

**PRIMAX ELECTRONICS LTD.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**With Independent Auditors' Report  
for the Years Ended  
December 31, 2019 and 2018**

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

The independent 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 independent 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, 2019 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 endorsed by the Financial Supervisory Commission, "Consolidated 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 Subsidiaries do not prepare a separate set of combined financial statements.

Company name: PRIMAX ELECTRONICS LTD.

Chairman: LIANG LI SHENG

Date: March 10, 2020



安侯建業聯合會計師事務所  
KPMG

台北市11049信義路5段7號68樓(台北101大樓)  
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,  
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666  
Fax 傳真 + 886 (2) 8101 6667  
Internet 網址 kpmg.com/tw

## Independent Auditors' Report

To the Board of Directors of PRIMAX ELECTRONICS LTD.:

### Opinion

We have audited the consolidated financial statements of PRIMAX ELECTRONICS LTD. (the "Company") and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, 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, 2019 and 2018, 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 audits 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. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained 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, 2019 and 2018, the assets of these subsidiaries constitute 49% and 33%, respectively, of the consolidated total assets. For the years ended December 31, 2019 and 2018, the operating revenue of these subsidiaries constitute 51% and 41%, respectively, of the consolidated operating revenue.

We did not audit the financial statements of ALT International Co., Ltd (Cayman), which represented the investments accounted for using equity method. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for ALT International Co., Ltd (Cayman), is based solely on the report of another auditor. The investment in ALT International Co., Ltd (Cayman) accounted for using the equity method constituted 1% of the consolidated total assets at December 31, 2019, and the related share of loss of associates accounted for using equity method constituted 0% of consolidated profit after tax for the year ended.

The Company has prepared its parent company only financial statements as of and for the years ended December 31, 2019 and 2018, 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 analyse 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 have issued audit instructions to their auditors as guidelines to communicate the above key audit matters with them and reviewed other auditors' working papers, as well as obtained the feedbacks required in the audit instructions.

### 2. Lost control of subsidiaries

Please refer to Note 4(c) "Basis of consolidation", Note 4(j) "Business combination" and Note 6(h) "loss control of subsidiaries" of the consolidated financial statements.

#### Description of key audit matter:

In July 2019, ALT International Co., Ltd (Cayman) held an interim shareholders' meeting and re-elected its directors, wherein the Group did not obtain more than 50% of its board of directors' voting rights. Therefore, the Group did not have the right to direct the relevant activities of ALT International Co., Ltd (Cayman) and lost its control over ALT International Co., Ltd (Cayman), but still retained significant influence. Thereafter, investment in ALT International Co., Ltd (Cayman) was reclassified to investments accounted for using the equity method. This transaction is deemed as non-routine and significant transaction for the year 2019 and will influence the users' comprehension on the financial statements. Therefore, lost control of subsidiaries is one of our key audit matters for our audit.

#### How the matter was addressed in our audit:

The principal audit procedures on lost control of subsidiaries included: reviewing the related documents at the time of loss of control; appointing our internal expert to review whether the measurements the Group adopted in evaluation report is common in the industry; verifying the correctness of profit or loss of disposal with the management's calculation and inspecting the completeness of disclosures related to this transaction in the consolidated financial statements.



### 3. Impairment assessment of intangible assets

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

#### Description of key audit matter:

In 2014, the Company acquired Tymphany Worldwide Enterprises Ltd. through its subsidiary, Diamond (Cayman) Holdings Ltd.; and in July 2019, the Company lost its control over ALT International Co., Ltd (Cayman) and its subsidiaries due to not having obtained more than 50% of its board of directors’ voting rights in the interim shareholders’ meeting, as a result, the Company recognized the investment in ALT International Co., Ltd (Cayman) as repurchase after disposal, which was remeasured at fair value. The two transactions mentioned above resulted in the Group to recognize its goodwill, technologies, and customer relations, as intangible assets. The rapid industrial transformation and the assessment of impairment contained 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 the Group and 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 (including the Audit Committee) 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 CHI-LUNG YU.

KPMG

Taipei, Taiwan (Republic of China)  
March 10, 2020

#### Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and 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 independent auditors' audit 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 independent auditors' audit report and consolidated financial statements, the Chinese version shall prevail.



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

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018			
		Amount	%	Amount	%	Amount	%
Assets							
Current assets:							
1100	Cash and cash equivalents (note 6(a))	\$ 6,700,510	13	4,990,458	12	2100	Short-term borrowings (notes 6(o) and 8)
1110	Current financial assets at fair value through profit or loss (note 6(b))	187,016	-	115,608	-	2120	Current financial liabilities at fair value through profit or loss (note 6(b))
1170	Notes and accounts receivable, net (notes 6(d) and (x))	19,197,355	36	16,382,468	38	2170	Notes and accounts payable
1180	Accounts receivable from related parties, net (notes 6(d), (x) and 7)	180,471	-	539,820	1	2180	Accounts payable to related parties (note 7)
1200	Other receivables (notes 6(d) and 7)	1,049,016	2	1,040,546	3	2200	Other payables (notes 6(g) and 7)
1310	Inventories (note 6(c))	10,493,246	20	7,760,333	18	2201	Salaries payable
1470	Other current assets (note 8)	1,515,598	3	642,927	1	2280	Current lease liabilities (note 6(q))
		39,323,212	74	31,472,160	73	2300	Other current liabilities (note 6(x))
Non-current assets:							
1517	Non-current financial assets at fair value through other comprehensive income (note 6(c))	106,535	-	268,088	1	2320	Long-term borrowings, current portion (notes 6(p) and 8)
1550	Investments accounted for using equity method (notes 6(f) and (h))	904,753	2	-	-	2365	Current refund liabilities
1600	Property, plant and equipment (notes 6(k) and 8)	7,363,740	14	5,509,536	13	Non-Current liabilities:	
1755	Right-of-use assets (note 6(i))	1,843,153	3	-	-	2540	Long-term borrowings (notes 6(p) and 8)
1760	Investment property (note 6(m))	34,289	-	34,751	-	2580	Non-current lease liabilities (note 6(q))
1780	Intangible assets (note 6(n))	2,501,156	5	4,463,979	10	2630	Long-term deferred revenue (note 6(k))
1840	Deferred tax assets (note 6(i))	711,859	1	654,310	2	2600	Other non-current liabilities (notes 6(f), (s) and (t))
1985	Long-term prepaid rents	-	-	223,064	-	Total liabilities	
1990	Other non-current assets (note 8)	357,257	1	535,613	1	Equity attributable to owners of parent:	
		13,822,742	26	11,689,341	27	3110	Ordinary shares (note 6(u))
						3200	Capital surplus (notes 6(i) and (u))
						3310	Legal reserve (note 6(u))
						3320	Special reserve (note 6(u))
						3350	Unappropriated retained earnings (notes 6(c) and (u))
						3400	Other equity interest (note 6(c))
						36XX	Non-controlling interests (notes 6(f) and (j))
						Total equity	
						Total liabilities and equity	
Total assets		\$ 53,145,954	100	43,161,501	100	Total liabilities and equity	
						\$ 53,145,954	100
						43,161,501	100

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2019 and 2018**

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

		2019		2018	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(x) and 7)	\$ 80,649,608	100	64,811,408	100
5000	Operating costs (notes 6(e), (q), (r), (s), (y), 7 and 12)	<u>71,218,592</u>	<u>88</u>	<u>57,021,985</u>	<u>88</u>
	Gross profit from operation	<u>9,431,016</u>	<u>12</u>	<u>7,789,423</u>	<u>12</u>
	Operating expenses (notes 6(q), (r), (s), (v), (y) and 12):				
6100	Selling expenses	1,503,193	2	1,447,730	2
6200	Administrative expenses	2,145,717	3	1,796,927	3
6300	Research and development expenses	2,968,221	4	2,664,477	4
6450	Expected credit loss (Reversal of expected credit loss) (note 6(d))	<u>51,258</u>	<u>-</u>	<u>(62,225)</u>	<u>-</u>
	Total operating expenses	<u>6,668,389</u>	<u>9</u>	<u>5,846,909</u>	<u>9</u>
	Net operating income	<u>2,762,627</u>	<u>3</u>	<u>1,942,514</u>	<u>3</u>
	Non-operating income and expenses:				
7010	Other income (note 6(z))	129,298	-	133,045	-
7020	Other gains and losses (notes 6(f), (h) and (aa))	241,454	1	349,320	1
7060	Share of loss of associates accounted for using equity method (note 6(g))	(11,067)	-	(16,753)	-
7050	Finance costs (note 6(q))	<u>(208,411)</u>	<u>-</u>	<u>(43,924)</u>	<u>-</u>
	Total non-operating income and expenses	<u>151,274</u>	<u>1</u>	<u>421,688</u>	<u>1</u>
	Profit before tax	<u>2,913,901</u>	<u>4</u>	<u>2,364,202</u>	<u>4</u>
7950	Less: Income tax expenses (note 6(t))	<u>650,982</u>	<u>1</u>	<u>450,227</u>	<u>1</u>
	Profit	<u>2,262,919</u>	<u>3</u>	<u>1,913,975</u>	<u>3</u>
8300	Other comprehensive income (loss):				
8310	Items that may not be reclassified subsequently to profit or loss:				
8311	Losses on remeasurements of defined benefit plans (note 6(s))	(2,146)	-	(473)	-
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(17,148)	-	(134,472)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>(19,294)</u>	<u>-</u>	<u>(134,945)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign operation's financial statements	(525,368)	(1)	(192,374)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>(525,368)</u>	<u>(1)</u>	<u>(192,374)</u>	<u>-</u>
8300	Other comprehensive income after tax	<u>(544,662)</u>	<u>(1)</u>	<u>(327,319)</u>	<u>-</u>
	Comprehensive income	<u>\$ 1,718,257</u>	<u>2</u>	<u>1,586,656</u>	<u>3</u>
	Profit attributable to:				
8610	Owners of parent	\$ 2,134,870	3	1,826,870	3
8620	Non-controlling interests (note 6(j))	<u>128,049</u>	<u>-</u>	<u>87,105</u>	<u>-</u>
		<u>\$ 2,262,919</u>	<u>3</u>	<u>1,913,975</u>	<u>3</u>
	Comprehensive income attributable to:				
8710	Owners of parent	\$ 1,644,893	2	1,504,297	3
8720	Non-controlling interests (note 6(j))	<u>73,364</u>	<u>-</u>	<u>82,359</u>	<u>-</u>
		<u>\$ 1,718,257</u>	<u>2</u>	<u>1,586,656</u>	<u>3</u>
	Earnings per share (note 6(w))				
9710	Basic earnings per share (NT dollars)	<u>\$ 4.80</u>		<u>4.12</u>	
9810	Diluted earnings per share (NT dollars)	<u>\$ 4.77</u>		<u>4.09</u>	

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018  
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										Other equity interest		
	Unrealized										gains (losses)		
	Share capital										from financial		
	Ordinary shares	Capital advance	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of financial statements	Unearned employee compensation	Total equity attributable to owners of parent	Non-controlling interests	Total equity		
	\$												
Balance at January 1, 2018 after adjustments	4,456,883	3,085	1,232,490	982,041	97,300	5,050,917	(372,554)	(95,806)	11,385,272	1,596,530	12,981,802		
Profit	-	-	-	-	-	1,826,870	-	-	1,826,870	87,105	1,913,975		
Other comprehensive income	-	-	-	-	-	(473)	(187,628)	-	(188,101)	(4,746)	(192,845)		
Comprehensive income	-	-	-	-	-	1,826,397	(187,628)	-	1,638,769	82,359	1,721,124		
Appropriation and distribution of retained earnings:													
Appropriated legal reserve	-	-	-	205,742	-	(205,742)	-	-	-	-	-		
Appropriated special reserve	-	-	-	-	201,765	(201,765)	-	-	-	-	-		
Cash dividends of ordinary share	-	-	-	-	-	(1,430,068)	-	-	(1,430,068)	-	(1,430,068)		
Changes in shares of investment accounted for using equity method	-	-	81,571	-	-	-	-	134	81,705	230,640	312,345		
Amortization expense of restricted stock	-	-	-	-	-	-	-	-	84,615	-	84,615		
Retirement of restricted stock	(3,640)	-	(45,324)	-	-	-	-	-	48,964	-	-		
Issuance of restricted stock	20,000	-	106,535	-	-	-	-	-	(126,535)	-	-		
Issuance of ordinary shares for employee stock option	1,280	(3,085)	1,805	-	-	-	-	-	-	-	-		
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	(1,256)	-	-	-	-	-		
Acquired non-controlling interest from business combination	-	-	-	-	-	-	-	-	-	1,434,768	1,434,768		
Balance at December 31, 2018	4,474,523	-	1,377,077	1,187,783	299,065	5,038,483	(560,182)	(88,762)	11,625,821	3,344,297	14,970,118		
Profit	-	-	-	-	-	2,134,870	-	-	2,134,870	128,049	2,262,919		
Other comprehensive income	-	-	-	-	-	(2,146)	(470,683)	-	(472,829)	(54,685)	(544,662)		
Comprehensive income	-	-	-	-	-	2,132,724	(470,683)	-	1,662,041	73,364	1,735,405		
Appropriation and distribution of retained earnings:													
Appropriated legal reserve	-	-	-	182,687	-	(182,687)	-	-	-	-	-		
Appropriated special reserve	-	-	-	-	363,283	(363,283)	-	-	-	-	-		
Cash dividends of ordinary share	-	-	-	-	-	(1,072,341)	-	-	(1,072,341)	-	(1,072,341)		
Changes in shares of investment accounted for using equity method	-	-	9,990	-	-	-	-	38,540	48,530	4,138	52,668		
Amortization expense of restricted stock	-	-	-	-	-	-	-	-	61,099	-	61,099		
Retirement of restricted stock	(6,915)	-	(2,848)	-	-	-	-	-	9,763	-	-		
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(42,152)	(42,152)		
Issuance of restricted stock	18,200	-	98,826	-	-	-	-	(117,026)	-	-	-		
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	(52,698)	-	-	-	-	-		
Derogation of non-controlling interest due to disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(1,184,009)	(1,184,009)		
Balance at December 31, 2019	4,485,808	-	1,483,045	1,370,470	662,348	5,500,198	(1,030,865)	(134,926)	12,308,002	2,195,638	14,503,640		

See accompanying notes to consolidated financial statements.



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

**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****For the years ended December 31, 2019 and 2018****(Expressed in Thousands of New Taiwan Dollars)**

	2019	2018
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 2,913,901	2,364,202
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and Amortization expense	2,190,317	1,614,689
Loss related to inventories	349,962	249,385
Expected credit loss (reversal)	51,258	(62,225)
Interest expense	203,047	38,001
Interest income	(120,338)	(112,306)
Compensation cost of share-based payment	75,227	122,994
Share of loss of associates accounted for using equity method	11,067	16,753
Loss (gain) on disposal of property, plant and equipment	(34,144)	11,843
Loss on disposal of investments accounted for using equity method	-	(4,950)
Loss on disposal of subsidiaries	275,306	-
Total adjustments to reconcile profit (loss)	3,001,702	1,874,184
<b>Changes in operating assets and liabilities:</b>		
Financial assets at fair value through profit or loss	(71,408)	25,543
Notes and accounts receivable	(3,110,708)	(2,839,678)
Other receivables	(79,852)	(185,411)
Accounts receivable from related parties	(11,134)	(280,343)
Inventories	(3,326,852)	(841,284)
Other current assets	(993,890)	21,876
Other operating assets	(14,412)	18,528
Changes in operating assets	(7,608,256)	(4,080,769)
Financial liabilities at fair value through profit or loss	187,231	(83,127)
Notes and accounts payable	5,449,971	1,944,724
Salaries payable	381,195	26,099
Accounts payable to related parties	(45,328)	(67,661)
Other payables	500,638	353,358
Other current liabilities	(62,304)	(60,961)
Refund liabilities	457,442	(15,838)
Other operating liabilities	2,048,913	(130,527)
Changes in operating liabilities	8,917,758	1,966,067
Total changes in operating assets and liabilities	1,309,502	(2,114,702)
Total adjustments	4,311,204	(240,518)
Cash outflow generated from operations	7,225,105	2,123,684
Interest received	120,338	112,306
Interest paid	(202,975)	(37,931)
Income taxes paid	(514,457)	(411,108)
Net cash flows from operating activities	6,628,011	1,786,951
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income	(33,273)	(8,880)
Proceeds from disposal of financial assets at fair value through other comprehensive income	214,202	7,343
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	2,016	2,107
Net cash flows from loss control of subsidiaries	(131,285)	-
Acquisition of investments accounted for using equity method	-	(1,370,824)
Increase in restricted deposits	-	(57,751)
Acquisition of property, plant and equipment	(3,559,181)	(1,973,862)
Proceeds from disposal of property, plant and equipment	74,349	60,841
Decrease (increase) in refundable deposits	(53,170)	48,944
Dividends received	214	13,437
Changes in non-controlling interests	-	273,832
Acquisition of unamortized expense	(91,905)	(37,027)
Aggregation from business combination without consideration transferred	-	379,844
Increase in other non-current assets	(886)	(255,356)
Net cash flows used in investing activities	(3,578,919)	(2,917,352)
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term borrowings	125,268	(16,678)
Increase (decrease) in long-term borrowings	88,002	(106,914)
Increase in guarantee deposits received	52,001	13,886
Payment of lease liabilities	(249,186)	-
Cash dividends	(1,114,493)	(1,430,068)
Net cash flows used in financing activities	(1,098,408)	(1,539,774)
Effect of exchange rate changes on cash and cash equivalents	(240,632)	(160,378)
Net increase (decrease) in cash and cash equivalents	1,710,052	(2,830,553)
Cash and cash equivalents at beginning of period	4,990,458	7,821,011
Cash and cash equivalents at end of period	\$ 6,700,510	4,990,458

See accompanying notes to consolidated financial statements.

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

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2019 and 2018**

**(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, 2019, 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 related parts, as well as other electronic components. 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 10, 2020.

**(3) New standards and interpretations adopted:**

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“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, 2019. The related new standards, interpretations and amendments are as follows (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”):

(Continued)

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

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below:

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 4(m).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

(Continued)



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

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of other equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other lease.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, the Group is required to assess the classification of a sub-lease by reference to the right-of-use asset, not the underlying asset.

(Continued)

# PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### 4) Impacts on financial statements

On transition to IFRS 16, the Group recognised additional \$2,174,129 of right-of-use assets and \$1,684,460 of lease liabilities respectively, but did not affect the retained earnings. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 4.31%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	<b>January 1, 2019</b>
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 1,505,323
Recognition exemption for:	
short-term leases and lease of low-value assets	(14,954)
Extension and termination options reasonably certain to be exercised	669,810
	<u>\$ 2,160,179</u>
Discounted using the incremental borrowing rate at January 1, 2019 (as well as lease liabilities recognized at January 1, 2019)	<u>\$ 1,684,460</u>

### (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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

(Continued)

**PRIMAX ELECTRONICS LTD. AND 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 International Accounting Standards Board (IASB), but have yet to be 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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

**(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:

- 1) Financial instruments at fair value through profit or loss are measured at fair value;
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;
- 3) The defined benefit liabilities are measured at fair value of plan assets, less the present value of the defined benefit obligation.

(Continued)



## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(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.

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 over a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary, and any related non-controlling interests at their carrying amounts at the date when control is lost. Any interest retained in the former subsidiary is measured at fair value when control is lost, with the resulting gain or loss being recognized in profit or loss. The Group recognizes as gain or loss in profit or loss the difference between (i) the fair value of the consideration received as well as any investment retained in the former subsidiary at its fair value at the date when control is lost ;and (ii) the assets (including any goodwill), liabilities of the subsidiary as well as any related non-controlling interests at their carrying amounts at the date when control is lost. When the Group loses control of its subsidiary, it accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if it had directly disposed of the related assets or liabilities.

(Continued)

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

(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, 2019	December 31, 2018	
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	Primax AE (Cayman) Holdings Ltd. (Primax AE)	Holding company	100.00 %	100.00 %	
The Company	Primax Electronics (Singapore) Pte. Ltd. (Primax Singapore)	Holding company	100.00 %	- %	(note1)
Primax Cayman	Primax Industries (Hong Kong) Ltd. (Primax HK)	Holding company and customer service	100.00 %	100.00 %	
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 (Kun Shan) 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 %	

(Continued)

# PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2019	December 31, 2018	
Primax Singapore	Primax Electronics (Thailand) Pte. Ltd. (Primax Thailand)	Manufacture and sale of computer peripheral devices and software	99.99 %	- %	(note 1)
Diamond	Tymphany Worldwide Enterprises Ltd. (TWEL)	Holding company	100.00 %	100.00 %	
TWEL	Tymphany Acoustic Technology (Huizhou) Co., Ltd (Tymphany Huizhou)	Manufacture, research and development, design, and sale of audio accessories, amplifiers and their components	71.43 %	71.43 %	(note 2)
Tymphany Huizhou	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 %	100.00 %	
Tymphany Huizhou	Dongguan Tymphany Acoustic Technology Co., Ltd. (Tymphany Dongguan)	Manufacture, research and development, design and sale of audio accessories, amplifiers and their components	100.00 %	100.00 %	
TYM Acoustic HK	TYMPHANY ACOUSTIC TECHNOLOGY (UK) LIMITED (TYM UK)	Research and development, design of audio accessories, amplifiers and their components	100.00 %	100.00 %	
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 %	100.00 %	
TYM Acoustic HK	TYP Enterprise, inc. (TYP)	Market development and customer service of amplifiers and their components	100.00 %	100.00 %	
TYM Acoustic HK	Tymphany HK Ltd. (TYM HK)	Sale of audio accessories, amplifiers and their components	100.00 %	100.00 %	
TYM Acoustic HK	Tymphany Acoustic Technology Limited (TYM Acoustic)	Research and development, design of audio accessories, amplifiers and their components	100.00 %	100.00 %	
TYM Acoustic HK	Tymphany Acoustic Technology (Thailand) Co., Ltd (TYTH)	Manufacture and sales of audio accessories, amplifiers and their components	99.99 %	- %	(note 3)

(Continued)

# PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2019	December 31, 2018	
TYM HK	TYMPHANY LOGISTICS, INC (TYML)	Sale of audio accessories, amplifiers and their components	100.00 %	100.00 %	
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 %	
Primax AE	ALT International Co., Ltd (Cayman) (AIC)	Holding company	- %	37.00 %	(note 4) (note 5)
AIC	De Amertek Technology Inc. (US) (DAT)	Sale of automobile and electronic control modules and other electronic components	- %	100.00 %	(note 4) (note 5)
AIC	Advanced Micro Electronics Co., LTD. (AME)	Manufacture and sale of automobile and electronic control modules, sensors and other electronic components	- %	100.00 %	(note 4) (note 5)
AIC	Advanced Leading Technology (Shanghai) Co. (ALT (Shanghai))	Manufacture and sale of automobile and electronic control modules, sensors and other electronic components	- %	99.67 %	(note 4) (note 5)
AIC and ALT (Shanghai)	Advanced Leading Technology Co. (ALT)	Manufacture and sale of automobile and electronic control modules, sensors and other electronic components	- %	100.00 %	(note 4) (note 5) (note 6)
ALT (Shanghai)	ALT Investments Limited (BVI) (ALTI)	Holding Company	- %	100.00 %	(note 4) (note 5)

Note 1: The subsidiary was established in the third quarter of 2019.

Note 2: The subsidiary's former name was Premium Loudspeakers (Hui Zhou) Co., Ltd., which was renamed as Tymphany Acoustic Technology (Huizhou) Co., Ltd., based on the resolution approved during the special shareholders' meeting on December 11, 2018.

Note 3: The subsidiary was established in the fourth quarter of 2019.

Note 4: The Company acquired 37% shares of AIC (originally named as Belfast Limited) by participating in its capital increase by cash, and purchasing its outstanding shares, as well as indirectly acquiring all shares of its subsidiaries in January 2018. The Company has control over AIC due to having more than 50% of its board of directors' voting rights based on the resolution of its shareholders meeting held on June 2018. The Company included AIC Group in its consolidated financial statements beginning January 2018. Prior to gaining control over AIC, the shares of profit or loss were accounted by using the equity method.

Note 5: In July 2019, AIC held an interim shareholders' meeting and re-elected its board members, wherein the Group did not obtain more than 50% of the voting rights of the board. As a result, the Group lost its control over AIC and its subsidiaries. Thereafter, the Group reclassified them from subsidiaries to investments accounted for using equity method.

Note 6: In July 2018, ALT executed a capital increase, wherein ALT (Shanghai) had participated and invested the amount of CNY8,000, resulting in the shareholding of AIC and ALT (Shanghai) to decrease and increase to 70.55% and 29.45%, respectively. In August and November 2018, ALT executed another capital increase, wherein only AIC had participated and invested the amounts of USD1,000 and USD3,000, respectively, which resulted in the shareholding of AIC and ALT (Shanghai) to increase and decrease to 85.22% and 14.78%, respectively.

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## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(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. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for the differences relating to an investment in equity securities designated as at fair value through other comprehensive income, 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 into the presentation currency of the consolidated financial statements, New Taiwan Dollar, at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency of the consolidated financial statements, New Taiwan Dollar, at the average rate. Foreign currency differences are recognized in other comprehensive income.

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.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in the foreign operation and are recognized in other comprehensive income.

(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;

(Continued)



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

- (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.

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

Accounts receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is an account receivable without a significant financing component) or financial liability is initially measured at fair value, plus transaction costs that are directly attributable to its acquisition or issue. A accounts receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets classified as the same categories are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at amortized cost; Fair value through other comprehensive income (FVOCI) ; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

#### 2) Fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

#### 3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

#### 4) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, principal is defined as the fair value of the financial assets on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

(Continued)

## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

#### 5) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, other receivables, guarantee deposit paid and other financial assets, etc.).

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

- Bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivables are always measured at an amount equal to lifetime ECL.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL are the portion of ECL that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 61 days past due.

(Continued)

## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Group considers a financial asset to be in default when the financial asset is more than 361 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECL are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 361 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

#### 6) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expired, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(Continued)

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences the 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.

3) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss

5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

(Continued)



## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (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.

#### (i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, after adjustments to align their accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes of the Group's shareholding percentage in the associate, the Group recognizes equity changes attributable to the Group by its shareholding percentage as capital surplus.

Unrealized Gains and losses resulting from transactions between the Group and an associate are recognized only to the extent of unrelated party's interests in the associate.

When the Group's share of losses exceeds its interests in an associate, the carrying amount of the investment, including any long term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent the Group has an obligation or has made payments on behalf of its associates.

The Group shall discontinue the use of the equity method from the date when its investment ceases to be an associate. The Group shall measure the retained interest at fair value. The difference between the fair value of retained interest and proceeds from disposal, and the carrying amount of the investment at the date the equity method was discontinued, is recognized in profit or loss. The Group shall account for all the amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would have been required if its associates had directly disposed of the related assets or liabilities. If a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

(Continued)

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

**(j) Business combination**

The Group accounts for business combinations using the acquisition method. The goodwill arising from an acquisition is measured as the excess of (i) the consideration transferred (which is generally measured at fair value) and (ii) the amount of non-controlling interest in the acquiree, both over the identifiable net assets acquired at the acquisition date.

All transaction costs relating to a business combination are recognized immediately as expenses when incurred, except for the issuance of debt or equity instruments.

The Group shall measure any non controlling interests in the acquiree either at fair value or at the non controlling interest's proportionate share of the acquiree's identifiable net assets, if the non controlling interests are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other non controlling interests are evaluated by their fair value or by another basis permitted by the IFRSs endorsed by the FSC.

In a business combination achieved in batches, the previously held equity interest in the acquiree at its acquisition date fair value is remeasured, and the resulting gain or loss, if any, is recognized in profit or loss. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

The consideration resulting from a contingent consideration shall be recognized at the acquisition-date fair value. For the changes in the fair value of contingent consideration that are not measurement period adjustments, the accounting treatments shall depend on the classification of contingent consideration. Other contingent considerations within the scope of IAS 39 shall be measured at their fair value for each reporting date after the acquisition date, and the changes in fair value shall be recognized in profit or loss in accordance with the regulation of IAS 39. Otherwise, they shall be measured at their fair value for each reporting date after the acquisition date, and the changes in fair value shall be recognized in profit or loss.

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. When the Group loses control over a subsidiary, it derecognizes the subsidiary at their carrying amount at the date when control is lost. Any interest retained in the former subsidiary is measured at fair value at the date when control is lost.

**(k) Investment property**

Investment property is the 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 at cost, less accumulated depreciation and accumulated impairment losses. 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.

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

(Continued)

## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Rental income from investment property is recognized as other gains and losses on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(I) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of an asset, less its residual value, and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment.

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 annual reporting date and adjusted if appropriate.

(iv) 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 property.

(Continued)

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

(m) Lease (applicable from January 1, 2019)

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
  - the customer has the right to direct how, and for what purpose, the asset is used throughout the period of use; or
  - the relevant decisions about how, and for what purpose, the asset is used are predetermined and:
    - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
    - the customer designed the asset in a way that predetermines how, and for what purpose, it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and accounted for the lease and non-lease components as a single lease component.

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

(Continued)

## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised or penalty should be paid.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment on purchase option; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

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## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Group presents right-of-use assets that do not meet the definition of investment property and lease liabilities as a separate line item respectively in the statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of machinery and other equipment that have a short-term leases and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS15 to allocate the consideration in the contract.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term.

(n) Leases (applicable before January 1, 2019)

(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.

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

(o) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete the development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets, including customer relationships, technology, patents and trademarks, that are acquired by the Group and have finite useful lives, are measured at cost, less accumulated amortization and any accumulated impairment losses.

(ii) 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.

(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and 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 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     |

Amortization methods, useful lives and residual values, are reviewed at each annual reporting date and adjusted if appropriate.

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## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(p) Impairment of non-financial assets

At each annual reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value, less costs to sell. Value-in-use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(q) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below:

(i) Sale of goods

The Group manufactures computer peripherals and non-computer peripherals and sales them to customers. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Group often offers discounts to its customers based on aggregate sales of components. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liabilities is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales of components are made with a credit term of 45 days to 90 days, which is consistent with the market practice.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Rendering of services

The Group provides services, such as model research, development, and design to customers. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(iii) Financing components

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

(r) 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.

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

(s) Employee benefits

(i) Defined contribution plans

Obligations for contributions to the defined contribution plans are expensed as related services are provided.

(ii) Defined benefit plans

The Group's net obligation in respect of the defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to 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. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability (asset), which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as related service are provided.

A liability is recognized for the amount expected to be paid 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.

(t) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized 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.

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

Grant date of a share-based payment award is the date which the board of directors authorized the price and number of shares that employees can subscribe for.

**(u) Income taxes**

Income taxes 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 are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - 1) the same taxable entity; or
  - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(Continued)

## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Deferred tax assets are 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 profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(v) 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.

(w) 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 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:

(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.

(Continued)

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

(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:

Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

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(ab) for assumptions used in measuring fair value.

**(6) Explanation of significant accounts:**

(a) Cash and cash equivalents

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Cash on hand	\$ 5,260	6,548
Demand accounts and checking deposits	5,531,016	3,911,783
Time deposits	<u>1,164,234</u>	<u>1,072,127</u>
Cash and cash equivalents in the consolidated statements of cash flows	<u><b>\$ 6,700,510</b></u>	<u><b>4,990,458</b></u>

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

(Continued)

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

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

(i) Details of financial instruments were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<b>Mandatorily measured at FVTPL:</b>		
Derivative instruments not used for hedging		
Forward exchange contracts	\$ 82,870	115,608
Foreign exchange swap contracts	<u>104,146</u>	<u>-</u>
	<u><b>\$ 187,016</b></u>	<u><b>115,608</b></u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<b>Financial liabilities held-for-trading:</b>		
Derivative instrument not used for hedging		
Forward exchange contracts	\$ (193,946)	(19,980)
Foreign exchange swap contracts	<u>(13,265)</u>	<u>-</u>
	<u><b>\$ (207,211)</b></u>	<u><b>(19,980)</b></u>

(ii) The Group held the following derivative instruments as mandatorily measured at fair value through profit or loss and held-for-trading financial liabilities, without the application of hedge accounting, as of December 31, 2019 and 2018:

<u>December 31, 2019</u>			
<u>Derivative financial instruments</u>	<u>Nominal amount (in thousands)</u>	<u>Maturity date</u>	<u>Predetermined rate</u>
Forward exchange contracts — buy USD / sell TWD	USD 511,000	January 2, 2020~ June 29, 2020	29.575~31.260
Forward exchange contracts — buy TWD / sell USD	USD 106,000	January 2, 2020~ March 30, 2020	29.996~30.776
Forward exchange contracts — buy CNY/ sell USD	USD 197,700	January 3, 2020~ March 25, 2020	6.9800~7.1710
Foreign exchange swap contracts — swap in USD/ swap out TWD	USD 10,000	February 26, 2020	31.288
Foreign exchange swap contracts — swap in TWD / swap out USD	USD 269,000	January 6, 2020~ June 23, 2020	29.754~30.859
Forward exchange swap contracts— swap in CNY/ swap out USD	USD 11,000	January 3, 2020~ January 7, 2020	7.0026~7.0036

(Continued)

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

<b>December 31, 2018</b>			
<b>Derivative financial instruments</b>	<b>Nominal amount (in thousands)</b>	<b>Maturity date</b>	<b>Predetermined rate</b>
Forward exchange contracts — buy USD / sell TWD	USD 167,000	January 7, 2019~ May 17, 2019	29.94~30.687
Forward exchange contracts — buy CNY / sell USD	USD 237,500	January 7, 2019~ May 17, 2019	6.8744~7.0017
Forward exchange contracts— swap in TWD / swap out USD	USD 40,000	January 7, 2019~ January 18, 2019	30.525~30.7315

(iii) Please refer to note 6(ab) for the liquidity risk of the Group's financial instruments.

(c) Financial assets at FVOCI

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Equity investments at FVOCI</b>		
Stocks listed in domestic markets—Global TEK	\$ -	232,737
Stocks unlisted in domestic markets—WK Technology Fund IV Ltd.	1,076	1,076
Stocks unlisted in domestic markets—Changing Information Technology Inc.	2,102	2,102
Stocks unlisted in domestic markets—Syntronix Corp.	49	49
Equities unlisted in foreign markets—Grove Ventures L.P.	55,094	27,660
Equities unlisted in foreign markets—Grove Ventures II, L.P.	7,226	-
Stocks unlisted in foreign markets—WK Global Investment III Ltd.	40,988	4,464
Total	<u>\$ 106,535</u>	<u>268,088</u>

- (i) The Group designated the investments above as equity securities as at FVOCI because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes and not for sale.
- (ii) During the years ended December 31, 2019 and 2018, the dividends of \$214 and \$13,437, related to equity investments at FVOCI held were recognized.

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# **PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

- (iii) As a result of enhancing its working capital, the Group sold 5,338 thousand and 172 thousand of its shares in Global TEK, with the fair values of \$214,202 and \$7,343, resulting in the losses of \$52,698 and \$1,256, respectively, for the years ended December 31, 2019 and 2018. Losses had been recognized as other equity interests, and later on, reclassified to retained earnings.
- (iv) WK Technology Fund IV Ltd. refunded the amount of \$691 to the Group due to its capital reduction in June 2018.
- (v) Grove Venture, L.P. executed capital increases, wherein the Group had participated and invested the amounts of \$25,953 and \$8,880 in the years ended December 31, 2019 and 2018, respectively.
- (vi) The Group invested \$7,320 in an unlisted company, Grove Ventures II, L.P., in the year ended December 31, 2019.
- (vii) WK Global Investment III Ltd. refunded the amounts of \$2,016 and \$1,416 to the Group due to its capital reduction in June 2019 and June 2018, respectively.
- (viii) The Group did not provide any of the aforementioned financial assets as collateral.
- (d) Notes and accounts receivable (including related parties)

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Notes receivable	\$ 5,250	288,156
Accounts receivable	19,267,830	16,139,779
Accounts receivable – related parties	180,471	539,820
Less: allowance for doubtful accounts	<u>(75,725)</u>	<u>(45,467)</u>
Total	<b><u>\$ 19,377,826</u></b>	<b><u>16,922,288</u></b>

- (i) The Group did not provide any of the aforementioned notes and accounts receivable (including related parties) as collateral.
- (ii) The Group applies the simplified approach to provide for its ECL, the use of lifetime ECL provision for all notes and accounts receivables. To measure the ECL, notes and accounts receivable have been grouped based on shared credit risk characteristics and customer's ability to pay all the amounts due based on the terms of the contract as well as incorporated forward looking information, including macroeconomic and relevant industry information. The ECL allowance provision analysis was as follows:

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## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2019			
	Carrying amounts of notes and accounts receivable (including related parties)	Lifetime ECL rate	Loss allowance provision of lifetime ECL
Current	\$ 18,107,626	0%~0.38%	40,506
0 to 30 days past due	1,266,578	0%~3%	22,839
31 to 60 days past due	48,325	0%~5%	1,394
61 to 90 days past due	6,374	0%~10%	105
91 to 180 days past due	11,021	0%~25%	1,038
181 to 360 days past due	4,145	0%~80%	1,144
More than 361 days past due	9,482	0%~100%	8,699
	<u>\$ 19,453,551</u>		<u>75,725</u>
December 31, 2018			
	Carrying amounts of notes and accounts receivable (including related parties)	Lifetime ECL rate	Loss allowance provision of lifetime ECL
Current	\$ 15,223,848	0%	-
0 to 30 days past due	1,466,038	0%~3%	19,830
31 to 60 days past due	57,440	0%~5%	652
61 to 90 days past due	61,145	0%~10%	198
91 to 180 days past due	106,835	0%~25%	388
181 to 360 days past due	14,245	0%~80%	1,419
More than 361 days past due	38,204	0%~100%	22,980
	<u>\$ 16,967,755</u>		<u>45,467</u>

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**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

- (iii) The movement in the allowance for notes and accounts receivable (including related parties) was as follows:

	<u>2019</u>	<u>2018</u>
Balance on January 1, 2019 and 2018	\$ 45,467	127,640
Impairment losses recognized (reversed)	51,258	(62,225)
Acquisition from business combination	-	7,588
Disposal of subsidiaries	(14,861)	-
Amounts written off	(4,220)	(31,580)
Effect of exchange rate changes	(1,919)	4,044
Balance on December 31, 2019 and 2018	<u>\$ 75,725</u>	<u>45,467</u>

- (iv) The Group entered into agreements with banks to sell its accounts receivable without recourse. According to the agreements, within the limit of its credit facilities, the Group does not need to guarantee the capability of its customers to pay for reasons other than commercial disputes when transferring its accounts receivable. The Group 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 Group shall pay handling charges based on a fixed rate. The Group derecognized the above trade receivables because it has transferred substantially all of the risks and rewards of their ownership and it does not have any continuing involvement in them. As of reporting date, the details of transferred accounts receivable which conformed to the criteria for derecognition were as follows:

December 31, 2019						
Purchaser	Amount Derecognized	Amount Advanced		Amount Recognized in Other Receivables	Range of Interest Rate	Guarantee (Promissory note)
		Unpaid	Paid			
Mega International Commercial Bank	\$ -	-	-	-	-	US\$ 3,750
HSBC Bank	1,002,004	-	901,804	100,200	2.19%-2.20%	US\$ 13,500
EnTie Bank	193,366	-	-	193,366	-	-
	<u>\$ 1,195,370</u>	<u>-</u>	<u>901,804</u>	<u>293,566</u>		

  

December 31, 2018						
Purchaser	Amount Derecognized	Amount Advanced		Amount Recognized in Other Receivables	Range of Interest Rate	Guarantee (Promissory note)
		Unpaid	Paid			
Mega International Commercial Bank	\$ -	-	-	-	-	US\$ 3,750
HSBC Bank	-	-	-	-	-	US\$ 13,500
Bank of Taiwan	-	-	-	-	-	NT\$ 130,000
EnTie Bank	152,127	-	-	152,127	-	-
	<u>\$ 152,127</u>	<u>-</u>	<u>-</u>	<u>152,127</u>		

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

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

(c) Inventories

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Raw materials	\$ 2,356,395	2,185,662
Semi-finished goods and work in process	2,312,106	1,536,356
Finished goods and merchandise	<u>5,824,745</u>	<u>4,038,315</u>
	<b><u>\$ 10,493,246</u></b>	<b><u>7,760,333</u></b>

The Group did not provide any of the aforementioned inventories as collateral. The Group recognized the following items as cost of goods sold:

	<b>2019</b>	<b>2018</b>
Losses on inventory valuation	\$ (244,324)	(216,072)
Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity	(9,223)	(33,379)
Losses on disposal of inventories	(105,102)	(11,121)
Gains on physical inventories	<u>8,687</u>	<u>11,187</u>
	<b><u>\$ (349,962)</u></b>	<b><u>(249,385)</u></b>

(f) Investments accounted for using equity method

The Group's investments accounted for using the equity method are individually insignificant. The related information included in the consolidated financial statements was as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Carrying amount of individually insignificant associates' equity	\$ 904,753	(236)
Credit balance of long-term investment reclassified as other non-current liabilities	<u>-</u>	<u>236</u>
Total	<b><u>\$ 904,753</u></b>	<b><u>-</u></b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
Attributable to the Group:		
Loss	\$ (11,067)	(16,753)
Other comprehensive income	<u>(16,701)</u>	<u>-</u>
Comprehensive income	<b><u>\$ (27,768)</u></b>	<b><u>(16,753)</u></b>

(Continued)

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

The Group acquired 37% shares of Belfast Limited (renamed as AIC after the acquisition), a company that engages in the manufacturing of electric power steering system and adaptive front lighting system, with amount of USD\$48,100 by participating in capital increase of Belfast Limited by cash, and purchasing its outstanding shares, and obtain significant influence over Belfast Limited in January 2018. The Group has control over the operating and financial policies of AIC due to having more than 50% of its board of directors' voting rights based on the resolution of its shareholders meeting held in June 2018. The Group included AIC Group in its consolidated financial statements beginning June 2018; please refer to note 6(g). Since the investment is no longer regarded as an associate accounted for using equity method, it resulted in a revaluation gain of \$4,950, which was recorded as disposal gain under other gains and losses, including all the amounts previously recognized in other comprehensive income in relation to that investment. In July 2019, the Group lost its control over AIC, but retained its significant influence. Thereafter, AIC was reclassified from subsidiaries to investments accounted for using equity method. Please refer to note 6(h).

As of December 31, 2018, the Group's investment accounting for using equity method was the 35% shares of Yu-Ke Technology (Shanghai) Co., Ltd. (Yu-Ke Technology), resulting from its business combination with AIC and its subsidiaries. Yu Ke Technology had ceased its business operation, and is expected to be liquidated in the future.

(g) Business combination

In order to expand the business scale and strengthen the Group's competitiveness in the market, the Group acquire 37% shares of Belfast Limited (renamed as AIC after acquisition), a company that engages in the manufacturing of electric power steering system and adaptive front lighting system, by participating in capital increase of Belfast Limited by cash, and purchasing its outstanding shares in January 2018.

(i) Obtaining control

The Company has control over the relevant activities and compensation of AIC due to having more than 50% of its board of directors' voting rights based on the resolution of its shareholders meeting held in June 2018. The Company included AIC Group in its consolidated financial statements beginning January 2018 in accordance with IFRS 10 endorsed by the FSC. There were no considerations transferred during this transaction.

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**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

- (ii) According to IFRSs, the fair value of net assets acquired should be measured on the acquisition date. Therefore, the Group evaluated the fair value and useful lives of intangible assets at the time of acquisition. As of the reporting date, the Group had engaged experts to evaluate the fair value of identifiable net assets, and based on the analysis results, the fair value of consideration transferred, assets acquired, and liabilities assumed at the date of acquisition were as follows:

<u>Items</u>	<u>Amount</u>
Consideration transferred	
Fair value of shares in company	\$ 1,359,015
Contingent consideration	57,751
Fair value of non – controlling interest	<u>1,433,951</u>
	<u>2,850,717</u>
Fair value of identifiable assets acquired and liabilities assumed	
Cash	379,844
Notes and accounts receivable	662,180
Inventories	377,767
Other current assets	89,090
Property, plant and equipment	448,201
Intangible assets	1,337,933
Deferred tax assets	29,829
Other non – current assets	61,433
Short-term borrowings	(223,605)
Notes and accounts payable	(314,429)
Other current liabilities	(62,790)
Deferred tax liabilities	(313,221)
Other non – current liabilities	(195,302)
Non – controlling interest	<u>(817)</u>
Identifiable net assets	<u>2,276,113</u>
Goodwill	\$ <u>574,604</u>

Based on the agreement, the contingent consideration amounting to USD\$1,944 was deposited as guarantee of receivables. The guarantee which is classified as other payables will be paid when the amounts of receivables are collected.

(Continued)

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

(h) Loss control of subsidiaries

In July 2019, AIC held an interim shareholders' meeting and re-elected its directors, wherein the Group did not obtain more than 50% of its board of directors' voting rights. Therefore, the Group lost its control over AIC, but still retained significant influence. Thereafter, AIC and its subsidiaries were no longer included in the Group's consolidated financial statements; hence, they were reclassified to investments accounted for using the equity method. Due to the loss of its control over AIC, the Group remeasured its 37% shares in AIC amounting to \$932,522 at fair value, resulting in a revaluation loss of \$297,377 to be recognized in July 2019. Additionally, the Group reclassified the exchange differences on translation of foreign operation's financial statements of \$4,071 from other equity interest to other income. The Group recorded the net losses of its disposals amounting to \$275,306 under other gains and losses.

The carrying amount of assets and liabilities of AIC and its subsidiaries on July 2019 were as follow:

Cash	\$ 131,285
Notes and accounts receivable	685,683
Inventories	243,977
Other current assets	83,045
Property, plant and equipment	460,424
Intangible assets	1,763,938
Deferred tax assets	29,774
Right-of-use assets	131,996
Other non-current assets	31,029
Short-term borrowings	(235,707)
Notes and accounts payable	(201,424)
Other current liabilities	(83,485)
Deferred tax liabilities	(273,288)
Lease liabilities	(93,980)
Other non-current liabilities	(216,309)
Non- controlling interest	(453)
Carrying amount of net assets	<u>\$ 2,456,505</u>

(i) Changes in ownership interest in subsidiaries

(i) Acquisitions of NCI

In 2018, the Group participated in the capital increase by cash of Tymphany Huizhou, with an additional interest of 4.99%, which was different from its existing ownership percentage in Tymphany Huizhou. The transaction increased the non-controlling interest and capital reserves of the Group by \$219,006 and \$81,571, respectively.

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

(j) 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, 2019	December 31, 2018
Tymphony Huizhou and its subsidiaries	Hong Kong and China/Cayman Is.	28.57 %	28.57 %
AIC and its subsidiaries	China and U.S.A./Cayman Is.	- %	63 %

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) Tymphony Huizhou and its subsidiaries's collective financial information:

	December 31, 2019	December 31, 2018
Current assets	\$ 20,221,838	12,801,027
Non-current assets	7,069,414	4,029,482
Current liabilities	(18,685,167)	(9,594,008)
Non-current liabilities	(920,404)	(76,753)
Net assets	<u>\$ 7,685,681</u>	<u>7,159,748</u>
Non-controlling interests	<u>\$ 2,195,638</u>	<u>2,045,390</u>
	<b>2019</b>	<b>2018</b>
Operating revenue	<u>\$ 40,930,219</u>	<u>26,942,400</u>
Profit	862,711	798,773
Other comprehensive income (loss)	<u>\$ (203,331)</u>	<u>(29,993)</u>
Comprehensive income	<u>\$ 659,380</u>	<u>768,780</u>
Profit attributable to non-controlling interests	<u>\$ 246,459</u>	<u>226,787</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 188,263</u>	<u>218,218</u>
	<b>2019</b>	<b>2018</b>
Cash flows used in operating activities	\$ 2,423,821	(375,765)
Cash flows used in investing activities	(1,778,717)	(919,203)
Cash flows from financing activities	451,846	730,461
Effect of exchange rate changes	(42,790)	(36,167)
Net increase (decrease) in cash and cash equivalents	<u>\$ 1,054,160</u>	<u>(600,674)</u>
Dividends paid to non-controlling interests	<u>\$ 42,152</u>	<u>-</u>

(Continued)

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

(ii) AIC and its subsidiaries' collective financial information:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Current assets	\$ -	1,224,400
Non-current assets	-	2,364,796
Current liabilities	-	(451,162)
Non-current liabilities	-	(502,642)
Net assets	<u>\$ -</u>	<u>2,635,392</u>
Non-controlling interests	<u>\$ -</u>	<u>1,298,907</u>
	<b>For the seven months ended July 31, 2019</b>	<b>For the seven months ended December 31, 2018</b>
Operating revenue	<u>\$ 418,666</u>	<u>496,169</u>
Loss	\$ (187,693)	(220,939)
Other comprehensive income (loss)	8,725	5,617
Comprehensive loss	<u>\$ (178,968)</u>	<u>(215,322)</u>
Loss attributable to non-controlling interests	<u>\$ (118,410)</u>	<u>(139,682)</u>
Comprehensive loss attributable to non-controlling interests	<u>\$ (114,899)</u>	<u>(135,859)</u>
	<b>For the seven months ended July 31, 2019</b>	<b>For the seven months ended December 31, 2018</b>
Cash flows used in operating activities	\$ (52,216)	(87,515)
Cash flows used in investing activities	(116,807)	(11,277)
Cash flows from (used in) financing activities	72,567	(49,964)
Effect of exchange rate changes	6,570	(9,917)
Net decrease in cash and cash equivalents	<u>\$ (89,886)</u>	<u>(158,673)</u>
Dividends paid to non-controlling interests	<u>\$ -</u>	<u>-</u>

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# PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (k) 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, 2019 and 2018, were as follows:

	Land	Buildings, leasehold improvement, and additional equipment	Machinery and equipment	Office and other equipment	Construction in progress and testing equipment	Government grants	Total
<b>Cost or deemed cost:</b>							
Balance on January 1, 2019	\$ 229,801	4,338,669	6,925,443	770,043	566,140	-	12,830,096
Additions	-	52,190	720,596	1,231,970	2,235,207	-	4,239,963
Disposals	-	(106,387)	(877,359)	(29,095)	(1,962)	-	(1,014,803)
Reclassifications	-	119,600	1,218,764	253,113	(1,594,807)	-	(3,330)
Disposals of subsidiaries	(95,100)	(251,649)	(152,682)	(51,256)	(40,372)	-	(591,059)
Effect of changes in exchange rate	-	(137,894)	(326,674)	(84,919)	(53,150)	-	(602,637)
Balance on December 31, 2019	<u>\$ 134,701</u>	<u>4,014,529</u>	<u>7,508,088</u>	<u>2,089,856</u>	<u>1,111,056</u>	<u>-</u>	<u>14,858,230</u>
Balance on January 1, 2018	\$ 134,701	3,809,364	6,024,654	597,200	413,789	(2,284)	10,977,424
Additions	-	52,381	607,291	92,950	1,487,720	-	2,240,342
Disposals	-	(52,377)	(346,261)	(23,127)	(10,143)	2,275	(429,633)
Acquisition from business combination	95,100	233,784	53,478	23,149	42,690	-	448,201
Reclassifications	-	366,792	692,991	51,732	(1,355,287)	-	(243,772)
Effect of changes in exchange rate	-	(71,275)	(106,710)	28,139	(12,629)	9	(162,466)
Balance on December 31, 2018	<u>\$ 229,801</u>	<u>4,338,669</u>	<u>6,925,443</u>	<u>770,043</u>	<u>566,140</u>	<u>-</u>	<u>12,830,096</u>
<b>Depreciation and impairments loss:</b>							
Balance on January 1, 2019	\$ -	1,977,887	4,859,380	483,293	-	-	7,320,560
Depreciation	-	264,081	1,137,385	173,396	-	-	1,574,862
Disposals	-	(96,464)	(851,365)	(26,769)	-	-	(974,598)
Reclassifications	-	(57)	5,145	(5,619)	-	-	(531)
Disposals of subsidiaries	-	(37,809)	(54,638)	(38,188)	-	-	(130,635)
Effect of changes in exchange rate	-	(71,676)	(201,502)	(21,990)	-	-	(295,168)
Balance on December 31, 2019	<u>\$ -</u>	<u>2,035,962</u>	<u>4,894,405</u>	<u>564,123</u>	<u>-</u>	<u>-</u>	<u>7,494,490</u>
Balance on January 1, 2018	\$ -	1,830,962	4,311,178	399,884	-	(2,284)	6,539,740
Depreciation	-	217,604	1,008,872	90,775	-	-	1,317,251
Disposals	-	(52,010)	(284,967)	(22,247)	-	2,275	(356,949)
Reclassifications	-	(1,053)	(91,521)	(4,012)	-	-	(96,586)
Effect of changes in exchange rate	-	(17,616)	(84,182)	18,893	-	9	(82,896)
Balance on December 31, 2018	<u>\$ -</u>	<u>1,977,887</u>	<u>4,859,380</u>	<u>483,293</u>	<u>-</u>	<u>-</u>	<u>7,320,560</u>
<b>Carrying amounts:</b>							
Balance on December 31, 2019	<u>\$ 134,701</u>	<u>1,978,567</u>	<u>2,613,683</u>	<u>1,525,733</u>	<u>1,111,056</u>	<u>-</u>	<u>7,363,740</u>
Balance on December 31, 2018	<u>\$ 229,801</u>	<u>2,360,782</u>	<u>2,066,063</u>	<u>286,750</u>	<u>566,140</u>	<u>-</u>	<u>5,509,536</u>
Balance on January 1, 2018	<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>

(i) The unamortized deferred revenue of equipment subsidy amounted to \$2,876,379 and \$821,213 as of December 31, 2019 and 2018, respectively.

(Continued)

**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

- (ii) The Group identified its property, plant and equipment from the acquisition of AIC in June 2018.
  - (iii) The Group lost its control over AIC, resulting in its property, plant and equipment to be derecognized in July 2019. Please refer to note 6(h).
  - (iv) The Group provided the aforementioned property, plant and equipment as collateral; please refer to note 8.
- (l) Right-of-use assets

The Group leases many assets including land, buildings and vehicles. Information about leases for which the Group as a lessee is presented below:

	<u>Land</u>	<u>Buildings</u>	<u>Vehicles</u>	<u>Other equipment</u>	<u>Total</u>
<b>Cost:</b>					
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	435,567	1,729,293	9,269	-	2,174,129
Additions	19,896	171,597	8,723	3,464	203,680
Disposals	-	(45,777)	-	-	(45,777)
Disposals of subsidiaries	(39,374)	(103,760)	-	-	(143,134)
Effect of changes in exchange rates	(13,634)	(33,173)	(307)	(33)	(47,147)
Balance on December 31, 2019	<u>\$ 402,455</u>	<u>1,718,180</u>	<u>17,685</u>	<u>3,431</u>	<u>2,141,751</u>
<b>Depreciation:</b>					
Balance on January 1, 2019	\$ -	-	-	-	-
Depreciation	11,485	296,287	8,932	1,736	318,440
Disposals	-	(1,550)	-	-	(1,550)
Disposals of subsidiaries	(464)	(10,673)	-	-	(11,137)
Effect of changes in exchange rates	(394)	(6,561)	(179)	(21)	(7,155)
Balance on December 31, 2019	<u>\$ 10,627</u>	<u>277,503</u>	<u>8,753</u>	<u>1,715</u>	<u>298,598</u>
<b>Carrying amounts:</b>					
Balance on December 31, 2019	<u>\$ 391,828</u>	<u>1,440,677</u>	<u>8,932</u>	<u>1,716</u>	<u>1,843,153</u>

In July 2019 the Group lost its control over AIC, and derecognized its right-of-use assets; Please refer to note 6(h).

(Continued)



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

(m) Investment property

	<b>Land</b>	<b>Buildings and other equipment</b>	<b>Total</b>
<b>Cost or deemed cost:</b>			
Balance on January 1, 2019	\$ 50,190	31,735	81,925
Additions	-	-	-
Balance on December 31, 2019	<u>\$ 50,190</u>	<u>31,735</u>	<u>81,925</u>
Balance on January 1, 2018	\$ 50,190	31,735	81,925
Additions	-	-	-
Balance on December 31, 2018	<u>\$ 50,190</u>	<u>31,735</u>	<u>81,925</u>
<b>Depreciation and impairment losses:</b>			
Balance on January 1, 2019	\$ 33,941	13,233	47,174
Depreciation	-	462	462
Balance on December 31, 2019	<u>\$ 33,941</u>	<u>13,695</u>	<u>47,636</u>
Balance on January 1, 2018	\$ 33,941	12,770	46,711
Depreciation	-	463	463
Balance on December 31, 2018	<u>\$ 33,941</u>	<u>13,233</u>	<u>47,174</u>
<b>Carrying amounts:</b>			
Balance on December 31, 2019	<u>\$ 16,249</u>	<u>18,040</u>	<u>34,289</u>
Balance on December 31, 2018	<u>\$ 16,249</u>	<u>18,502</u>	<u>34,751</u>
Balance on January 1, 2018	<u>\$ 16,249</u>	<u>18,965</u>	<u>35,214</u>
<b>Fair value:</b>			
Balance on December 31, 2019			<u>\$ 92,171</u>
Balance on December 31, 2018			<u>\$ 80,905</u>
Balance on January 1, 2018			<u>\$ 81,930</u>

- (i) The fair value of the investment property is based on the quotation from 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(r) for further information.
- (iii) The Group did not provide any of the aforementioned investment property as collateral.

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

(n) Intangible assets

The carrying amounts of the intangible assets of the Group for the years ended December 31, 2019 and 2018, were as follows:

	<u>Goodwill</u>	<u>Customer Relationships</u>	<u>Technology</u>	<u>Trademarks, Patents and Copyrights</u>	<u>Total</u>
<b>Cost or deemed cost:</b>					
Balance on January 1, 2019	\$ 2,612,461	1,099,859	1,383,197	121,797	5,217,314
Acquisition	-	-	513	373	886
Disposals of subsidiaries	(574,604)	(381,059)	(1,029,394)	-	(1,985,057)
Effect of changes in exchange rate	(2,762)	-	2,955	(2,319)	(2,126)
Balance on December 31, 2019	<u>\$ 2,035,095</u>	<u>718,800</u>	<u>357,271</u>	<u>119,851</u>	<u>3,231,017</u>
Balance on January 1, 2018	\$ 2,025,495	718,800	419,300	121,986	3,285,581
Acquisition from business combination	574,604	381,059	956,874	-	1,912,537
Effect of changes in exchange rate	12,362	-	7,023	(189)	19,196
Balance on December 31, 2018	<u>\$ 2,612,461</u>	<u>1,099,859</u>	<u>1,383,197</u>	<u>121,797</u>	<u>5,217,314</u>
<b>Amortization and impairment loss:</b>					
Balance on January 1, 2019	\$ -	379,889	265,449	107,997	753,335
Amortization	-	94,108	99,439	3,786	197,333
Disposals of subsidiaries	-	(44,457)	(176,662)	-	(221,119)
Effect of changes in exchange rate	-	-	312	-	312
Balance on December 31, 2019	<u>\$ -</u>	<u>429,540</u>	<u>188,538</u>	<u>111,783</u>	<u>729,861</u>
Balance on January 1, 2018	\$ -	285,781	166,706	102,906	555,393
Amortization	-	94,108	98,610	4,770	197,488
Effect of changes in exchange rate	-	-	133	321	454
Balance on December 31, 2018	<u>\$ -</u>	<u>379,889</u>	<u>265,449</u>	<u>107,997</u>	<u>753,335</u>
<b>Carrying amounts:</b>					
Balance on December 31, 2019	<u>\$ 2,035,095</u>	<u>289,260</u>	<u>168,733</u>	<u>8,068</u>	<u>2,501,156</u>
Balance on December 31, 2018	<u>\$ 2,612,461</u>	<u>719,970</u>	<u>1,117,748</u>	<u>13,800</u>	<u>4,463,979</u>
Balance on January 1, 2018	<u>\$ 2,025,495</u>	<u>433,019</u>	<u>252,594</u>	<u>19,080</u>	<u>2,730,188</u>

- (i) In July 2019, the Group lost its control over AIC, and derecognized its intangible assets; please refer to note 6(h).

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**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(ii) For the intangible assets identified from the acquisition of AIC and its subsidiaries in June 2018, please refer to note 6(g).

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

(o) Short-term borrowings

The details were as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Unsecured bank loans	\$ 1,092,126	1,137,565
Secured bank loans	-	65,000
Short-term borrowings	<u>\$ 1,092,126</u>	<u>1,202,565</u>
Unused credit lines	<u>\$ 19,664,255</u>	<u>21,333,665</u>
Annual interest rates	<u>0.60%~4.02%</u>	<u>0.85%~4.02%</u>

Please refer to note 8 for further information on assets provided as collateral.

(p) Long-term borrowings

<b>December 31, 2019</b>				
	<b>Currency</b>	<b>Annual interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Unsecured bank loans	TWD	1.35%	2020	\$ 27,777
Secured bank loans	USD	3.05%	2021	150,529
Less: current portion				<u>(27,777)</u>
				<u>\$ 150,529</u>
Unused credit lines				<u>\$ 451,587</u>

  

<b>December 31, 2018</b>				
	<b>Currency</b>	<b>Annual interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Unsecured bank loans	TWD	1.35%~1.48%	2020	\$ 83,333
Secured bank loans	TWD	1.67%~2.12%	2022~2035	223,230
Less: current portion				<u>(67,548)</u>
				<u>\$ 239,015</u>
Unused credit lines				<u>\$ -</u>

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# PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- (i) Pursuant to the loan agreements with CTBC Bank, the Group has to maintain the following financial ratios calculated based on the Group's semi-annual audited (reviewed) consolidated financial statements. 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 Group violates the financial covenants, the banks have the right to charge a default penalty or to require the Group to improve its financial ratios.

The Group has already paid the bank loans back to CTBC Bank in January 2018.

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

- (iii) Please refer to note 8 for further information on assets provided as collateral.

- (q) Lease liabilities

	December 31, 2019
Current	\$ <u>278,609</u>
Non-current	\$ <u>1,195,744</u>

For the maturity analysis, please refer to note (ab).

The amounts recognized in profit or loss were as follows:

	2019
Interest on lease liabilities	\$ <u>68,286</u>
Expenses relating to short-term leases and leases of low-value assets	\$ <u>58,056</u>

The amounts recognized in the statement of cash flows for the Group were as follows:

	2019
Rental paid in operating activities	\$ (58,056)
Interest on lease liabilities paid in operating activities	(68,286)
Payment made on lease liabilities in financing activities	(249,186)
Total cash outflow for leases	\$ <u>(375,528)</u>

- (i) Real estate leases

As of December 31, 2019, the Group leases lands and buildings for its office, staff dormitory, factory facilities and warehouses. The leases typically run for a period of two to fifty years. Some leases require additional rental payments depending on the changes in fair value of the lease assets.

(Continued)

# PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (ii) Other leases

The Group leases vehicles with lease terms of one to five years.

The Group also leases machineries and some of the other equipments with lease terms of one to five years. These leases are short-term or leases of low-value items. The Group decided to apply recognition exemptions, and had elected not to recognize its right-of-use assets and lease liabilities for these leases.

### (r) Operating lease

#### (i) Lessee

Non-cancellable operating lease rentals payable as of December 31, 2018 were as follows:

	<b>December 31, 2018</b>
Less than one year	\$ 305,577
Between one and five years	800,680
More than five years	<u>399,066</u>
	<b><u>\$ 1,505,323</u></b>

The Group leases a number of offices and warehouses and pieces of equipments under operating leases. The lease terms are between 1 and 17 years. During the year 2018, an amount of \$267,643 was recognized as an expense in profit or loss in respect of operating leases.

#### (ii) Lessor

The Group leases out its investment property. The Group has classified these leases as operating leases, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Please refer to note 6(m) sets out information about the operating leases of investment property.

As of December 31, 2019, a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date, was as follows:

	<b>December 31, 2019</b>
Less than one year	\$ 1,553
One to five years	<u>-</u>
Total undiscounted lease payments	<b><u>\$ 1,553</u></b>

(Continued)

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

As of December 31, 2018, the future minimum lease payments under non-cancellable leases were as follows:

	<b>December 31, 2018</b>
Less than one year	\$ 1,758
Between one and five years	488
	<b><u>\$ 2,246</u></b>

(s) Employee benefits

(i) Defined benefit plans

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Present value of defined benefit obligations	\$ 163,560	156,919
Fair value of plan assets	<u>95,623</u>	<u>89,417</u>
Deficit in the plan	67,937	67,502
Asset ceiling	<u>-</u>	<u>-</u>
Net defined benefit liability (recorded as other non-current liabilities)	<b><u>\$ 67,937</u></b>	<b><u>67,502</u></b>

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.

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 \$95,623 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.

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**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

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, 2019 and 2018, were as follows:

	<b>2019</b>	<b>2018</b>
Defined benefit obligation at January 1	\$ 156,919	156,494
Benefits paid	(995)	(5,340)
Current service costs and interest cost	1,898	2,302
Remeasurement of net defined liabilities	<u>5,738</u>	<u>3,463</u>
Defined benefit obligation at December 31	<u><u>\$ 163,560</u></u>	<u><u>156,919</u></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, 2019 and 2018, were as follows:

	<b>2019</b>	<b>2018</b>
Fair value of plan assets at January 1	\$ 89,417	88,082
Remeasurement of net defined liabilities	3,592	2,990
Interest income	544	590
Contribution paid	3,065	3,095
Benefits paid	<u>(995)</u>	<u>(5,340)</u>
Fair value of plan assets at December 31	<u><u>\$ 95,623</u></u>	<u><u>89,417</u></u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group for the years ended December 31, 2019 and 2018, were as follows:

	<b>2019</b>	<b>2018</b>
Current service costs	\$ 611	877
Net interest of net liabilities for defined benefit	<u>743</u>	<u>835</u>
Expenses	<u><u>\$ 1,354</u></u>	<u><u>1,712</u></u>

(Continued)

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

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

The Company's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Balance on January 1	\$ 10,803	10,330
Recognized during the period	<u>2,146</u>	<u>473</u>
Balance on December 31	<u><u>\$ 12,949</u></u>	<u><u>10,803</u></u>

- 6) Actuarial assumptions

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Discount rate	0.800 %	1.125%
Future salary increase rate	3.000 %	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 \$3,073. The weighted-average duration of the defined benefit plans is 10 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.

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

	<u>Influences of defined benefit obligations</u>	
	<u>Increased 0.25%</u>	<u>Decreased 0.25%</u>
<b>December 31, 2019</b>		
Discount rate	\$ (3,248)	3,349
Future salary increase rate	\$ 3,191	(3,111)
<b>December 31, 2018</b>		
Discount rate	\$ (3,266)	3,372
Future salary increase rate	\$ 3,215	(3,131)

(Continued)



## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 2019 and 2018.

(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 \$458,035 and \$357,104 for the years ended December 31, 2019 and 2018, respectively, recorded as operating cost and operating expenses in the statement of comprehensive income.

(t) Income taxes

- (i) The components of income tax expenses for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Current tax expense	\$ 726,224	427,108
Deferred tax expense (benefit)	(75,242)	23,119
Income tax expense	<u>\$ 650,982</u>	<u>450,227</u>

(Continued)

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

- (ii) Reconciliation of income tax expenses and profit before tax for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Profit before income tax	\$ <u>2,913,901</u>	<u>2,364,202</u>
Income tax calculated based on domestic tax rate of individual entity of the Group	975,379	857,150
Adjustment in tax rate	-	(19,906)
Overseas investment gains recognized under the equity method	(217,045)	(254,283)
Non-taxable income	(2,265)	(2,821)
Prior year's income tax adjustment	(50,878)	56,990
10% surtax on unappropriated earnings	12,974	27,565
Investment tax credits accrued	(118,232)	(105,843)
Other	<u>51,049</u>	<u>(108,625)</u>
Income tax expense	\$ <u><u>650,982</u></u>	<u><u>450,227</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:

	December 31, 2019	December 31, 2018
Aggregate amount of temporary differences related to investments in subsidiaries	\$ <u><u>889,807</u></u>	<u><u>815,410</u></u>

2) Unrecognized deferred tax assets

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

	December 31, 2019	December 31, 2018
Deductible temporary differences	\$ <u><u>164,776</u></u>	<u><u>160,199</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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated 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, 2019 and 2018, were as follows:

	Investment income recognized under the equity method (overseas)	Unrealized foreign exchange gains	Amortization of appraised value adjustment of intangible assets	Others	Total
<b>Deferred tax liabilities:</b>					
Balance on January 1, 2019	\$ 321,168	8,105	343,096	32,928	705,297
Disposals of subsidiary	-	(724)	(272,440)	(124)	(273,288)
Recognized in profit or loss	48,508	17,574	(28,472)	(25,529)	12,081
Balance on December 31, 2019	<u>\$ 369,676</u>	<u>24,955</u>	<u>42,184</u>	<u>7,275</u>	<u>444,090</u>
Balance on January 1, 2018	\$ 188,057	24,493	63,148	17,773	293,471
Acquisitions of subsidiaries	-	724	308,423	4,074	313,221
Recognized in profit or loss	133,111	(17,112)	(28,475)	11,081	98,605
Balance on December 31, 2018	<u>\$ 321,168</u>	<u>8,105</u>	<u>343,096</u>	<u>32,928</u>	<u>705,297</u>

  

	Bad debt in excess of tax limit	Loss carryforward	Unfunded pension fund contribution	Refund liabilities	Loss on inventory valuation	Deferred granted revenue	Unrealized revenue from disposal of assets	Others	Total
<b>Deferred tax assets:</b>									
Balance on January 1, 2019	\$ 47,018	7,697	16,300	159,382	118,974	185,717	30,386	88,836	654,310
Disposals of subsidiary	(1,173)	-	-	-	(1,104)	-	-	(27,497)	(29,774)
Recognized in profit or loss	(5,887)	(1,172)	(343)	28,268	(10,668)	68,339	(3,090)	11,876	87,323
Balance on December 31, 2019	<u>\$ 39,958</u>	<u>6,525</u>	<u>15,957</u>	<u>187,650</u>	<u>107,202</u>	<u>254,056</u>	<u>27,296</u>	<u>73,215</u>	<u>711,859</u>
Balance on January 1, 2018	\$ 47,331	12,755	14,090	100,098	120,433	173,295	-	80,993	548,995
Acquisitions of subsidiaries	1,173	-	-	-	1,104	-	-	27,552	29,829
Recognized in profit or loss	(1,486)	(5,058)	2,210	59,284	(2,563)	12,422	30,386	(19,709)	75,486
Balance on December 31, 2018	<u>\$ 47,018</u>	<u>7,697</u>	<u>16,300</u>	<u>159,382</u>	<u>118,974</u>	<u>185,717</u>	<u>30,386</u>	<u>88,836</u>	<u>654,310</u>

(iv) The Company's income tax returns have been examined by the tax authority through the years to 2016.

(u) Capital and other equity

As of December 31, 2019 and 2018, 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 common shares, of which 448,581 thousand and 447,452 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

(Continued)

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

Reconciliation of shares outstanding for the years ended December 31, 2019 and 2018, were as follows:

	<b>Ordinary shares</b> <b>(in thousands of shares)</b>	
	<b>2019</b>	<b>2018</b>
Balance on January 1	447,452	445,688
Exercise of employee stock options	-	128
Issuance of restricted stock	1,820	2,000
Retirement of restricted stock	(691)	(364)
Balance on December 31	<u>448,581</u>	<u>447,452</u>

(i) Ordinary shares

- 1) The Company issued 128 thousand new shares of ordinary shares for the exercise of employee stock options in 2018. The related registration procedures were also completed.

(ii) Capital surplus

The balances of capital surplus were as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Additional paid-in capital	\$ 662,230	609,303
Employee stock options	259,401	259,401
Restricted employee stock options	193,599	150,548
Long-term investment	<u>367,815</u>	<u>357,825</u>
	<u>\$ 1,483,045</u>	<u>1,377,077</u>

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the 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 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.

(Continued)

## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (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

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.

##### 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. As of December 31, 2019 and 2018, the carrying amount of special reserve both amounted to \$97,300.

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.

(Continued)

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

3) Earnings distribution

On June 18, 2019 and May 30, 2018, the shareholders' meeting resolved to distribute the Company's 2018 and 2017 earnings at a price of NT\$2.4 and NT\$3.2 (dollars) per share amounting to \$1,072,341 and \$1,430,068, respectively.

(v) Share-based payment

(i) Employee stock options and share-based payment

1) As at December 31, 2019, the Group had share-based payment arrangements as follows:

	<b>Employee stocks ownership plans</b>
	<b>September 2017</b>
Grant date	September 29, 2017
Exercise price	CNY\$1.1952
Granted units (thousand)	40,310
Service period	15 years
Vesting period	12 months after Tymphony Huizhou listed

The Group measured the fair value of the aforementioned share-based payment. The measurement basis of the fair value was as follows:

	<b>Issnance of ordinary shares for employee stocks</b>
	<b>September 2017</b>
Exercise price	CNY\$1.1952
Expected time until expiration (years)	0.26
Stock price per share	CNY\$1.7784
Expected volatility of stock price	37.53%
Expected dividend rate	-
Risk-free interest rate	3.17%

(Continued)

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

(ii) Restricted stock

- 1) As of December 31, 2019, the outstanding restricted stock of the Company was as follows:

	Plan 1 (note 1)				Plan 2 (note 1)		Plan 3 (note 1)		Plan 4 (note 1)		Plan 5 (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	February 8, 2018	September 13, 2018	November 21, 2019
Fair value on grant date (per share)	22.80	25.15	27.30	52.00	43.70	38.40	45.80	72.40	76.70	46.85	64.30
Exercise price	Free grants	Free grants	Free grants	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	1,100	900	1,820
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)	1-3 years (note 2)	1-3 years (note 2)	1-3 years (notes 2 and 4)

Note 1: Plan 1 –After the stockholders’ meeting held 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 held 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 stockholders’ meeting held 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.

Plan 4 –After the stockholders’ meeting held on May 25, 2017, 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 1,100 thousand shares and 900 thousand shares on January 31 and August 10, 2018, respectively.

Plan 5 –After the stockholders’ meeting held on June 18, 2019, 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 1,820 thousand shares on November 12, 2019.

(Continued)

# **PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

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.

2) The related information on restricted stock of the Company was as follows:

(Thousand shares)	2019	2018
Outstanding on January 1	3,316	3,934
Granted during the year	1,820	2,000
Vesting during the year	(1,158)	(1,725)
Expired during the year	(162)	(893)
Outstanding on December 31	<u>3,816</u>	<u>3,316</u>

Expenses attributable to share-based payment were as follows:

	2019	2018
Employee stock options	\$ 14,128	38,379
Restricted stock	61,099	84,615
Total	<u>\$ 75,227</u>	<u>122,994</u>

(Continued)



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

(w) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the years ended December 31, 2019 and 2018, based on the profit attributable to owners of parent of the Company and the weighted-average number of ordinary shares outstanding was as follows:

	<u>2019</u>	<u>2018</u>
Profit attributable to owners of parent	\$ <u>2,134,870</u>	<u>1,826,870</u>
Weighted-average number of ordinary shares (thousand shares)	<u>444,465</u>	<u>443,011</u>
Basic earnings per share (NT dollars)	\$ <u>4.80</u>	<u>4.12</u>
Weighted-average number of ordinary shares (thousand shares)		
	<u>2019</u>	<u>2018</u>
Ordinary shares at January 1	443,607	441,754
Exercise of employee stock options	-	107
Vesting of restricted stock	<u>858</u>	<u>1,150</u>
Ordinary shares at December 31	<u>444,465</u>	<u>443,011</u>

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the years ended December 31, 2019 and 2018, 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:

	<u>2019</u>	<u>2018</u>
Profit attributable to owners of parent	<u>2,134,870</u>	<u>1,826,870</u>
Weighted-average number of ordinary shares (diluted) (thousand shares)	<u>447,663</u>	<u>446,153</u>
Diluted earnings per share (NT dollars)	<u>4.77</u>	<u>4.09</u>

(Continued)

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

Weighted-average number of ordinary shares (diluted) (thousand shares)

	<u>2019</u>	<u>2018</u>
Weighted-average number of ordinary shares on		
December 31 (basic)	444,465	443,011
Effect of employee stock options	-	12
Estimated effect of employee stock bonuses	1,462	1,650
Effect of restricted stock	<u>1,736</u>	<u>1,480</u>
Weighted-average number of ordinary shares on		
December 31 (diluted)	<u><u>447,663</u></u>	<u><u>446,153</u></u>

(x) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2019</u>		
	<u>Computer Peripherals</u>	<u>Non-computer Peripherals</u>	<u>Total</u>
Goods sold	\$ 22,646,176	54,869,147	77,515,323
Service rendered	<u>232,096</u>	<u>2,902,189</u>	<u>3,134,285</u>
	<u><u>\$ 22,878,272</u></u>	<u><u>57,771,336</u></u>	<u><u>80,649,608</u></u>

	<u>2018</u>		
	<u>Computer Peripherals</u>	<u>Non-computer Peripherals</u>	<u>Total</u>
Goods sold	\$ 21,371,675	41,186,680	62,558,355
Service rendered	<u>222,866</u>	<u>2,030,187</u>	<u>2,253,053</u>
	<u><u>\$ 21,594,541</u></u>	<u><u>43,216,867</u></u>	<u><u>64,811,408</u></u>

	<u>2019</u>	<u>2018</u>
Mainland China	\$ 31,841,538	30,476,783
Europe	23,267,214	17,498,442
America	23,186,378	16,752,178
Other	<u>2,354,478</u>	<u>84,005</u>
	<u><u>\$ 80,649,608</u></u>	<u><u>64,811,408</u></u>

(Continued)

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

(ii) Contract balances

	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>January 1, 2018</b>
Notes and accounts receivable (including related parties)	\$ 19,453,551	16,967,755	13,300,434
Less: allowance for impairment	<u>(75,725)</u>	<u>(45,467)</u>	<u>(127,640)</u>
	<u><b>\$ 19,377,826</b></u>	<u><b>16,922,288</b></u>	<u><b>13,172,794</b></u>
Contract liabilities (classified as other current liabilities)	<u><b>\$ 133,028</b></u>	<u><b>106,018</b></u>	<u><b>74,182</b></u>

For details on accounts receivable and allowance for impairment, please refer to note 6(d).

The amount of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liability balance at the beginning of the period were \$84,909 and \$29,211, respectively.

The contract liabilities primarily relate to the advance consideration received from contracts with goods sold, for which revenue is recognized when products are delivered to customers.

(y) Employee's 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, 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
Employee remuneration	\$ 75,526	64,439
Directors' remuneration	<u>37,763</u>	<u>32,219</u>
	<u><b>\$ 113,289</b></u>	<u><b>96,658</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.

(Continued)

**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

The differences between the amounts approved in the directors' meeting and those recognized in the financial statements for the distributions of earnings for 2018 and 2017 were as follows:

	<b>2018</b>		
	<b>Actual earnings distributed</b>	<b>Accrued in the financial statement</b>	<b>Difference</b>
Employee remuneration—Cash	\$ 64,430	64,439	9
Director's remuneration	32,200	32,219	19

  

	<b>2017</b>		
	<b>Actual earnings distributed</b>	<b>Accrued in the financial statement</b>	<b>Difference</b>
Employee remuneration—Cash	\$ 68,260	68,182	(78)
Director's remuneration	34,000	34,094	94

The differences were accounted for as changes in accounting estimates and recognized as profit or loss in the years 2019 and 2018. Information about the remuneration to employees and directors approved in the board of directors' meetings can be accessed in the Market Observation Post System website.

(z) Other income

The details of other income were as follows:

	<b>2019</b>	<b>2018</b>
Interest income from bank deposits	\$ 120,338	112,306
Rent income	5,798	4,813
Dividend income	214	13,437
Other	2,948	2,489
Total	<u>\$ 129,298</u>	<u>133,045</u>

(aa) Other gains and losses

The details of other gains and losses were as follows:

	<b>2019</b>	<b>2018</b>
Net gains (losses) on financial assets/liabilities measured at FVTPL	\$ (6,247)	124,336
Losses on disposal of investments	(275,306)	-
Foreign currency exchange gains, net	318,195	89,636
Net gains (losses) on disposal of property, plant and equipment	34,144	(11,843)
Other	170,668	147,191
	<u>\$ 241,454</u>	<u>349,320</u>

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**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(ab) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

For information on the Group's concentration of credit risk, please refer to note 6(ac).

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	Within 1 year	1~2 years	2~5 years	Over 5 years
<b>December 31, 2019</b>						
Non-derivative financial liabilities:						
Short-term borrowings	\$ 1,092,126	1,097,788	1,097,788	-	-	-
Notes and accounts payable	23,744,889	23,744,889	23,744,889	-	-	-
Other payables	3,631,273	3,631,273	3,631,273	-	-	-
Lease liabilities	1,474,353	1,846,922	326,913	288,479	616,391	615,139
Refund liabilities	1,552,275	1,552,275	1,552,275	-	-	-
Long-term borrowings	178,306	187,378	32,429	154,949	-	-
Guarantee deposits	240,054	240,054	-	-	-	240,054
Derivative financial liabilities:	207,211	-	-	-	-	-
Outflow	-	807,886	807,886	-	-	-
Inflow	-	(598,600)	(598,600)	-	-	-
	<u>\$ 32,120,487</u>	<u>32,509,865</u>	<u>30,594,853</u>	<u>443,428</u>	<u>616,391</u>	<u>855,193</u>
<b>December 31, 2018</b>						
Non-derivative financial liabilities:						
Short-term borrowings	\$ 1,202,565	1,205,383	1,205,383	-	-	-
Notes and accounts payable	18,447,564	18,447,564	18,447,564	-	-	-
Accounts payable to related parties	94,106	94,106	94,106	-	-	-
Other payables	2,587,626	2,587,626	2,587,626	-	-	-
Refund liabilities	1,094,833	1,094,833	1,094,833	-	-	-
Long-term borrowings	306,563	335,525	72,318	44,934	79,985	138,288
Guarantee deposits	188,053	188,053	-	-	-	188,053
Derivative financial liabilities:	19,980	-	-	-	-	-
Outflow	-	1,183,951	1,183,951	-	-	-
Inflow	-	(1,166,359)	(1,166,359)	-	-	-
	<u>\$ 23,941,290</u>	<u>23,970,682</u>	<u>23,519,422</u>	<u>44,934</u>	<u>79,985</u>	<u>326,341</u>

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

(Continued)

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

	December 31, 2019			December 31, 2018			
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	
<b><u>Financial assets</u></b>							
<b><u>Monetary items</u></b>							
USD:CNY	\$	850,418	6.9762	25,602,688	693,693	6.8632	21,319,228
USD:HKD		533,753	7.7878	16,069,164	345,578	7.8329	10,620,661
USD:TWD		347,369	30.1060	10,457,877	327,612	30.7330	10,068,493
EUR:CZK		15,073	25.4167	508,382	26,723	25.8382	939,038
USD:CZK		11,589	22.6820	348,898	-	-	-
<b><u>Financial liabilities</u></b>							
<b><u>Monetary items</u></b>							
USD:CNY	\$	630,146	6.9762	18,971,177	458,490	6.8632	14,090,776
USD:HKD		491,571	7.7878	14,799,238	347,734	7.8329	10,686,902
USD:TWD		455,443	30.1060	13,711,557	381,283	30.7330	11,717,967
EUR:CZK		14,511	25.4167	489,427	12,392	25.8382	435,470

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. A weakening (strengthening) of 5% of the TWD, CNY and HKD against the USD as well as CZK against the EUR as of December 31, 2019 and 2018, would have increased or decreased the net profit before tax by \$250,781 and \$300,815, 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 the years ended December 31, 2019 and 2018, foreign exchange gain (including realized and unrealized portions) amounted to \$318,195 and \$89,636, respectively.

(iv) Interest rate analysis

Please refer to the note on liquidity risk management and interest rate exposure of the Group's financial assets and liabilities.

(Continued)

**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**  
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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 profit before tax would have increased or decreased by \$13,751 and \$8,687 for the years ended December 31, 2019 and 2018, respectively. This is mainly due to borrowings and bank savings 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 is as follows (The analysis is performed on the same basis for both periods, and assumes all other variable remain constant):

	<u>2019</u>	<u>2018</u>
<u>Price of securities at the reporting date</u>	<u>Other comprehensive income before tax</u>	<u>Other comprehensive income before tax</u>
Increasing 10%	\$ -	23,274
Decreasing 10%	\$ -	(23,274)

(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 lease liabilities, disclosure of fair value information is not required:

	<u>December 31, 2019</u>				
	<u>Fair Value</u>				
	<u>Carrying amounts</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL – current	\$ <u>187,016</u>	-	-	187,016	187,016
Financial assets at FVOCI– non-current	\$ <u>106,535</u>	-	-	106,535	106,535

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

		December 31, 2019			
		Fair Value			
	Carrying amounts	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at amortized cost:</b>					
Cash and cash equivalents	\$ 6,700,510				
Notes and accounts receivable (including related parties)	19,377,826				
Other receivables	1,049,016				
Refundable deposits	<u>114,923</u>				
Total	<u>\$ 27,242,275</u>				
<b>Financial liabilities at FVTPL—current</b>	<u>\$ 207,211</u>	-	-	207,211	207,211
<b>Financial liabilities measured at amortized cost</b>					
Borrowings	\$ 1,270,432				
Notes and accounts payable	23,744,889				
Other payables	4,825,106				
Salaries payable	1,522,052				
Lease liabilities	1,474,353				
Refund liabilities	1,552,275				
Guarantee deposits	<u>240,054</u>				
Total	<u>\$ 34,629,161</u>				
		December 31, 2018			
		Fair Value			
	Carrying amounts	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTPL – current</b>	<u>\$ 115,608</u>	-	-	115,608	115,608
<b>Financial assets at FVOCI—non-current</b>	<u>\$ 268,088</u>	232,737	-	35,351	268,088
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	\$ 4,990,458				
Notes and accounts receivable (including related parties)	16,922,288				
Other receivables	1,040,546				
Refundable deposits	<u>61,932</u>				
Total	<u>\$ 23,015,224</u>				
<b>Financial liabilities at FVTPL – current</b>	<u>\$ 19,980</u>	-	-	19,980	19,980

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

		December 31, 2018				
		Carrying amounts	Fair Value			
			Level 1	Level 2	Level 3	Total
<b>Financial liabilities measured at amortized cost</b>						
Borrowings	\$	1,509,128				
Notes and accounts payable (including related parties)		18,541,670				
Other payables		3,604,860				
Salaries payable		1,154,205				
Refund liabilities		1,094,833				
Guarantee deposits		<u>188,053</u>				
Total	\$	<u>26,092,749</u>				

2) Fair value 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.

The Group 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) Financial assets at FVOCI -- non-current are investments in domestic or foreign non-listed stock. The estimated fair value is based on the market approach of comparable business and adjusted for the lack of liquidity. When prices are unavailable, the fair value is estimated on the basis of unadjusted prior trade prices.

3) Transfers between Level 1 and Level 3

The Group holds an investment in equity shares of Global TEK, which is classified as FVOCI, with a fair value of \$232,737 on December 31, 2018. In February, 2018, Global TEK listed its equity shares on an exchange and they are currently actively traded in that market. Because the equity shares now have a published price quotation in an active market, the fair value measurement was transferred from Level 3 to Level 1 of the fair value hierarchy for the year ended December 31, 2018.

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**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**  
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4) Reconciliation of Level 3 fair values

	2019			2018		
	FVTPL	FVOCI	Total	FVTPL	FVOCI	Total
Balance on January 1	\$ 95,628	35,351	130,979	38,044	402,997	441,041
Recognized in profit or loss	(6,247)	-	(6,247)	95,628	-	95,628
Recognized in other comprehensive income	-	39,927	39,927	-	(13,514)	(13,514)
Acquisition /disposal	(109,576)	31,257	(78,319)	(38,044)	6,773	(31,271)
Transfer out of Level 3	-	-	-	-	(360,905)	(360,905)
Balance on December 31	\$ (20,195)	106,535	86,340	95,628	35,351	130,979

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

The fair value measurements of the Group which are categorized within level 3 are classified as financial assets and liabilities at FVTPL – derivative financial instruments and financial assets at FVOCI – equity securities. The quantitative information about significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationships between significant unobservable inputs and fair value
Financial assets at FVOCI – equity investment without an active market	(note 1)	(note 1)	(note 1)
Financial assets and liabilities at FVTPL	(note 2)	(note 2)	(note 2)

note 1: The fair value is based on the market value, and it has considered the recent financing activities, comparable business, market and other economic conditions etc., to determine the assumptions. Also, the significant unobservable inputs are marketability discount, but any changes of marketability discount would not result in significant potential financial impact, therefore there is no need to show the quantified information on it.

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

(ac) Financial risk management

(i) Briefings

The Group is exposed 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.

(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 and accounts receivables (including related parties), and other receivables; and derivative instruments.

1) Cash and cash equivalents

The Group had deposited \$6,483,877 (including restricted deposits) in HSBC Bank and 11 other financial institutions, and \$4,314,090 (including restricted deposits) in the Bank of Taiwan and 11 other financial institutions, representing 12% and 10% of total assets, as of December 31, 2019 and 2018, respectively. The Group believes that there is no significant credit risk from the above-mentioned financial institutions.

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## PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 2) Notes and accounts receivable

There was no sales to individual customers constituting over 10% of total revenue for the year ended December 31, 2018. Sales to individual customers constituting over 10% of total revenue for the year ended December 31, 2019, totaled 33%. As of December 31, 2019, 34% of the ending balance of accounts receivable (including related parties) was 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 credit line of \$20,115,842 and \$21,333,665 as of December 31, 2019 and 2018, 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 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, CNY and CZK. 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.

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# PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### 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.

### (ad) 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, 2019 and 2018, was 73% and 65%, respectively.

### (ae) Changes of liabilities from financing activities

Reconciliation of liabilities arising from financing activities was as follows:

	<b>January 1, 2019</b>	<b>Cash flows</b>	<b>Non-cash changes</b>	<b>December 31, 2019</b>
Short-term borrowings	\$ 1,202,565	125,268	(235,707)	1,092,126
Long-term borrowings	306,563	88,002	(216,259)	178,306
Lease liabilities	1,684,460	(249,186)	39,079	1,474,353
Total liabilities from financing activities	<u>\$ 3,193,588</u>	<u>(35,916)</u>	<u>(412,887)</u>	<u>2,744,785</u>
	<b>January 1, 2018</b>	<b>Cash flows</b>	<b>Non-cash changes</b>	<b>December 31, 2018</b>
Short-term borrowings	\$ 995,638	(16,678)	223,605	1,202,565
Long-term borrowings	218,888	(106,914)	194,589	306,563
Total liabilities from financing activities	<u>\$ 1,214,526</u>	<u>(123,592)</u>	<u>418,194</u>	<u>1,509,128</u>

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

**(7) Related-party transactions:**

**(a) Names and relationship of the related parties**

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<u>Name</u>	<u>Relationship</u>
Specialty Technologies, LLC (Specialty)	Substantive related party
De Amertek Corporation, Inc. (DAC)	Substantive related party(note)
General Rich International S.A. (GRI)	Substantive related party(note)

Note: In July 2019, the Group lost its control over AIC. Hence, AIC was no longer included in the Group's consolidated financial statements. Therefore, its transactions related to DAC and GRI need not be disclosed thereafter.

**(b) Significant transactions with related parties**

**(i) Sales**

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

	<u>Sales</u>		<u>Notes and accounts receivable</u>	
	2019	2018	December 31, 2019	December 31, 2018
Other related parties	\$ <u>697,929</u>	<u>637,008</u>	<u>180,471</u>	<u>539,820</u>

There were no significant differences in the selling prices between the related parties and other customers. The trading terms offered to other related parties were 90 days and 140 days, and the trading terms to other customers were 45 days to 120 days.

**(ii) Purchase**

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

	<u>Purchase</u>		<u>Notes and accounts payable</u>	
	2019	2018	December 31, 2019	December 31, 2018
Other related parties	\$ <u>53,128</u>	<u>51,664</u>	<u>-</u>	<u>94,106</u>

There were no significant differences in the purchasing price between the related parties and other vendors. The payment terms of other related parties and other vendors were 140 days and 30 days to 120 days, respectively.

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

(iii) Receivables and payables on behalf of related parties

The other payables arising from rent and utilities paid by other related parties in advanced amounted to \$35,062 for the year ended December 31, 2018.

(c) Key management personnel compensation

Key management personnel compensation comprised:

	2019	2018
Short-term employee benefits	\$ 199,261	166,050
Post-employment benefits	3,542	5,593
Share-based payments	26,655	35,893
	<u>\$ 229,458</u>	<u>207,536</u>

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

(8) Pledged assets:

The carrying amounts of pledged assets were as follows:

Pledged assets	Pledged to secure	December 31, 2019	December 31, 2018
Other current assets – restricted assets	Guarantee letters issued by bank	\$ 1,079	16,633
Other non-current assets – restricted assets	Guarantee letters issued by bank	\$ 57,757	58,311
Property, plant and equipment	Loan collateral	\$ 908,305	271,252

(9) Significant commitments and contingencies:

- (a) The Group's unused letters of credit for guarantee of purchasing materials and borrowings were as follows:

December 31, 2019	December 31, 2018
\$ 301,060	921,990

- (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 and Power Supply Bureau as guarantee deposits and power supply guarantee, respectively.

	December 31, 2019	December 31, 2018
Guarantee letters	\$ 175,716	224,384

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

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

	December 31, 2019	December 31, 2018
Sales of accounts receivable	\$ <u>519,329</u>	<u>660,144</u>
Long-term borrowings	\$ <u>400,000</u>	<u>433,995</u>

- (e) The aggregate unpaid amounts of contracts pertaining to the purchase of equipment were as follows:

	December 31, 2019	December 31, 2018
Property, plant and equipment	\$ <u>1,157,819</u>	<u>110,620</u>

- (f) The Group entered into lease agreements for its offices and warehouses. Please refer to notes 6(q) and 6(r) for future rent payables.

(10) Losses due to major disasters: None

(11) Subsequent events: None

(12) Other:

A summary of employee benefit, depreciation, and amortization expenses by function, is as follows:

By function By item	2019			2018		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefits						
Salaries	5,094,034	3,835,741	8,929,775	3,569,667	3,246,463	6,816,130
Labor and health insurance	131,435	191,893	323,328	129,290	163,543	292,833
Pension	315,243	144,146	459,389	235,323	123,493	358,816
Others	205,875	215,363	421,238	151,164	196,368	347,532
Depreciation	1,719,974	173,328	1,893,302	1,168,409	148,842	1,317,251
Amortization	11,058	285,495	296,553	20,033	276,942	296,975

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

**(13) Other disclosures:**

**(a) Information on significant transactions:**

The followings were the information on significant transactions required by the Regulations for the Group:

**(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	359,705	-	-	-	Necessary to loan to other parties	-	Operating capital	-	-	-	817,039	817,039
2	TYM HK	TYM Acoustic HK	Other receivables	"	666,476	-	-	2%~3%	"	-	Investment capital	-	-	-	1,127,083	1,127,083
3	TWEL	Diamond	Other receivables	"	45,530	-	-	-	"	-	"	-	-	-	1,092,220	2,184,441

Note 1: After the approval from the Board of directors, the loan provided to an individual entity shall not exceed the net worth of either PKS1 and TYM HK in the latest financial statements to their parent company, and also to subsidiaries wherein their parent owns 100%, directly and indirectly, of their voting shares. Also, the criterion for the amount available for financing is the same as that offered to an individual entity mentioned above.

Note 2: Due to the short-term financing need, the loan provided to an individual entity shall not exceed 20% of the net worth of TWEL in its latest financial statements. However, the amount available for financing shall not exceed 40% of the net worth of TWEL in its latest financial statements.

Note 3: The above transactions have been eliminated during the preparation of the consolidated financial statements.

**(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.	3,692,401	316,120	301,060	10,503	-	2.45 %	9,846,402	Y	N	Y
1	Tymphony Huizhou	TYM UK	The subsidiary of TYM Acoustic HK	1,625,847	6,976	6,907	6,907	-	0.13 %	4,335,591	N	N	N

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 Tymphony Huizhou's net worth in the latest financial statements. The total amount of the guarantee to total company shall not exceed 80% of the Tymphony Huizhou'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 SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

Company Ending balance holding securities	Security type and name	Relationship with company	Account	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.	-	Financial assets at FVOCI	359	-	3.59	-	359	3.59	
	WK Technology Fund IV LTD.	-	"	161	1,076	0.38	1,076	161	0.38	
	Changing Information Technology Inc.	-	"	184	2,102	1.54	2,102	184	1.62	
	Formosoft International Inc.	-	"	11	-	0.41	-	11	0.41	
	Syntronix Corp.	-	"	7	49	0.02	49	7	0.02	
	Ricavision International Inc.	-	"	917	-	2.04	-	917	2.04	
	Grove Ventures L.P.	-	"	-	55,094	2.73	55,094	-	2.73	
	Grove Ventures II, L.P.	-	"	-	7,226	3.82	7,226	-	3.82	
					<u>65,547</u>					
Primax Tech.	Shares:									
	Echo. Bahn.	-	Financial assets at FVOCI	400	-	11.90	-	400	11.90	
	WK Global Investment III Ltd.	-	"	361	40,988	1.32	40,988	425	1.32	
					<u>40,988</u>					

(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	Security type and name	Account	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	Primax Singapore	Investment accounted for using equity method	Initial Offerings	Subsidiary	-	-	10,100	318,150	-	-	-	-	10,100	286,269 (note 1)
Primax Singapore	Primax Thailand	"	"	"	-	-	300	302,126	-	-	-	-	300	283,047 (note 1)
PCH2	Money market fund of RMB	Available-for-sale financial assets	"	None	-	-	-	2,462,917	-	2,468,090	2,460,788	5,173 (note 2)	-	-
PCQ1	Money market fund of RMB	"	"	"	-	-	-	1,774,336	-	1,776,682	1,772,398	2,346 (note 2)	-	-
PKS1	Money market fund of RMB	"	"	"	-	-	-	383,628	-	384,362	383,183	734 (note 2)	-	-
Tymphony Huizhou	Money market fund of RMB	"	"	"	-	-	-	710,155	-	712,918	711,949	2,763 (note 2)	-	-

Note 1: The difference between amounts of ending balance and purchase price is recognized as profit or loss accounted for using equity method and exchange differences on translation.

Note 2: Gains on disposal include valuation and exchange differences on translation.

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# PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- (v) Acquisition of individual real estate with amount exceeding the lower of TWD\$300 million or 20% of the Company's issued capital: None
- (vi) Disposal of individual real estate with amount exceeding the lower of TWD\$300 million or 20% of the Company's issued 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 issued 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	234,379	1 %	60 days	Price agreed by both side	The same as general purchasing	(81,073)	(1)%	note 1
"	PCH2	The subsidiary of Primax HK	Purchase	24,518,037	73 %	"	"	"	(6,913,767)	(61)%	"
"	PKS1	"	Purchase	1,682,952	5 %	"	"	"	(1,214,876)	(11)%	"
"	PCQ1	"	Purchase	7,310,681	21 %	"	"	"	(2,929,458)	(26)%	"
"	Polaris	The subsidiary of Primax Tech.	(Sale)	(3,331,193)	(9) %	90 days	"	The same as general selling	331,479	5%	"
Primax Cayman	The Company	Parent	(Sale)	(234,379)	(100) %	60 days	"	"	81,073	100%	"
"	PCH2	The subsidiary of Primax HK	Purchase	234,379	100 %	"	"	The same as general purchasing	(206,252)	(100)%	"
PCH2	The Company	The parent of Primax Cayman	(Sale)	(24,518,037)	(85) %	"	"	The same as general selling	6,913,767	83%	"
"	Primax Cayman	The parent of Primax HK	(Sale)	(234,379)	(1) %	"	"	"	206,252	2%	"
PKS1	The Company	The parent of Primax Cayman	(Sale)	(1,682,952)	(99) %	"	"	"	1,214,876	100%	"
PCQ1	The Company	The parent of Primax Cayman	(Sale)	(7,310,681)	(90) %	"	"	"	2,929,458	92%	"
Polaris	The Company	The parent of Primax Tech.	Purchase	3,331,193	100 %	90 days	"	The same as general purchasing	(331,479)	(100)%	"
Tymphony Huizhou	TYM HK	The subsidiary of TYM Acoustic HK	(Sale)	(7,356,152)	(82) %	60 days	"	The same as general selling	3,936,835	91%	"
"	TYM Acoustic HK	Subsidiary	(Sale)	(101,281)	(1) %	"	"	"	109,835	3%	"
"	Tymphony Dongguan	Subsidiary	Purchase	138,307	2 %	"	"	The same as general purchasing	(35,782)	(2)%	"
TYM Dongguan	TYM HK	The subsidiary of TYM Acoustic HK	Purchase	437,966	2 %	"	"	"	(57,359)	(1)%	"
"	"	"	(Sale)	(23,260,111)	(97) %	"	"	The same as general selling	7,284,049	96%	"
"	Tymphony Huizhou	Parent	(Sale)	(138,307)	(1) %	"	"	"	35,782	-%	"
"	TYM Acoustic HK	The subsidiary of Tymphony Huizhou	(Sale)	(252,339)	(1) %	"	"	"	137,308	2%	"
"	TYDC	Subsidiary	(Sale)	(268,167)	(1) %	"	"	"	92,686	1%	"
TYDC	Tymphony Dongguan	Parent	Purchase	268,167	4 %	"	"	The same as general purchasing	(92,686)	(4)%	"
"	TYM HK	The subsidiary of TYM Acoustic HK	(Sale)	(6,831,187)	(99) %	"	"	The same as general selling	1,800,661	96%	"

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**PRIMAX ELECTRONICS LTD. AND 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)	
TYM Acoustic HK	TYM Acoustic Europe	Subsidiary	Purchase	2,157,660	86 %	90 days	Price agreed by both side	The same as general purchasing	(620,372)	(70)%	note 1
"	"	"	(Sale)	(351,006)	(14) %	60 days	"	The same as general selling	216,974	28%	"
"	Tymphony Dongguan	The subsidiary of Tymphony Huizhou	Purchase	252,339	10 %	"	"	The same as general purchasing	(137,308)	(15)%	"
"	Tymphony Huizhou	Parent	Purchase	101,281	4 %	"	"	"	(109,835)	(12)%	"
TYM Acoustic Europe	TYM Acoustic HK	Parent	(Sale)	(2,157,660)	(86) %	90 days	"	The same as general selling	620,372	73%	"
"	"	"	Purchase	351,006	18 %	60 days	"	The same as general purchasing	(216,974)	(32)%	"
"	TYM HK	The parent of TYM Acoustic HK	Purchase	128,958	7 %	90 days	"	"	(48,068)	(7)%	"
TYM HK	Tymphony Huizhou	The parent of TYM Acoustic HK	Purchase	7,356,152	21 %	60 days	"	"	(3,936,835)	(30)%	"
"	Tymphony Dongguan	The subsidiary of Tymphony Huizhou	Purchase	23,260,111	65 %	"	"	"	(7,284,049)	(55)%	"
"	"	"	(Sale)	(437,966)	(1) %	"	"	The same as general selling	57,359	1%	"
"	TYDC	The subsidiary of TYM Dongguan	Purchase	6,831,187	19 %	"	"	The same as general purchasing	(1,800,661)	(14)%	"
"	TYML	Subsidiary	(Sale)	(5,512,274)	(15) %	90 days	"	The same as general selling	2,231,423	21%	"
"	TYM Acoustic Europe	The subsidiary of TYM Acoustic HK	(Sale)	(128,958)	- %	"	"	"	48,068	-%	"
"	Specialty	Other related party	(Sale)	(467,108)	(1) %	"	"	"	180,471	2%	"
TYML	TYM HK	Parent	Purchase	5,512,274	100 %	60 days	"	The same as general purchasing	(2,231,423)	(100)%	"
AME	ALT (Shanghai)	The subsidiary of AIC	Purchase	182,239	78 %	90 days	"	"	-	-%	note 1 note 2
"	DAT	"	(Sale)	(131,392)	(51) %	"	"	The same as general selling	-	-%	"
ALT (Shanghai)	AME	The subsidiary of AIC	(Sale)	(182,239)	(53) %	"	"	"	-	-%	"
DAT	AME	"	Purchase	131,392	85 %	"	"	The same as general purchasing	-	-%	"
"	DAC	Other related party	(Sale)	(155,703)	(86) %	"	"	The same as general selling	-	-%	"

Note 1: Related transactions (except for AIC) have been eliminated during the preparation of the consolidated financial statements.

Note 2: The Group lost control over AIC and its subsidiaries in July 2019. The information on AIC and its subsidiaries were disclosed as of July 31, 2019.

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# PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES

## Notes to 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		
The Company	Polaris	The subsidiary of Primax Tech.	331,479 (note 2)	15.26	-	-	331,479	-
PCH2	The Company	The parent of Primax Cayman	6,913,767 (note 2)	3.52	-	-	6,913,767	-
"	Primax Cayman	The parent of Primax HK	206,252 (note 2)	1.70	-	-	206,252	-
PKS	The Company	The parent of Primax Cayman	1,214,876 (note 2)	1.69	-	-	451,366	-
PCQ	The Company	The parent of Primax Cayman	2,929,458 (note 2)	2.63	-	-	1,940,744	-
Tymphony Huizhou	TYM HK	The subsidiary of TYM Acoustic HK	3,936,835 (note 2)	1.76	-	-	1,918,175	-
"	TYM Acoustic HK	Subsidiary	109,835 (note 2)	1.66	-	-	-	-
Tymphony Dongguan	TYM Acoustic HK	The subsidiary of Tymphony Huizhou	137,308 (note 2)	1.67	-	-	-	-
"	TYM HK	The subsidiary of TYM Acoustic HK	7,284,049 (note 2)	3.76	-	-	6,988,032	-
TYDC	TYM HK	The subsidiary of TYM Acoustic HK	1,800,661 (note 2)	5.39	-	-	1,416,411	-
TYM Acoustic HK	TYM Acoustic Europe	Subsidiary	216,974 (note 2)	1.79	-	-	107,821	-
TYM Acoustic Europe	TYM Acoustic HK	Parent	620,372 (note 2)	2.99	-	-	596,826	-
TYM HK	TYML	The subsidiary of Tymphony Dongguan	2,231,423 (note 2)	4.86	-	-	1,449,774	-
"	Specialty	Other related party	180,471	2.91	-	-	23,515	-

Note 1: Amounts collected as of February 27, 2020.

Note 2: Related transactions have been eliminated during the preparation of the consolidated financial statements.

(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	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of consolidated total operating revenues or total assets
0	The Company	Primax Cayman	Subsidiary	Purchase	234,379	Price agreed by both sides	0.29 %
"	"	PCH2	The subsidiary of Primax HK	Purchase	24,518,037	Price agreed by both sides	30.40 %
"	"	"	"	Accounts Payable	6,913,767	60 days	13.01 %
"	"	PKS1	"	Purchase	1,682,952	Price agreed by both sides	2.09 %
"	"	"	"	Accounts Payable	1,214,876	60 days	2.29 %
"	"	PCQ1	"	Purchase	7,310,681	Price agreed by both sides	9.06 %
"	"	"	"	Accounts payable	2,929,458	60 days	5.51 %

(Continued)

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

No	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of consolidated total operating revenues or total assets
0	The Company	Polaris	The subsidiary of Primax Tech.	Sale	3,331,193	Price agreed by both sides	4.13 %
"	"	"	"	Accounts receivable	331,479	90 days	0.62 %
1	Primax Cayman	PCH2	The subsidiary of Primax HK	Purchase	234,379	Price agreed by both sides	0.29 %
"	"	"	"	Accounts payable	206,252	60 days	0.39 %
2	Tymphany Huizhou	TYM HK	The subsidiary of TYM Acoustic HK	Sale	7,356,152	Price agreed by both sides	9.12 %
"	"	"	"	Accounts receivable	3,936,835	60 days	7.41 %
"	"	TYM Acoustic HK	Subsidiary	Sale	101,281	Price agreed by both sides	0.13 %
"	"	"	"	Accounts receivable	109,835	60 days	0.21 %
"	"	Tymphany Dongguan	Subsidiary	Purchase	138,307	Price agreed by both sides	0.17 %
3	Tymphany Dongguan	TYM HK	The subsidiary of TYM Acoustic HK	Purchase	437,966	Price agreed by both sides	0.54 %
"	"	"	"	Sale	23,260,111	Price agreed by both sides	28.84 %
"	"	"	"	Accounts receivable	7,284,049	60 days	13.71 %
"	"	TYM Acoustic HK	The subsidiary of Tymphany Huizhou	Sale	252,339	Price agreed by both sides	0.31 %
"	"	"	"	Accounts receivable	137,308	60 days	0.26 %
"	"	TYDC	Subsidiary	Sale	268,167	Price agreed by both sides	0.33 %
4	TYDC	TYM HK	The subsidiary of TYM Acoustic HK	Sale	6,831,187	Price agreed by both sides	8.47 %
"	"	"	"	Accounts receivable	1,800,661	60 days	3.39 %
5	TYM Acoustic HK	TYM Acoustic Europe	Subsidiary	Purchase	2,157,660	Price agreed by both sides	2.68 %
"	"	"	"	Accounts payable	620,372	90 days	1.17 %
"	"	"	"	Sale	351,006	Price agreed by both sides	0.44 %
"	"	"	"	Accounts receivable	216,974	60 days	0.41 %
6	TYM Acoustic Europe	TYM HK	The subsidiary of TYM Acoustic HK	Purchase	128,958	Price agreed by both sides	0.16 %
7	TYM HK	TYML	Subsidiary	Sale	5,512,274	Price agreed by both sides	6.83 %
"	"	"	"	Accounts receivable	2,231,423	90 days	4.20 %

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

No	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of consolidated total operating revenues or total assets
8	AME	ALT (Shanghai)	The subsidiary of AIC	Purchase	182,239	Price agreed by both sides	0.23 %
"	"	DAT	"	Sale	131,392	Price agreed by both sides	0.16 %

Note 1: Disclosure of the amounts exceeding of NT\$100 million.

Note 2: Related transactions have been eliminated during the preparation of the consolidated financial statements.

Note 3: The Group lost its control over AIC and its subsidiaries were disclosed as of in July 2019. The information on AIC and its subsidiaries were disclosed as of July 31, 2019.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2019 (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, 2019			Highest balance during the year		Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	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	5,917,542	8,147,636	100.00	528,819	510,910	
"	Primax Tech.	Cayman Islands	Holding company	897,421	897,421	285,067	100.00	2,361,803	285,067	100.00	198,832	175,234	
"	Destiny BVI	Virgin Island	Holding company	30,939	30,939	1,050	100.00	(5,523)	1,050	100.00	(19,597)	(19,597)	
"	Destiny Japan	Japan	Market development and customer service	7,032	7,032	0.50	100.00	17,845	0.5	100.00	350	350	
"	Diamond	Cayman Islands	Holding company	3,889,798	3,889,798	129,050	100.00	5,418,593	129,050	100.00	592,858	606,438	
"	Gratus Tech.	USA	Market development and customer service	9,330	9,330	300	100.00	11,880	300	100.00	1,128	1,128	
"	Primax AE	Cayman Islands	Holding company	1,431,540	1,431,540	48,200	100.00	965,342	48,200	100.00	(358,338)	(358,338)	
"	Primax Singapore	Singapore	Holding company	318,150	-	10,100	100.00	286,269	10,100	100.00	(20,085)	(20,085)	
	Total			9,124,798	8,806,648			14,973,751			923,967	896,040	
Primax Singapore	Primax Thailand	Thailand	Manufacture and sale of computer peripherals devices and software	302,126	-	300	99.99	283,047	300	99.99	(20,591)	(20,591)	
Primax Cayman	Primax HK	Hong Kong	Holding company and customer service	2,375,164	2,375,164	602,817	100.00	6,063,110	602,817	100.00	528,883	528,883	
Primax Tech.	Polaris	USA	Sale of multi-function printers and computer peripheral devices	52,680	52,680	1,600	100.00	398,276	1,600	100.00	13,405	13,405	
Diamond	TWEL	Cayman Islands	Holding company	4,083,950	4,083,950	192,251	100.00	5,531,653	192,251	100.00	671,757	597,864	
Primax AE	AIC	Cayman Islands	Holding company	1,356,995	1,356,995	30	37.00	904,753	30	37.00	(154,832)	82,887	
Tymphony Huizhou	TYM Acoustic HK	Hong Kong	Research and development, design, and sale of audio accessories, amplifiers and their components and holding company	689,954	689,954	185,536	100.00	1,190,387	185,536	100.00	233,315	233,315	

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

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Highest balance during the year		Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value	Shares (thousands)	Percentage of ownership			
TYM Acoustic HK	TYM HK	Hong Kong	Holding company and sale of audio accessories, amplifiers and their components	76,280 (note 1)	76,280 (note 1)	144,395	100.00	1,127,083	144,395	100.00	243,540	243,540	
"	TYP	USA	Market development and customer service of amplifiers and their components	15 (note 1)	15 (note 1)	0.50	100.00	14,620	0.5	100.00	2,167	2,167	
"	TYM UK	United Kingdom	Research and development, design of audio accessories, amplifiers and their components	15,631	15,631	400	100.00	20,990	400	100.00	3,694	3,694	
"	TYM Acoustic Europe	Czech	Manufacture, install and repair of audio accessories and their components	653,796	653,796	187,800	100.00	756,312	187,800	100.00	28,756	28,756	
"	Tymphony Acoustic	Taiwan	Research and development, design, and sale of audio accessories, amplifiers and their components	48,318	48,318	5,000	100.00	70,560	5,000	100.00	9,351	9,351	
"	TYTH	Thailand	Manufacture and sale of audio accessories, amplifiers and their components	60,012	-	1,500	99.99	55,387	1,500	99.99	(4,619)	(4,619)	
TYM HK	TYML	USA	Sales of audio accessories, amplifiers and their components	6,628	6,628	200	100.00	(158,652)	200	100.00	1,443	1,443	
AIC	DAT	USA	Sale of automobile and electronic control modules and other electronic components	274,733 (note 2)	274,733 (note 2)	2,010	100.00	184,378	2,010	100.00	(81,457)	(81,457)	(note 3)
"	AME	Taiwan	Sale of automobile and electronic control modules, sensors and other electronic components	15,210 (note 2)	15,210 (note 2)	23,069	100.00	451,882	30,789	100.00	(7,914)	(7,914)	(note 3)
ALT (Shanghai)	ALTI	British Virgin Island	Holding company	-	-	-	-	-	-	-	-	-	(note 4)

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 amount is the initial investment costs from the original stockholders prior to the acquisition of the Company through AIC.

Note 3: The Group lost its control over AIC and its subsidiaries in July 2019.

Note 4: The subsidiary completed the liquidation procedure in 2019.

Note 5: Related investments (except for AIC) have been eliminated during the preparation of the consolidated financial statements.

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**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated 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, 2019 (note 2)	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019 (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	1,924,450	Indirect investment through Primax Cayman and Primax Tech.	1,684,161	-	-	1,652,504	564,420	100%	100%	564,420	5,734,017	-
Destiny Beijing	Research and development of computer peripheral devices and software	38,122	Indirect investment through Destiny BVI.	32,270	-	-	31,611	(19,597)	100%	100%	(19,597)	(5,911)	-
PKS1	Manufacture of computer, peripherals and keyboards	842,653	Indirect investment through Primax Cayman	676,126	-	-	662,332	(28,125)	100%	100%	(28,125)	817,039	-
PCQ1	Manufacture of computer, peripherals and keyboards	540,828	"	614,660	-	-	602,120	178,654	100%	100%	178,654	1,351,632	-
Tymphony Huizhou	Research and development, design, and sale of audio accessories, amplifiers and their components	1,761,026	Indirect investment through Diamond	3,964,557	-	-	3,883,674	966,156	71.43%	71.43%	690,146	3,871,251	-
Tymphony Dongguan	"	150,530	"	15,367	-	-	15,053	147,587	71.43%	71.43%	93,067	486,077	-
TYDC	"	86,310	"	-	-	-	-	99,818	71.43%	71.43%	71,540	152,953	-
ALT (Shanghai) (note 3)	Manufacture and sale of automobile and electronic control modules, sensors and other electronic components	453,095	Indirect investment through Primax AE	153,665	-	-	150,530	(50,681)	36.88%	36.88%	(18,690)	84,627	-
ALT (note 3)	Manufacture and sale of automobile and electronic control modules, sensors and other electronic components	247,285	"	215,131	-	-	210,742	(9,810)	36.98%	36.98%	(3,628)	73,656	-

Note 1: The above information on the exchange rate is as follows: HKD:TWD3.8658 ; USD:TWD 30.106; CNY:TWD 4.3155.

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 3: The Group lost its control over AIC and its subsidiaries in July 2019.

Note 3: Related investments (except for ALT (Shanghai) and ALT) have been eliminated during the preparation of the consolidated financial statements.

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

(ii) Limitation on investment in Mainland China:

Name of Company	Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
The Company	7,292,120	8,535,868	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.

(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", 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.

The Group's segment financial information was as follows:

	2019		
	Computer Peripherals	Non-computer Peripherals	Total
Revenue			
External revenue	\$ 22,878,272	57,771,336	80,649,608
Intra-group revenue	-	-	-
Total segment revenue	<u>\$ 22,878,272</u>	<u>57,771,336</u>	<u>80,649,608</u>
Profit before tax from segments reported	<u>\$ 1,239,115</u>	<u>1,674,786</u>	<u>2,913,901</u>

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**PRIMAX ELECTRONICS LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

	<b>2018</b>		
	<b>Computer Peripherals</b>	<b>Non-computer Peripherals</b>	<b>Total</b>
Revenue			
External revenue	\$ 21,594,541	43,216,867	64,811,408
Intra-group revenue	-	-	-
Total segment revenue	\$ <u>21,594,541</u>	<u>43,216,867</u>	<u>64,811,408</u>
Profit before tax from segments reported	\$ <u>956,547</u>	<u>1,407,655</u>	<u>2,364,202</u>

(b) 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:

**Geographic Information**

	<b>2019</b>	<b>2018</b>
Revenues from external customers:		
China	\$ 31,841,538	30,476,783
Europe	23,267,214	17,498,442
America	23,186,378	16,752,178
Other	<u>2,354,478</u>	<u>84,005</u>
Total	\$ <u>80,649,608</u>	<u>64,811,408</u>
	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Non-current assets:		
China	\$ 8,167,871	6,077,001
Taiwan	991,945	820,837
Other	<u>2,744,609</u>	<u>3,726,460</u>
Total	\$ <u>11,904,425</u>	<u>10,624,298</u>

(c) Major customer information

	<b>2019</b>	<b>2018</b>
A company – Non-computer Peripherals	\$ <u>11,543,557</u>	<u>5,634,283</u>
B company – Computer Peripherals	\$ 4,004,316	3,783,060
– Non-computer Peripherals	<u>10,781,589</u>	<u>1,175,936</u>
	\$ <u>14,785,905</u>	<u>4,958,996</u>