. In the electronics industry, the global division of labor is becoming obvious, and this operating mode has become necessary for all international brands; therefore, a large OEM business opportunity is in the making.



PRIMAX has setup production bases in Dongguan, Kunshan, Chongqing, and Huizhou of China for staying close to its customers in order to compete for OEM business and to reduce production costs. PRIMAX's product development and technical capability have been appreciated by customers in recent years with sufficient production resources offered as the customer's production support; also, provided customers with timely and most comprehensive services; therefore, international companies in the USA and Japan have granted their OEM businesses to PRIMAX. Apply PRIMAX's professional technology development ability and excellent production management model to effectively reduce product production costs and to explore more business opportunities in a competitive OEM market.

#### B. End-user market is with much room for growth

##### ① PC peripherals products

PRIMAX's PC peripheral products include mouse, keyboards, tablet PC keyboards, etc. Although future computer market scale and growth trends will slow down due to the current computer brand business philosophy "the bigger, the better," however, PRIMAX's adequate customer strategy will help PRIMAX remain in a favorable position in competition. The growth in demand is also the result of the mushrooming of gaming industry with the demand for related keyboard and mouse. The sustained growth in the demand for business-oriented tablet PC also contributed to the growth in demand for tablet PC keyboard. The Company has already established its foothold in this area and the growth of demand in this product helped to bolster the sale performance.

##### ② Non-PC peripherals products

###### ① Mobile device components products

PRIMAX's mobile device components include notebook computers, smartphones, built-in camera module in tablet PCs, fingerprint identification modules and communications peripheral equipment Bluetooth headphones, charging cradles, etc. Consumers like to use mobile phone cameras to take pictures or shoot video for sharing with friends and family. Therefore, the manufacturers of smartphone and tablet PCs continue to introduce high-pixel smartphone and tablet PCs with built-in camera modules. In addition, along with the prevailing network and increased bandwidth, notebook computers' built-in camera module has become

a standard accessory. Apparently, the built-in camera module has a great room for market growth. In addition, the mobile pay market is in full swing of development and the demand for fingerprint identification is huge and sudden; therefore, such demand has been the highest within two years. The increasing functions of mobile phones obviously consume more power. The mobile phone was able to be in a standby mode for over one week but not anymore. Instead, the demand for various mobile power supplies, USB charging cable and vehicle charging cable is growing substantially. In addition, the demand for Bluetooth headphones will continue to rise along with the development of network phones and portable device industry; therefore, PRIMAX's revenue growth will be activated as well.

###### ② Business equipment products

PRIMAX's business equipment products include laser printers, multifunction products, scanner, etc. The use of wireless technology for the printing and transmission of printers and MFPs is increasing along with the prevalence of wireless network technology. Along with the sales increase of smartphone and tablet PCs, and the upgraded functionality, consumers need the printing function of smartphone and tablet PCs more and more. The introduction of wireless MFP and printers in the market will be able to meet the printing needs of smartphone and tablet PCs; also, help improve PRIMAX's product sales indirectly. In addition, the demand for black and white laser MFP in emerging markets remain growing that will have a direct contribution to PRIMAX's sales growth.

###### ③ Digital home and audio products

The broadband network environment is becoming mature and home Wi-Fi wireless network prevailing rate is growing year by year; therefore, the wireless transmission related applications are flourishing. Consumers' demands for home entertainment audio and video streaming will drive the sales of home network storage devices and home entertainment server to go up. The explosive growth of mobile devices, such as the prevailing smartphones and tablet PCs, has caused the market demand for wireless audio and video storage devices to increase and it will drive consumers to buy portable wireless hard drives

as the capacity expansion of mobile devices.

The Company is good at acoustic knowledge and the capacity in research and development, and is also capable of developing and manufacturing of related key components and speaker body. With the overall manufacturing and procurement capacity, the Company has the best advantage in competition.

Smart sound system also requires the human-machine interface and wireless networking capacity, which is also an integral part of the core competence of the Company so that we are strong enough to outcompete the competitors in competition.

#### Disadvantages:

##### A. Shorter product life cycles

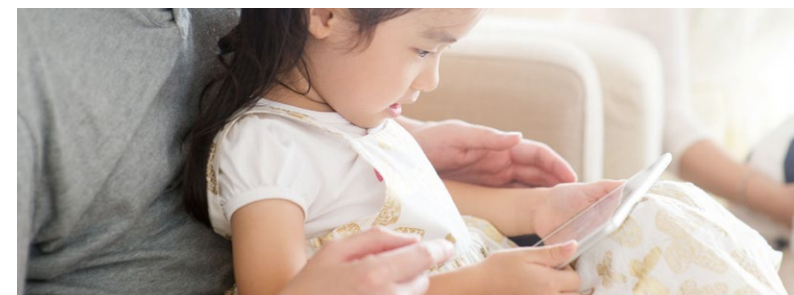
Information, communications, and consumer electronics products rotate quickly with shorter product life cycles, resulting in high management risk. In addition to the inability to consume inventory stock and reduce financial pressures, product development, design and production time is shortened that creates a challenge to PRIMAX's professional technology and management ability.

##### ① Responsive measures:

PRIMAX actively develops new technologies to enhance research and development capabilities, continue to cultivate R&D talents and improve production efficiency and yield rate in order to shorten the product development cycle. In addition, PRIMAX has established a long-term good cooperative relationship with many well-known national and international manufacturers. At the time of developing products, cooperate and communicate with customers to fully understand the customer's needs and market trends in order to rapidly develop and produce products that meet market demand. In addition, place raw materials with special specifications under strict control, actively reduce inventory and minimize the obsolescent product loss in order to effectively reduce costs and enhance market competitiveness.

##### B. Severe price competition jeopardizes profit margin

In recent years, the rapid development of 3C products have driven market demand for PC peripheral products, mobile devices components and business equipment, resulting in severe market competition, increasing price competition pressure, and causing the low price trend of electronic products that is detrimental to profitability.



##### ① Responsive measures:

PRIMAX focuses on enhancing its core competence and improving R&D technology and the production capacity for products. Continue to improve product manufacturing process through product design in order to reduce materials consumption; also, utilize advanced manufacturing equipment to improve production efficiency, while continuing to expand advanced products with higher gross profits in order to seek product differentiation, increase value-added products, and separate from competitors by creating market segment, while maintaining close relationship with existing customers in order to secure existing markets.

##### C. Labor shortage and rising labor costs in the Chinese market

In recent years, the provincial labor departments of China have wages increased for the protection of labor's interests, also with the rapid domestic economic development of China, annual economic growth is at a double-digit rate, resulting in the working population in the coastal areas of China unwilling to stay on their jobs; therefore, labor shortage and rising wages have resulted in high operating costs to the enterprises.

##### ① Responsive measures:

For the sake of solving labor problems fundamentally and reducing labor costs, PRIMAX actively introduces modular automated production equipment and processes to improve production efficiency and reduce labor costs. At the same time, strive to improve the production procedures, simplify manufacturing processes and conduct automated testing; also, designate a specific unit to be responsible for the design and preparation of precision tooling and automated assembling equipment, and its utilization in mass production in order to master the production procedures and to control product quality. In addition, in recent years, continue to develop highly automated production and production line testing equipment in order to improve production efficiency and reduce production costs.

## (2) Intended use and production process of main products

### 1. The intended use of main products

Main products and services	Intended use or function
Mouse	Control computer cursor and scroll to provide easy operations in the Windows operating system.
Keyboard	Provide input characters as well as other convenient control keys
Touch panel	Control computer cursor, scroll and other convenient controls by the touch panel.
Digital Writing Tablet and stylus pen	Control computer cursors and graphics by a stylus pen. The pressure sensing device of a stylus pen can communicate with the capacitive touch panel to transmit the actual strokes interactively.
Wireless charging device	Suitable for mobile phones, tablet PCs, NB PCs, consumer electronics, and industrial use items for power supply and charging.
Micro-camera module	It is applicable to mobile phones, tablet PCs, commercial and home monitoring, smart TV, game consoles, traffic recorders and GPS built-in camera modules.
Network camera module	It is applicable to notebook computers, LCD monitors, built-in network camera modules and externally attached network cameras.
Fingerprint identification module	It is applicable to mobile phones and tablet PCs.
Communications peripheral equipment	It is applicable to mobile phones or MP3 players, built-in images, externally attached voice, data transmission, power supply, and other devices.
Image Scanner	It is applicable to personal computers, printers, file servers, flash drives and photo/document digitization and preservation.
Multifunction Printers	It is applicable to individuals, homes, offices, shops, hotels, digital data center, photo/document scanning, photocopying, electronic documents printing and faxing documents.
Office automation products	It is applicable to individuals, homes, offices, shops, hotels, digital data centers, photo/document destruction, lamination and other processes.
Wireless storage devices	It is applicable to personal and home audio/video entertainment and data storage, and office data storage.
Wireless sound system	Suitable for individuals and families for appreciation of music, audiovisual integration, and mobile phone communication.
Smart sound system	Suitable for individuals and families, smart home control, voice data search, APP link and related service links, and appreciation of music.

### 2. Production process



### (3) Supply of main raw materials

PRIMAX's products are mainly divided into two product lines of PC peripheral products and non-PC peripheral products. PRIMAX's products are mainly purchased through Dongguan Primax, Kunshan Primax and Chongqing Primax. Since they are 100% owned subsidiaries and sub-subsidiaries of PRIMAX, the delivery lead-time and sources of supply can be fully controlled without the possibility of

a supply shortage. For the main raw materials of the subsidiaries and sub-subsidiaries, PRIMAX has acquired through long-term cooperating suppliers for stabilizing supply source and quality; also, there are at least two suppliers of main raw materials retained for service; therefore, there should be no risk of a supply shortage or supply interruption that is detrimental to the Company's operations.

### (4) The names of the customers that were identified accounted for more than 10% of the total purchase (sale) amount in one of the last two years, the purchase (sale) amount and percentage, and the reasons for the amount increase and decrease.

- The information of the suppliers that were identified accounted for more than 10% of the total purchase amount in any of the last two years  
There was no supplier that accounted for more than 10% of the total purchase amount in any of the last two years.
- The information on the customers that accounted for more than 10% of the total sales amount in any of the last two years

Unit: NT\$ million

Year	2016				2017			
Item	Name	Amount	Ratio to net sales (%)	Relation to issuer	Name	Amount	Ratio to net sales (%)	Relation to issuer
1	Company A	9,525	14.81	None	Company A	5,218	8.59	None
—	Others	54,804	85.19	—	Others	55,524	91.41	—
—	Net sales	64,329	100.00	—	Net Sales	60,742	100.00	—

The top 10 customers of PRIMAX in the last 2 years are famous international technology firms, and also with diversify and high stability. In 2016 and 2017, The net sale from the top 10 customers accounted for 50.04% and 40.53% of the total revenue. There is no customer accounted for more than 30% of the total sale among the top 10, which implied that there is no centralized sales. PRIMAX, in addition to maintaining good relations with the existing customers, actively develops new products to expand the market and customers for new products in order to have the customers dispersed and to minimize the risk of centralized sales.

### (5) The production value and volume in the last two-year:

Unit: NT\$1,000 / 1,000 pcs

Main products	Production Year	2016			2017		
		Capacity	Output	Amount	Capacity	Output	Amount
PC peripherals products		217,258	88,041	21,562,052	189,015	76,034	18,589,454
Non-PC peripherals products		999,890	309,369	34,169,840	1,085,444	219,888	35,074,932
<b>Total</b>		<b>1,217,148</b>	<b>397,410</b>	<b>55,731,892</b>	<b>1,274,459</b>	<b>295,922</b>	<b>53,664,386</b>



(6) The sales volume and value statement of the last two-year:

Unit: NT\$1,000 / 1,000 pcs

Sales Main Products	Year	2016				2017			
		Domestic sales		Exporting sales		Domestic Sales		Exporting Sales	
		Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
PC peripherals products		1,526	242,656	94,216	25,053,772	2,718	131,063	105,037	20,306,095
Non-PC peripherals products		14,662	2,696,179	257,747	34,980,538	2,570	638,989	173,350	38,332,998
Service income		0	0	0	1,356,317	0	0	0	1,332,547
<b>Total</b>		<b>16,188</b>	<b>2,938,835</b>	<b>351,963</b>	<b>61,390,627</b>	<b>5,288</b>	<b>770,052</b>	<b>278,387</b>	<b>59,971,640</b>

### 3. The number of staffs, average service years, average age and educational distribution ratio in the last two years and as of the printing date of the annual report

Year		2016	2017	01/01/2018~04/15/2018
Number of employees	Technician (Engineering)	1,419	2,941	2,992
	Management and business personnel	2,694	2,346	2,172
	<b>Total</b>	<b>4,113</b>	<b>5,287</b>	<b>5,164</b>
Average age		35	34.5	35
Average service years		5	4.7	4.8
Educational distribution ratio (%)	Ph.D.	0.3	0.2	0.3
	Master's	9.7	8.2	9.0
	Bachelor's	66.0	52.8	54.9
	Senior High School Education	15.4	17.3	13.8
	Below Senior High School Education	8.6	21.6	22.0

### 4. Environmental protection expenses information

The Company's losses (including compensation) resulted from environmental pollution, the total amount of disposition and the disclosure of the response measures (including improvement measures) and possible expenses (including the possible losses due to not taking countermeasures, the estimated amount of compensation and fine, and the fact that the potential losses cannot be reasonably estimated) in the most recent year and as of the printing date of the annual report: None

PRIMAX's 2017 enviromental protection expenses for each plant statistics

Unit: NT\$

Classification	Description	Expense
1. Direct Costs for Reducing Environmental Impact		
(1) Pollution control cost	Fees for air pollution control, water pollution control, and others	11,504,050
(2) Resource Conservation Cost	Costs for resource (e.g. water) conservation	11,427,728
(3) Waste Disposal and Recycling	Costs for waste treatment (including recycling, incineration and landfill)	2,750,287
2. Indirect Cost for Reducing Environmental Impact (Environmental Managerial Cost)		
	(1) Cost of training (2) Environmental management system and certification expenditures (3) Environmental impact measurement and monitoring fees (4) Environmental protection product costs (5) Environmental protection organization fees	30,557,465
3. Other Environmental Costs		
	(1) Costs for decontamination and remediation (2) Environmental damage insurance fees and environmental taxes and expenses (3) Costs related to environmental settlement, compensations, penalties and lawsuits	0
<b>Total</b>		<b>56,239,530</b>

## 5. Labor relations

### (1) The Company employee's welfare measures, education, training, retirement system and its implementation, as well as agreement between the employers and employees and the employees' interest protection measures

#### 1. Employee's welfare measures and its implementation

The Company has an Employee Welfare Committee set-up in accordance with the Employee Welfare Act to handle the appropriation and distribution of welfare fund. The current welfare system includes: labor insurance and national health insurance, group insurance, annual health checks, birthday gift certificates, Labor Day / Dragon Boat Festival / Moon Festival gift money, employees and dependents weddings and funeral subsidy, employees and their families scholarships and financial aid, employee hospitalization condolence money, employees recreational activities, domestic and international travel allowance, emergency assistance loans to employees, year-end party and lotteries, and other community activities.

#### 2. Education, training, and its implementation

PRIMAX has constructed diversified learning and development channels for the staff's synergistic effect of learning in order to enhance the Company's competitiveness continuously and develop important technical and management personnel.

- **On-the-job training:** On-the-job learning and development is to help the staff enhance job experience by attending work meetings, project (mission) assignments, job rotation, etc.
- **Internal Training:** Internal training is divided into three categories of supervisor training, professional training, and general training, including new recruit's basic courses, supervisor courses at all levels, professional and technical courses, the course of quality, general education lectures, English courses, etc.
- **External professional training:** In order to encourage colleagues to continue their self-enhancement of professional capacity or to learn a second professional skill for career plans, the Company has the professional external training cost fully subsidized.
- **Overseas training:** Select colleagues who perform outstandingly at work and with a good potential for development to participate in short-term overseas professional training or meetings in order to enrich their international vision.

- **Online Learning and Knowledge Community platforms:** The digital LMS learning system provides general education, basic professional knowledge and English language courses to allow learning without time limits and space restrictions; colleagues can also conduct a knowledge exchange, sharing and discussions through the community forum on the platform and blog.
- **Self-learning:** Promote lifelong learning of job-related knowledge and skills; also, may apply for flexible working hours in order to initiate on-the-job training; in addition, in order to cope with the Company's international business model, English course subsidies are also available to colleagues to encourage them to strengthen their language skills. The Company has occasionally updated the list of books recommended to read and provided books subsidies to encourage colleagues to develop a reading habit.

#### 3. Retirement system and its implementation

PRIMAX (formerly known as "Hung Chuan Investment Co., Ltd.") was established on March 20, 2006 and had merged PRIMAX with general rights and benefits of employees assumed unconditionally on December 28, 2007; also, the pension system of PRIMAX remained intact. The payment requirements and standards of labor pension are processed in accordance with the Labor Standards Law (hereinafter referred to as "the old system") and the Labor Pension Act (hereinafter referred to as "the new system").

For employees who have chosen the old system or the new system but with seniority under the old system reserved, PRIMAX has a retirement plan enacted in accordance with the Labor Standards Law and has a labor pension reserve appropriated on a monthly basis and deposited in the special account with the Bank of Taiwan for the use of future pension payment. In addition, for employees that are entitled to the new system, PRIMAX has an amount equivalent to 6% of the monthly salary appropriated as a labor pension reserve in accordance with the Labor Pension Act and has the amount deposited in the personal account with the Bureau of Labor Insurance.

#### 4. Agreement between employer and employees and the measures to safeguard employees' interests

PRIMAX has maintained harmonious labor relations. Employees can communicate with the Company regarding the Company's systems and work environment through the departmental meeting in order to maintain a good interaction between the employer and employees. In addition, PRIMAX's employee welfare committee is responsible for handling employee welfare matters and has various activities arranged occasionally to enhance a harmonious working atmosphere and the loyalty between the employer and employees. The practice is illustrated as follows:

- (1) Hold departmental meetings regularly, communicate the Company's and departmental business plans, business overview and market conditions to colleagues.
- (2) Enact sexual harassment prevention measures and a grievance and disciplinary approach to maintain a good working relationship and interaction principles between genders in order to prevent sex discrimination or harassment.
- (3) Establish labor-management meeting, organize labor-management meetings for communication and consultation regularly, and promote harmonious labor relations.
- (4) Establish the employee welfare committee to organize group recreational activities and handle welfare matters regularly.
- (5) Set-up flexible working hour system so that employees can manage to balance work and personal life.

- (6) Education and training plan and subsidy, provide staff with occupational training and encourage employees to develop a second skill.
- (7) In addition to the basic security of labor and health insurance, a group insurance is also available for a greater protection of employee's life safety, healthcare, and family.
- (8) Organize employee physical check-ups and health and safety checks regularly to ensure employee's physical and mental health and safety of the working environment.

(2) Any losses resulting from labor disputes in the most recent year and as of the printing date of the annual report: **None**

(3) The estimated loss amount and the responsive measures for current and future periods, if such amount cannot be reasonably estimated, please indicate the fact that it cannot be reasonably estimated.

PRIMAX since the date of incorporation has upheld integrity and responsible attitude to provide welfare to its employees, to create a harmonious relationship between employer and employees, and work together with the employees for the business growth of the Company and the business operations. Therefore, a harmonious labor relation is established and no incidents of labor disputes are expected to take place.

## 6. Material Contracts

Nature of contract	Contracting Party	Term of Agreement	Main contents	Restrictions
OEM product	Customer E	8.1.2014 ~ project ended	OEM camera modules and mouse	Classified
OEM product	Customer G	2.20.2006 ~ project ended	OEM consumer electronic products	Classified
OEM product	Customer B	5.22.2007 ~ project ended	OEM MFP	Classified
OEM product	Customer V	6.30.2008 ~ 6.30.2018	OEM consumer electronic products	Classified
OEM product	Customer U	8.2007 ~ project ended	OEM mouse	Classified
OEM product	Customer T	2.20.2008 ~ project ended	OEM consumer electronic products	Classified
OEM product	Customer H	6.1.2008 ~ project ended	OEM MFP	Classified
OEM product	Customer O	1.2006 ~ project ended	OEM consumer electronic products	Classified
Trade and lease	Shin Kong Life Insurance	12.2008 ~ 12.2023	Sale and lease of Primax building	None
Loan Agreement	Export-Import Bank of the ROC	2.12.2015 ~ 2.12.2020	Bank mid-term and long - term loan	None

## 6. Review and analysis of the financial status and financial performance, and risk management



## 1. Financial status

Unit: NT\$1,000

Item	Year	2017	2016	Difference	
				Amount	%
Current assets		29,141,420	27,799,554	1,341,866	4.83%
Investment					
Fixed assets		4,437,684	4,717,422	(279,738)	-5.93%
Intangible assets		2,730,188	2,673,670	56,518	2.11%
Other assets		1,465,851	1,931,403	(465,552)	-24.10%
Total assets		37,775,143	37,122,049	653,094	1.76%
Current liabilities		23,114,653	22,801,219	313,434	1.37%
Long-term liabilities		1,678,688	2,076,372	(397,684)	-19.15%
Total liabilities		24,793,341	24,877,591	(84,250)	-0.34%
Capital stock		4,459,968	4,424,367	35,601	0.80%
Capital surplus		1,232,490	791,466	441,024	55.72%
Retained earnings		6,087,685	5,665,353	422,332	7.45%
Other equity		(394,871)	118,538	(513,409)	-433.12%
Non-controlling Interests		1,596,530	1,244,734	351,796	28.26%
Total shareholders' equity		12,981,802	12,244,458	737,344	6.02%

Notes to items of significant change:

- (I) Other assets decreased from the previous year: This is mainly caused by the disposition of the shares issued by Nien Made Enterprise, a TWSE/GTSM-listed company, which resulted in the decrease of available-for-sale financial assets.
- (II) Long-term liabilities decreased from the previous period: Mainly because of the reimbursement of long-term loans.
- (III) Capital surplus increased from the previous year: Mainly because of the issuance of new ESOP and the Tympany Group restructuring.
- (IV) Other equity decreased from the previous year: Mainly because of the decrease of available-for-sale financial assets
- (V) Non-controlling Interests increased from the previous year: Mainly because of the Tympany Group restructuring, which resulted in the increase of non-controlling interests..

In sum, not only the operation performance of the company in this fiscal year is stable but also with the growth of operating income and stable cash inflows that make the financial structure of the company healthy.

## 2. Financial performance

### (1) The financial performance analysis in the last two years

Unit: NT\$1,000

Item	Year	2017	2016	Amount of Increase or Decrease	
					(%)
Net Sales		60,741,692	64,329,462	(3,587,770)	-5.58%
Operating costs		53,261,685	57,062,275	(3,800,590)	-6.66%
Gross profit		7,480,007	7,267,187	212,820	2.93%
Operating expense		5,280,102	4,893,716	386,386	7.90%
Operating income		2,199,905	2,373,471	(173,566)	-7.31%
Non-operating income and expenses		647,675	390,981	256,694	65.65%
Income before tax from continuing operations		2,847,580	2,764,452	83,128	3.01%
Income tax expense (benefit)		678,599	777,686	(99,087)	-12.74%
Loss from discontinued operations (after tax)		0	61,896	(61,896)	-100.00%
Net income (including the loss from discontinued operations)		2,168,981	2,048,662	120,319	5.87%

Notes to items of significant change

( changes for more than 20% from the previous period and the amount exceeding NT\$10 million ) :

1. Non-operating income and expense increased from the previous year: Mainly because of proceeds from disposal of available-for-sale financial assets .
2. Loss from discontinued operations ( after tax ) decreased from the previous year: Mainly because of the disposal of Global TEK during the previous year.

### (2) Expected sales within the year and its basis, and the possible impact on the Company's future financial operations and the responsive plan

The Company sales forecast is based on the industrial environment and future market supply and demand; also, taken into account the business development, current purchase orders status, production base capacity planning, etc. For the sales forecast of each major product in 2018, in terms of PC peripherals business unit, product sales will likely remain the same or grow slightly, while the non-PC peripherals business unit is expected to

grow steadily due to the effect of global information and communications commodity and mobile phone market development and market demand for audio products. Currently, the Company has sound financial structure and excellent business constitution. The Company's proprietary funds and the net cash inflow from operating activities are sufficient to support the demand for working capital and capital expenditure needs resulted from revenue growth.

## 3. Cash flow

### (1) The changes in cash flow analysis in the most recent year ( 2017 )

Unit: NT\$1,000

Cash balance	Net cash provided from operating activities in 2017	Net cash provided from investing and financing activities in 2017	Cash balance 12.31.2017	Remedy for liquidity shortage	
				Investment plan	Financing plan
6,359,916	3,412,165	1,461,095	7,821,011	—	—

Analysis of changes in cash flow in the most recent period:

- (1) From operating: Net cash inflow from operating activities amounted to NT\$ 3,412,165 thousand mainly because of the decrease of profit and note receivable and account receivable.
- (2) From investing: Net cash outflow from investing activities amounted to NT\$ 1,452,394 thousand mainly because of the increase of acquisition of property, plant and equipment.
- (3) From financing: Net cash outflow from financing activities amounted to NT\$ 451,649 thousand mainly because of the reimbursement of long-term loans and payment of cash dividend.

### (2) Plan for improvement of inadequate liquidity: PRIMAX has no inadequacy of liquidity in cash flow in the most recent year.

### (3) Cash flow analysis within the year ( 2018 )

Unit: NT\$1,000

Cash balance	Net cash provided from operating activities in 2018	Net cash used from investing and financing activities in 2018	Cash balance 12.31.2018	Remedy for liquidity shortage	
				Investment plan	Financing plan
7,821,011	3,209,057	(2,000,041)	5,820,970	—	—

1. Analysis of change in cash flow in the year ahead:

- (1) From operating: Net cash inflow from operating activities is expected at NT\$ 3,209,057 thousand mainly because of increase in profit in current period.
- (2) From investing: Net cash outflow from investing activities is expected at NT\$ 3,818,280 thousand mainly because of the increase of acquisition of plants and equipment.
- (3) From financing: Net cash outflow from financing activities is expected at NT\$ 1,390,818 thousand mainly because of the reimbursement of short-term loans, long-term loans and payment of cash dividend.

2. Improvement plan for anticipated cash deficiency and liquidity analysis: There is no cash deficiency; therefore, it's not applicable.

**Note:** The financial data of the year ( 2018 ) is a consolidated amount.

## 4. The impact of major capital expenditures on financial business in the most recent year: None

## 5. Investment policy in the most recent year, main reason for its profits or losses, improvement plan and the investment plans within the year

### (1) Investment policy

PRIMAX's management team for the operational requirements and future strategic development has professional information provided by the responsible units. The Finance and Administration Division is to have data collected and proposals presented to the responsible supervisor. For the investment proposals presented, the history and prospect of the invested company, market conditions and business constitution should be assessed for the reference of the decision-maker in making investment decisions.

### (2) The main reason for investment profits or losses and the improvement plans in the most recent year

December 31, 2017 / Unit: NT\$1,000

Item	Remarks	Amount of Profit (loss) in 2017	The main profit or loss The main reason for the profit or loss	Improvement plan
Primax Industries (Cayman Holding) Ltd.		853,625	Normal operation	—
Primax Technology (Cayman Holding) Ltd.		154,146	Normal operation	—
Destiny Technology Holding Co.,Ltd		(10,972)	Normal operation	—
Primax Destiny Co.,Ltd		1,025	Normal operation	—
Diamond (Cayman) Holdings Ltd.		293,587	Normal operation	—
Gratus Technology Corp.		523	Normal operation	—
Primax Industries (Hong Kong) Ltd.		967,397	Normal operation	—
Polaris Electronics Inc.		8,712	Normal operation	—
Tymphany Worldwide Enterprises Ltd		298,734 (Note 2)	Normal operation	—
Tymphany HK Ltd		20,869 (Note 1)	Normal operation	—
TYP Enterprises Ltd		892 (Note 1)	Normal operation	—
Tymphany Logistics, Inc.		3,447	Normal operation	—
Dongguan Primax Electronic Telecommunication Products Ltd.		613,116	Normal operation	—
Beijing Destiny Electronic Technology Ltd		(10,972)	Normal operation	—
Primax Electronics (Kunshan) Corp., Ltd.		(35,216)	Normal operation	—
Primax Electronics (Chongqing) Corp., Ltd.		176,309	Normal operation	—
Premium Loudspeakers (Huizhou) Co., Ltd.		194,561	Normal operation	—
Dongguan Tymphany Acoustic Technology Co., Ltd.		129,391	Normal operation	—
Dongguan Dongcheng Tymphany Acoustic Technology Co., Ltd.		3,432	Normal operation	—
Tymphany Acoustic Technology HK Ltd.		(22,017) (Note 1)	Normal operation	—
Tymphany Acoustic Technology (UK) Ltd.		563	Normal operation	—
Tymphany Acoustic Technology Europe, s.r.o.		29,907	Normal operation	—
Tymphany Acoustic Technology Ltd.		—	Normal operation	—
Primax AE (Cayman) Holdings Ltd. (Note 3)		—	—	—

Note: The amount stated in the audited financial statement of 2017.

Note 1: The information is represented after the restructuring in the third quarter of 2017.

Note 2: The information is represented after the acquiring 30% of the capital from minority interest in the fourth quarter of 2017.

Note 3: The Company remitted funds into Primax AE (Cayman) Holdings Ltd. in January 2018.

### (3) Investment Plan for the Year Ahead

The Board of PRIMAX resolved on November 10, 2017 to establish Primax AE (Cayman) Holdings Ltd. with USD\$ 48,100,000 for acquiring 37% of the equity share of Belfast Limited. Primax AE (Cayman) Holdings Ltd. completed the shareholdings settlement on January 25, 2018.

## 6. Risk analysis and evaluation

### (1) Impact of changes in interest rates and exchange rates and inflation on the Company's profit or loss and future responsive measures

#### 1. Changes in exchange rate

PRIMAX's revenue-based business is targeting on exporting business. The exporting products are mainly quoted in US dollars; also, PRIMAX's transactions conducted with overseas suppliers and the purchase of machinery equipment from overseas suppliers are denominated in US dollars too, resulting in mutual offset effect, so it provides a natural hedging effect against changes in the exchange rate. PRIMAX's 2017 net foreign exchange loss amounted to NT\$20,520 thousand, accounted for 0.03% of net sales. Therefore, the overall foreign exchange does not constitute a risk factor burden on the profit status. However, PRIMAX in response to the risk of changes in the exchange rate on PRIMAX's profit or loss, in addition to using spot and forward foreign exchange transactions for foreign exchange hedging, will continue to monitor changes in the exchange rate and the foreign exchange positions within PRIMAX; also, will maintain foreign currency assets and liabilities balanced in order to avoid the risk of changes in exchange rates and reduce the impact of changes in exchange rate on company's profit and loss.

#### 2. Changes in interest rate

The consolidated Group's 2017 interest expense accounted for 0.05% of the sales, indicating that such interest expense had no significant impact on the consolidated company's profits and losses. In addition, PRIMAX regularly assesses bank loan interest rates and maintains good relations with banks in order to obtain more favorable interest rates and to reduce interest expenses.

#### 3. Inflation

According to the data released by the Directorate-General of Budget, Accounting and Statistics (DGBAS), Executive Yuan in December 2017, the CPI rose by 1.21% and WPI annual growth rate was 0.24%, which implied that significant inflation is unlikely. These figures did not have significant impact on the income of PRIMAX in 2017. PRIMAX always pays attention to fluctuations in market prices and will have sales price and raw materials and inventory adjusted accordingly; however, there was no significant impact that occurred as a result of inflation.

### (2) The policy of engaging in high-risk, highly leveraged investments, loans to others, endorsements and guarantees, and derivative products, the main reason for the profit or loss, and future responsive measures

#### 1. Engaged in high-risk and highly leveraged investments

PRIMAX focuses on its business management without engaging in high-risk investments and has never engaged in any highly leveraged investment.

#### 2. Engaged in the loaning of funds and making of endorsement and guarantee

PRIMAX had arranged the loaning of funds and making of endorsements/guarantees for the 100% owned subsidiaries for the need of business dealings in the most recent year and as of the printing date of the annual report. PRIMAX's loaning of funds and making of endorsements/guarantees are handled according to the policies and responsive

measures enacted in accordance with PRIMAX's "Procedures for Loaning of Funds" and "Procedures for Making of Endorsement/Guarantee;" also, the related operations are processed prudently with the possible risks and relevant regulations considered.

#### 3. Derivative products trading

PRIMAX had the derivatives transactions assessed carefully. The operations of any derivatives trading is aimed to help improve business performance and reduce PRIMAX's operations and financial risks; also, it is processed in accordance with the "Regulations Governing Acquisition or Disposal of Assets" and scope of authorization.

### (3) Research and development plans in the future and projected investment

#### 1. Research and development plans in the future

The principal items for PRIMAX in development are PC peripherals, mobile device components,

business equipment and digital home products. In the future, PRIMAX will continue to work in conjunction with large international firms and



engage in strategic partnerships with new business entities with a focus on Gaming mouse, keyboard, and keyboard modules, multiple-color keyboard backlight modules, double-lens cell phone camera modules, 3D sensor modules, PC built-in camera modules, bio recognition modules, Bluetooth and network smart sound systems and related products, Bluetooth and wireless headphones and related items, multiple-function business machine scanners, Jet printing and laser multi-purpose business machines, automotive electronics, automated production lines, artificial smart home appliances, smart health and smart home technology products, for further upgrade of our capacity in research and development, a larger share of the product market,

and to make the products of PRIMAX even more competitive in the international market.

## 2. Projected investment in research and development

PRIMAX's projected research and development expenses are based on the progress of new products and new technology development; also, maintain a certain percentage of growth depending on future operating conditions in order to ensure PRIMAX's competitive advantage. In 2018, the estimated investment in research and development will be approximately NT\$2.6 billion.

## (4) The impact of changes in domestic and foreign policies and law on the Company's financial operations and responsive measures:

PRIMAX has operated business in compliance with the governing regulations of the domestic and foreign invested companies. The related personnel also pay attention to changes in the law and

regulations for the reference of the management. Therefore, PRIMAX is able to grasp any changes in policies and law domestically and internationally with effective response initiated.

## (5) The impact of changes in technologies and industry on the Company's financial operations and responsive measures:

In response to the ongoing development of advanced technology, PRIMAX will continue to commit resources to research and development, and keep abreast of the changes in the market and technology in specific areas of PC peripherals, mobile device components, business equipment and digital home products with the collection and analysis of related information to mitigate the impact brought forth by changes in technology. At the same time, PRIMAX will also intensify its research and development of products of high

added-value and high profit to make the product line more diversified and stable and to secure sources of profits. With outstanding process technologies, PRIMAX continues to expand its strategic alliance system in depth and width with existing customers from product design, production, logistics support, distribution and after-sales service in order to strengthen mutual long-term co-existence and common prosperity. Technological and industrial changes have not had a significant impact on PRIMAX's financial operations so far.

## (6) The impact of the change in corporate image on the Company's crisis management and responsive measures:

PRIMAX highly treasures its corporate image. As one of the leaders in PC peripherals, mobile device components, business equipment, and digital home products in the world, PRIMAX has a friendly human resources development and training program in place. The management is also people-oriented helping to attract good people and technology to the Company. These have contributed to the buildup of a solid professional team. The results of operation will be rewarded to the Shareholders. PRIMAX performs its corporate

social responsibility to its entirety and spares no effort in making improvements to the environment through energy saving and carbon reduction. PRIMAX also heavily commits to social charity to achieve the goal of sustainable development. PRIMAX has appointed a designated team for managing its corporate image in preventing, handling and responding to possible problems. Nothing has affected the corporate image of PRIMAX in the most recent year and as of the printing date of the annual report.

## (7) The expected benefits of the merger, possible risks and responsive measures:

The Board of PRIMAX resolved on November 10, 2017 to establish Primax AE (Cayman) Holdings Ltd. with USD\$ 48,100,000 for acquiring 37% of the equity share of Belfast Limited. PRIMAX could further expand in the area of automotive electronics

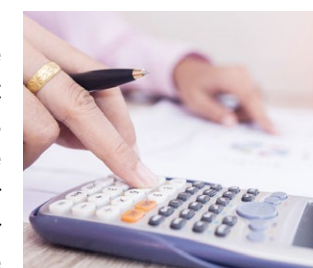
through this transaction, like the competitive capability and business capability in power steering of motor vehicles and smart head lamps. Primax AE (Cayman) Holdings Ltd. completed the shareholdings settlement on January 25, 2018.

## (8) The expected benefits, possible risks, and responsive measures of plant expansion: None.

## (9) The risks of centralized purchase or sales and responsive measures.

### 1. The risks of centralized purchase and responsive measures

PRIMAX, except for the finished product procurement, has retained two or more qualified suppliers for procurement in order to maintain purchase flexibility, ensure uninterrupted supply, and uphold bargaining advantage in order to achieve the goal of reducing cost. In summary, PRIMAX has not faced any risks of centralized purchasing of raw materials or supply interruption.



### 2. The risks of centralized sales and the responsive measures

The customers of PRIMAX are mainly international well-known technology firms, and also with diversity and stability. In 2017, the net sale with the top 10 customers accounted for approximately 40.53% of the total. There is no customer among the top 10 that accounted for more than 30% of the sale, which implied that there is no centralized sales. PRIMAX, in addition to maintaining good relations with the existing customers, actively develops new products to expand the market and customers for new products in order to have the customers dispersed and to minimize the risk of centralized sales.

## (10) The impact of massive stock transfer or exchange by the directors, supervisors or major shareholders with more than 10% shareholdings on the Company, risks and responsive measures: None.

## (11) The impact of change in the Company's right to operate, risks and responsive measures: None.

## (12) Litigation or non-litigation events

1. For PRIMAX's litigation, non-litigation, or administrative contentious event that have been sentenced or are currently under proceeding in the court of law in the recent years and as of the printing date of the annual report; also, the results may be significantly influential to shareholders' equity or securities prices, such indisputable fact, the subject amount, the litigation proceeding starting date, the main parties of the lawsuit and its current situation should be disclosed:

As per the request of Euler Hermes Insurance, action has been taken on Comtech International (Hong Kong) Limited and its Guarantor Cogobuy Group

with the Hong Kong High Court claim for an overdue account of USD 5,811,362.27 in June 2017. The law suit is still in process in the Hong Kong High Court.

2. The litigation, non-litigation or administrative contentious event of PRIMAX's directors, supervisors, general manager, active owner, shareholders with more than 10% shareholdings and the subsidiaries that have been sentenced or are currently under proceeding in the court of law in the recent years and as of the printing date of the annual report; also, the results may be significantly influential to shareholders' equity or securities prices: None.

## (13) Other important risks and responsive measures: None.

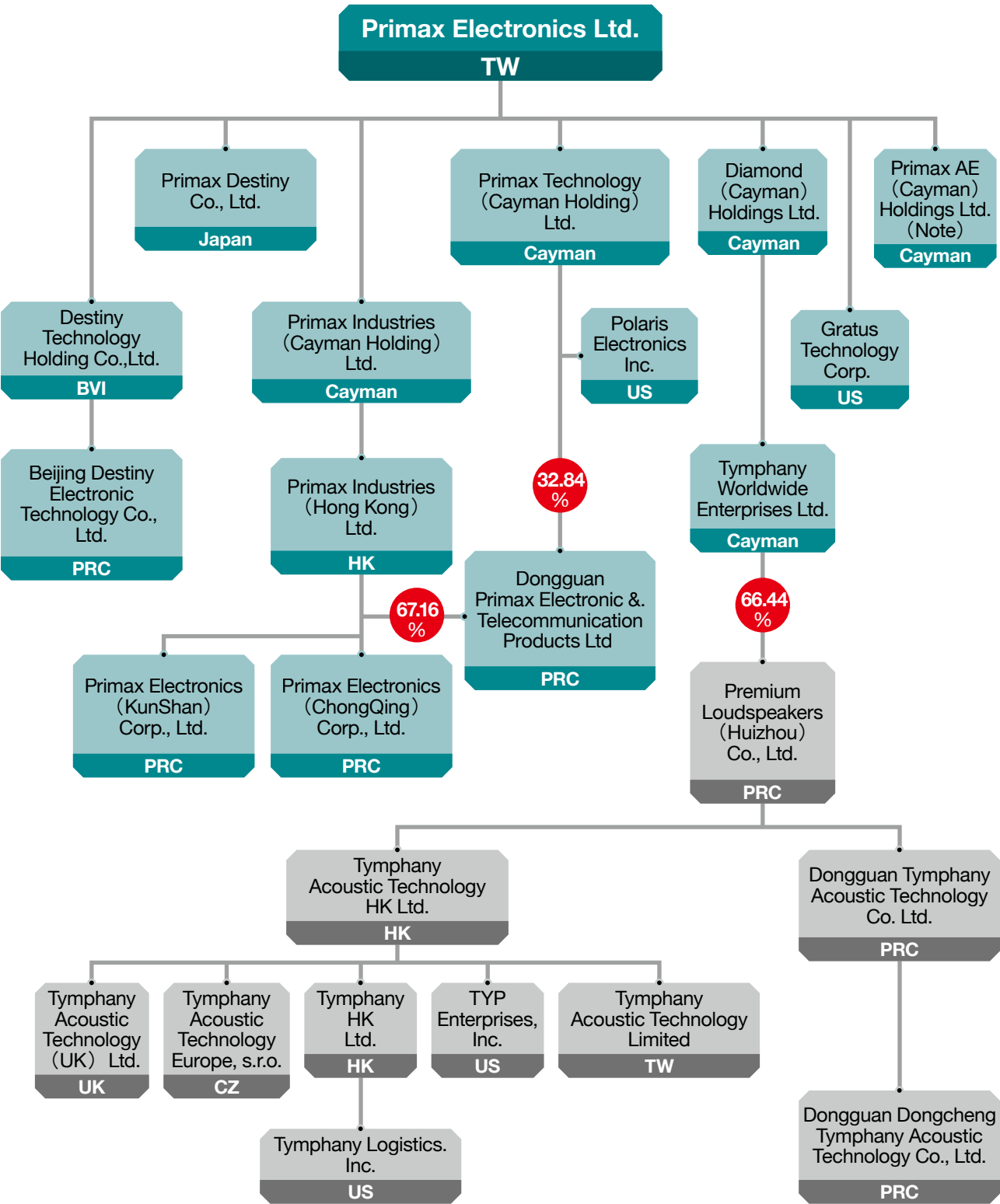
# 7. Other important events: None

# 1. Affiliated company's information

( 1 ) Affiliated company's consolidated business report

( 1 ) Affiliated company's overview

1. Affiliated company's organizational chart ( December 31, 2017 )



Note: The Company remitted funds into Primax AE (Cayman) Holdings Ltd. in January 2018.

## 7、Special Notes



## 2. Affiliated company's profile

Unit: NT\$1,000 / December 31, 2017

Company Name	Establishment Date	Address	Paid-in capital	Principal businesses or production projects
Dongguan Primax Electronic Telecommunication Products Ltd.	12.21.1995	B4079, Liu Wu Dao Section, Xincheng Qu, Shijie Chen, Dongguan City	2,037,050	Produce and sell PC peripherals, mobile device components, business equipment and other products.
Primax Electronics (KunShan) Co., Ltd.	11.17.2009	No. 2688 Tong Xin Road, Yushan Zhen, Kunshan City	891,956	Produce PC peripheral products
Primax Electronics (Chongqing) Corp., Ltd.	02.23.2011	No. 2669, Xinglong Road, Yongcuan Qu, Chongqing City	572,472	Produce PC peripheral products
Beijing Destiny Electronic Technology Corp., Ltd.	03.24.1994	Suite 201-202, 2F., No. 10, He Fang Road, Dinghai District, Beijing	40,353	Research and develop PC peripheral products and business equipment.
Primax Destiny Co.,Ltd	07.28.1995	2nd Fl., Yamashita Bldg., 1-23-2, Hamamatsucho, Minato-ku, Tokyo 105-0013 Japan	6,610	PC peripherals, mobile device components, business equipment, other products of market development, customer service, etc.
Polaris Electronics, Inc.	04.24.1996	356 S. Milpitas Blvd, Milpitas, CA95035, USA	47,757	Trading of PC peripherals, mobile device components, and businesse quipment.
Primax Industries (Hong Kong) Ltd.	05.19.1989	Rm.1520-21, 15/F., Block A, Hi-Tech Industrial Centre, 5-21 Pak Tin Par Street, Tsuen Wan,N.T., Hong Kong.	2,301,736	Holding company and customer service.
Primax Technology (Cayman Holding) Ltd.	10.08.1997	2nd Floor, Midtown Plaza, Elgin Avenue, George Town, Grand Cayman KY1-1106, Cayman Islands.	850,867	Holding company
Primax Industries (Cayman Holding) Ltd.	10.24.1996	2F,Zephyr House,Mary St.PO.Box 709,George Town, Grand Cayman, Cayman Islands,British West Indies.	2,431,906	Holding company
Destiny Technology Holding Co., Ltd.	01.19.2001	Sealight House, Tortola, British Virgin Islands	31,340	Holding company
Diamond (Cayman) Holdings Ltd.	10.08.2013	P.O. Box 32052, The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, Grand Cayman, KY1-1208 Cayman Islands.	2,508,724	Holding company
Tymphany Worldwide Enterprises Ltd.	10.29.2013	P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands.	550,010	Holding company
TYP Enterprises, Inc.	01.06.2014	1 Thorndale Drive, Suite 200, San Rafael, CA 94903, USA	15	Market development and customer service of speakers and its parts and components.
Tymphany HK Ltd.	05.11.1995	Room 1307-8 Dominion Centre, 43-59 Queens Road East, Wanchai, Hong Kong	551,343	Holding company and sale of sound system accessories, speakers and parts and components, related market development and customer service.
Premium Loudspeakers (Huizhou) Co., Ltd.	08.09.2004	Tiffany Industrial Park, Xinlian Village, Xinxu Town, Huiyang District, Huizhou, Guangdong Province	1,311,036	Research and development, design and sale of various sound system accessories, speakers and parts and components.
Tymphany Logistics,Inc.	04.29.2015	356 S. Milpitas Blvd, Milpitas, CA95035, USA	5,970	Sale of sound system accessories, speakers and parts and components.
Dongguan Tymphany Acoustic Technology Co., Ltd.	09.06.2015	Liu Wu Dao Section, Xincheng Qu, Shijie Chen, Dongguan City	149,240	Research and development, design and sale of various sound system accessories, speakers and parts and components.
Dongguan Dongcheng Tymphany Acoustic Technology Co., Ltd.	10.11.2016	No. 27, Dayuan Road, Zhang Village, Dongcheng District, Dongguan	91,360	Research and development, design and sale of various sound system accessories, speakers and parts and components

Company Name	Establishment Date	Address	Paid-in capital	Principal businesses or production projects
Tymphany Acoustic Technology HK Ltd.	01.05.2017	RM 803 Tung Hip Comm Bldg 248 Des Voeux Rd Central, Hong Kong	19,092	Research, development, design, and sale of sound system accessories, loud speakers and components, and holdings.
Tymphany Acoustic Technology (UK) Ltd.	01.20.2017	C/O Broomfield & Alexander Ltd Ty Derw, Lime Tree Court, Cardiff Gate Business Park, Cardiff, United Kingdom, CF23 8AB	16,044	Research, development, and design of sound system accessories, loud speakers and parts and components.
Tymphany Acoustic Technology Europe, s.r.o.	08.18.2004	Průmyslový park 305, 742 21 Kopřivnice-Vičovice, Czech Republic	261,644	Manufacturing, installation, and maintenance sound system accessories and parts and components.
Tymphany Acoustic Technology Limited	12.14.2017	10F, No. 19-2 and 19-3, Sanchong Rd., Nangang Dist., Taipei City	50,000	Research, development and design of sound system accessories, loud speakers and parts and components.
Gratus Technology Corp	04.01.2015	356 S. Milpitas Blvd, Milpitas, CA95035, USA	8,954	Market development and customer service in PC peripherals, mobile device components, and business equipment.
Primax AE (Cayman) Holdings Ltd. (Note)	11.14.2017	The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Island	—	Holding company

Note: The Company remitted funds into Primax AE (Cayman) Holdings Ltd. in January 2018.

### 3. A control and affiliation relationship according to Article 369.3 of the Company Law: **None**

### 4. The business scope of the overall affiliated companies and the interaction and division of work:

The primary business operations of the Company and its affiliated companies include PC peripherals and non-PC peripheral product design, manufacturing, processing, and sales. In general, the interaction and job division among the affiliated companies is to create maximum synergy through the mutual support of technology, production, marketing and services.

### 5. Information of all affiliated company's directors, supervisors and managers

December 31, 2017

Company Name	Title	Name or representative
Dongguan Primax Electronic Telecommunication Products Co., Ltd.	Chairman	Primax Industries (Hong Kong) Ltd. & Primax Technology (Cayman Holding) Ltd. Representative: Lee, Chiu-Sheng
	Director	Primax Industries (Hong Kong) Ltd. & Primax Technology (Cayman Holding) Ltd. Representative: Ying, Chung-Wen
	Director	Primax Industries (Hong Kong) Ltd. & Primax Technology (Cayman Holding) Ltd. Representative: Chang, Chen-Deh
	General Manager	Lee, Chiu-Sheng
Primax Electronics (KunShan) Co., Ltd.	Executive Director	Primax Industries (Hong Kong) Ltd. Representative: Yang, Hai-Hung
	Supervisors	Primax Industries (Hong Kong) Ltd. Representative: Chang, Chen-Deh
	General Manager	Lee, Chiu-Sheng
Primax Electronics (Chongqing) Corp., Ltd.	Executive Director	Primax Industries (Hong Kong) Ltd. Representative: Yang, Hai-Hung
	Supervisors	Primax Industries (Hong Kong) Ltd. Representative: Chang, Chen-Deh
	General Manager	Lee, Chiu-Sheng
Beijing Destiny Electronic Technology Corp., Ltd.	Chairman	Destiny Technology Holding Co., Ltd. Representative: Liang, Li-Sheng
	Director	Destiny Technology Holding Co., Ltd. Representative: Yang, Hai-Hung
	Director	Destiny Technology Holding Co., Ltd. Representative: Ying, Chung-Wen
	General Manager	Wei, Hao-San

December 31, 2017

Company Name	Title	Name or representative
Primax Destiny Co.,Ltd.	Director	Wei, Hao-San
	Director	Yang, Hai-Hung
	Director	Hsiao, Ying-Yee
	Supervisors	Chou, Yen-Chou
Polaris Electronics, Inc.	Director	Yang, Hai-Hung
	Director	Liang, Li-Sheng
Primax Industries (Hong Kong) Ltd.	Director	Liang, Li-Sheng
	Director	Yang, Hai-Hung
Primax Technology (Cayman Holding) Ltd.	Director	Liang, Li-Sheng
	Director	Yang, Hai-Hung
	Director	Hsiao, Ying-Yee
Primax Industries (Cayman Holding) Ltd.	Director	Liang, Li-Sheng
	Director	Yang, Hai-Hung
	Director	Hsiao, Ying-Yee
Destiny Technology Holding Co., Ltd.	Director	Liang, Li-Sheng
Diamond (Cayman) Holdings Ltd.	Director	Primax Electronics Ltd. Representative: Liang, Li-Sheng Hsiao, Ying-Yee
Tymphany Worldwide Enterprises Ltd.	Director	Diamond (Cayman) Holdings Ltd. Representative: Liang, Li-Sheng Yang, Hai-Hung Pan, Yung-Chung Pan, Yung-Tai
TYP Enterprises, Inc.	Director	Edward Townsend Boyd III Thomas Lee Jacoby Representative: Pan, Yung-Chung
Tymphany HK Ltd.	Director	Edward Townsend Boyd III Representative: Pan, Yung-Chung
Premiam Loudspeakers (Huizhou) Co., Ltd.	Director	Representative: Pan, Yung-Chung Liang, Li-Sheng Liu, Hsiao-Tung
	General Manager	Pan, Yung-Chung
	Supervisor	Fan, Chi-Liang
	Supervisors	Hsiao, Ying-Yee
Tymphany Logistics,Inc.	Director	Liang, Li-Sheng
Dongguan Tymphany Acoustic Technology Co., Ltd.	Executive Director	Representative: Pan, Yung-Chung
	General Manager	Pan, Yung-Chung
	Supervisors	Hsiao, Ying-Yee
Dongguan Dongcheng Tymphany Acoustic Technology Co., Ltd.	Executive Director	Representative: Pan, Yung-Chung
	General Manager	Pan, Yung-Chung
	Supervisors	Hsiao, Ying-Yee
Tymphany Acoustic Technology HK Ltd.	Director	Pan, Yung-Chung
Tymphany Acoustic Technology (UK) Ltd.	Director	Philip Scott Mcphee
Tymphany Acoustic Technology Europe, s.r.o.	Director	Pavel Merhout
	Director	Philip Scott Mcphee
Tymphany Acoustic Technology Limited	Director	Liang, Li-Sheng Pan, Yung-Tai Pan, Yung-Chung
	Supervisors	Hsiao, Ying-Yee
Gratus Technology Corp.	Director	Liang, Li-Sheng
	Director	Yang, Hai-Hung
Primax AE (Cayman) Holdings Ltd. (Note)	Director	Primax Electronics Ltd. Representative: Liang, Li-Sheng Hsiao, Ying-Yee

Note: The Company remitted funds into Primax AE (Cayman) Holdings Ltd. in January 2018.

## (2) Affiliated company's operation overview

Unit: NT\$1,000 / December 31, 2017

Company Name	Capital amount	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Earnings in current period (After tax)	Earnings per Share (NT\$) (After tax)
Dongguan Primax Electronic & Telecommunication Products Co., Ltd.	2,037,050	13,918,072	8,914,102	5,003,970	32,033,587	1,044,714	613,116	—
Primax Electronics (KunShan) Co., Ltd.	891,956	1,229,778	362,156	867,622	1,079,793	(8,402)	(35,216)	—
Primax Electronics (Chongqing) Corp., Ltd.	572,472	3,546,380	2,470,219	1,076,161	5,838,051	173,814	176,309	—
Beijing Destiny Electronic Technology Co., Ltd.	40,353	49,170	34,623	14,547	103,346	(11,063)	(10,972)	—
Primax Destiny Co.,Ltd.	6,610	20,783	4,397	16,386	12,696	803	1,025	2,050.00
Polaris Electronics, Inc.	47,757	940,233	567,040	373,193	2,949,865	15,214	8,712	5.45
Primax Industries (Hong Kong) Ltd.	2,301,736	5,360,434	13,348	5,347,086	12,777	25,242	967,397	1.60
Primax Technology (Cayman Holding) Ltd.	850,867	2,105,188	0	2,105,188	0	(215)	204,489	0.72
Primax Industries (Cayman Holding) Ltd.	2,431,906	5,413,454	56,946	5,356,508	315,126	(2,613)	963,666	0.12
Destiny Technology Holding Co., Ltd.	31,340	14,551	0	14,551	0	0	(10,972)	-10.45
Diamond (Cayman) Holdings Ltd.	2,508,724	3,193,840	104,468	3,089,372	0	1,141	293,587	3.49
Tymphany Worldwide Enterprises Ltd.	550,010	1,758,529	217,493	1,541,036	748,412	24,789	500,879	13.01
Tymphany HK Ltd.	551,343	8,757,405	8,010,213	747,192	19,841,424	313,524	376,600	2.61
TYP Enterprises, Inc.	15	29,404	21,204	8,200	125,586	5,215	3,748	7,496.00
Premium Loudspeakers (Huizhou) Co., Ltd.	1,311,036	4,763,679	2,484,243	2,279,436	5,506,184	322,893	265,156	—
Dongguan Tymphany Acoustic Technology Co., Ltd.	149,240	6,440,402	6,075,425	364,977	11,458,970	228,347	197,738	—
Gratus Technology Corporation	8,954	10,782	1,135	9,647	15,306	866	523	1.74
Tymphany Logistics,Inc.	5,970	412,298	402,241	10,057	819,982	4,354	1,219	6.10
Dongguan Dongcheng Tymphany Acoustic Technology Co., Ltd.	91,360	437,508	340,087	97,421	1,264,187	8,484	5,320	—
Tymphany Acoustic Technology HK Ltd.	19,092	2,066,008	1,918,983	147,025	1,275,781	(57,441)	(14,475)	-2.90
Tymphany Acoustic Technology (UK) Ltd.	16,044	31,631	15,005	16,626	19,671	697	563	2.82
Tymphany Acoustic Technology Europe, s.r.o.	261,644	1,029,658	483,598	546,060	1,383,133	37,123	29,907	0.16
Tymphany Acoustic Technology Ltd.	50,000	0	0	0	0	0	0	—
Primax AE (Cayman) Holdings Ltd. (Note)	0	0	0	0	0	0	0	—

Note: The Company remitted funds into Primax AE (Cayman) Holdings Ltd. in January 2018.



(2) Affiliated company's consolidated financial statements:

- (1) Declaration of the affiliated company's consolidated financial statements: refer to "The 2017 consolidated financial statements and notes (A) had been audited by the CPAs" under Financial Review.
- (2) Independent Auditor's Report on the affiliated company's consolidated financial statements: refer to "The 2017 consolidated financial statements and notes (A) had been audited by the CPAs" under Financial Review.

(3) Relations Report: Not applicable

**2. The process of private placement in the most recent year and as of the printing date of the annual report: None**

**3. The disposition of the Company's stock shares by the subsidiaries in the most recent year and as of the printing date of the annual report: None**

**4. Other supplementary information: None**

**5. The occurrence of the events affecting shareholders' equity or securities price as defined in Article 36, Paragraph 3 Section 2 of Securities Exchange Act in the most recent year and as of the printing date of the annual report: None**

## 8、Financial Review

# 1. The condensed balance sheet and consolidated income statement of the last five years

## (1) Condensed Consolidated Balance Sheet - International Financial Reporting Standards

Unit: NT\$1,000

Item	Year	Financial Summary for The Last Five years (Note 1)				
		2013	2014	2015	2016	2017
Current assets		17,385,420	23,078,336	30,413,161	27,799,554	29,141,420
Property, plant and equipment		3,389,048	3,935,145	6,284,023	4,717,422	4,437,684
Intangible assets		46,479	2,916,644	3,322,191	2,673,670	2,730,188
Other assets		769,975	1,093,648	1,712,358	1,931,403	1,465,851
Total assets		21,590,922	31,023,773	41,731,733	37,122,049	37,775,143
Current liabilities	Before distribution	13,828,775	19,254,757	26,154,964	22,801,219	23,114,653
	After distribution	14,175,880	20,045,864	27,082,897	23,913,105	24,544,721
Non-current liabilities		220,580	1,460,269	2,660,184	2,076,372	1,678,688
Total liabilities	Before distribution	14,049,355	20,715,026	28,815,148	24,877,591	24,793,341
	After distribution	14,396,460	21,506,133	29,743,081	25,989,477	26,223,409
Equity attributable to Shareholders of the Parent		7,541,567	9,150,513	10,430,381	10,999,724	11,385,272
Capital stock		4,339,529	4,385,481	4,427,051	4,424,367	4,459,968
Capital surplus		648,747	673,543	777,368	791,466	1,232,490
Retained earnings	Before distribution	2,485,712	3,686,641	4,660,556	5,665,353	6,087,685
	After distribution	2,138,607	2,895,534	3,732,623	4,553,467	4,657,617
Other equity		67,579	404,848	565,406	118,538	(394,871)
Treasury stock		—	—	—	—	—
Non-controlling Interests		—	1,158,234	2,486,204	1,244,734	1,596,530
Total shareholders' equity	Before distribution	7,541,567	10,308,747	12,916,585	12,244,458	12,981,802
	After distribution	7,194,462	9,517,640	11,988,652	11,132,572	11,551,734

Note 1: The information from 2013 to 2017 has been audited.

## (2) Condensed Proprietary Balance Sheet - International Financial Reporting Standards

Unit: NT\$1,000

Item	Year	Financial Summary for The Last Five years (Note 1)				
		2013	2014	2015	2016	2017
Current assets		10,459,628	13,197,595	16,329,746	16,123,543	12,698,756
Investments accounted for using equity method		4,745,311	8,596,698	10,088,961	9,317,894	10,287,105
Property, plant and equipment		63,517	61,287	65,554	68,785	69,036
Intangible assets		46,479	37,997	29,514	22,966	18,351
Other assets		429,204	659,461	1,182,141	1,551,115	1,055,636
Total assets		15,744,139	22,553,038	27,695,916	27,084,303	24,128,884
Current liabilities	Before distribution	8,002,029	12,157,266	15,204,972	13,579,780	10,889,520
	After distribution	8,349,134	12,948,373	16,132,905	14,691,666	12,319,588
Non-current liabilities		200,543	1,245,259	2,060,563	2,504,799	1,854,092
Total liabilities	Before distribution	8,202,572	13,402,525	17,265,535	16,084,579	12,743,612
	After distribution	8,549,677	14,193,632	18,193,468	17,196,465	14,173,680
Shareholders' equity		7,541,567	9,150,513	10,430,381	10,999,724	11,385,272
Capital stock		4,339,529	4,385,481	4,427,051	4,424,367	4,459,968
Capital surplus		648,747	673,543	777,368	791,466	1,232,490
Retained earnings	Before distribution	2,485,712	3,686,641	4,660,556	5,665,353	6,087,685
	After distribution	2,138,607	2,895,534	3,732,623	4,553,467	4,657,617
Other equities		67,579	404,848	565,406	118,538	(394,871)
Treasury stock		—	—	—	—	—
Total shareholders' equity	Before distribution	7,541,567	9,150,513	10,430,381	10,999,724	11,385,272
	After distribution	7,194,462	8,359,406	9,502,448	9,887,838	9,955,204

Note 1: The information from 2013 to 2017 has been audited.

## (3) Condensed Consolidated Comprehensive Income Statement - International Financial Reporting Standards

Unit: NT\$1,000

Item	Year	Financial Summary for The Last Five years (Note 1)				
		2013	2014	2015 (restated)	2016	2017
Operating revenue		42,319,988	52,239,777	63,538,187	64,329,462	60,741,692
Gross profit		3,752,695	6,218,799	6,743,265	7,267,187	7,480,007
Net operating income		694,444	1,829,742	2,106,868	2,373,471	2,199,905
Non-operating income and expenses		216,308	217,839	311,034	390,981	647,675
Income before income taxes		910,752	2,047,581	2,417,902	2,764,452	2,847,580
Net income from continuing operations		668,554	1,608,967	1,786,893	1,986,766	2,168,981
Loss from discontinued operations		—	—	30,042	61,896	—
Net income		668,554	1,608,967	1,816,935	2,048,662	2,168,981
Other comprehensive income (after tax)		239,067	342,273	225,310	(547,079)	(445,910)
Total comprehensive income		907,621	1,951,240	2,042,245	1,501,583	1,723,071
Net income attributable to stockholders of the Parent		668,548	1,544,690	1,773,122	1,934,070	2,057,415
Net income attributable to non-controlling interests		6	64,277	43,813	114,592	111,566
Total comprehensive income attributable to stockholders of the Parent		907,589	1,871,224	1,987,738	1,432,480	1,606,886
Total comprehensive income attributable to non-controlling interests		32	80,016	54,507	69,103	116,185
Earnings per share (Note 2)		1.55	3.57	4.06	4.4	4.67

Note 1: The information from 2013 to 2017 has been audited.

Note 2: Basic earnings per share.

## (4) Condensed Proprietary Comprehensive Income Statement - International Financial Reporting Standards

Unit: NT\$1,000

Item	Year	Financial Summary for The Last Five years (Note 1)				
		2013	2014	2015	2016	2017
Operating revenue		37,257,934	42,356,385	51,638,181	45,739,783	35,023,563
Gross profit		2,471,611	2,665,779	2,934,548	3,633,341	2,237,909
Net operating income		737,781	753,349	926,670	1,549,861	226,352
Non-operating income and expenses		121,510	879,985	1,007,253	797,663	1,952,481
Income before income taxes		859,291	1,633,334	1,933,923	2,347,524	2,178,833
Net income from continuing operations		668,548	1,544,690	1,773,122	1,934,070	2,057,415
Loss from discontinued operations		—	—	—	—	—
Net income		668,548	1,544,690	1,773,122	1,934,070	2,057,415
Other comprehensive income (after tax)		239,041	326,534	214,616	(501,590)	(450,529)
Total comprehensive income		907,589	1,871,224	1,987,738	1,432,480	1,606,886
Earnings per share (Note 2)		1.55	3.57	4.06	4.4	4.67

Note 1: The information from 2013 to 2017 has been audited.

Note 2: Basic earnings per share.

## (5) Auditors' Opinions from 2013 to 2017

Year	Accounting Firm	CPA	Audit Opinion
2013	KPMG	Wu, Mei-Pin and Chen, Cheng-Chien	Unqualified opinion
2014	KPMG	Wu, Mei-Pin and Chen, Cheng-Chien	Modified unqualified opinion
2015	KPMG	Huang, Yung-Hua and Yu, Chi-Lung	Modified unqualified opinions
2016	KPMG	Huang, Yung-Hua and Yu, Chi-Lung	Unqualified opinion
2017	KPMG	Wu, Mei-Pin and Huang, Yung-Hua	Unqualified opinion



## 2. The financial analysis of the last five years

### (1) Financial Analysis - International Financial Reporting Standards - Consolidated

Analysis items		The financial analysis of the last five years				
		2013	2014	2015 (restated)	2016	2017
Financial structure (%)	Debit ratio	65.07	66.77	69.05	67.02	65.63
	Ratio of long-term fund to property, plant and equipment	229.04	299.07	247.88	303.57	330.36
Solvency (%)	Current ratio	125.72	119.86	116.28	121.92	126.07
	Quick ratio	93.98	92.42	86.61	90.80	94.40
	Times interest earned (times)	53.34	31.76	17.52	31.55	88.06
Operating Performance	Account receivable turnover (times)	5.65	5.72	5.11	4.59	4.56
	Days sales outstanding	64.60	63.81	71.43	79.52	80.04
	Inventory turnover days (times)	8.39	10.26	9.34	8.14	7.91
	Account payable turnover (times)	3.86	3.99	3.62	3.20	3.20
	Average day in sales	43.52	35.58	39.08	44.84	46.14
	Property, plant and equipment turnover (times)	11.74	14.26	12.44	11.69	13.27
	Total assets turnover (times)	2.03	1.99	1.75	1.63	1.62
	Return on total assets (%)	3.28	6.33	5.33	5.39	5.86
Profitability	Return on shareholders' equity (%)	9.06	18.03	15.65	16.28	17.20
	Pre-tax income to paid-in capital (%)	21.01	46.69	54.62	62.48	63.85
	Net margin (%)	1.58	3.08	2.86	3.18	3.57
	Earnings per share (NT\$)	1.55	3.57	4.06	4.40	4.67
Cash flow	Cash flow ratio (%)	21.63	17.42	19.20	9.95	14.76
	Cash flow adequacy ratio (%)	159.46	179.72	132.27	128.08	131.73
	Cash reinvestment ratio (%)	19.76	21.34	23.31	7.71	12.45
Leverage	Operating leverage	2.60	1.65	1.64	1.66	1.69
	Financial leverage	1.03	1.04	1.07	1.04	1.02

Explain the changes in financial ratios over the last two years.  
(It is not necessary to analyze the changes for less than 20%)

1. Times interest earned: This ratio moved upward in 2017 mainly because of the decrease of interest expenses.
2. Cash flow ratio: This ratio moved upward in 2017 mainly because of the increase of net cash inflow from operating activities.
3. Cash reinvestment ratio: This ratio moved upward in 2017 mainly because of the increase of net cash inflow from operating activities.

### (2) Financial Analysis - International Financial Reporting Standards - Proprietary

Analysis items		The financial analysis of the last five years				
		2013	2014	2015	2016	2017
Financial structure (%)	Debit ratio	52.10	59.43	62.34	59.39	52.81
	Ratio of long-term fund to property, plant and equipment	12,189.04	16,962.44	19,054.43	19,632.95	19,177.48
Solvency (%)	Current ratio	130.71	108.56	107.40	118.73	116.61
	Quick ratio	108.15	96.38	90.46	101.67	96.86
	Times interest earned (times)	52.96	27.92	37.23	74.85	202.37

Analysis items		The financial analysis of the last five years				
		2013	2014	2015	2016	2017
Operating Performance	Account receivable turnover (times)	5.57	5.42	5.15	4.76	4.95
	Days sales outstanding	65.53	67.34	70.87	76.68	73.74
	Inventory turnover days (times)	18.68	24.45	24.29	17.38	14.83
	Account payable turnover (times)	6.11	5.63	5.03	3.92	3.54
	Average day in sales	19.54	14.93	15.03	21.00	24.61
	Property, plant and equipment turnover (times)	614.59	678.77	814.22	680.96	508.25
	Total assets turnover (times)	2.49	2.21	2.06	1.67	1.37
Profitability	Return on total assets (%)	4.55	8.33	7.23	7.16	8.07
	Return on shareholders' equity (%)	9.05	18.51	18.11	18.05	18.38
	Pre-tax income to paid-in capital (%)	19.8	37.24	43.68	53.06	48.85
	Net margin (%)	1.79	3.65	3.43	4.23	5.87
	Earnings per share (NT\$)	1.55	3.57	4.06	4.40	4.67
Cash flow	Cash flow ratio (%)	12.33	12.46	6.82	29.22	4.15
	Cash flow adequacy ratio (%)	103.17	192.99	103.65	171.89	151.46
	Cash reinvestment ratio (%)	4.31	11.06	2.03	23.71	(5.05)
Leverage	Operating leverage	1.06	1.05	1.04	1.02	1.18
	Financial leverage	1.02	1.09	1.06	1.02	1.05

Explain the changes in financial ratios over the last two years.  
(It is not necessary to analyze the changes for less than 20%)

1. Times interest earned: This ratio moved upward in 2017 mainly because of the decrease of interest expenses.
2. Property, plant and equipment turnover: This rate moved downward in 2017 mainly because of the decline in sales.
3. Net margin: The margin moved upward in 2017 mainly because of the increase of net income resulting from the disposal of available-for-sale financial assets.
4. Cash flow ratio: This ratio moved downward in 2017 mainly because of the decrease of net cash inflow from operating activities.
5. Cash reinvestment ratio: This ratio moved downward in 2017 mainly because of the decrease of net cash inflow from operating activities, coupled with the increase of cash dividend.

#### 1. Financial structure

- (1) Debit ratio = Total liabilities / Total assets
- (2) Ratio of Long-term fund to property, plant and equipment = (Shareholders' equity + long-term liabilities) / Net property, plant and equipment

#### 2. Solvency

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets - Inventories - Prepaid expenses) / Current liabilities
- (3) Times Interest Earned = Earnings before interest and taxes / Interest expenses

#### 3. Operating Performance

- (1) Receivables (including accounts receivable and notes receivable resulting from business operations) turnover = Net sales / Average receivable (including accounts receivable and notes receivable resulting from business operation) balance
- (2) Days sales outstanding = 365 / Receivables turnover
- (3) Inventory turnover = Cost of goods sold / Average inventory
- (4) Payables (including accounts payable and notes payable resulting from business operations) turnover = Cost of goods sold / Average payable (including accounts payable and notes payable resulting from business operations) balance
- (5) Average day in sales = 365 / Average Inventory turnover
- (6) Property, plant and equipment turnover = Net sales / Average net property, plant and equipment
- (7) Total assets turnover = Net sales / Average total assets

#### 4. Profitability

- (1) Return on total assets = (Net income + Interest expense  $\times$  (1 - tax rate)) / Average total assets
- (2) Return on shareholders' equity = Net income / Average shareholders' equity
- (3) Net margin = Net income / Net sales
- (4) Earnings per share = (Net income - preferred stock dividend) / Weighted average number of shares outstanding

#### 5. Cash flows

- (1) Cash flow ratio = Net cash flow from operating activities / Current liabilities
- (2) Cash flow adequacy ratio = Five-year sum of cash from operating activities / Five-year sum of capital expenditures, inventory additions, and cash dividend
- (3) Cash reinvestment ratio = (Net cash flow from operating activities - cash dividends) / (Gross property, plant and equipment + long-term investments + other noncurrent assets + working capital)

#### 6. Leverage:

- (1) Operating leverage = (Net sales - variable costs) / Net operating income
- (2) Financial leverage = Net operating income / (Net operating income - interest expenses)

### 3. The Audit Committee's review report on the 2017 financial statements

#### The Audit Committee's review report

The Board of Directors has prepared the Company's 2017 Business Report, Financial Statements, and proposal for distribution of earnings. The CPA firm of KPMG was retained to audit Primax's Financial Statements and has issued an audit report relating to the Financial Statements.

The Business Report, Financial Statements, and proposal for distribution of earnings have been audited and determined by the Audit Committee members of PRIMAX Electronics Limited, and in compliance with the Company Act and other applicable laws and regulations. According to Article 219 of the Company Act, we hereby submit this report.

PRIMAX Electronics Limited - Shareholders' Meeting

Chairman of the Audit Committee:

Wei, Yung Tu  
March 13 2018



### 4. The impact of the financial difficulties of the Company and the affiliated companies, if any, on the Company's financial position in the most recent year and as of the printing date of the annual report: None



### 5. The 2017 consolidated financial statements and notes (A) had been audited by the CPAs



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

**PRIMAX ELECTRONICS LTD.  
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2017 and 2016  
(With Independent Auditors' Report Thereon)**

Address: No. 669, Ruey Kuang Road, Neihu, Taipei  
Telephone: (02)2798-9008

The auditors' report and the accompanying consolidated 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 consolidated financial statements, the Chinese version shall prevail.

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## Representation Letter

The entities that are required to be included in the combined financial statements of PRIMAX ELECTRONICS LTD. as of and for the year ended December 31, 2017 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, “Consolidated and Separate Financial Statements.” In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, PRIMAX ELECTRONICS LTD. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: PRIMAX ELECTRONICS LTD.  
Chairman: LIANG LI SHENG  
Date: March 13, 2018

## Independent Auditors’ Report

To the board of directors of PRIMAX ELECTRONICS LTD.:

### Opinion

We have audited the consolidated financial statements of PRIMAX ELECTRONICS LTD. and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

### 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 Consolidated Financial Statements section of our report. We are independent of the Group 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 subsidiaries. Those financial statements were audited by other auditors. Therefore, our opinion, insofar as it relates to those subsidiaries, is based solely on the reports of the other auditors. As of December 31, 2017 and 2016, the assets of these subsidiaries constitute 30% and 14%, respectively, of the consolidated total assets. For the years ended December 31, 2017 and 2016, the operating revenue of these subsidiaries constitute 34% and 14%, respectively, of the consolidated operating revenue.

PRIMAX ELECTRONICS LTD. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unmodified opinion with other matter paragraph.



Key Audit Matters

Key audit matters are those matters that, in our professional judgments, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, 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(h) “Inventories”, Note 5 “Significant accounting assumptions and judgments, and major sources of estimation uncertainty”, and Note 6(e) “Inventories” of the consolidated financial statements.

Description of key audit matter:

Inventories of the Group 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 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, 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 Group; 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 the subsequent period to assess whether the allowance for inventories are reasonable.

In addition, the consolidated financial statements of certain subsidiaries were audited by other auditors, therefore, we issued audit instructions to their auditors as guidelines to communicate the above key audit matters with them and obtained the feedbacks required in the audit instructions.

2. Impairment assessment of intangible assets

Please refer to Note 4(n) “Impairment— non-financial assets”, Note 5 “Significant accounting assumptions and judgments, and major sources of estimation uncertainty”, and Note 6(k) “Intangible assets” of the consolidated financial statements.

Description of key audit matter:

In 2014, PRIMAX ELECTRONICS LTD. acquired Tymphany Worldwide Enterprises Ltd. through its subsidiary, Diamond (Cayman) Holdings Ltd., and recognized its goodwill, technologies and customer relationships as intangible assets. Due to the rapid industrial transformation, the assessment of impairment contains estimation uncertainty. Therefore, the assessment of impairment of intangible assets is one of the key audit matters for our audit.

How the matter was addressed in our audit:

The principal audit procedures on the assessment of impairment of intangible assets included: evaluating the identification of cash generating units and any indication of impairment relating to intangible assets made by the management; acquiring intangible evaluation reports from external expert engaged by the Group; 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 consolidated financial reports.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Group’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 Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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 consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

The auditors’ report and the accompanying consolidated 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 consolidated financial statements, the Chinese version shall prevail.

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

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current assets:</b>				
1100 Cash and cash equivalents (note 6(a))	\$ 7,821,011	21	6,359,916	17
1110 Current financial assets at fair value through profit or loss (note 6(b))	141,151	-	141,317	-
1170 Notes and accounts receivable, net (note 6(d))	13,014,207	35	13,603,873	37
1180 Accounts receivable from related parties, net (notes 6(d) and 7)	105,911	-	102,841	-
1200 Other receivables, net (note 6(d))	737,687	2	495,392	2
1310 Inventories (note 6(e))	6,791,093	18	6,670,547	18
1470 Other current assets	530,360	1	425,668	1
	29,141,420	77	27,799,554	75
<b>Non-current assets:</b>				
1523 Available-for-sale financial assets – non-current (notes 6(c) and (g))	402,997	1	887,801	2
1600 Property, plant and equipment (note 6(i))	4,437,684	12	4,717,422	13
1760 Investment property (note 6(i))	35,214	-	35,677	-
1780 Intangible assets (note 6(k))	2,730,188	7	2,673,670	7
1840 Deferred tax assets (note 6(p))	548,995	1	570,205	2
1985 Long-term prepaid rents	217,520	1	264,014	1
1990 Other non-current assets (note 8)	261,125	1	173,706	-
	8,633,723	23	9,322,495	25
<b>Total assets</b>	<u>\$ 37,775,143</u>	<u>100</u>	<u>\$ 37,122,049</u>	<u>100</u>
<b>Liabilities and Equity</b>				
<b>Current liabilities:</b>				
Short-term borrowings (note 6(l))	\$ 995,638	3	-	-
Notes and accounts payable	16,350,178	43	16,892,918	46
Current financial liabilities at fair value through profit or loss (note 6(b))	103,107	-	150,430	-
Other payables	3,991,128	11	3,878,606	10
Salary payable (note 6(r))	1,105,153	3	1,146,183	3
Other current liabilities	433,894	1	350,860	1
Long-term borrowings, current portion (note 6(m))	135,555	-	382,222	1
	23,114,653	61	22,801,219	61
<b>Non-current liabilities:</b>				
Long-term borrowings (note 6(m))	83,333	-	218,889	1
Long-term deferred revenue (note 6(i))	1,039,581	3	1,408,138	4
Other non-current liabilities (notes 6(o) and (p))	555,774	2	449,345	1
	1,678,688	5	2,076,372	6
	24,793,341	66	24,877,591	67
<b>Total liabilities</b>	<u>44,566,883</u>	<u>12</u>	<u>4,421,343</u>	<u>12</u>
<b>Equity attributable to owners of parent:</b>				
Ordinary shares (note 6(q))	3,085	-	3,024	-
Capital collected in advance (note 6(q))	1,232,490	3	791,466	2
Capital surplus (notes 6(q) and (r))	982,041	3	788,634	2
Legal reserve (note 6(q))	97,300	-	97,300	-
Special reserve (note 6(q))	5,008,344	13	4,779,419	13
Unappropriated retained earnings (note 6(q))	(394,871)	(1)	118,538	-
Other equity interest	1,596,530	4	1,244,734	4
<b>Non-controlling interests</b> (note 6(h))	<u>12,981,802</u>	<u>34</u>	<u>12,244,458</u>	<u>33</u>
<b>Total equity</b>	<u>\$ 37,775,143</u>	<u>100</u>	<u>\$ 37,122,049</u>	<u>100</u>
<b>Total liabilities and equity</b>				



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

Consolidated 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)

		2017		2016	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(t) and 7)	\$ 60,741,692	100	64,329,462	100
5000	Operating costs (notes 6(e), (o), (r), (u) and 12(a))	53,261,685	88	57,062,275	89
	Gross profit	7,480,007	12	7,267,187	11
	Operating expenses (notes 6(f), (o), (r), (u) and 12(a)):				
6100	Selling expenses	1,460,339	2	1,555,372	2
6200	Administrative expenses	1,454,789	2	1,134,095	2
6300	Research and development expenses	2,364,974	4	2,204,249	3
	Total operating expenses	5,280,102	8	4,893,716	7
	Net operating income	2,199,905	4	2,373,471	4
	Non-operating income and expenses:				
7010	Other income (note 6(v))	143,367	-	149,924	-
7020	Other gains and losses (notes 6(c), (g) and (w) and 7)	541,030	1	331,952	-
7050	Finance costs	(36,722)	-	(90,895)	-
	Total non-operating income and expenses	647,675	1	390,981	-
	Profit from continuing operations before tax	2,847,580	5	2,764,452	4
7950	Less: income tax expense (note 6(p))	678,599	1	777,686	1
	Profit from continuing operations	2,168,981	4	1,986,766	3
8100	Profit from discontinued operations, net of tax (note 12(b))	-	-	61,896	-
	Profit	2,168,981	4	2,048,662	3
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 (note 6(o))	(5,909)	-	(1,340)	-
8349	Income tax expense related to items that may not be reclassified to profit or loss	-	-	-	-
		(5,909)	-	(1,340)	-
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign operation’s financial statements	(108,024)	-	(656,445)	(1)
8362	Unrealized gains on available-for-sale financial assets (notes 6(c) and (x))	(331,977)	(1)	110,706	-
8399	Income tax expense related to items that may be reclassified to profit or loss	-	-	-	-
	Components of other comprehensive income that may be reclassified to profit or loss	(440,001)	(1)	(545,739)	(1)
8300	Other comprehensive income after tax	(445,910)	(1)	(547,079)	(1)
	Comprehensive income	\$ 1,723,071	3	1,501,583	2
	Profit attributable to:				
8610	Owners of parent	\$ 2,057,415	4	1,934,070	3
8620	Non-controlling interests (note 6(h))	111,566	-	114,592	-
		\$ 2,168,981	4	2,048,662	3
	Comprehensive income attributable to:				
8710	Owners of parent	\$ 1,606,886	3	1,432,480	2
8720	Non-controlling interests (note 6(h))	116,185	-	69,103	-
		\$ 1,723,071	3	1,501,583	2
	Earnings per share (note 6(s))				
9710	Basic earnings per share (NT dollars)				
	Profit from continuing operations	\$ 4.67		4.36	
	Profit from discontinued operations	-		0.04	
	Profit per share	\$ 4.67		4.40	
9810	Diluted earnings per share (NT dollars)				
	Profit from continuing operations	\$ 4.63		4.32	
	Profit from discontinued operations	-		0.04	
	Profit per share	\$ 4.63		4.36	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated and Report Originally Issued in Chinese)  
PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES  
Consolidated Statements of Changes in Equity  
For the years ended December 31, 2017 and 2016  
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										
	Share capital					Retained earnings					Total other equity interest
	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	Total equity attributable to owners of parent	Non-controlling interests
<b>Balance at January 1, 2016</b>											
	\$ 4,411,877	15,174	777,368	611,322	97,300	3,951,934	351,045	294,760	(80,399)	10,430,381	2,486,204
Profit	-	-	-	-	-	1,934,070	-	-	-	1,934,070	114,592
Other comprehensive income	-	-	-	-	-	(1,340)	(610,956)	110,706	-	(501,590)	(45,489)
Comprehensive income	-	-	-	-	-	1,932,730	(610,956)	110,706	-	1,432,480	69,103
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	-	3,596
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	-	-	-	-	-	-	-	-
Derecognize non-controlling interests due to dispose subsidiaries	-	-	-	-	-	-	-	-	-	-	-
<b>Balance at December 31, 2016</b>											
Profit	4,421,343	3,024	791,466	788,634	97,300	4,779,419	(259,911)	405,466	(27,017)	10,999,724	1,244,734
Other comprehensive income	-	-	-	-	-	2,057,415	(112,643)	(331,977)	-	2,057,415	111,566
Comprehensive income	-	-	-	-	-	(5,909)	(112,643)	(331,977)	-	(450,529)	4,619
Appropriation and distribution of retained earnings:	-	-	-	-	-	2,051,506	(112,643)	(331,977)	-	1,606,886	116,185
Legal reserve	-	-	-	193,407	-	(193,407)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	(1,111,886)	-	-	-	(1,111,886)	-
Changes in shares of investment accounted for using equity method	-	-	299,514	-	-	(517,288)	-	-	-	(217,774)	-
Issuance of restricted employee stock	30,000	-	122,030	-	-	-	-	-	(152,030)	-	-
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	2,604
Exercise of employee stock option	-	15,892	-	-	-	-	-	-	-	15,892	-
Issuance of ordinary shares for employee stock options and abandonment	-	(15,831)	11,289	-	-	-	-	-	-	1,938	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	233,007	-
<b>Balance at December 31, 2017</b>	<b>\$ 4,456,883</b>	<b>3,085</b>	<b>1,232,490</b>	<b>982,041</b>	<b>97,300</b>	<b>5,008,344</b>	<b>(372,554)</b>	<b>73,489</b>	<b>(95,806)</b>	<b>11,385,272</b>	<b>1,596,530</b>
											<b>12,981,802</b>

See accompanying notes to consolidated financial statements.

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

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES****Consolidated Statements of Cash Flows****For the years ended December 31, 2017 and 2016****(Expressed in Thousands of New Taiwan Dollars)**

	2017	2016
<b>Cash flows from (used in) operating activities:</b>		
Profit from continuing operations before tax	\$ 2,847,580	2,764,452
Profit from discontinued operations before tax	-	105,225
Profit before tax	2,847,580	2,869,677
<b>Adjustments:</b>		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	1,513,201	1,650,235
Losses related to inventories	67,188	947,465
Provision (reversal of provision) for bad debt expense and sales returns and discounts	(10,392)	137,481
Gain from disposal of subsidiaries	-	(248,006)
Gain from disposal of available-for-sale financial assets	(330,887)	(140,969)
Impairment losses on property, plant and equipment	-	86,850
Interest expense	32,707	98,693
Interest income	(110,012)	(126,400)
Compensation cost of share-based payment	93,096	46,778
Loss from disposal of property, plant and equipment	77,548	14,814
Total adjustments to reconcile profit (loss)	1,332,449	2,466,941
<b>Changes in operating assets and liabilities:</b>		
Financial assets at fair value through profit or loss — current	166	(53,611)
Notes and accounts receivable	1,002,173	(1,165)
Accounts receivable from related parties	(3,070)	(47,846)
Other receivable — current and non-current	(259,689)	(132,548)
Inventories	224,508	(691,918)
Other current assets	60	(185,378)
Deferred tax assets	-	(223,244)
Other operating assets	1,131	(6,288)
Changes in operating assets	965,279	(1,341,998)
Notes and accounts payable	(856,204)	(1,271,222)
Salary payable	(39,092)	(80,924)
Other payables	220,175	224,411
Other current liabilities	9,942	104,737
Other operating liabilities	(412,083)	115,582
Changes in operating liabilities	(1,077,262)	(907,416)
Total changes in operating assets and liabilities	(111,983)	(2,249,414)
Total adjustments	1,220,466	217,527
Cash inflow generated from operations	4,068,046	3,087,204
Interest received	110,012	126,400
Interest paid	(32,639)	(98,448)
Income taxes paid	(733,254)	(846,899)
Net cash flows from operating activities	3,412,165	2,268,257
<b>Cash flows from (used in) investing activities:</b>		
Net cash flow from acquisition of subsidiaries (minus cash acquired)	(646,638)	-
Proceeds from disposal of subsidiaries (minus subsidiaries' cash)	-	108,980
Changes in non-controlling interests	25,366	-
Acquisition of property, plant and equipment	(1,226,326)	(1,107,108)
Proceeds from disposal of property, plant and equipment	24,358	72,617
Acquisition of unamortized expense	(89,783)	(50,813)
Acquisition of available-for-sale financial assets	(21,045)	-
Proceeds from disposal of available-for-sale financial assets	497,186	220,270
Dividends received	23,325	14,692
Other investing activities	(38,837)	24,063
Net cash flows used in investing activities	(1,452,394)	(717,299)
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term borrowings	995,638	(974,439)
Decrease in long-term borrowings	(382,223)	(759,456)
Increase in guarantee deposits	30,930	27,566
Cash dividends	(1,111,886)	(927,933)
Exercise of employee share options	15,892	19,097
Net cash flows used in financing activities	(451,649)	(2,615,165)
Effect of exchange rate changes on cash and cash equivalents	(47,027)	(199,257)
Net increase (decrease) in cash and cash equivalents	1,461,095	(1,263,464)
Cash and cash equivalents at beginning of year	6,359,916	7,623,380
Cash and cash equivalents at end of year	\$ 7,821,011	6,359,916

See accompanying notes to consolidated financial statements.

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

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES****Notes to the Consolidated 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 consolidated financial statements of the Company as at and for the year ended December 31, 2017, comprised the Company and subsidiaries (together referred to as “the Group”). The major business activities of the Group were the manufacture and sale of multi-function printers, scanners, digital camera modules, computer mice, keyboards, track pads, mobile phone accessories, consumer electronics products, shredders, amplifiers, speakers, audio systems and industrial automation parts. Please refer to note 14 for further information.

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 consolidated financial statements:**

The consolidated 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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Presentation of Financial Statements-Disclosure Initiative”	January 1, 2016
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 Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated 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 Group can, and therefore, elected to early adopt the amendments to IFRS 9 “Prepayment features with negative compensation”:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated 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 Group 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 Group had equity investments classified as available-for-sale with a fair value of 402,997 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Group 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 Group estimated the application of IFRS 9’s classification requirements on January 1, 2018 resulting in a decrease of 38,042 thousand in the other equity interest, as well as an increase of 38,042 thousand in retained earnings.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

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.

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; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group 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 Group’s assessment included an analysis to identify data gaps against current processes and the Group 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 Group 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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

- 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.

(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 Group 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 Group believes that there would not be any material impact on its consolidated financial statements.

2) Transition

The Group 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 Group 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.

(Continued)



**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (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:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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 or Settlement"	January 1, 2019

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

<b>Issuance / Release</b>	<b>Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
	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"> <li>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.</li> <li>A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul>

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

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (4) **Summary of significant accounting policies:**

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

- (a) Statement of compliance

These consolidated annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC ("the IFRSs endorsed by the FSC").

- (b) Basis of preparation

- (i) Basis of measurement

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

- Derivative financial instruments at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Liabilities for cash-settled share-based payment are measured at fair value; and
- The defined benefit liabilities are recognized as plan assets less the present value of the defined benefit obligation.

- (ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated 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) Basis of consolidation

- (i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change and any consideration received or paid are adjusted to equity attributable to stockholders of the Company.

When the Group loses control of a subsidiary, it shall derecognize assets (including goodwill), liabilities and non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost; and shall remeasure the investment retained in the former subsidiary at its fair value at the date when control is lost. The gain or loss arising from derecognition is the difference between: (1) the total amounts of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost; and (2) the total amounts of the assets (including goodwill), liabilities and non-controlling interests of the subsidiary at their carrying amounts at the date when control is lost. The Group shall account for all amounts previously recognized in other comprehensive income, in relation to that subsidiary, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

(ii) List of subsidiaries in the consolidated financial statements

The details of the subsidiaries included in the consolidated financial statements are as follows:

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2017	December 31, 2016	
The Company	Primax Industries (Cayman Holding) Ltd. (Primax Cayman)	Holding company	100.00 %	100.00 %	
The Company	Primax Technology (Cayman Holding) Ltd. (Primax Tech.)	Holding company	100.00 %	100.00 %	
The Company	Destiny Technology Holding Co., Ltd. (Destiny BVI.)	Holding company	100.00 %	100.00 %	
The Company	Primax Destiny Co., Ltd. (Destiny Japan)	Market development and customer service	100.00 %	100.00 %	
The Company	Diamond (Cayman) Holdings Ltd. (Diamond)	Holding company	100.00 %	100.00 %	
The Company	Gratus Technology Corp. (Gratus Tech.)	Market development and customer service	100.00 %	100.00 %	
The Company	Global TEK Fabrication Co., Ltd. (Global TEK)	Manufacture and sale of sophisticated machinery components, automotive parts, industrial automation parts, communication parts and aerospace components	- %	- %	(note 1)
Primax Cayman	Primax Industries (Hong Kong) Ltd. (Primax HK)	Holding company and customer service	100.00 %	100.00 %	

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2017	December 31, 2016	
Diamond	Tymphany Worldwide Enterprises Ltd. (TWEL)	Holding company	100.00 %	70.00 %	(note 2)
Global TEK	Global TEK Co., Ltd. (GT)	Manufacture of sophisticated machinery components and automotive parts	- %	- %	(note 1)
Global TEK	Global TEK Fabrication Co., Ltd. (Samoa) (GTF-S)	Holding company	- %	- %	(note 1)
Primax HK and Primax Tech.	Dongguan Primax Electronic & Telecommunication Products Ltd. (PCH2)	Manufacture of multifunctional peripherals, computer mice, mobile phone accessories, consumer electronics products, and shredders	100.00 %	100.00 %	
Primax HK	Primax Electronics (KS) Corp., Ltd. (PKS1)	Manufacture of computer, peripherals and keyboards	100.00 %	100.00 %	
Primax HK	Primax Electronics (Chongqing) Corp., Ltd. (PCQ1)	Manufacture of computer peripherals and keyboards	100.00 %	100.00 %	
Primax Tech.	Polaris Electronics Inc. (Polaris)	Sale of multi-function printers and computer peripheral devices and market development and customer service	100.00 %	100.00 %	
Destiny BVI.	Destiny Electronic Corp. (Destiny Beijing)	Research and development of computer peripheral devices and software	100.00 %	100.00 %	
TWEL	Tymphany HK Ltd. (TYM HK)	Sale of audio accessories, amplifiers and their components	- %	100.00 %	(note 3)
TWEL	Premium Loudspeakers (Hui Zhou) Co., Ltd. (Premium Hui Zhou)	Manufacture, research and development, design, and sale of audio accessories, amplifiers and their components	66.44 %	- %	(note 4)
TWEL	TYP Enterrpise, Inc. (TYP)	Market development and customer service of amplifiers and their components	- %	100.00 %	(note 5)
Premium Hui Zhou	Tymphany Acoustic Technology HK Ltd. (TYM Acoustic HK)	Research and development, design, and sale of audio accessories, amplifiers and their components and holdings	100.00 %	- %	(note 6)
Premium Hui Zhou	Dongguan Tymphany Acoustic Technology Co., Ltd. (Tymphany Dongguan)	Manufacture, research and development, design and sale of audio accessories, amplifiers and their components	100.00 %	- %	(note 7)

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2017	December 31, 2016	
TYM Acoustic HK	TYMPHANY ACOUSTIC TECHNOLOGY (UK) LIMITED (TYM UK)	Research and development, design of audio accessories, amplifiers and their components	100.00 %	- %	(note 6)
TYM Acoustic HK	Tymphany Acoustic Technology Europe, s.r.o (TYM Acoustic Europe)	Manufacture, install and repair of audio accessories and their components	100.00 %	- %	(note 8)
TYM Acoustic HK	TYP	Market development and customer service of amplifiers and their components	100.00 %	- %	(notes 5)
TYM Acoustic HK	TYM HK	Sale of audio accessories, amplifiers and their components	100.00 %	- %	(note 3)
TYM Acoustic HK	Tymphany Acoustic Technology Limited (TYM Acoustic)	Research and development, design of audio accessories, amplifiers and their components	100.00 %	- %	(note 9)
TYM HK	TYMPHANY LOGISTICS, INC (TYML)	Sale of audio accessories, amplifiers and their components	100.00 %	100.00 %	
TYM HK	Premium Huizhou	Manufacture, research and development, design and sale of audio accessories, amplifiers and their components	- %	100.00 %	(note 4)
TYM HK	Tymphany Dongguan	Manufacture, research and development, design and sale of audio accessories, amplifiers and their components	- %	100.00 %	(note 7)
Tymphany Dongguan	Dong Guan Dong Cheng Tymphany Acoustic Technology Co., Ltd. (TYDC)	Research and development, design , and sale of audio accessories, amplifiers and their components	100.00 %	100.00 %	
GT	GP Tech, Inc. (GP)	Sale of automotive parts, industrial automation parts, communication parts and aerospace components	- %	- %	(note 1)
GTF-S	Global TEK Fabrication Co., Ltd. (HK) (GTF-HK)	Holding company	- %	- %	(note 1)
GTF-S	Global TEK Co., Ltd. (Samoa) (GTS)	Holding company	- %	- %	(note 1)
GTF-HK	WUXI GLOBAL TEK FABRICATION CO., LTD. (WUXI GLOBAL TEK)	Manufacture of sophisticated machinery components	- %	- %	(note 1)

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2017	December 31, 2016	
GTS	GLOBAL TEK (XI' AN) CO., LTD. (GLOBAL TEK XI' AN)	Manufacture of industrial automation parts, communication parts and aerospace components	- %	- %	(note 1)
GTS and WUXI GLOBAL TEK	GLOBAL TEK CO. (WUXI), LTD. (GLOBAL TEK WUXI)	Manufacture of sophisticated machinery components and automotive parts	- %	- %	(note 1)

Note 1: The Board resolved to dispose 20% of the shares of Global TEK on June 21 and September 21, 2016. The disposal transaction has been settled on October 3, 2016, and the Company lost control over Global TEK on the same date.

Note 2: TWEL was incorporated in October 2013, acquiring all shares of TYM HK by issuing new ordinary shares. The Company acquired 70% of the shares of TWEL by cash through its subsidiary Diamond on January 10, 2014. Therefore, the Company indirectly acquired all shares of subsidiaries through TWEL, and included them in the consolidated financial statements from the same date. Also, the Group acquired 5.5% of the shares of TWEL by cash, and 24.5% of the shares of TWEL by exchanging the shares of Premium Huizhou on October 31, 2017.

Note 3: TYM HK was originally a 100% owned subsidiary of TWEL; however, after the restructuring of the Group in the third quarter of 2017, TYM HK became a 100% owned subsidiary of TYM Acoustic HK.

Note 4: Premium Huizhou was originally a 100% owned subsidiary of TYM HK; however, after the restructuring of the Group in the third quarter of 2017, Premium Huizhou became 100% owned subsidiary of TWEL. TWEL decreased the ownership of Premium Huizhou to 66.44% due to the shares swap, and the issuance of employee stock ownership plans in the fourth quarter of 2017.

Note 5: TYP was originally a 100% owned subsidiary of TWEL; however, after the restructuring of the Group in the third quarter of 2017, TYP became a 100% owned subsidiary of TYM Acoustic HK.

Note 6: The Company was incorporated in January 2017.

Note 7: Tymphany Dongguan was originally a 100% owned subsidiary of TYM HK; however, after the restructuring of the Group in the third quarter of 2017, Tymphany Dongguan became a 100% owned subsidiary of Premium Huizhou.

Note 8: TYM Acoustic HK acquired all shares of Bang & Olufsen s.r.o (renamed as Tymphany Acoustic Technology Europe, s.r.o. after merger) by cash on June 1, 2017.

Note 9: The Company was incorporated in December 2017.

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities 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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group'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 Group'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 Group 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 Group 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.

(e) 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.

(f) 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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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.

(g) Financial instruments

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

(i) Financial assets

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held for trading or is designated as such on initial recognition. Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in 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.

2) 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 Group'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.

(Continued)



**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

3) 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 notes and accounts receivable 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.

4) 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 Group on terms that the Group 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.

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 Group 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 trade 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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when the Group 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.

The Group 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 Group 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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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, salary payable, other payables, and loans 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 Group 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 Group presents financial assets and liabilities on a net basis when the Group 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.

(iii) Derivative financial instruments

The Group 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 are 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.

(h) 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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) Discontinued operations

A discontinued operation is a component, which is a single operating line or area, disposed or available for sale of the Group or a subsidiary acquired for resale. An operation will be classified as a discontinued operation upon disposal or when the operation meets the criteria to be classified as held for sale or held for distribution to owners, whichever comes first. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is represented as if the operation had been discontinued from the beginning of the comparative year.

(j) 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 non-operating income and expenses and it is included in other gains and losses.

(k) 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 investment use.

(Continued)



**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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 Group. 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, leasehold improvement, and additional equipment: 1 ~ 51 years
- 2) Machinery and equipment: 1 ~10 years
- 3) Office and 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.

(l) 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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(m) Intangible assets

(i) Goodwill

1) Recognition

Goodwill arising from a business combination is recognized as intangible assets.

Goodwill is measured as the aggregation of the consideration transferred (which generally is measured at fair value at the acquisition date) and the amount of any non-controlling interest in the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value).

2) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost, less accumulated amortization and any accumulated impairment losses.

(iii) Subsequent expenditure

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.

(iv) Amortization

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, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- |                           |              |
|---------------------------|--------------|
| 1) Customer relationships | 10 years     |
| 2) Technology             | 10 years     |
| 3) Trademarks             | 10 years     |
| 4) Patents                | 2.5~10 years |
| 5) 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 estimate.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(n) 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 Group 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.

The Group 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 a change 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.

Notwithstanding whether indicators exist, recoverability of goodwill is tested at least annually.

For the purpose of impairment testing, goodwill acquired in a business combination shall be allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. If the carrying amount of each of the cash-generating units exceeds the recoverable amount of the unit, impairment loss is recognized, and is allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

(o) 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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Services

The Group 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.

(p) Deferred grant revenue

Deferred grant revenue with additional conditions shall be recognized if the Group fulfills the conditions and the grant revenue becomes receivable.

Deferred grant revenue shall be recognized in profit or loss on a systematic basis in the periods in which the expenses it is to compensate are recognized. Grant revenue with conditions to compensate for the acquisition cost of an asset shall be deferred and recognized in profit or loss on a systematic basis over the useful life of the asset.

If the deferred grant revenue is to compensate for the Group's expenses that have been incurred or to supply immediate financial support to the Group and there is no related cost in the future, it shall be recognized in profit or loss when the grant revenue becomes receivable.

(q) 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 Group'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 Group'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 Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, 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 Group. An economic benefit is available to the Group 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.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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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 Group 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.

(r) 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.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.

(s) 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.

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.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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- (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 carryforward 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.

(t) Business combination

Goodwill is measured as the aggregation of the consideration transferred (which generally is measured at fair value at the acquisition date) and the amount of any non-controlling interest in the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value).

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts for the items for which the accounting is incomplete are reported in the Group's financial statements. During the measurement period, the provisional amounts recognized are retrospectively adjusted at the acquisition date, or additional assets or liabilities are recognized to reflect the new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

All the transaction costs incurred for the business combination are recognized immediately as the Group's expenses when incurred, except for the issuance of debt or equity instruments.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or other basis endorsed by the FSC.

(u) Earnings per share

The Group 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 dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee stock options, employee remuneration, and restricted stock.

(v) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

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

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC 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 assumptions, estimates and judgments. 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 consolidated 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:

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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(a) Valuation of inventories

As inventories are measured at the lower of cost or net realizable value, the Group 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) Assessment of impairment of intangible assets (including goodwill)

The assessment of impairment of intangible assets required the Group 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 Group's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit and loss. The Group 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 Group 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.

The Group 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.

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to note 6(y) 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	\$ 3,279	2,946
Checking accounts and demand deposits	6,022,395	1,761,981
Time deposits	1,795,337	4,594,989
	<u>\$ 7,821,011</u>	<u>6,359,916</u>

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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Please refer to note 6(y) for the currency risk and the interest rate risk of the Group's cash and cash equivalents.

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

(i) Details of financial instruments were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Financial assets at fair value through profit or loss – current:</b>		
<b>Derivative financial assets:</b>		
Forward exchange contracts	\$ 125,940	141,317
Foreign exchange swap contracts	15,211	-
	<u><u>\$ 141,151</u></u>	<u><u>141,317</u></u>
<b>Financial liabilities at fair value through profit or loss – current:</b>		
<b>Derivative financial liabilities:</b>		
Forward exchange contracts	\$ (69,167)	(72,909)
Foreign exchange swap contracts	(33,940)	(77,521)
	<u><u>\$ (103,107)</u></u>	<u><u>(150,430)</u></u>

(ii) The Group 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:

<b>December 31, 2017</b>			
<b>Derivative financial instruments</b>	<b>Nominal amount</b>	<b>Maturity date</b>	<b>Predetermined rate</b>
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 USD / sell CNY	USD 75,000	January 19, 2018~ April 19, 2018	6.6085~6.6677
Forward exchange contracts – buy CNY/ sell USD	USD 66,000	January 19, 2018~ April 19, 2018	6.5475~6.6875
Foreign exchange swap contracts – swap in USD/ swap out TWD	USD 103,500	January 12, 2018~ February 9, 2018	30.052~30.232
Foreign exchange swap contracts – swap in TWD / swap out USD	USD 116,000	January 5, 2018~ June 26, 2018	29.583~30.0155

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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<b>December 31, 2016</b>			
<b>Derivative financial instruments</b>	<b>Nominal amount</b>	<b>Maturity date</b>	<b>Predetermined rate</b>
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
Foreign 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(y) for the liquidity risk of the Group's financial instruments.

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Stocks listed in domestic markets	\$ -	586,404
Stocks unlisted in domestic markets	380,835	287,517
Stocks unlisted in foreign markets	22,162	13,880
	<u><u>\$ 402,997</u></u>	<u><u>887,801</u></u>

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

(ii) WK Global Investment III Ltd. refunded \$2,254 and \$4,757 to the Group due to capital reduction in April 2016 and July 2017, respectively.

(iii) The Group held 30% share of Global TEK's shares and sold 20% shares of them at \$50 per share on October 3, 2016. The Group reclassified the remaining amounted to \$275,500 to available-for-sale financial assets – non-current. Please refer to note 6(g) for further information about disposal of Global TEK's shares.

(iv) In the second quarter of 2016, the Group 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 Group 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.

(v) The Group invested \$21,045 in the unlisted company – Grove Ventures, L.P, and classified as available-for-sale financial assets in March 2017.

(vi) The unrealized gains (losses) were \$(1,090) and \$110,706 for the years ended December 31, 2017 and 2016, respectively, and were recognized as unrealized gains on available-for-sale financial assets. The Group reclassified the realized gains of Nien Made Enterprise amounted to \$330,887 in 2017 as gains from disposal.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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(vii) The Group did not provide any of the aforementioned available-for-sale financial assets as collateral.

(d) Notes and accounts receivable, and other receivables (including related parties)

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Notes receivable	\$ 175,324	3,761
Accounts receivable	13,019,199	13,798,350
Accounts receivable – related parties	105,911	102,841
Other receivables	737,687	495,392
Less: allowance for doubtful accounts	(127,640)	(99,936)
allowance for sales returns and discounts	<u>(52,676)</u>	<u>(98,302)</u>
Total	<b><u>\$ 13,857,805</u></b>	<b><u>14,202,106</u></b>

(i) The Group did not provide any of the aforementioned notes and accounts receivable, and other receivables (including related parties) as collateral.

(ii) Please refer to note 6(y) 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.

(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:

<b>December 31, 2017</b>							
<b>Buyer</b>	<b>Amount sold</b>	<b>Credit facilities</b>	<b>Cash received</b>	<b>Interest</b>	<b>Guarantee</b>	<b>Amount</b>	<b>Amount not</b>
	<b>NT\$</b>	<b>US\$ (expressed in thousand)</b>	<b>in advance</b>	<b>rate</b>	<b>(promissory note) expressed in thousands</b>	<b>derecognized</b>	<b>received</b>
			<b>NT\$</b>			<b>NT\$</b>	<b>NT\$</b>
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	<u>81,751</u>	<u>7,000</u>	-	-	-	-	81,751
	<b><u>\$ 81,751</u></b>	<b><u>96,250</u></b>	-			<b><u>-</u></b>	<b><u>81,751</u></b>

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<b>December 31, 2016</b>							
<b>Buyer</b>	<b>Amount sold</b>	<b>Credit facilities</b>	<b>Cash received</b>	<b>Interest</b>	<b>Guarantee</b>	<b>Amount</b>	<b>Amount not</b>
	<b>NT\$</b>	<b>US\$ (expressed in thousand)</b>	<b>in advance</b>	<b>rate</b>	<b>(promissory note) expressed in thousands</b>	<b>derecognized</b>	<b>received</b>
			<b>NT\$</b>			<b>NT\$</b>	<b>NT\$</b>
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	<u>449,051</u>	<u>26,000</u>	<u>404,146</u>	2.10 %	NT\$ 772,200	<u>404,146</u>	<u>44,905</u>
	<b><u>\$ 1,415,505</u></b>	<b><u>110,400</u></b>	<b><u>1,273,954</u></b>			<b><u>1,273,954</u></b>	<b><u>141,551</u></b>

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

(e) Inventories

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Raw materials	\$ 1,797,211	1,618,227
Semi-finished goods and work in process	1,351,885	1,485,837
Finished goods and merchandise	<u>3,641,997</u>	<u>3,566,483</u>
	<b><u>\$ 6,791,093</u></b>	<b><u>6,670,547</u></b>

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

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

	<b>2017</b>	<b>2016</b>
Gains and (losses) on inventory valuation	\$ 72,997	(792,757)
Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity	(66,035)	(135,888)
Losses on disposal of inventories	(90,243)	(19,737)
Gains on physical inventories, net	<u>16,093</u>	<u>7,126</u>
	<b><u>\$ (67,188)</u></b>	<b><u>(941,256)</u></b>

(f) Business combination

Based on the resolution approved during the board of directors' meeting of TWEL, one of the main subsidiaries of the Company, held on March 13, 2017, acquired all shares of Bang & Olufsen s.r.o. (renamed as TYM Acoustic Europe after merger) amounting to EUR18,000 through TYM Acoustic HK. Through this transaction, the Company will establish the market for its audio products in Europe, strengthen the cooperation with its clients and expand its technique, manufacturing process and global market. The purchase agreement was settled on June 1, 2017.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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(i) Consideration transferred

According to the share purchase agreement, the consideration transferred was EUR18,000. As of December 31, 2017, TYM Acoustic HK deposited EUR1,500 in Escrow Account based on the share purchase agreement.

The seller raised an objection against the net assets of TYM Acoustic Europe on July 31, 2017. Both the seller and the Group resolved that TYM Acoustic Europe should pay an additional amount of \$40,689 (EUR1,139) to the seller on September 5, 2017.

(ii) Obtaining control

The Company indirectly holds 66.44% of TYM Acoustic Europe's shares through TWEL. The Company has included TYM Acoustic Europe in its consolidated financial statements since the settlement date.

(iii) According to IFRSs, the fair value of net assets acquired should be measured on the acquisition date. Therefore, the Company evaluated the fair value and useful lives of intangible assets at the time of acquisition. As of the reporting date, the share purchase agreement was in accordance with the preliminary purchase price allocation, which is subject to change in the future. The Company engaged experts to evaluate its identifiable net assets, and the preliminary information was as follows:

Items	Amount
Consideration transferred	\$ 653,796
Less: fair value of identifiable net assets	475,000
Goodwill	<u>\$ 178,796</u>

(iv) The cost of acquisition

The consulting fees and on-site examination expenses of \$19,004 due to the acquisition transaction were recognized as administrative expenses in the statement of comprehensive income.

(v) Simulated operating results

Operating results of Bang & Olufsen s.r.o. were merged into the Company's consolidated comprehensive income statement since the acquisition date, which had contributed to the operating revenue and the income before tax of \$1,398,688 and \$33,264, respectively. If the acquisition had occurred on January 1, 2017, the simulated operating revenue and income before tax would have been \$61,690,924 and \$2,833,659, respectively.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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(g) Loss of control of subsidiaries

The Group held 30% shares of Global TEK's shares and sold 20% of them at \$50 per share on October 3, 2016. The total proceeds were received. The Group 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. The Group reclassified the carrying amounts of the remaining shares to available-for-sale financial asset – non-current.

The carrying amount of assets and liabilities of Global TEK and its subsidiaries on September 30, 2016 were as follow:

Cash and cash equivalents	\$ 450,518
Current financial assets at fair value through profit or loss	1,011
Notes and accounts receivable, net	684,433
Other receivables	84,738
Inventories	424,515
Other current assets	91,601
Property, plant and equipment	1,141,947
Intangible assets	509,072
Deferred tax assets – non-current	43,453
Long-term prepaid rents	97,068
Other non-current assets	13,474
Short-term borrowings	(693,050)
Notes and accounts payable	(559,790)
Other payables	(256,220)
Other current liabilities	(32,997)
Deferred tax liabilities – non-current	(119,909)
Other non-current liabilities	(6,075)
Book value of net assets	<u>\$ 1,873,789</u>

(h) Material non-controlling interests of subsidiaries

The Material non-controlling interests of subsidiaries were as follows:

Name of subsidiaries	Main operation place Business/Registered Country	Proportion of Ownership and Voting Rights Held by Non- controlling Interests	
		December 31, 2017	December 31, 2016
TWEL and its subsidiaries	Hong Kong and China/Cayman Is.	33.56 %	30 %
Global TEK and its subsidiaries	Taiwan and China/Taiwan	- %	- %

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**Notes to the Consolidated Financial Statements**

The following information on the aforementioned subsidiaries have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers. Included in these information are the fair value adjustment made during the acquisition and relevant difference in accounting principles between the Group as at the acquisition date. Intra-group transactions were not eliminated in this information.

(i) TWEL and its subsidiaries:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Current assets	\$ 10,455,985	4,510,885
Non-current assets	3,479,864	3,377,729
Current liabilities	(9,105,990)	(3,496,113)
Non-current liabilities	(72,344)	(243,387)
Net assets	<u>\$ 4,757,515</u>	<u>4,149,114</u>
Non-controlling interests	<u>\$ 1,596,530</u>	<u>1,244,734</u>
	<b>2017</b>	<b>2016</b>
Operating revenue	<u>\$ 20,473,852</u>	<u>8,902,027</u>
Profit	\$ 389,297	237,550
Other comprehensive income	122	(62,004)
Comprehensive income	<u>\$ 389,419</u>	<u>175,546</u>
Profit attributable to non-controlling interests	<u>\$ 111,566</u>	<u>71,265</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 116,185</u>	<u>52,664</u>
	<b>2017</b>	<b>2016</b>
Cash flows from operating activities	\$ 2,164,634	(572,724)
Cash flows from investing activities	(1,224,052)	(221,015)
Cash flows from financing activities	1,106,085	(607)
Effect of foreign currency exchange translation	(3,807)	(22,145)
Net increase (decrease) in cash and cash equivalents	<u>\$ 2,042,860</u>	<u>(816,491)</u>
Dividends paid to non-controlling interests	<u>\$ -</u>	<u>-</u>

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Global TEK and its subsidiaries

	<b>January to , December 2017</b>	<b>January to September, 2016</b>
Operating revenue	<u>\$ -</u>	<u>1,929,626</u>
Profit	\$ -	61,896
Other comprehensive income	-	(38,410)
Comprehensive income	<u>\$ -</u>	<u>23,486</u>
Profit attributable to non-controlling interests	<u>\$ -</u>	<u>43,327</u>
Comprehensive income attributable to non-controlling interests	<u>\$ -</u>	<u>16,439</u>
	<b>January to December, 2017</b>	<b>January to September, 2016</b>
Cash flows from operating activities	\$ -	321,226
Cash flows from investing activities	-	(161,102)
Cash flows from financing activities	-	38,022
Effect of foreign currency exchange translation	-	(26,190)
Net increase in cash and cash equivalents	<u>\$ -</u>	<u>171,956</u>
Dividends paid to non-controlling interests	<u>\$ -</u>	<u>-</u>

(i) Property, plant and equipment

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

	<b>Land</b>	<b>Buildings, leasehold improvement, and additional equipment</b>	<b>Machinery and equipment</b>	<b>Office and other equipment</b>	<b>Construction in progress and testing equipment</b>	<b>Government grants</b>	<b>Total</b>
<b>Cost or deemed cost:</b>							
Balance on January 1, 2017	\$ 134,701	3,802,758	5,672,304	510,457	347,678	(16,286)	10,451,612
Additions	-	58,945	473,923	93,159	625,190	-	1,251,217
Disposals	-	(116,139)	(375,911)	(34,088)	-	13,701	(512,437)
Acquisition from business combination	-	25,997	-	12,883	59	-	38,939
Reclassifications	-	98,776	349,984	22,678	(554,871)	-	(83,433)
Effect of movements in exchange rates	-	(60,973)	(95,646)	(7,889)	(4,267)	301	(168,474)
Balance on December 31, 2017	<u>\$ 134,701</u>	<u>3,809,364</u>	<u>6,024,654</u>	<u>597,200</u>	<u>413,789</u>	<u>(2,284)</u>	<u>10,977,424</u>

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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	Land	Buildings, leasehold improvement, and additional equipment	Machinery and equipment	Office and other equipment	Construction in progress and testing equipment	Government grants	Total
Balance on January 1, 2016	\$ 284,973	4,145,565	6,578,407	680,211	503,242	(12,731)	12,179,667
Additions	-	49,514	396,263	41,155	988,516	-	1,475,448
Disposals	-	(94,696)	(696,426)	(83,133)	(63)	-	(874,318)
Reclassifications	111,822	381,033	425,506	(12,851)	(977,213)	(4,813)	(76,516)
Disposal of subsidiaries	(262,094)	(340,019)	(461,910)	(58,963)	(133,277)	-	(1,256,263)
Effect of movements in exchange rates	-	(338,639)	(569,536)	(55,962)	(33,527)	1,258	(996,406)
Balance on December 31, 2016	<u>\$ 134,701</u>	<u>3,802,758</u>	<u>5,672,304</u>	<u>510,457</u>	<u>347,678</u>	<u>(16,286)</u>	<u>10,451,612</u>
<b>Depreciation and impairments loss:</b>							
Balance on January 1, 2017	\$ -	1,731,111	3,632,382	383,934	-	(13,237)	5,734,190
Depreciation	-	224,238	1,037,844	54,426	-	(2,926)	1,313,582
Disposals	-	(93,204)	(299,809)	(31,219)	-	13,701	(410,531)
Reclassifications	-	(3,797)	(5,477)	(118)	-	-	(9,392)
Effect of movements in exchange rates	-	(27,386)	(53,762)	(7,139)	-	178	(88,109)
Balance on December 31, 2017	<u>\$ -</u>	<u>1,830,962</u>	<u>4,311,178</u>	<u>399,884</u>	<u>-</u>	<u>(2,284)</u>	<u>6,539,740</u>
Balance on January 1, 2016	\$ -	1,737,377	3,718,475	449,371	-	(9,579)	5,895,644
Depreciation	-	245,594	1,126,355	79,501	-	(4,622)	1,446,828
Impairment loss	-	-	74,584	384	11,882	-	86,850
Disposals	-	(90,910)	(619,931)	(76,609)	-	-	(787,450)
Reclassifications	-	35,827	(249,717)	(29,572)	-	-	(243,462)
Disposal of subsidiaries	-	(47,041)	(58,972)	3,579	(11,882)	-	(114,316)
Effect of movements in exchange rates	-	(149,736)	(358,412)	(42,720)	-	964	(549,904)
Balance on December 31, 2016	<u>\$ -</u>	<u>1,731,111</u>	<u>3,632,382</u>	<u>383,934</u>	<u>-</u>	<u>(13,237)</u>	<u>5,734,190</u>
<b>Carrying amounts:</b>							
Balance on December 31, 2017	<u>\$ 134,701</u>	<u>1,978,402</u>	<u>1,713,476</u>	<u>197,316</u>	<u>413,789</u>	<u>-</u>	<u>4,437,684</u>
Balance on December 31, 2016	<u>\$ 134,701</u>	<u>2,071,647</u>	<u>2,039,922</u>	<u>126,523</u>	<u>347,678</u>	<u>(3,049)</u>	<u>4,717,422</u>
Balance on January 1, 2016	<u>\$ 284,973</u>	<u>2,408,188</u>	<u>2,859,932</u>	<u>230,840</u>	<u>503,242</u>	<u>(3,152)</u>	<u>6,284,023</u>

- (i) The unamortized deferred revenue of equipment subsidy amounted to \$946,180 and \$1,310,945 for the years ended December 31, 2017 and 2016, respectively.
- (ii) The Group did not provide any of the aforementioned property, plant and equipment as collateral.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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## (j) Investment property

	Land	Buildings and other equipment	Total
<b>Cost or deemed cost:</b>			
Balance on January 1, 2017	\$ 50,190	31,735	81,925
Additions	-	-	-
Balance on December 31, 2017	<u>\$ 50,190</u>	<u>31,735</u>	<u>81,925</u>
Balance on January 1, 2016	\$ 162,012	172,167	334,179
Additions	-	-	-
Reclassifications	(111,822)	(140,432)	(252,254)
Balance on December 31, 2016	<u>\$ 50,190</u>	<u>31,735</u>	<u>81,925</u>
<b>Depreciation and impairment losses:</b>			
Balance on January 1, 2017	\$ 33,941	12,307	46,248
Depreciation	-	463	463
Balance on December 31, 2017	<u>\$ 33,941</u>	<u>12,770</u>	<u>46,711</u>
Balance on January 1, 2016	\$ 33,941	41,529	75,470
Depreciation	-	3,560	3,560
Reclassifications	-	(32,782)	(32,782)
Balance on December 31, 2016	<u>\$ 33,941</u>	<u>12,307</u>	<u>46,248</u>
<b>Carrying amounts:</b>			
Balance on December 31, 2017	<u>\$ 16,249</u>	<u>18,965</u>	<u>35,214</u>
Balance on December 31, 2016	<u>\$ 16,249</u>	<u>19,428</u>	<u>35,677</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>\$ 81,930</u>
Balance on December 31, 2016	<u>\$ 84,490</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) The Group reclassified \$219,472 as property, plant and equipment from investment property due to the change of the use of such property in 2016.
- (iii) 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(n) for further information.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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(iv) The Group did not provide any of the aforementioned investment property as collateral.

(k) Intangible assets

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

	<b>Goodwill</b>	<b>Customer Relationships</b>	<b>Technology</b>	<b>Trademarks, Patents and Copyrights</b>	<b>Total</b>
<b>Cost or deemed cost:</b>					
Balance on January 1, 2017	\$ 1,850,383	718,800	419,300	122,044	3,110,527
Acquisition	-	-	-	34	34
Acquisition from business combination	178,796	-	-	-	178,796
Effect of movements in exchange rates	(3,684)	-	-	(92)	(3,776)
Balance on December 31, 2017	<u>\$ 2,025,495</u>	<u>718,800</u>	<u>419,300</u>	<u>121,986</u>	<u>3,285,581</u>
Balance on January 1, 2016	\$ 2,191,382	827,800	519,300	122,128	3,660,610
Acquisition	-	-	-	9	9
Disposal of subsidiaries	(340,999)	(109,000)	(100,000)	-	(549,999)
Effect of movements in exchange rates	-	-	-	(93)	(93)
Balance on December 31, 2016	<u>\$ 1,850,383</u>	<u>718,800</u>	<u>419,300</u>	<u>122,044</u>	<u>3,110,527</u>
<b>Amortization and impairment loss:</b>					
Balance on January 1, 2017	\$ -	213,901	124,776	98,180	436,857
Amortization	-	71,880	41,930	4,766	118,576
Effect of movements in exchange rates	-	-	-	(40)	(40)
Balance on December 31, 2017	<u>\$ -</u>	<u>285,781</u>	<u>166,706</u>	<u>102,906</u>	<u>555,393</u>
Balance on January 1, 2016	\$ -	151,559	95,346	91,514	338,419
Amortization	-	80,055	52,644	6,708	139,407
Disposal of subsidiary	-	(17,713)	(23,214)	-	(40,927)
Effect of movements in exchange rates	-	-	-	(42)	(42)
Balance on December 31, 2016	<u>\$ -</u>	<u>213,901</u>	<u>124,776</u>	<u>98,180</u>	<u>436,857</u>
<b>Carrying amounts:</b>					
Balance on December 31, 2017	<u>\$ 2,025,495</u>	<u>433,019</u>	<u>252,594</u>	<u>19,080</u>	<u>2,730,188</u>
Balance on December 31, 2016	<u>\$ 1,850,383</u>	<u>504,899</u>	<u>294,524</u>	<u>23,864</u>	<u>2,673,670</u>
Balance on January 1, 2016	<u>\$ 2,191,382</u>	<u>676,241</u>	<u>423,954</u>	<u>30,614</u>	<u>3,322,191</u>

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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(i) Intangible assets were transferred out due to the resolution to dispose parts of shares of Global TEK which were approved during the board of directors' meeting in 2016. Please refer to note 6(g) for further detail.

(ii) For the intangible assets identified from the acquisition of TYM Acoustic Europe on June 1, 2017, please refer to note 6(f).

(iii) The Group did not provide any of the aforementioned intangible assets as collateral.

(l) Short-term borrowings

The details were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Unsecured bank loans	<u>\$ 995,638</u>	<u>-</u>
Unused credit lines	<u>\$ 17,453,299</u>	<u>13,301,651</u>
Annual interest rates	<u>0.97%~4.96%</u>	<u>0.93%~1.27%</u>

(m) Long-term borrowings

	<b>December 31, 2017</b>			
	<b>Currency</b>	<b>Annual interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
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>

	<b>December 31, 2016</b>			
	<b>Currency</b>	<b>Annual interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
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.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

(n) Operating lease

(i) Lessee

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2017	December 31, 2016
Less than one year	\$ 299,316	234,469
Between one and five years	489,361	327,873
More than five years	461,370	12,989
	<u>\$ 1,250,047</u>	<u>575,331</u>

The Group leases a number of offices and warehouses and pieces of equipment under operating leases. The lease terms are between 1 and 15 years.

(ii) Lessor

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

	December 31, 2017	December 31, 2016
Less than one year	<u>\$ 1,484</u>	<u>1,060</u>

(o) 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>

The Group 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.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

1) Composition of plan assets

The Group 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 Group'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 Group for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Defined benefit obligation on January 1	\$ 160,593	180,297
Disposal of subsidiary	-	(3,105)
Discontinued operations	-	(16,279)
Benefits paid	(12,898)	(4,995)
Current service costs and interest cost	2,707	3,417
Remeasurement of net defined 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 Group for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Fair value of plan assets on January 1	\$ 96,865	113,587
Disposal of subsidiary	-	(15,904)
Remeasurement of net defined liabilities	183	(271)
Contributions paid	3,231	3,506
Interest income	701	942
Benefits paid	(12,898)	(4,995)
Fair value of plan assets on December 31	<u>\$ 88,082</u>	<u>96,865</u>

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group 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	853	1,074
Expenses	<u>\$ 2,006</u>	<u>2,475</u>

5) Remeasurements of net defined benefit liability (asset) recognized in other comprehensive income.

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

	<u>2017</u>	<u>2016</u>
Balance on January 1	\$ 4,421	3,081
Recognized during the period	5,909	1,340
Balance on December 31	<u>\$ 10,330</u>	<u>4,421</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 Group to the defined benefit plans for the one-year period after the reporting date was \$3,192. The weighted-average duration of the defined benefit plans is 11 years.

7) Sensitivity analysis

When computing the present value of the defined benefit obligations, the Group 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. AND ITS SUBSIDIARIES**  
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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:

	<b>Influences of defined benefit obligations</b>	
	<u>Increased 0.25%</u>	<u>Decreased 0.25%</u>
<b>December 31, 2017</b>		
Discount rate	\$ (3,420)	3,533
Future salary increase rate	\$ 3,374	(3,283)
<b>December 31, 2016</b>		
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 changes in the method and assumptions used in the preparation of the sensitivity analysis for 2017 and 2016.

(ii) Defined contribution plans

The continuing operations allocate 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 these defined contribution plans, the Group contribute a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The Company's foreign subsidiaries have defined contribution plans. These plans are funded in accordance with the regulations of their respective countries. Contributions to these plans are expensed as incurred without additional legal or constructive obligation.

The Group recognized pension costs under the defined contribution method amounting to \$337,071 and \$370,871 for the years ended December 31, 2017 and 2016, respectively, recorded as operating cost and operating expenses in the statement of comprehensive income.

(p) Income taxes from continuing operations

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

	<u>2017</u>	<u>2016</u>
Current tax expense	\$ 591,664	970,336
Deferred tax expense (benefit)	86,935	(192,650)
Income tax expense	<u>\$ 678,599</u>	<u>777,686</u>

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

	<b>2017</b>	<b>2016</b>
Income tax calculated based on domestic tax rate of individual entity of the Group	\$ 901,871	606,212
Overseas investment gains recognized under the equity method	(168,149)	(47,655)
Non-taxable income	(232,750)	(96,547)
Prior year's income tax adjustment	24,801	3,501
10% surtax on unappropriated earnings	62,744	65,978
Investment tax credits accrued	(74,012)	(41,196)
Other	164,094	287,393
Income tax expense	<u><u>\$ 678,599</u></u>	<u><u>777,686</u></u>

- (iii) 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:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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:

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

The deductible temporary differences and losses cannot be realized, or there may not be sufficient taxable profit to utilize after the Group's evaluation. Therefore, they were not recognized as deferred tax assets.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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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:

	<b>Investment income recognized under the equity method (overseas)</b>	<b>Unrealized foreign exchange gains</b>	<b>Amortization of appraised value adjustment of intangible assets</b>	<b>Others</b>	<b>Total</b>
<b>Deferred tax liabilities:</b>					
Balance on January 1, 2017	\$ 136,577	-	73,631	17,538	227,746
Recognized in profit or loss	51,480	24,493	(10,483)	235	65,725
Balance on December 31, 2017	<u><u>\$ 188,057</u></u>	<u><u>24,493</u></u>	<u><u>63,148</u></u>	<u><u>17,773</u></u>	<u><u>293,471</u></u>
Balance on January 1, 2016	155,486	-	152,009	9,566	317,061
Disposal of subsidiary	(43,432)	-	(63,309)	(13,168)	(119,909)
Recognized in profit or loss	24,523	-	(15,069)	21,140	30,594
Balance on December 31, 2016	<u><u>\$ 136,577</u></u>	<u><u>-</u></u>	<u><u>73,631</u></u>	<u><u>17,538</u></u>	<u><u>227,746</u></u>

	<b>Bad debt in excess of tax limit</b>	<b>Loss carryforward</b>	<b>Unfunded pension fund contribution</b>	<b>Unrealized sales returns and allowances</b>	<b>Loss on inventory valuation</b>	<b>Deferred granted revenue</b>	<b>Unrealized exchange losses</b>	<b>Others</b>	<b>Total</b>
<b>Deferred tax assets:</b>									
Balance on January 1, 2017	\$ 31,636	-	14,298	57,615	179,573	220,770	49	66,264	570,205
Recognized in profit or loss	15,695	12,755	(208)	42,483	(59,140)	(47,475)	(49)	14,729	(21,210)
Balance on December 31, 2017	<u><u>\$ 47,331</u></u>	<u><u>12,755</u></u>	<u><u>14,090</u></u>	<u><u>100,098</u></u>	<u><u>120,433</u></u>	<u><u>173,295</u></u>	<u><u>-</u></u>	<u><u>80,993</u></u>	<u><u>548,995</u></u>
Balance on January 1, 2016	\$ 33,566	22,328	14,473	44,241	9,446	189,223	19,653	57,484	390,414
Disposal of subsidiary	-	(8,300)	-	-	(3,852)	-	(2,314)	(28,987)	(43,453)
Recognized in profit or loss	(1,930)	(14,028)	(175)	13,374	173,979	31,547	(17,290)	37,767	223,244
Balance on December 31, 2016	<u><u>\$ 31,636</u></u>	<u><u>-</u></u>	<u><u>14,298</u></u>	<u><u>57,615</u></u>	<u><u>179,573</u></u>	<u><u>220,770</u></u>	<u><u>49</u></u>	<u><u>66,264</u></u>	<u><u>570,205</u></u>

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

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

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

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.

(q) 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:

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

(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:

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

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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(ii) Capital surplus

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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 investment	303,000	-
	<b>\$ 1,232,490</b>	<b>791,466</b>

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 ordinary shares 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, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total ordinary shares 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 stockholders' 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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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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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 was NT\$2.5 and 2.1 (dollars) per share, which amounted to \$1,111,886 and \$927,933, respectively.

(r) 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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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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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 consolidated 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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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- 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 3 (note )			
	Plan 1 (note )	Plan 2 (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	24.10
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~November11, 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)	0.20	0.20
Expected time until expiration (years)	2.37~5	6~8

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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Period of stock options	Plan 1	Plan 2
Stock price per share of Primax Holding (USD)	0.91677~1	0.91677~0.92827
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 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
	Primax Holdings	the Company	Primax Holdings	the Company
Granted units of options	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%

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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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	<b>957</b>
Exercisable on December 31	-	-	22.16	<b>957</b>

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	-	<b>957</b>
Weighted-average expected time remaining until expiration (years)	-	<b>0.82</b>

- 10) As at 31 December 2017, the Group had 2 share-based payment arrangements as follows:

	Employee stock options		Employee stocks ownership plans
	November 2014	July 2015	September 2017
Grant date	November 18, 2014	July 1, 2015	September 30, 2017
Exercise price	\$15.74	\$18.82	CNY\$1.3406
Granted units (thousand)	700	2,750	35,937
Service period	5 years	5 years	15 years
Vesting period	3 ~4 years	3 ~5 years	12 months after Premium Hui Zhou listed

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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The Group measured the fair value of the 2 aforementioned share-based payment arrangements. The measurement inputs were as follows:

	Employee stock options		Employee stocks ownership plans
	December 2014	July 2015	September 2017
Exercise price	\$15.74	\$18.82	CNY\$1.3406
Expected time until expiration (years)	4~4.5	4~5	15
Stock price per share	\$14.81	\$18.23	CNY\$2.0121
Expected volatility of stock price	29.49%~30.14%	30.06%~30.45%	-
Expected dividend rate	-	-	-
Risk-free interest rate	1.09%~1.17%	0.96%~1.08%	-

The related information on the stock appreciation rights plan of the Group 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	18.27	3,308	18.20	3,450
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	18.27	(3,308)	16.50	(142)
Outstanding on December 31	-	-	18.27	<b>3,308</b>
Exercisable on December 31	-	-	-	-

- (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)	
Grant date	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)	1~3 years (note 2 and 3)	1~3 years (note 2)	1~3 years (note 2)	1~3 years (note 2)

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

(Thousand shares)	<b>2017</b>	<b>2016</b>
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><b>3,934</b></u>	<u><b>1,771</b></u>

(iii) Expenses and liabilities attributable to share-based payment of the continuing operations for 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
Expenses attributable to employee stock options	\$ 13,676	3,596
Restricted stock	79,420	43,182
Total	<u><b>\$ 93,096</b></u>	<u><b>46,778</b></u>
Salary payable:		
Current	<u><b>\$ -</b></u>	<u><b>1,938</b></u>

(s) 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 attributable to owners of parent of the Company and the weighted-average number of ordinary shares outstanding was as follows:

	<b>2017</b>	<b>2016</b>
Profit attributable to owners of parent		
Continuing operations	\$ 2,057,415	1,915,501
Discontinued operations	-	18,569
Total	<u><b>\$ 2,057,415</b></u>	<u><b>1,934,070</b></u>
Weighted-average number of ordinary shares		
(thousand shares)	<u><b>440,907</b></u>	<u><b>439,169</b></u>
Basic earnings per share (NT dollars)		
Continuing operations	\$ 4.67	4.36
Discontinued operations	-	0.04
Total	<u><b>\$ 4.67</b></u>	<u><b>4.40</b></u>

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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Weighted-average number of ordinary shares (thousand shares)

	<b>2017</b>	<b>2016</b>
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><b>440,907</b></u>	<u><b>439,169</b></u>

(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 attributable to owners of parent of the Company and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares was as follows:

	<b>2017</b>	<b>2016</b>
Profit attributable to owners of parent		
Continuing operations	\$ 2,057,415	1,915,501
Discontinued operations	-	18,569
Total	<u><b>\$ 2,057,415</b></u>	<u><b>1,934,070</b></u>

Weighted-average number of ordinary shares (diluted)

	<b>2017</b>	<b>2016</b>
(thousand shares)	<u><b>444,846</b></u>	<u><b>443,212</b></u>
Diluted earnings per share		
Continuing operations	\$ 4.63	4.32
Discontinued operations	-	0.04
Total	<u><b>\$ 4.63</b></u>	<u><b>4.36</b></u>

	<b>2017</b>	<b>2016</b>
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><b>444,846</b></u>	<u><b>443,212</b></u>

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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(t) Operating revenue

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

	<b>2017</b>	<b>2016</b>
Goods sold	\$ 59,409,145	62,973,145
Services rendered	<u>1,332,547</u>	<u>1,356,317</u>
Continuing operations	60,741,692	64,329,462
Discontinued operations	-	1,926,626
Total	<u><b>\$ 60,741,692</b></u>	<u><b>66,256,088</b></u>

Please refer to note 12(b) for profit and loss, and cash flows from discontinued operations.

(u) Employee and 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:

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

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 estimate and recognized as profit or loss in the distribution year.

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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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:

	<b>2016</b>		
	<b>Actual earnings distributed</b>	<b>Accrued in the financial statement</b>	<b>Difference</b>
Employee remuneration			
Stock	\$ -	-	-
Cash	74,000	74,000	-
Directors' remuneration	36,800	36,803	3
	<b>2015</b>		
	<b>Actual earnings distributed</b>	<b>Accrued in the financial statement</b>	<b>Difference</b>
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.

(v) Other income

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

	<b>2017</b>	<b>2016</b>
Interest revenue of cash in banks	\$ 110,012	124,882
Rent revenue	8,423	5,028
Dividend income	23,325	14,692
Other	1,607	5,322
	<b>\$ 143,367</b>	<b>149,924</b>

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**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
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(w) Other gains and losses

The other gains and losses from continuing operations for the years ended December 31, 2017 and 2016, were as follows:

	<b>2017</b>	<b>2016</b>
Net gains (losses) on financial assets/liabilities measured at fair value through profit or loss	\$ 76,196	(9,111)
Foreign currency exchange gains (losses), net	(20,520)	242,423
Impairment losses on property plant and equipment	-	(22,677)
Net losses on disposal of property, plant and equipment	(77,548)	(19,100)
Net gains on disposal and liquidation of available-for-sale financial assets	330,887	140,969
Gains on disposal of subsidiaries	-	248,006
Compensation loss	-	(200,263)
Other	232,015	(48,295)
	<b>\$ 541,030</b>	<b>331,952</b>

(x) 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:

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

(y) Financial instruments

(i) Credit risk

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Past due 0-30 days	\$ 827,739	763,565
Past due 31-90 days	62,006	213,509
Past due 91-180 days	9,641	17,593
Past due 181-360 days	2,218	13,247
Past due over a year	91,632	-
	<b>\$ 993,236</b>	<b>1,007,914</b>

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The Group assesses the uncollectible amount of notes, accounts, and other receivables (including related parties) based on the aging analysis, the collection history, and the customers' current financial status, and recognizes an allowance for doubtful debts accordingly. After the Group'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:

	<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>	<b>Total</b>
Balance on January 1, 2017	\$ -	99,936	99,936
Impairment loss recognized (reversal amount)	66,591	(31,357)	35,234
Amounts written off	-	-	-
Exchange differences on translation of foreign currency	-	(7,530)	(7,530)
Balance on December 31, 2017	<u><u>\$ 66,591</u></u>	<u><u>61,049</u></u>	<u><u>127,640</u></u>

	<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>	<b>Total</b>
Balance on January 1, 2016	\$ -	29,247	29,247
Impairment loss recognized	-	74,106	74,106
Amounts written off	-	-	-
Exchange differences on translation of foreign currency	-	(605)	(605)
Disposal of subsidiaries	-	(2,812)	(2,812)
Balance on December 31, 2016	<u><u>\$ -</u></u>	<u><u>99,936</u></u>	<u><u>99,936</u></u>

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities:

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 6 months</b>	<b>6~12 months</b>	<b>1~2 years</b>	<b>2~5 years</b>	<b>Over 5 years</b>
<b>December 31, 2017</b>							
Non-derivative financial liabilities:							
Short-term borrowings	\$ 995,638	997,078	997,078	-	-	-	-
Notes and accounts payable	16,350,178	16,350,178	16,350,178	-	-	-	-
Other payables	2,858,327	2,858,327	2,858,327	-	-	-	-
Long-term borrowings	218,888	221,752	108,721	28,532	56,677	27,822	-
Guarantee deposits	174,167	174,167	-	-	-	-	174,167

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	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 6 months</b>	<b>6~12 months</b>	<b>1~2 years</b>	<b>2~5 years</b>	<b>Over 5 years</b>
Derivative financial liabilities:	103,107	-	-	-	-	-	-
Outflow	-	3,187,373	3,187,373	-	-	-	-
Inflow	-	(3,089,268)	(3,089,268)	-	-	-	-
	<u><u>\$ 20,700,305</u></u>	<u><u>20,699,607</u></u>	<u><u>20,412,409</u></u>	<u><u>28,532</u></u>	<u><u>56,677</u></u>	<u><u>27,822</u></u>	<u><u>174,167</u></u>
<b>December 31, 2016</b>							
Non-derivative financial liabilities:							
Notes and accounts payable	\$ 16,892,918	16,892,918	16,892,918	-	-	-	-
Other payables	2,713,494	2,713,494	2,713,494	-	-	-	-
Long-term borrowings	601,111	609,653	277,546	110,096	137,431	84,580	-
Guarantee deposits	143,237	143,237	-	-	-	-	143,237
Derivative financial liabilities:	150,430	-	-	-	-	-	-
Outflow	-	2,766,941	2,766,941	-	-	-	-
Inflow	-	(2,615,359)	(2,615,359)	-	-	-	-
	<u><u>\$ 20,501,190</u></u>	<u><u>20,510,884</u></u>	<u><u>20,035,540</u></u>	<u><u>110,096</u></u>	<u><u>137,431</u></u>	<u><u>84,580</u></u>	<u><u>143,237</u></u>

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

	<b>December 31, 2017</b>			<b>December 31, 2016</b>		
	<b>Foreign currency</b>	<b>Exchange rate</b>	<b>TWD</b>	<b>Foreign currency</b>	<b>Exchange rat</b>	<b>TWD</b>
<b>Financial assets</b>						
<b>Monetary items</b>						
USD:CNY	\$ 529,047	6.534	15,790,922	385,629	6.937	12,447,718
USD:HKD	262,270	7.817	7,828,236	101,376	7.755	3,272,316
USD:TWD	361,298	29.848	10,784,026	428,216	32.279	13,822,384
USD:EUR	20,037	0.8375	598,060	-	-	-
<b>Financial liabilities</b>						
<b>Monetary items</b>						
USD:CNY	412,867	6.5342	12,323,269	366,735	6.937	11,837,839
USD:HKD	259,738	7.8170	7,752,673	94,552	7.755	3,052,044
USD:TWD	345,140	29.848	10,301,737	377,974	32.279	12,200,623
USD:EUR	7,203	0.8375	214,983	-	-	-

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and accounts receivable, other receivables, derivative financial instruments, loans and borrowings, notes and accounts payable, and other payables that are denominated in foreign currency.

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A weakening (strengthening) of 5% of the TWD, CNY, HKD, and EUR against the USD as of December 31, 2017 and 2016, would have increased or decreased the net profit before tax by \$220,429 and \$122,595, respectively. The analysis is performed on the same basis for both periods.

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2017 and 2016, foreign exchange gain (loss) (including realized and unrealized portions) amounted to loss \$20,520 and gain \$242,423, respectively.

(iv) Interest rate analysis

Please refer to note 6(z) 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 assets and liabilities with variable interest rates, the analysis is based on the assumption that the amounts 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 Group 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 \$16,508 and \$14,390 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):

	<u>2017</u>	<u>2016</u>
	<b>Other</b>	<b>Other</b>
<b>Price of securities at the reporting date</b>	<b>comprehensive</b>	<b>comprehensive</b>
	<b>income after tax</b>	<b>income after tax</b>
10% rise	\$ -	58,640
10% fall	\$ -	(58,640)

(vi) Fair value

1) Kinds of financial instruments and fair value

The carrying amount and fair value of the Group'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 :

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	<b>December 31, 2017</b>				
	<b>Carrying amounts</b>	<b>Fair Value</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit or loss – current</b>	<b>\$ 141,151</b>	-	-	141,151	141,151
<b>Available-for-sale financial assets – non-current</b>	<b>\$ 402,997</b>	-	-	402,997	402,997
<b>Loans and receivables</b>					
Cash and cash equivalents	\$ 7,821,011				
Notes and accounts receivable (including related parties)	13,120,118				
Other receivables	737,687				
Refundable deposits	90,805				
Total	<b>\$ 21,769,621</b>				
<b>Financial liabilities at fair value through profit or loss – current</b>	<b>\$ 103,107</b>	-	-	103,107	103,107
<b>Financial liabilities carried at amortized cost</b>					
Borrowings	\$ 1,214,526				
Notes and accounts payable	16,350,178				
Other payables	3,991,128				
Salary payable	1,105,153				
Guarantee deposits	174,167				
Total	<b>\$ 22,835,152</b>				

	<b>December 31, 2016</b>				
	<b>Carrying amounts</b>	<b>Fair Value</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit or loss – current</b>	<b>\$ 141,317</b>	-	-	141,317	141,317
<b>Available-for-sale financial assets – non-current</b>	<b>\$ 887,801</b>	586,404	-	301,397	887,801
<b>Loans and receivables</b>					
Cash and cash equivalents	\$ 6,359,916				
Notes and accounts receivable (including related parties)	13,706,714				
Other receivables	495,392				
Refundable deposits	44,429				
Total	<b>\$ 20,606,451</b>				
<b>Financial liabilities at fair value through profit or loss – current</b>	<b>\$ 150,430</b>	-	-	150,430	150,430

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		December 31, 2016			
		Fair Value			
	Carrying amounts	Level 1	Level 2	Level 3	Total
<b>Financial liabilities carried at amortized cost</b>					
Borrowings	\$ 601,111				
Notes and accounts payable	16,892,918				
Other payables	3,878,606				
Salary payable	1,146,183				
Guarantee deposits	143,237				
Total	<u>\$ 22,662,055</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 cannot 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.

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

- 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.
- 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.

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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
<b>Balance on January 1</b>	\$ (9,113)	301,397	292,284	27,643	32,830	60,473
Recognized in profit or loss	38,044	-	38,044	(9,113)	-	(9,113)
Recognized in other comprehensive income	-	88,128	88,128	-	(3,399)	(3,399)
Acquisition / disposal	9,113	13,472	22,585	(27,643)	271,966	244,323
<b>Balance on December 31</b>	<u>\$ 38,044</u>	<u>402,997</u>	<u>441,041</u>	<u>(9,113)</u>	<u>301,397</u>	<u>292,284</u>

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

The Group'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
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.

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

The Group'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:

	Input	Variation	Other comprehensive income	
			Advantageous changes	Disadvantageous changes
<b>December 31, 2017</b>				
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>

(z) Financial risk management

(i) Overview

The Group has exposure to the following risks arising 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.

(ii) Structure of risk management

The Group's risk management policies are established to identify and analyze the risks faced by the Group, 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 Group's activities. The Group, 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 Company's board of directors oversees the management's monitoring of the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. 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.

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(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's cash and cash equivalents; notes, accounts, and other receivables; and derivative instruments.

1) Cash and cash equivalents

The Group had deposited \$7,282,716 (including restricted deposits) in the HSBC Bank and 15 other financial institutions, and \$5,994,946 (including restricted deposits) in Postal Savings Bank of China and 8 other financial institutions, representing 19% and 16% of total assets, as of December 31, 2017 and 2016, respectively. The Group believes that there is no significant credit risk from the above-mentioned financial institutions.

2) Notes and accounts receivable

There was no sales to individual customers constituting over 10% of total revenue for the year ended December 31, 2017. Sales to individual customers constituting over 10% of total revenue for the year ended December 31, 2016, totaled 15%. As of December 31, 2016, 7% of the ending balance of notes and accounts receivable were accounted for by those customers. In order to reduce credit risk, the Group 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 Group did not suffer any significant credit loss from those customers during the financial reporting period.

3) Derivative instruments

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

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group'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 Group's reputation.

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group had unused bank facilities of \$17,453,299 and \$13,301,651 as of December 31, 2017 and 2016, respectively.

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(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 Group'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 Group is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the TWD, USD, HKD, and CNY. These transactions are denominated in USD.

The Group uses forward exchange contracts and foreign exchange swap contracts to hedge its currency risk. The Group 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 Group's main assets and liabilities with a floating-interest-rate basis are deposits and borrowings. The Group believes that cash flow risk arising from interest rate fluctuation is insignificant.

3) Other market price risk

The Group 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.

(aa) 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.

The Group 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 Group's debt ratio as of December 31, 2017 and 2016, were 66% and 67%, respectively.

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**(7) Related-party transactions:**

(a) Names and relationship of the related parties

The followings are related parties that have had transactions with the Group during the periods covered in the consolidated financial statements.

Name	Relationship
Specialty Technologies, LLC (Specialty), United Industrial Development Limited (UIDL), Stuart Croxford (SC), X.T. Liu (XT), Tom Zilvervlood B.V. (TZBV), Huizhou Bochuang Investment Partnership Company (Bochuang)	Substantive related party
HUANG, YA- HSING 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)

(b) Other related-party transactions

(i) Sales

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

	Sales		Notes and accounts receivable	
	2017	2016	December 31, 2017	December 31, 2016
Other related parties	\$ <u>273,551</u>	<u>238,563</u>	<u>105,911</u>	<u>102,841</u>

There were no significant differences in the selling prices and trading terms between the related parties and other customers.

(ii) Property transaction — disposal of equity securities

Details of the Company's disposal of the shares of its subsidiary 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 target	Proceeds from disposal (note)	Gains or losses from disposal
HUANG, YA- HSING and his family members	Investment using equity method	-	-	-	-	11,020 (thousand)	Shares	549,347	164,785
TZBV, SC and Bochuang	//	-	Equity	479,752	- (note 1)	-	-	-	-

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

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

The Company had received all the proceeds as of December 31, 2017 and 2016.

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(iii) Property transaction—Acquired of equity securities

Relationship	Account	2017			2016		
		Trading quantities	Trading target	Trading price	Trading quantities	Trading target	Trading price
UIDL, SC and XT	Investment using equity method	16,500 (thousand)	Shares	723,139	-	-	-

(c) Key management personnel compensation

	2017	2016
Short-term employee benefits	\$ 155,349	183,825
Post-employment benefits	1,111	1,129
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	40,783	17,088
	<u>\$ 197,243</u>	<u>202,042</u>

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

**(8) Pledged assets:**

As of December 31, 2017 and 2016, assets pledged as collateral were as follows:

Pledged assets	Pledged to secure	December 31, 2017	December 31, 2016
Other non-current assets – restricted assets	Guarantee letters issued by bank	<u>\$ 1,142</u>	<u>1,163</u>

**(9) Commitments and contingencies:**

- (a) The Group's unused letters of credit for guarantee of purchasing materials and borrowings were as follows:

December 31, 2017	December 31, 2016
<u>\$ 298,480</u>	<u>-</u>

- (b) For the detail of the Group's guarantee, please refer to note 13.
- (c) The following are savings accounts provided by the Group to the bank in order for the bank to issue a guarantee letter to customs as guarantee deposits. Please refer to note 8.

	December 31, 2017	December 31, 2016
Guarantee letters	<u>\$ 173,837</u>	<u>198,121</u>

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- (d) Guarantee notes provided as part of agreements with banks to sell accounts receivables 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>

- (e) The aggregate unpaid amounts of contracts pertaining to the purchase of equipment were as follows:

	December 31, 2017	December 31, 2016
Property, plant and equipment	<u>\$ 41,209</u>	<u>42,286</u>

- (f) The Group entered into lease agreements for its offices and warehouses. Please refer to note 6(n) 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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(12) Other:**

- (a) Employee benefit, depreciation, and amortization expenses are summarized by function from continuing operations as below:

By function By item	2017			2016		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefits						
Salaries	3,431,156	2,805,559	6,236,715	3,829,623	2,572,977	6,402,600
Labor and health insurance	108,800	133,246	242,046	105,984	107,713	213,697
Pension	224,062	115,015	339,077	272,241	101,105	373,346
Others	78,218	166,846	245,064	46,599	151,697	198,296
Depreciation	1,198,737	114,845	1,313,582	1,264,078	110,004	1,374,082
Amortization	17,730	181,426	199,156	19,708	162,226	181,934

- (b) Discontinued operations

The Group resolved to disposed parts of the shares of Global TEK in the board of directors' meeting held on June 21, 2016. Profit and loss, and cash flows from discontinued operations are summarized as follows:

	<b>For the nine months ended September 30, 2016</b>
Results from operating activities:	
Operating revenue	\$ 1,926,626
Operating cost	(1,457,401)
Gross profit	469,225
Operating expenses	(277,699)
Net operating income	191,526
Non-operating income (expenses)	(86,301)
Income before income taxes	105,225
Income tax expense	(43,329)
Net income from discontinued operations	<u><u>\$ 61,896</u></u>
Net income attributable to:	
Stockholders of parent	\$ 18,569
Non-controlling interests	43,327
	<u><u>\$ 61,896</u></u>
Cash flows from discontinued operations:	
Cash flows from operating activities	\$ 321,226
Cash flows from investing activities	(161,102)
Cash flows from financing activities	38,022
Effect of foreign currency exchange translation	(26,190)
Net increase in cash and cash in equivalents	<u><u>\$ 171,956</u></u>

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(13) Other disclosures:**

- (a) Information on significant transactions:

The following is the information on significant transactions required to be disclosed by the Regulations for the Group:

- (i) Loans to other parties:

No.	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	PKSI	The Company	Other receivables	Y	781,263	423,944	423,944	-	Necessary to loan to other parties	-	Operating capital	-		-	867,628	867,628
2	Tymphony 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, PKSI, Tymphony 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.  
Note 2: Related transactions have been eliminated during the preparation of the consolidated financial statements.

- (ii) Guarantees and endorsements for other parties:

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
"	"	PKSI	"	1,501,202	167,398	164,164	56,552	-	3.28 %	4,003,206	-	-	Y

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's net worth in the latest financial statements. The total amount of the guarantee to total company shall not exceed 80% of the PCH2's net worth in the latest financial statements.  
Note 3: The above counter-parties of guarantee and endorsement are subsidiaries included in the consolidated financial statements.

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES  
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(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				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares/Units (thousands)	Percentage of ownership (%)	
The Company	Shares: Green Rich Technology Co., Ltd.	-	Available-for-sale financial asset-non-current	359	2,000	3.59	2,000	359	3.59	
	WK Technology Fund IV LTD.	-	"	230	2,004	0.38	2,004	512	0.38	
	Changing Information Technology Inc.	-	"	179	2,102	1.62	2,102	179	1.66	
	Formosoft	-	"	53	-	0.76	-	53	0.76	
	International Inc.	-	"	6	49	0.02	49	6	0.02	
	Syntronix Corp.	-	"	917	-	2.04	-	917	2.04	
	Ricavision	-	"							
	International Inc.	-	"	5,510	374,680	9.18	374,680	5,510	10.00	
	Global TEK	-	"							
	Grove Ventures L.P.	-	"	-	16,417	2.73	16,417	-	5.74	
Primax Tech.	Shares:				397,252					
	Echo. Bahn.	-	Available-for-sale financial asset-non-current	400	-	11.90	-	400	11.90	
	WK Global Investment III Ltd.	-	"	473	5,745	1.32	5,745	630	1.32	
					5,745					

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD\$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	Shares: 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 HK	TYM HK	"	TWEL	"	-	-	144,395	714,258	-	-	-	-	144,395	747,124 (note 2)
Diamond	TWEL	"	UIDL, SC and XT	Substantive related parties	38,501	2,904,380	16,500	723,139	-	-	-	-	55,001	3,187,565 (note 3)
TWEL	Premium Hui Zhou	"	TZBV, SC and Bochuang	"	-	586,768	-	-	-	479,752	479,752	-	-	1,514,469 (note 3)

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

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
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 4)	-	-
"	Money market fund of RMB	"	"	"	-	-	-	9,146,504	-	9,167,750	9,144,803	21,246 (note 4)	-	-
PCQ1	Money market fund of RMB	"	"	"	-	-	-	3,684,887	-	3,705,442	3,694,627	20,555 (note 4)	-	-
PKS1	Money market fund of RMB	"	"	"	-	-	-	550,197	-	558,263	555,556	8,066 (note 4)	-	-

Note 1: The amount is the capital surplus derived from the difference 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. Also, this investment has been eliminated during the preparation of the consolidated financial statement.

Note 2: The difference between the ending balance and the purchasing price is the investment income (losses) accounted by using equity method, difference between purchasing price and net worth, as well as the capital increase and the adjustment of exchange differences on translation. Also, this investment has been eliminated during the preparation of the consolidated financial statement.

Note 3: The amount is the capital surplus derived from the differences between the selling price and the cost during acquiring the shares of the subsidiaries and the restructuring in the fourth quarter of 2017, in which there were no related gains (losses) of disposal. Also, this investment has been eliminated during the preparation of the consolidated financial statement.

Note 4: 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	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)	
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. AND ITS SUBSIDIARIES  
Notes to the Consolidated 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%	
Tymphany 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 selling	(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)%	
"	Tymphany Dongguan	The subsidiary of Premium Hui Zhou	Purchase	11,102,092	60 %	"	"	"	(4,873,979)	(67)%	
"	TYDC	The subsidiary of Tymphany Dongguan	Purchase	1,246,821	7 %	"	"	"	(65,706)	(1)%	
TYM Acoustic Europe	TYM Acoustic HK	Parent	(Sale)	(1,281,595)	(93) %	90 days	"	The same as general purchasing	437,898	93%	

Note 1: Accounts receivables over payment terms have been classified as other receivables-non-current.  
Note 2: Related transactions have been eliminated during the preparation of the consolidated financial statements.

(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	-
Tymphany 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.  
Note 2: Related transactions have been eliminated during the preparation of the consolidated financial statements.

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES  
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- (ix) Trading in derivative instruments: Please refer to note 6(b).  
(x) Business relationships and significant intercompany transactions:

No	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions, 2017				Percentage of consolidated total operating revenues or total assets
				Account name	Amount	Trading terms		
0	The Company	Primax Cayman	Subsidiary	Purchase	140,623	Price agreed by both side		0.23 %
"	"	PCH2	The subsidiary of Primax HK	Purchase	26,362,084	Price agreed by both side		43.40 %
"	"	"	"	Accounts Payable	6,137,747	60 days		16.25 %
"	"	PKS1	"	Purchase	1,079,140	Price agreed by both side		1.78 %
"	"	"	"	Accounts Payable	421,786	360 days		1.12 %
"	"	PCQ1	"	Purchase	5,278,105	Price agreed by both side		8.69 %
"	"	"	"	Accounts Payable	1,748,395	60 days		4.63 %
"	"	Polaris	The subsidiary of Primax Tech.	Sale	2,886,921	Price agreed by both side		4.75 %
"	"	TYM HK	The subsidiary of TWEL	Sale	202,879	Price agreed by both side		0.33 %
1	Primax Cayman	PCH2	The subsidiary of Primax HK	Purchase	140,623	Price agreed by both side		0.23 %
2	Premium Hui Zhou	TYM HK	The subsidiary of TYM Acoustic HK	Sale	5,073,442	Price agreed by both side		8.35 %
"	"	"	"	Accounts receivable	1,888,768	60 days		5.00 %
3	Tymphany Dongguan	"	"	Sale	11,102,092	Price agreed by both side		18.28 %
"	"	"	"	Accounts receivable	4,873,979	60 days		12.90 %
4	TYDC	"	"	Sale	1,246,821	Price agreed by both side		2.05 %
5	TYM Acoustic HK	TYM Acoustic Europe	Subsidiary	Purchase	1,281,595	Price agreed by both side		2.11 %
"	"	"	"	Accounts payable	437,898	90 days		1.16 %

Note 1: Disclosure of the amounts exceeding the lower of NTS100 million.  
Note 2: Related transactions have been eliminated during the preparation of the consolidated financial statements.

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(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			Highest balance during the year		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	Shares (thousands)	Percentage of ownership			
The Company	Primax Cayman	Cayman Islands	Holding company	2,540,588	2,540,588	8,147,636	100.00	5,135,159	8,147,636	100.00	963,666	853,625	
"	Primax Tech.	Cayman Islands	Holding company	897,421	897,421	285,067	100.00	2,021,715	285,067	100.00	204,489	154,146	
"	Destiny BVI	Virgin Island	Holding company	30,939	30,939	1,050	100.00	14,551	1,050	100.00	(10,972)	(10,972)	
"	Destiny Japan	Japan	Market development and customer service	7,032	7,032	0.50	100.00	16,386	0.5	100.00	1,025	1,025	
"	Diamond	Cayman Islands	Holding company	2,517,298	2,517,298	84,050	100.00	3,089,647	84,050	100.00	293,587	293,587	
"	Gratus Tech.	USA	Market development and customer service	9,330	9,330	300	100.00	9,647	300	100.00	523	523	
	Total			6,002,608	6,002,608			10,287,105			1,452,318	1,291,934	
Primax Cayman	Primax HK	Hong Kong	Holding company and customer service	2,375,164	2,375,164	602,817	100.00	5,346,825	602,817	100.00	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	1,600	100.00	8,712	8,712	
Diamond	TWEL	Cayman Islands	Holding company	2,711,450	2,515,800	55,001	100.00	3,187,565	55,001	100.00	500,879	298,734	(note 3)
Premium Hui Zhou	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	5,000	100.00	(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	144,395	100.00	376,600	20,869	(note 2)
"	TYP	USA	Market development and customer service of amplifiers and their components	15 (note 1)	-	0.50	100.00	8,200	0.5	100.00	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	400	100.00	563	563	
"	TYM Acounstic Europe	Czech	Manufacture, install and repair of audio accessories and their components	653,796	-	187,800	100.00	545,980	187,800	100.00	29,907	29,907	
"	Tymphony Acoustic	Taiwan	Research and development, design, and sale of audio accessories, amplifiers and their components	-	-	-	100.00	-	-	100.00	-	-	
TYM HK	TYML	USA	Sales of audio accessories, amplifiers and their components	6,628	6,628	200	100.00	10,057	200	100.00	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  
Note 4: Related transactions have been eliminated during the preparation of the consolidated financial statements.

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES  
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(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 (note 2)	Net income (losses) of the investee	Percentage of ownership	Highest Percentage of ownership during the year	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%	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%	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%	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%	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%	75.5%	194,561	1,514,469	-
Tymphony Dongguan	"	149,240	Indirect investment through Diamond	16,140	-	-	14,924	197,738	66.44%	75.5%	129,391	242,493	-
TYDC	"	91,360	"	-	-	-	-	5,320	66.44%	75.5%	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.  
Note 6: Related transactions have been eliminated during the preparation of the consolidated financial statements.

(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 PCH 2, Destiny Beijing, PKS 1, and PCQ 1, 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. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) Significant transactions:

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

**(14) Segment information:**

(a) General information

The Group's reported segments are the divisions for computer peripherals and non-computer peripherals. The division for computer peripherals specializes in the manufacture and sale of computer mice, keyboards, track pads, etc. The division for non-computer peripherals specializes in the manufacture and sale of digital camera modules, mobile phone accessories, multi-function printers, scanners, shredders, amplifiers, speakers, audio systems, automotive parts, industrial automation parts, aerospace components, etc.

The Group's reported segments consist of strategic business units which provide essentially different products and services. These units have to be separately managed as a result of the different technology and marketing strategies. Most of the business units were acquired, and the original management teams are still operating.

(b) Reportable segments' profit or loss, segment assets, segment liabilities, and their measurement and reconciliation

Income tax and extraordinary profits and losses are not allocated to the Group's reportable segments, and the amounts for the reported segments are identical with those in the report used by the chief operating decision maker.

The Group assessed the performance of the segments based on the segments' income before income taxes (excluding extraordinary profit and loss), and the accounting policies of the operating segments are the same as those described in note 4. Sales and transfers between segments are deemed to be transactions with third parties and are measured by using the market price.

For the years ended December 31, 2017 and 2016, the Group's segment financial information was as follows:

	<b>2017</b>		
	<b>Computer Peripherals</b>	<b>Non-computer Peripherals</b>	<b>Total</b>
Revenue			
External revenue	\$ 20,628,258	40,113,434	60,741,692
Intra-group revenue	-	-	-
Elimination from discontinued operations	-	-	-
Total segment revenue	<u>\$ 20,628,258</u>	<u>40,113,434</u>	<u>60,741,692</u>
Profit from segments reported	\$ 1,397,982	1,449,598	2,847,580
Elimination from discontinued operations	-	-	-
Total profit	<u>\$ 1,397,982</u>	<u>1,449,598</u>	<u>2,847,580</u>

(Continued)

**PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>2016</b>		
	<b>Computer Peripherals</b>	<b>Non-computer Peripherals</b>	<b>Total</b>
Revenue			
External revenue	\$ 25,730,665	40,525,423	66,256,088
Intra-group revenue	-	-	-
Elimination from discontinued operations	-	(1,926,626)	(1,926,626)
Total segment revenue	<u>\$ 25,730,665</u>	<u>38,598,797</u>	<u>64,329,462</u>
Profit from segments reported	\$ 1,541,299	1,328,378	2,869,677
Elimination from discontinued operations	-	(105,225)	(105,225)
Total profit	<u>\$ 1,541,299</u>	<u>1,223,153</u>	<u>2,764,452</u>

(c) Geographic information

In presenting information on the basis of geography, revenue is based on the geographical location of customers, and non-current assets are based on the geographical location of the assets. Details were as follows:

	<b>2017</b>	<b>2016</b>
Revenues from external customers:		
China	\$ 32,911,250	35,009,994
Americas	13,508,587	14,221,870
Other	14,321,855	15,097,598
Total	<u>\$ 60,741,692</u>	<u>64,329,462</u>
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Non-current assets:		
China	\$ 4,309,012	4,701,807
Taiwan	358,412	371,047
Other	2,904,466	2,722,283
Total	<u>\$ 7,571,890</u>	<u>7,795,137</u>

(d) Major customer information

The information on major customers that accounted for more than 10% of revenue in the consolidated statements of comprehensive income in 2017 and 2016 is as follows:

	<b>2017</b>		<b>2016</b>	
	<b>Net sales</b>	<b>Percentage of net sales</b>	<b>Net sales</b>	<b>Percentage of net sales</b>
Company A	<u>\$ 5,218,313</u>	<u>9 %</u>	<u>9,524,714</u>	<u>15 %</u>





(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)**

**6. The 2017 proprietary  
financial statements  
and notes (B) had been  
audited by the CPAs**

Address: No. 669, Ruey Kuang Road, Neihu, Taipei  
Telephone: (02)2798-9008

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 Tymphony 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 Tymphony 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.

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.

(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)

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

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

See accompanying notes to financial statements.

## (Expressed in Thousands of New Taiwan Dollars)

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

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

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

	<b>2017</b>	<b>2016</b>
<b>Cash flows from (used in) operating activities:</b>		
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)
<b>Total adjustments to reconcile profit (loss)</b>	<b>(1,741,258)</b>	<b>(968,695)</b>
<b>Changes in operating assets and liabilities:</b>		
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)
<b>Changes in operating assets</b>	<b>2,479,183</b>	<b>2,544,538</b>
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
<b>Changes in operating liabilities</b>	<b>(2,060,459)</b>	<b>299,742</b>
<b>Total changes in operating assets and liabilities</b>	<b>418,724</b>	<b>2,844,280</b>
<b>Total adjustments</b>	<b>(1,322,534)</b>	<b>1,875,585</b>
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)
<b>Net cash flows from operating activities</b>	<b>451,929</b>	<b>3,968,401</b>
<b>Cash flows from (used in) investing activities:</b>		
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
<b>Net cash flows from investing activities</b>	<b>576,763</b>	<b>1,225,170</b>
<b>Cash flows from (used in) financing activities:</b>		
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)	-
<b>Net cash flows used in financing activities</b>	<b>(1,800,600)</b>	<b>(2,709,933)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(771,908)</b>	<b>2,483,638</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>4,751,198</b>	<b>2,267,560</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 3,979,290</b>	<b>4,751,198</b>

See accompanying notes to financial statements.

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

**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:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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

(Continued)



**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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”:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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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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 reliably. 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.**  
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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.**  
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(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:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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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Those which may be relevant to the Company are set out below:

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
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"> <li>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.</li> <li>A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul>

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:

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

(Continued)

**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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**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.**  
**Notes to the Financial Statements**

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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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.**  
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(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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(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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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>
	<b><u>\$ 3,979,290</u></b>	<b><u>4,751,198</u></b>

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:

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

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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**

<b>Derivative financial instruments</b>	<b>Nominal amount</b>	<b>Maturity date</b>	<b>Predetermined rate</b>
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**

<b>Derivative financial instruments</b>	<b>Nominal amount</b>	<b>Maturity date</b>	<b>Predetermined rate</b>
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

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

- (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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**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

- (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)

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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	(27,829)	(20,494)
Total	<b>\$ 6,470,289</b>	<b>8,904,077</b>

- (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 NTS	Credit facilities US\$ (expressed in thousand)	Cash received in advance NTS	Interest rate	Guarantee (promissory note) expressed in thousands	Amount derecognized NTS	Amount not received NTS
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 NTS	Credit facilities US\$ (expressed in thousand)	Cash received in advance NTS	Interest rate	Guarantee (promissory note) expressed in thousands	Amount derecognized NTS	Amount not received NTS
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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**PRIMAX ELECTRONICS LTD.**  
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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	725	(2,178)
	<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
<b>Cost or deemed cost:</b>						
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>
<b>Depreciation:</b>						
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>

(Continued)

**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

	Land	Buildings and additional equipment	Machinery and equipment	Other equipment	Testing equipment	Total
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>
<b>Carrying amounts:</b>						
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

	Land	Buildings and other equipment	Total
<b>Cost or deemed cost:</b>			
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>
<b>Depreciation and impairment losses:</b>			
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>

(Continued)

**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

	Land	Buildings and other equipment	Total
<b>Carrying amounts:</b>			
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>
<b>Fair value:</b>			
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:

	Trademarks	Patents	Copyrights	Total
<b>Cost:</b>				
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>
<b>Amortization:</b>				
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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**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

	<u>Trademarks</u>	<u>Patents</u>	<u>Copyrights</u>	<u>Total</u>
<b>Carrying amount:</b>				
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.

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**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:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
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:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
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:

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

(Continued)



**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:

	<b>2017</b>	<b>2016</b>
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><u>\$ 156,494</u></u>	<u><u>160,593</u></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:

	<b>2017</b>	<b>2016</b>
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><u>\$ 88,082</u></u>	<u><u>96,865</u></u>

(Continued)

**PRIMAX ELECTRONICS LTD.**  
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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:

	<b>2017</b>	<b>2016</b>
Current service costs	\$ 1,153	1,401
Net interest of net liabilities for defined benefit	853	1,074
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:

	<b>2017</b>	<b>2016</b>
Balance on January 1	\$ 4,421	2,892
Recognized during the period	5,909	1,529
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:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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.

(Continued)

**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:

	<b>Influences of defined benefit obligations</b>	
	<b>Increased 0.25%</b>	<b>Decreased 0.25%</b>
<b>December 31, 2017</b>		
Discount rate	\$ (3,420)	3,533
Future salary increase rate	\$ 3,374	(3,283)
<b>December 31, 2016</b>		
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:

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

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

	<b>2017</b>	<b>2016</b>
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	(41,361)	80,165
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:

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

2) Unrecognized deferred tax assets

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Deductible temporary differences	<u>\$ 73,400</u>	<u>109,500</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
<b>Deferred tax liabilities:</b>					
Balance on January 1, 2017	\$	136,577	-	16,984	153,561
Recognized in profit or loss		51,480	24,493	-	75,973
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		24,523	-	11,456	35,979
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
<b>Deferred tax assets:</b>								
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	21,818	(208)	42,483	2,781	(46,493)	(49)	(30,271)	(9,939)
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	4,515	(175)	13,374	1,303	23,857	(17,290)	29,166	54,750
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>
	<b>2017</b>	<b>2016 (actual)</b>
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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**PRIMAX ELECTRONICS LTD.**  
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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:

	<b>Ordinary shares</b>	
(in thousands of shares)	<b>2017</b>	<b>2016</b>
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	<u>445,688</u>	<u>442,134</u>

(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:

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

(Continued)

**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

(ii) Capital surplus

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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	303,000	-
	<b><u>\$ 1,232,490</u></b>	<b><u>791,466</u></b>

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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**PRIMAX ELECTRONICS LTD.**  
**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:

	<u>Plan 1 (note)</u>	<u>Plan 2 (note)</u>	<u>Plan 3 (note)</u>	
			<u>Issued in November 2011</u>	<u>Issued in October 2012</u>
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:

<u>Period of stock options</u>	<u>Plan 1</u>	<u>Plan 2</u>
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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**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

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)

**PRIMAX ELECTRONICS LTD.**  
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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:

Grant date	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)	1~3 years (notes 2 and 3)	1~3 years (note 2)	1~3 years (note 2)	1~3 years (note 2)

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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.

(Continued)

**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

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>3,934</u>	<u>1,771</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>440,907</u>	<u>439,169</u>

(Continued)

**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

(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:

	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 (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>
	2017	2016
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:

	2017	2016
Goods sold	\$ 34,135,266	44,778,842
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:

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

(Continued)

**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	<u>23,325</u>	<u>14,692</u>
	\$ <u>52,076</u>	<u>33,468</u>

(Continued)



**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:

	2017	2016
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:

	2017	2016
<b>Unrealized gains or losses of available-for-sale financial assets, net of tax:</b>		
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:

	December 31, 2017	December 31, 2016
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>

(Continued)

**PRIMAX ELECTRONICS LTD.**  
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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
<b>December 31, 2017</b>							
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>

(Continued)

**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

	Carrying amount	Contractual cash flows	Within 6 months	6~12 months	1~2 years	2~5 years	Over 5 years
<b>December 31, 2016</b>							
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:

	December 31, 2017			December 31, 2016		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rat	TWD
<b>Financial assets</b>						
<b>Monetary items</b>						
USD:TWD	\$ 348,026	29.848	10,387,878	416,943	32.279	13,458,517
<b>Financial liabilities</b>						
<b>Monetary items</b>						
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):

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

(Continued)

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**Notes to the Financial Statements**

(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					
	Carrying amounts	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss – current</b>	<b>\$ 93,095</b>	-	-	93,095	93,095
<b>Available-for-sale financial assets – non-current</b>	<b>\$ 397,252</b>	-	-	397,252	397,252
<b>Loans and receivables</b>					
Cash and cash equivalents	\$ 3,979,290				
Notes and accounts receivable (including related parties)	6,285,571				
Other receivables	184,718				
Refundable deposits	26,719				
Total	<b>\$ 10,476,298</b>				
<b>Financial liabilities at fair value through profit or loss – current</b>	<b>\$ 103,107</b>	-	-	103,107	103,107
<b>Financial liabilities carried at amortized cost</b>					
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	160,639				
Total	<b>\$ 11,205,776</b>				

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**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

December 31, 2016					
	Carrying amounts	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss – current</b>	<b>\$ 141,317</b>	-	-	141,317	141,317
<b>Available-for-sale financial assets – non-current</b>	<b>\$ 873,921</b>	586,404	-	287,517	873,921
<b>Loans and receivables</b>					
Cash and cash equivalents	\$ 4,751,198				
Notes and accounts receivable (including related parties)	7,853,154				
Other receivables	1,050,923				
Refundable deposits	26,209				
Total	<b>\$ 13,681,484</b>				
<b>Financial liabilities at fair value through profit or loss – current</b>	<b>\$ 150,430</b>	-	-	150,430	150,430
<b>Financial liabilities carried at amortized cost</b>					
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	125,703				
Total	<b>\$ 14,335,349</b>				

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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**PRIMAX ELECTRONICS LTD.**  
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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		
	<u>Fair value through profit or loss</u>	<u>Available for sale</u>	<u>Total</u>	<u>Fair value through profit or loss</u>	<u>Available for sale</u>	<u>Total</u>
<b>Balance on January 1</b>	\$ (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
<b>Balance on December 31</b>	<b>\$ (10,012)</b>	<b>397,252</b>	<b>387,240</b>	<b>(9,113)</b>	<b>287,517</b>	<b>278,404</b>

- 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:

<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	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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**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

<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>
<b>December 31, 2017</b>				
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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**PRIMAX ELECTRONICS LTD.**  
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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.**  
**Notes to the Financial Statements**

<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>

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**PRIMAX ELECTRONICS LTD.**  
**Notes to the Financial Statements**

(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	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	Tymphony 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, Tymphony 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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PRIMAX ELECTRONICS LTD.  
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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	

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD\$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	Shares: 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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PRIMAX ELECTRONICS LTD.  
Notes to Financial Statements

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	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)	
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 Europe	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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PRIMAX ELECTRONICS LTD.  
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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			6,002,608	6,002,608			10,287,105	1,452,318	1,291,934	
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	-
Tymphony 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.

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)

Item	Description	Amount
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><u>\$ 3,979,290</u></u>

## Statement of accounts receivable

Item	Description	Amount
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><u>\$ 6,256,390</u></u>

## PRIMAX ELECTRONICS LTD.

## Statement of other receivables

December 31, 2017

(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
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

Item	Cost	Net realizable value
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		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>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**

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

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

<b>Item</b>	<b>Description</b>	<b>Amount</b>
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		<b><u>\$ 1,828,968</u></b>
Note : individual amount not exceeding 5%		

## PRIMAX ELECTRONICS LTD.

## Statement of other current liabilities

December 31, 2017

(Expressed in thousands of New Taiwan Dollars)

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

Note : individual amount not exceeding 5%

## Statement of other non-current liabilities

Item	Amount
Deferred tax liabilities — non-current	\$ 229,534
Guarantee deposits	160,639
Accrued pension liabilities	68,412
Other (note)	2,650
	<u>\$ 461,235</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	(135,555)			
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)**

<b>Item</b>	<b>Quantity (in thousands)</b>	<b>Amount</b>
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)**

<b>Item</b>	<b>Amount</b>
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)

Item	Selling expenses	Administrative expenses	Research and development expenses
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)	123,357	78,111	234,480
Total	\$ 605,515	434,624	971,418

Note : individual amount not exceeding 5%



致伸科技股份有限公司



董事長 梁立省