


AXIOMARK CO., LTD.
2018 Annual Shareholders' Meeting
Meeting Minutes
(Translation)

Meeting Time: 09:00 AM, May 29th (Tuesday), 2018

Meeting Venue: 8F., No.55, Nanxing Rd., Xizhi Dist., New Taipei City 221, Taiwan

Quorum: 43,019,658 shares were represented by the shareholders and proxies present (including votes casted electronically: 10,280,931), which amounted to 54.16% of the Company's 79,418,034 issued and outstanding shares.

Directors present: Yang, Yu-Te (the Chairman of the Board of Directors)

Tsai, Shih-Yang (Director)

Chou, Chih-Chen (Independent Director/Convener of Audit Committee)

Lin, Yih-Jong (Independent Director)

(The number of directors present had exceeded 50% of the 7 seats of the board of directors)

Attendee: Ms. Feng, Ming-Chuan, CPA, PricewaterhouseCoopers

Chairman: Yang, Yu-Te, the Chairman of the Board of Directors

Recorder: Hsu, Chin-Chuan



I. The aggregate shareholding of the shareholders present in person or by proxy constituted a quorum. The Chairman called the meeting to order.

II. Chairman's Address (omitted)

III. Reports Items

1. 2017 Business Report (Please refer to ATTACHMENT I)
2. 2017 Consent Report of Audit Committee (Please refer to ATTACHMENT II)
3. 2017 Report of Remuneration Distribution to Employees and Directors

Explanation:

- (1) Pursuant to Article 27 of the Articles of Incorporation of the Company: For a particular fiscal year, if profits are made (i.e., if net profits before-tax are available prior to the deduction of remuneration to employees and Directors), the Company shall allocate one to twenty percent as remuneration to employees

and up to 2% as remuneration to Directors.

- (2) The Board of Directors of the Company had approved to allocate TWD 41,595,000 as the remuneration to employees and TWD 5,294,000 as the remuneration to the Directors for the year 2017, where all remuneration shall be paid in cash. (hereinafter all monetary unit will be TWD)
- (3) The above-mentioned remuneration to employees and to Directors had been expensed for the year 2017, the amount of the expenditures is consistent with that of the remuneration allocation agreed by the Board of Directors.

4. The Status of the First Domestic Unsecured Convertible Corporate Bonds
Conversion

Explanation:

- (1) In order to enrich the working capital, for the First Domestic Unsecured Convertible Corporate Bonds (hereinafter referred to as “the Convertible Corporate Bonds”) issuance matter of which was entering into effect as per an official approval letter (of Jin-Guan-Zheng-Fa-zi-No. 1050022240) dated June 16th, 2016 issued by Financial Supervisory Commission; further, this matter was approved for an extended period for fund raising as per an official approval letter (of Jin-Guan-Zheng-Fa-zi-No. 1050036756) dated September 2nd, 2016 issued by Financial Supervisory Commission.
- (2) Particulars about the issuance and conversion of the Convertible Corporate Bonds are as follows:
 - a. Total amount of issuance: The face value of each Convertible Corporate Bond was set to be TWD 100,000 even sold at the full price where totally 4,200 Convertible Corporate Bonds were issued this time totaling in TWD 420 million even.
 - b. Coupon rate/ yield to maturity: Annual coupon rate was set to be 0%.
 - c. Issuance period: The maturity period was set to be five years from December 13th, 2016 (the issuance date) to December 13th 2021(the maturity date).
 - d. Conversion status: As of March 31st, 2018, none of any conversion of the Convertible Corporate Bonds had taken place.

IV. Presales and Acknowledgement

1. Regarding 2017 Business Report and Financial Statements (including Parent Company Only and Consolidated Financial Statements), please kindly acknowledge it.

(Proposed by the Board of Directors)

Explanation:

- (1) 2017 Business Report and Financial Statements (including Parent Company Only and Consolidated Financial Statements) of the Company had received consent of the Audit Committee and passed the resolutions of the Board of Directors where the Financial Statements had been audited by CPA Feng, Ming-Juan and Hsu, Shien-Chung of PricewaterhouseCoopers Taiwan. The Audit Committee had also issued a written Consent Report incorporating 2017 Business Report, Financial Statements along with 2017 Profit Distribution.
- (2) For details, please refer to ATTACHMENT I for 2017 Business Report, ATTACHMENT III for 2017 Independent Auditors' Report and Parent Company Only Financial Statements, and ATTACHMENT IV for 2017 Independent Auditors' Report and Consolidated Financial Statements.
- (3) Please kindly acknowledge this proposal.

Voting Results:

43,019,658 shares were represented at the time of voting (including votes casted electronically: 10,280,931); 37,611,914 shares voted for the proposal (including votes casted electronically: 4,949,144); 14,344 shares voted against the proposal (including votes casted electronically: 14,344); 5,393,400 votes were either invalid or abstained (including votes casted electronically: 5,317,443).

Resolutions:

87.43% voted for the proposal. The proposal was approved as the number of votes supporting the proposal exceeded the number of votes required by law and the company policy.

2. Regarding 2017 Profit Distribution, please kindly acknowledge it.

(Proposed by the Board of Directors)

Explanation:

- (1) Please refer to ATTACHMENT V for 2017 Profit Distribution.
- (2) For 2017, the beginning retained earnings of the Company is TWD 101,403,280,

deducting other comprehensive income and loss-net defined benefit liability (assets) measuring adjustment of TWD 4,768,290, and unappropriated retained earnings after adjustment is TWD 96,634,990, plus 2017 net income of TWD 926,239,309, and set aside legal reserve of TWD 92,623,931, and special reserve of TWD 12,913,553, the total unappropriated retained earnings is TWD 917,336,815, the distribution of 2017 profits is following:

【TWD 917,336,815 =

TWD 101,403,280 - 4,768,290 + 926,239,309 - 10% x 926,239,309 - 12,913,553】

The final surplus TWD 917,336,815 is to be allocated for 2017 Profit Distribution according to provisions of regulations as follows:

- a. The dividend of the shareholders is to be distributed in the form of cash dividend totaling in TWD 439,004,768, or TWD 5.53 per share. Once this Proposal is passed at the Annual Meeting of Shareholders this time, the Chairman of the Board of Directors is authorized to determine the record date and relevant matters for the distribution of the cash dividend.
- b. If there is any change in the number of common shares of the Company which consequently leads to a change in the dividend distribution ratio, it is proposed by the Meeting, the Chairman of the Board of Directors is authorized to adjust the dividend distribution ratio based on the actual shares outstanding on the record date for distribution.
- c. The net income for the most recent year shall be distributed with higher priority.
- d. Regarding the cash dividend distribution this time, the cash dividend is to be calculated to the integral number with all decimals truncated. And all the truncated decimals from all distorted figures are accumulated to a summation amount which will then be adjusted among shareholders - in the order of decimal of each cash dividend amount from big to small as well as in the order of account number from the top to the bottom - until the total amount of cash dividend actually paid out can match that in the book.

(3) Please kindly acknowledge this proposal.

Voting Results:

43,019,658 shares were represented at the time of voting (including votes casted electronically: 10,280,931); 36,874,042 shares voted for the proposal (including votes casted electronically: 4,211,272); 752,216 shares voted against the proposal (including votes casted electronically: 752,216); 5,393,400 votes were either invalid or abstained (including votes casted electronically: 5,317,443).

Resolutions:

85.71% voted for the proposal. The proposal was approved as the number of votes supporting the proposal exceeded the number of votes required by law and the company policy.

V. Election and Discussion

1. Election of Directors. Please Vote.

(Proposed by the Board of Directors)

Explanation:

(1) The three-year term of Directors of the Board will be end on June 2nd, 2018. Accordingly, the company proposes to duly elect new Board members at this year's Annual meeting shareholders.

According to Company Act 199-1 where election of all directors is effected, by a resolution adopted by a shareholders' meeting, prior to the expiration of the term of office of existing directors, and in the absence of a resolution that existing directors will not be discharged until the expiry of their present term of office, all existing directors shall be deemed discharged in advance.

(2) According to Article 18 and Article 18-1 of the Articles of Incorporation of the Company, the shareholders' meeting plans to elect 7 Directors (including 3 Independent Directors) and adopt the candidate nomination system for a term of three years.

(3) According to the Articles of Incorporation of the Company, the Company's directors shall be elected from the nomination list prepared by the Company. The qualification of the nominated directors has been reviewed by Board meeting on April 12th, 2018. Personal information of the 7 nominees is as follows:

Title	Name	Experience(Education)	Shareholding
Director	Yang, Yu-Te	Founder, Axiomtek Co., Ltd. Head of Automation System Unit, Advantech Co., Ltd. Bachelor's in Electrical Engineering, Fu Jen Catholic University	3,154,512
Director	Advantech Co., Ltd. Representative Liu, Wei-Ting	Investment Representative, Corporate Investment Division, Advantech Co., Ltd. MBA, National Taiwan University Bachelor of Electrical Engineering, University of Illinois, Urbana- Champaign	20,537,984
Director	Tsai, Shih-Yang	Supervisor, Axiomtek Co., Ltd. Chairman, Smart Management Consulting Co., Ltd. Department and Institute of Electronic Engineering Minghsin University of Science and Technology, Taiwan Department of Applied Mathematics Chinese Culture University, Taiwan	419,000
Director	Huang, Jui-Nan	Consultant, YUS Consultant Service Inc. Vice President, Advantech Industrial Automation Group CEO, Cermate Technologies Inc. Vice President, Advantech iService Automation Group Master of Tamkang University, Department of Management Sciences Bachelor of National Taiwan University, Department of Information Technology	0
Independent Director	Lin, Yih-Jong	Chairman, Ufi Space Co., Ltd. Chief Operating Officer, Embedded Platform Group, Industrial Automation Group President, Advantech Managing Director ,Tektornix China Vice President ,Computer Systems Organization, HP Taiwan BE Electrical Engineering ,National Cheng Kung University	0
Independent Director	Shon, Zheng-Yi	Dean of College of Management & Professor of Department of International Business Management, Tainan University of Technology Director of Research Center for International Marketing and Global Logistic Management, Tainan University of Technology Ph.D.in Transportation and	0

Title	Name	Experience(Education)	Shareholding
		Communication Management, National Cheng Kung University	
Independent Director	Chang, Jen-Chih	Hot Tai Public Accountant Firms Certified Public Accountant Chungyu College of Business Management Chairman of Department of Accounting & Statistics National Taipei College of Business Chairman of Department of Accounting & Statistics National Chengchi University Master degree of Commerce National Chung Hsing University Bachelor of Commerce in the Department of Accounting	0

- (4) The term of the newly elected directors will start from May 29th, 2018 to May 28th, 2021. The term of the original directors is up to the completion of this year's Annual meeting shareholders.
- (5) Election of directors under the Methods for Election of Directors of the Company.
- (6) Please vote.

Election Results:

Declared elected by the Chairman of the list is as follows:

Title	Shareholders' No.	Name	Votes Received
Director	2	Yang, Yu-Te	45,817,154
Director	507	Advantech Co., Ltd. Representative Liu, Wei-Ting	41,826,892
Director	611	Tsai, Shih-Yang	36,357,598
Director	R1222*****	Huang, Jui-Nan	34,485,825
Independent Director	G1200*****	Lin, Yih-Jong	32,660,222
Independent Director	F1202*****	Shon, Zheng-Yi	31,137,872
Independent Director	L1021*****	Chang, Jen-Chih	30,623,970

2. Regarding the release of the Prohibition on Directors from participation in competitive business, please kindly discuss it.

(Proposed by the Board of Directors)

Explanation:

- (1) In accordance with Article 209 of the Company Act: "A Director shall address the important contents of his conducts - acting on behalf of himself or on others within the scope of the business of the Company - to the Shareholders' Meeting while obtaining the permission from the shareholders", this Proposal is proposed.
- (2) In order to take advantage of the specialty and relevant experience of the Directors of the Company, hereby it is proposed – according to the provision mentioned above - to add a new clause which is to release the prohibition on directors from participation in competitive business, hereby propose for getting approval of shareholder's meeting.
- (3) The newly elected directors serve as other positions in other companies are as below:

Director's Name	Positions and Company's Name
Yang, Yu-Te	General Manager, Axiomtek Co., Ltd Chairman, AXIOMTEK DEUTSCHLAND GMBH Chairman, AXIOM TECHNOLOGY (BVI) CO., LTD. Chairman, AXIOMTEK UK LIMITED Direcotr, AXIOM TECHNOLOGY, INC. U.S.A.
Advantech Co., Ltd. Representative Liu, Wei-Ting	Investment Representative, Corporate Investment Division, Advantech Co., Ltd. Director, DeNeng Scientific Research Co., Ltd. Director, Cermate Technologies Inc.
Tsai, Shih-Yang	Chairman, Smart Management Consulting Co., Ltd. Chairman, Fudi Investment Co., Ltd. Chairman, Xinzhuang Comprehensive Investment Co., Ltd. Director, Yan Instrument Co., Ltd. Director, Chengbang Network Co., Ltd. Director, LEGENDAIRE TECHNOLOGY CO.,LTD Director, Winmate Communication Co., Ltd. Adviser concurrently as a non-profit organization: Global Talentpreneur Innovation & Collaboration Association.
Huang, Jui-Nan	Consultant, YUS Consultant Service Inc. Independent Director, AVer Information Inc.
Lin, Yih-Jong	Chairman, Ufi Space Co., Ltd.
Shon, Zheng-Yi	Dean of College of Management & Professor of Department of International Business Management, Tainan University of Technology
Chang, Jen-Chih	Hot Tai Public Accountant Firms Certified Public Accountant

- (4) Please kindly discuss this proposal.

Voting Results:

43,019,658 shares were represented at the time of voting (including votes casted electronically: 10,280,931); 35,693,367 shares voted for the proposal (including votes casted electronically: 3,004,597); 1,916,652 shares voted against the proposal (including votes casted electronically: 1,916,652); 5,409,639 votes were either invalid or abstained (including votes casted electronically: 5,359,682).

Resolutions:

82.97% voted for the proposal. The proposal was approved as the number of votes supporting the proposal exceeded the number of votes required by law and the company policy.

VI. Extemporary Motions: None.

VII. Adjournment: There was no other business and extemporary motion, the Chairman announced the meeting adjourned at 09:29 AM, May 29th (Tuesday), 2018.

AXIOMTEK CO., LTD.

2017 Business Report

Dear Shareholders:

In 2017, the annual operating income of Axiomtek Co., Ltd. (hereinafter referred to as "the Company") had reached TWD 2.53 billion - a 2.87% increase in comparison with TWD 2.46 billion in 2016.

Looking into Year 2018, the Company is to continue the pursuit of the construction of the IIoT (i.e. Industrial Internet of Things) Ecosystem under the collaboration with technological partners in regard to the industries of intelligent transportation system, smart energy, and factory automation; so that software and hardware technology can be integrated and richer solutions for vertical markets can be further developed.

Herewith, business results for 2017 and business plan for 2018 are reported as follows:

I. Business Results for 2017:

(I) Implementation results of the business plan:

The operating income of the Company totaled in TWD 2.53 billion for year 2017 where the net profit for the same period amounted to TWD 926 million, the comprehensive profit TWD 895 million, and the after-tax earnings per share TWD 11.71.

(II) Implementation particulars about budgeting:

Since the Group did not disclose its financial forecast for year 2017, there were no budgeting particulars to share.

(III) Financial revenues, expenditures, and profitability:

	Item	2017	2016
Financial Structure	Debt Ratio (%)	32.94	38.17
	Ratio of long-term capital to Property, plant and equipment (%)	204.93	1,038.99
Solvency	Current Ratio (%)	156.25	281.15
	Quick Ratio (%)	121.16	226.64
	Interest earned ratio (times)	15,307.74	95,167.80
Profitability	Return on total assets (%)	29.31	13.58
	Return on Equity (%)	45.02	20.94
	Pre-tax Income to Paid-in Capital Ratio (%)	126.41	53.05
	Profit ratio (%)	36.60	14.64
	Earnings Per Share (TWD)	11.71	4.56

(IV) Particulars about research and development:

In response to the trend of Industrial 4.0 and Industrial IoT, five mid- to long-term development directions had been planned:

1. Regarding automation solution had been provided to Machine Vision, smart energy, and automation control over EtherCAT Ethernet network.
2. Integrating LabVIEW system engineering software with Microsoft's Azure cloud computing platform for applications in intelligent predictive maintenance technology.
3. Developing LiteSCADA remote monitoring programs and computer systems with data collecting capabilities.
4. Continuously dedicated to providing mission-critical railway traffic solutions by developing a comprehensive range of system products with the recognition of professional certifications.
5. Continuous efforts had been made in deepening the gaming industry, smart retail and digital electronic billboard applications, and the offering to partners of exclusive, customized and flexible services of added values.
6. Continuous focus had been placed on the product development on network application platform and in cloud computing, including the investment in the research and development of new technology, integration of hardware and software.

II. Summary of Business Plan for 2018:

(I) Operating principles:

1. Aiming towards specific vertical application markets, a complete product line and professional customized services are to be provided for customers to obtain relevant products and technical support.
2. With a focus on technologies and products related to Industrial IoT and Industry 4.0, the Company is to continue to be a leading brand around the globe in the targeted vertical application markets such as factory automation, intelligent transportation, and smart energy.
3. To pursue long-term development and sustainable operation, the Company is to cooperate with strategic partners to form alliance relations while integrating hardware and software to enhance product added values.
4. The Company is to aggressively expand oversea service outlets, deepen customer relationships, and establish global distribution franchise for win-win partnership.
5. The Company is to attach importance to organizational development and talent cultivation.

(II) Production and sales & marketing policy:

1. The MES smart factory operating management is to be introduced so that gradually implemented may be the factory automation.

2. Global information management and communication mechanism is to be implemented for better grasp of the information about the inventory of materials, semi-finished goods, and finished goods, and about the quantity of demand in future market so that the cost of logistics management and the loss of depreciation due to sluggish inventory may be comprehensively reduced.
3. Localization of brand recognition around the globe is to be promoted.

III. Future Development Strategy of the Company:

(I) Sales strategy:

1. To continue to promote its independent brand of the Company for marketing worldwide, as well as to focus on research and development, manufacturing, sales while accumulating hardware and software integration technology to provide customers with more information and diversified product applications.
2. To actively build more sales and technical outlets while expanding marketing channels and realizing the localization services.
3. To develop strategies and tactics based on the sales objective of key account and channel partner, so as to expand sales scale and help clients develop new markets.
4. To strengthen the added value of integration of hardware and software products while duplicating success stories, so as to shorten the time to market for customers and build win-win business model.
5. To utilize the Salesforce Service Cloud application platform, so as to effectively manage customer experience and project progress with IT technology as well as improve customer experience with comprehensive digital marketing pattern.

(II) Product technology:

1. Embedded product technology

(1) Embedded board and SoM

Continuous effort is to be made in product development and the provision of customized design-in service in a timely fashion.

(2) Industrial and embedded systems and touch panel computer

The Company has been gearing towards the development of IIoT-related products to suit mission-critical and heavy-duty applications with industrial modular and industrial aesthetic design.

(3) LiteSCADA intelligent remote monitoring and management software

The LiteSCADA intelligent software independently developed by the Company has not only enhanced the capability of remote monitoring and management but also supported features such as embedded Application Programming Interface (eAPI), online management tools, controlling mechanism and database services.

- (4) Dedicated computer platform for gaming industry and electronic digital signage player
Especially designed for the gaming industry, the Video Mixer technology and the Tracking system platform for the game player are to cultivate the independent expertise and integration capabilities in vertical industry.
- (5) Network application hardware platform and cloud application computer
Targeting at the network security application market, the Company is to develop remote monitoring technology IPMI (Intelligent Platform Management Interface), 10G/25G Ethernet module, and the SDN (Software-Defined Networking) application platform.

IV. Impact of the external competitive environment, regulatory environment, and the overall operating environment:

With regards to the external competitive environment, the scale of Industrial IoT vertical application market will continue to grow in size while the globe will deploy infrastructure construction plan for the long term. The Company is striving to build up its own technical expertise by focusing on specific vertical application markets, embracing/joining the driving trends of 5G, AI (artificial intelligence) as well as robotic applications to construct its core competitiveness with differentiation and innovation. In terms of the overall environment, the development of industrial IoT, smartness, and automation will be prosperous more rapidly due to the new trend of AI artificial intelligence and IOT. Upon launching relevant products, the Group will be engaged more in the integration of hardware and software while aiming to develop wireless network technology; Thus providing a more diversified product portfolio.

Looking into the future, continuous efforts shall be made to deepen the local operation and actively engage in sales and marketing activities, to open up market reputation, to gradually solidify the brand recognition and lay the foundation for sustainable management. It is believed that more success stories would be told at the Company based on its healthy operation, its clear development objective, as well as its thorough global deployment and specific brand positioning; thus driving the Company's revenue to new heights.

Yang, Yu-Te, Chairman

Yang, Yu-Te, President

Hsu, Chin-Chuan, Principal accounting officer

AXIOMTEK CO., LTD.

(ATTACHMENT II)

2017 Consent Report of Audit Committee

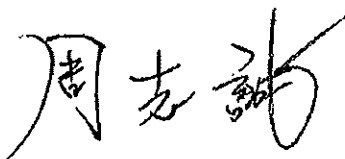
To: 2018 Annual Meeting of Shareholders
AXIOMTEK CO., LTD.

Date: February 27th, 2018

Consented by the Audit Committee, 2017 Business Report, Financial Statements and profit distribution proposals have also been resolved by the Board of Directors of the Company where the financial statements have been completely audited and subsequently an 2017 Unqualified Opinion Independent Auditors' Report has been issued by CPA Feng, Ming-Chuan and Hsu, Shien-Chong of PricewaterhouseCoopers Taiwan which has been entrusted by the Board of Directors.

In compliance with the provisions of relevant laws and regulations, the abovementioned 2017 Business Report, Financial Statements and profit distribution proposals are being reported and presented herewith for review in accordance with the provisions of Article 14.4 of the Securities and Exchange Act and Article 219 of the Company Act.

Sincerely yours,



Chou, Chih-Chen
Convener of Audit Committee
AXIOMTEK CO., LTD.

2017 Independent Auditors' Report
(Parent Company Only Financial Statements)

(107) Cai-Shen-Bao-zi-No. 17002841

February 27th, 2018

To the Board of Directors and Shareholders of AXIOMTEK CO., LTD.:

Opinion

We have audited the accompanying Parent Company Only balance sheets of AXIOMTEK CO., LTD. (hereinafter referred to as "Axiomtek" or "the Company") as at December 31, 2017 and 2016, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual financial statements of the current period. These matters were addressed in the

context of our audit of the individual financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Assessment of Allowance for Reduction of Inventory to Market

Description of the matter

Please refer to Notes 4(12) in the “Parent Company Only Financial Statements” for the accounting policies related to the assessment of the “Allowance for Reduction of Inventory to Market”. Please refer to Notes 5(2) in the “Parent Company Only Financial Statements” for the accounting estimate and the uncertainty of the assumption related to the assessment of the “Allowance for Reduction of Inventory to Market”. Please refer to Notes 6(6) in the “Parent Company Only Financial Statements” for the description of the accounting items of the inventory. As of December 31st, 2017, the balance of “Allowance for Inventory to Market” and that of “Allowance for Reduction of Inventory to Market” had been assessed at TWD 401.237 million and TWD 25 million, respectively.

In view that the main business of the Company lies in the manufacturing and sales of products related to industrial computers which are susceptible to fluctuations in market prices due to rapid evolution of technology, the Company has been facing a higher risk of losses arising from “Allowance for Inventory to Market” or obsolescence of the inventory. At Axiomtek, the approach it has been taking was to adjust the balance sheet based on the cost or the net realizable value – whichever is the lower - of the normally sold inventory, as well as on the net realizable value - provisioned as the loss - of the obsolete or damaged inventory individually identified.

Herewith, out of the discretion of the CPAs, the assessment of the “Allowance for Reduction of Inventory to Market” evaluated by Axiomtek has been put among the most significant matters of this audit for further verification because the inventory of Axiomtek represented a huge amount of value and high diversification of items where it has been subject to the subjective judgment of the management level for the identification of the net realizable value of any individual obsolete or damaged items in the inventory.

How does this audit address the corresponding matter?

The main audit process regarding the corresponding key audit matter was listed by the CPAs as follows:

- Evaluating the reasonableness of accounting policy on provision for inventory, and the consistency of process application during the financial reporting period.
- Testing the details of loss on market price decline, discussing with management and inspecting related documents to confirm the adequacy of the provision for loss on inventory market price decline.
- Comparing the related document we gathered during the physical inventory count and the scrap and slow-moving inventory report made by management, and performing an inquiry with management

and related personnel to verify whether the following have been addressed in the inventory list:

- a. Slow-moving inventory
- b. Inventory that is over certain age
- c. Significant amount of inventory that is damaged

Investment income recognized under equity method

Description of the matter

Please refer to Notes 4(13) in the “Parent Company Only Financial Statements” for the accounting policies of the investments using the equity method. Please refer to Note 6(7) in the “Parent Company Only Financial Statements” for the description of the accounting items of the investments using the equity method.

Axiomtek disposed all the holding stocks of the subsidiary company- EtherWAN Systems, Inc. in 2017. The disposition price and the gain (or loss) on disposal of this subsidiary company are material to Axiomtek and the disposal also make significant influence to the Axiomtek’s future operating. Therefore, CPA considers the accuracy of the investment profit and loss recognized under equity method for this disposal is one of the key audit matters.

How our audit addressed the matter?

The main audit process regarding the corresponding key audit matter was listed by the CPAs as follows:

- Examined the disposal transaction if it conforms to the requirements of ¶ Operating Procedures for Acquisition and Disposal of Assets by Public Companies. Obtained the reference information of the transaction price and approved by the Board of Directors.
- Checked the disposal contract, transaction documents and the receipts recorded, and tested the accuracy of the investment profit and loss recognized for this disposal.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the Parent Company Only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the Parent Company Only financial statements, including the disclosures, and whether the Parent Company Only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the Parent Company Only financial

statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

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

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

Feng, Ming-Chuan, CPA

Hsu, Shien-Chong, CPA

for and on behalf of PricewaterhouseCoopers Taiwan

February 27, 2018

Notice to Readers

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

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

AXIOMTEK CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

Assets	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Current assets				
Total cash and cash equivalents	\$ 638,528	18	\$ 649,319	23
Total current financial assets at fair value through profit or loss	35,006	1	244,028	9
Notes receivable, net	2,229	-	4,355	-
Accounts receivable, net	98,567	3	91,895	3
Accounts receivable due from related parties, net	288,926	8	285,354	10
Other receivables, net	21,059	1	13,288	-
Other receivables due from related parties, net	59,952	2	74,631	3
Total current tax assets	-	-	274	-
Total inventories	366,237	10	311,720	11
Total prepayments	8,420	-	16,214	1
Total other current assets	149,599	4	473	-
Total current assets	1,668,520	47	1,691,551	60
Non-current assets				
Non-current financial assets at cost, net	923	-	923	-
Investments accounted for using equity method, net	585,247	16	873,271	31
Total property, plant and equipment	1,203,699	34	213,725	7
Investment property, net	22,858	1	-	-
Total intangible assets	21,215	1	16,220	1
Deferred tax assets	28,566	1	20,667	1
Guarantee deposits paid	3,562	-	5,884	-
Total non-current assets	1,866,070	53	1,130,690	40
Total assets	\$ 3,534,590	100	\$ 2,882,241	100

(Continued)

AXIOMTEK CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

Liabilities and Equity	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Liabilities				
Current liabilities				
Total current financial liabilities at fair value through profit or loss	\$ 4,998	-	\$ -	-
Total notes payable	1,473	-	42	-
Total accounts payable	365,766	10	329,058	11
Total accounts payable to related parties	12,543	-	25,244	1
Total other payables	201,331	6	191,152	7
Current tax liabilities	62,955	2	29,686	1
Total advance receipts	24,854	1	25,257	1
Other current liabilities, others	393,953	11	1,220	-
Total current liabilities	1,067,873	30	601,659	21
Non-current liabilities				
Total non-current financial liabilities at fair value through profit or loss	-	-	6,048	-
Total bonds payable	-	-	386,161	14
Total deferred tax liabilities	58,178	2	50,749	2
Accrued pension liabilities	37,413	1	32,422	1
Guarantee deposits received	929	-	336	-
Total non-current liabilities	96,520	3	475,716	17
Total liabilities	1,164,393	33	1,077,375	38
Equity				
Share capital				
Ordinary share	793,130	22	790,310	28
Advance receipts for share capital	1,379	-	-	-
Capital surplus				
Total capital surplus	198,563	6	183,745	6
Retained earnings				
Legal reserve	367,165	10	331,163	12
Total unappropriated retained earnings (accumulated deficit)	1,022,874	29	425,869	15
Other equity interest				
Total other equity interest	(12,914)	-	13,779	1
Total equity	2,370,197	67	1,744,866	62
Major commitment & contingent item				
Total liabilities and equity	\$ 3,534,590	100	\$ 2,822,241	100

The accompanying notes are an integral part of the parent company only financial statements.
(With PricewaterhouseCoopers audit report dated February 27, 2018)

Chairman : Yang, Yu-Te

President : Yang, Yu-Te

Principal accounting officer : Hsu, Chin-Chuan

AXIOMTEK CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	2017		2016	
	Amount	%	Amount	%
Operating revenue				
Total operating revenue	\$ 2,530,366	100	\$ 2,459,756	100
Operating costs				
Total operating costs	(1,784,820)	(71)	(1,668,242)	(68)
Gross profit (loss) from operations	745,546	29	791,514	32
Unrealized profit (loss) from sales	(53,428)	(2)	(43,129)	(2)
Realized profit (loss) on from sales	43,129	2	65,967	3
Gross profit (loss) from operations	735,247	29	814,352	33
Operating expenses				
Total selling expenses	(98,683)	(4)	(85,585)	(3)
Total administrative expenses	(87,650)	(4)	(88,522)	(4)
Total research and development expenses	(356,023)	(14)	(350,861)	(14)
Total operating expenses	(542,356)	(22)	(524,968)	(21)
Net operating income (loss)	192,891	7	289,384	12
Non-operating income and expenses				
Total other income	17,084	1	27,734	1
Other gains and losses, net	733,759	29	(14,485)	(1)
Finance costs, net	(6,604)	-	(441)	-
Share of profit (loss) of associates and joint ventures accounted for using equity method, net	67,189	2	117,057	5
Total non-operating income and expenses	811,428	32	129,865	5
Profit (loss) before tax	1,004,319	39	419,249	17
Total tax expense (income)	(78,080)	(3)	(59,226)	(2)
Profit (loss)	\$ 926,239	36	\$ 360,023	15
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss :				
profit or loss:				
Remeasurement of defined benefit obligation	\$ (5,745)	-	\$ 7,411	-
Share of other comprehensive income (loss) of subsidiaries and associates	-	-	656	-
Income tax benefit (expense) related to items that will not be reclassified subsequently	977	-	(1,260)	-
Items that may be reclassified subsequently to profit or loss :				
profit or loss:				
Exchange differences arising on translation of foreign operations	(23,842)	(1)	(17,026)	(1)
Share of other comprehensive income (loss) of subsidiaries and associates	(6,904)	-	(1,778)	-
Income tax benefit (expense) related to items that may be reclassified subsequently	4,053	-	2,894	-
Other comprehensive income, net of tax	\$ (31,461)	(1)	\$ (9,103)	(1)
Comprehensive income	\$ 894,778	35	\$ 350,920	14
Basic earnings per share				
Total basic earnings per share	\$	11.71	\$	4.56
Diluted earnings per share				
Total diluted earnings per share	\$	10.59	\$	4.43

† The accompanying notes are an integral part of the parent company only financial statements.
(With PricewaterhouseCoopers audit report dated February 27, 2018)

Chairman : Yang, Yu-Te

President : Yang, Yu-Te

Principal accounting officer : Hsu, Chin-Chuan

AXIOMTEK CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	Share capital		Capital surplus					Retained Earnings			Total	
	Ordinary share	Advance receipts for share capital	Capital surplus In Excess of par value-Common Stock	Capital surplus In Excess of par value-Treasury Stock	Capital surplus and carrying amount of subsidiaries acquired or dispose	Capital surplus from Gain on Disposal of Property	Capital surplus from stock option exercised by employees	Capital surplus from stock option	Legal Reserve	Unappropriated retained earnings		Exchange differences on translation of foreign financial statements
Beginning balance, January 1, 2016	\$ 790,310	\$ -	\$ 118,619	\$ 1,026	\$ -	\$ 2	\$ 23,386	\$ -	\$ 288,752	\$ 441,283	\$ 29,689	\$ 1,693,067
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	-	-	-	-	-	-	42,411	(42,411)	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	-	-	-	(339,833)	-	(339,833)
Net income for 2016	-	-	-	-	-	-	-	-	-	360,023	-	360,023
Other comprehensive income(loss)	-	-	-	-	-	-	-	-	-	6,807	(15,910)	(9,103)
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	-	177	-	-	-	-	-	-	177
Compensation cost of employee stock options	-	-	-	-	-	-	16,175	-	-	-	-	16,175
Proceeds from issuing convertible bonds	-	-	-	-	-	-	-	24,360	-	-	-	24,360
Ending balance, December 31, 2016	\$ 790,310	\$ -	\$ 118,619	\$ 1,026	\$ 177	\$ 2	\$ 39,561	\$ 24,360	\$ 331,163	\$ 425,869	\$ 13,779	\$ 1,744,866

(Note 1) The directors' and supervisors' compensation were \$7,018 and the employees' bonuses were \$81,754, which had been deducted from net income for the year 2015.
(Note 2) The directors' and supervisors' compensation were \$6,700 and the employees' bonuses were \$52,646, which had been deducted from net income for the year 2016.

The accompanying notes are an integral part of the parent company only financial statements.
(With PricewaterhouseCoopers audit report dated February 27, 2018)

Chairman : Yang, Yu-Te

President : Yang, Yu-Te

Principal accounting officer : Hsu, Chin-Chuan

AXIOMTEK CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	Capital surplus										Retained Earnings		Total					
	Share capital	Capital surplus from difference between consideration and carrying amount of subsidiaries acquired or disposed	Capital surplus from Gain on Disposal of Property	Capital surplus from stock option exercised by employees	Capital surplus from stock option	Legal Reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Advance receipts for share capital	In Excess of par value-Common Stock	Capital surplus In Excess of value-Treasury Stock	Capital surplus In Excess of amount of subsidiaries acquired or disposed		Capital surplus from stock option exercised by employees	Capital surplus from stock option	Legal Reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements
Year 2017																		
Beginning balance, January 1, 2017	\$ 790,310	\$ -	\$ 118,619	\$ 1,026	\$ 177	\$ 2	\$ 39,561	\$ 24,360	\$ 331,163	\$ 425,869	\$ 13,779	\$ 1,744,866						
Appropriation and distribution of retained earnings:																		
Legal reserve appropriated	-	-	-	-	-	-	-	-	36,002	(36,002)	-	-						
Cash dividends of ordinary share	-	-	-	-	-	-	-	-	-	(288,464)	-	(288,464)						
Net income for 2017	-	-	-	-	-	-	-	-	-	926,239	-	926,239						
Other comprehensive income(loss)	-	-	-	-	-	-	-	-	-	(4,768)	(26,693)	(31,461)						
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	-	(1)	-	-	-	-	-	-	(1)						
Exercise of employee share options	2,820	1,379	4,004	-	-	-	-	-	-	-	-	-	8,203					
Proceeds from issuing convertible bonds							10,815											
Ending balance, December 31, 2016	\$ 793,130	\$ 1,379	\$ 122,623	\$ 1,026	\$ 176	\$ 2	\$ 50,376	\$ 24,360	\$ 367,165	\$ 1,022,874	\$ 12,914	\$ 2,370,197						

(Note 1) The directors' and supervisors' compensation were \$7,018 and the employees' bonuses were \$61,754, which had been deducted from net income for the year 2015.
(Note 2) The directors' and supervisors' compensation were \$6,700 and the employees' bonuses were \$52,646, which had been deducted from net income for the year 2016.

The accompanying notes are an integral part of the parent company only financial statements.
(With PricewaterhouseCoopers audit report dated February 27, 2018)

Chairman : Yang, Yu-Te

President : Yang, Yu-Te

Principal accounting officer : Hsu, Chin-Chuan

AXIOMTEK CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) operating activities, indirect method		
Profit (loss) before tax	\$ 1,004,319	\$ 419,249
Adjustments		
Adjustments to reconcile profit (loss)		
Reversal of provision for bad debt expense	5	(734)
Depreciation expense	40,820	37,591
Amortization expense	8,457	6,578
Interest income	(7,391)	(2,104)
Interest expense	6,604	441
Loss (gain) on disposal of investments	(489)	(456)
Loss (gain) on disposal of investments for using equity method	(766,094)	-
Loss (gain) on disposal of property, plant and equipment	(2,301)	(157)
Loss (gain) on disposal of intangible assets	(120)	-
Net loss (gain) on financial assets at fair value through profit or loss	23	(15)
Net loss (gain) on financial liabilities at fair value through profit or loss	(1,050)	546
Share of loss (profit) of associates and joint ventures accounted for using equity method	(67,189)	(117,057)
Dividend income	90,160	91,657
Share-based payments	10,815	16,175
Unrealized profit (loss) from sales	10,299	(22,838)
Changes in operating assets and liabilities		
Changes in operating assets		
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	209,488	(145,544)
Decrease (increase) in notes receivable	2,126	1,643
Decrease (increase) in accounts receivable	(10,249)	143,534
Decrease (increase) in other receivable	6,908	(55,397)
Decrease (increase) in inventories	(54,517)	65,460
Decrease (increase) in prepayments	7,794	(7,982)
Decrease (increase) in other financial assets	(148,800)	-
Decrease (increase) in other current assets	(326)	-
Changes in operating liabilities		
Increase (decrease) in notes payable	1,431	(678)
Increase (decrease) in accounts payable	24,007	(80,615)
Increase (decrease) in other payable	(953)	228
Increase (decrease) in receipts in advance	(403)	-
Increase (decrease) in other current liabilities	(26)	559
Increase (decrease) in accrued pension liabilities	(754)	(807)
Cash inflow (outflow) generated from operations	362,594	349,277
Interest received	7,391	2,104
Interest paid	(6)	(168)
Income taxes refund (paid)	(39,978)	(74,152)
Net cash flows from (used in) operating activities	330,001	277,061

AXIOMTEK CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) investing activities		
Acquisition of investments accounted for using equity method	\$ (14,329)	\$ (14,676)
Proceeds from disposal of investments accounted for using equity method	1,004,432	-
Acquisition of property, plant and equipment	(1,042,810)	(22,943)
Proceeds from disposal of property, plant and equipment	2,590	234
Acquisition of intangible assets	(13,452)	(4,461)
Proceeds from disposal of intangible assets	120	-
Increase in refundable deposits	2,332	(241)
Net cash flows from (used in) investing activities	(61,127)	(42,087)
Cash flows from (used in) financing activities		
Decrease in short-term loans	(21,000)	-
Increase in short-term loans	21,000	-
Proceeds from issuing bonds	-	420,000
Increase in Guarantee deposits received	593	336
Cash dividends paid	(288,464)	(339,833)
Exercise of employee share options	8,203	-
Net cash flows from (used in) financing activities	(279,668)	80,503
Net increase (decrease) in cash and cash equivalents	(10,794)	315,477
Cash and cash equivalents at beginning of period	649,319	333,842
Cash and cash equivalents at end of period	\$ 638,525	\$ 649,319

The accompanying notes are an integral part of the parent company only financial statements.
(With PricewaterhouseCoopers audit report dated February 27, 2018)

Chairman : Yang, Yu-Te

President : Yang, Yu-Te

Principal accounting officer : Hsu, Chin-Chuan

(ATTACHMENT IV)

2017 Independent Auditors' Report
(Consolidated Financial Statements)

(107) Cai-Shen-Bao-zi-No. 17002823

February 27th, 2018

To the Board of Directors and Shareholders of AXIOMTEK CO., LTD.:

Opinion

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

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in

the context of our audit of the Consolidated Financial Statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The cut-off of the revenue from the sales of goods in the inventory

Description of the matter

Please refer to Note 4(31) in the “Consolidated Financial Statements” for the accounting policy for revenue recognition. Please refer to Note 6(21) in the “Consolidated Financial Statements” for operating revenue.

In view that the sales model of the Group mainly lies in generating revenue from sales of products shipped out of the inventory warehouse out of which revenue is recognized upon shipping of products. At the Group, the approach it has been taking was to record the revenue based on the change of inventory in the inventory warehouse. Seeing that warehouses of the Group are located in Europe, America, and China as well as that each warehouse had used different inventory system, it had been prone to improper timing of revenue recognition or inconsistent quantities between the actual inventory and the recorded bookkeeping, taking into the consideration that tremendous manual operation may be involved in the process of revenue recognition.

Herewith, out of the discretion of the CPAs, the “cut-off of the revenue from the sales of the inventory” has been put among the most significant matters of this audit for further verification because the transaction for sales of goods in the inventory of the Group represented a huge amount of value on a daily basis and that the impact of the transaction value, especially before and after the cut-off date of financial statements, on the financial statements remained a highly significant factor.

How does this audit address the corresponding matter?

The main audit process regarding the corresponding key audit matter was listed by the CPAs as follows:

- Based on the understanding towards the operation of the Group, the rationality was assessed for the circular system adopted for the revenue in product sales as well as the procedure for the logistics of inventory and warehouse. The CPAs had conducted tests on the cut-off of the revenue from sales of goods during a certain period before and after the year-end cut-off dates, including the verification of supporting documents kept by custodians of the inventory warehouse, and the review of transactions records noted during the proper time frame upon any change of inventory and any settlement of sales costs.
- The CPAs had physically inspected and observed the quantity of inventory at warehouses while verifying the consistency of the quantity of the inventory between the reality and the records. Any inconsistency found had been investigated by the CPAs as well. Finally, tests had been conducted by the CPAs on the adjustment items compiled by the Group to verify whether any major inconsistency had been adequately adjusted and recorded.

Assessment of Allowance for Evaluation of Inventory to Market

Description of the matter

Please refer to Note 4(13) in the “Consolidated Financial Statements” for the accounting policy related to the assessment of the inventory. Please refer to Note 5(2) in the “Consolidated Financial Statements” for the accounting estimate and the uncertainty of the assumption related to the assessment of the inventory. Please refer to Note 6(6) in the “Consolidated Financial Statements” for the description of the accounting items of the inventory. As of December 31st, 2017, the balance of “Allowance for Inventory to Market” and that of “Allowance for Evaluation of Inventory to Market” had been assessed at TWD 771.43 million and TWD 41.166 million, respectively.

In view that the main business of the Group lies in the manufacturing and sales of products related to industrial computers which are susceptible to fluctuations in market prices due to rapid evolution of technology, the Group has been facing a higher risk of losses arising from “Allowance for Inventory to Market” or obsolescence of the inventory. At the Group, the approach it has been taking was to adjust the balance sheet based on the cost or the net realizable value – whichever is the lower - of the normally sold inventory, as well as on the net realizable value - provisioned as the loss - of the obsolete or damaged inventory individually identified.

Herewith, out of the discretion of the CPAs, the assessment of the “Allowance for Evaluation of Inventory to Market” evaluated by the Group has been put among the most significant matters of this audit for further verification because the inventory of the Group represented a huge amount of value and high diversification of items where it has been subject to the subjective judgment of the management level for the identification of the net realizable value of any individual obsolete or damaged items in the inventory.

How does this audit address the corresponding matter?

The main audit process regarding the corresponding key audit matter was listed by the CPAs as follows:

- Evaluating the reasonableness of accounting policy on provision for inventory, and the consistency of process application during the financial reporting period.
- Testing the details of loss on market price decline, discussing with management and inspecting related documents to confirm the adequacy of the provision for loss on inventory market price decline.
- Comparing the related document we gathered during the physical inventory count and the scrap and slow-moving inventory report made by management, and performing an inquiry with management and related personnel to verify whether the following have been addressed in the inventory list:
 - a. Slow-moving inventory

- b. Inventory that is over certain age
- c. Significant amount of inventory that is damaged

The gain (or loss) on disposal of this subsidiary company

Description of the matter

Please refer to Note 4(3) in the “Consolidated Financial Statements” for the accounting policy the gain (or loss) on disposal of this subsidiary company.

Axiomtek disposed all the holding stocks of the subsidiary company- EtherWAN Systems, Inc. in 2017. The disposition price and the gain (or loss) on disposal of this subsidiary company are material to Axiomtek and the disposal also make significant influence to the Axiomtek’s future operating. Therefore, CPA considers the accuracy of the investment profit and loss recognized under equity method for this disposal is one of the most important auditing activities.

How does this audit address the corresponding matter?

The main audit process regarding the corresponding key audit matter was listed by the CPAs as follows:

Examined the disposal transaction if it conforms to the requirements of 『 Operating Procedures for Acquisition and Disposal of Assets by Public Companies. Obtained the reference information of the transaction price and approved by the Board of Directors.

Checked the disposal contract, transaction documents and the receipts recorded, and tested the accuracy of the investment profit and loss recognized for this disposal.

Other matter – Parent company only financial reports

Compiled by the Company, both 2017 and 2016 Individual Financial Statements had also been audited by the undersigned CPAs for reference as stated in corresponding reports without any reservation.

Responsibilities of management and those charged with governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and

using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. The Component Unit (including Audit Committee) of the Group is responsible for overseeing financial reporting process of the Group.

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 ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements. As part of an audit in accordance with ROC GAAS, 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.

Feng, Ming-Chuan CPA

Hsu, Shien-Chong CPA

Former Securities and Futures Bureau of the
Financial Supervisory Committee of the Executive Yuan
Approval certificate no.: Jin-Guan-Zheng-VI-zi-No.0960038033

Financial Supervisory Commission
Approval certificate no.: Jin-Guan-Zheng-Shen-zi-No.1010034097

Notice to Readers

The accompanying Consolidated Financial Statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with 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.

For the convenience of readers, the auditors' report and the accompanying Consolidated Financial Statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and Consolidated Financial Statements shall prevail.

AXIOMTEK CO., LTD. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

Assets	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Current assets				
Total cash and cash equivalents	\$ 843,239	22	\$ 995,597	30
Total current financial assets at fair value through profit or loss	35,006	1	244,028	7
Notes receivable, net	4,014	-	8,434	-
Accounts receivable, net	456,376	12	610,308	18
Accounts receivable due from related parties, net	6	-	53	-
Other receivables, net	21,059	1	16,874	1
Total current tax assets	-	-	6,113	-
Total inventories	730,264	19	758,290	23
Total prepayments	20,782	1	28,014	1
Total other current assets	150,028	4	1,610	-
Total current assets	2,260,774	60	2,669,321	80
Non-current assets				
Non-current financial assets at cost, net	923	-	923	-
Total property, plant and equipment	1,335,402	35	484,696	15
Investment property, net	22,858	1	-	-
Total intangible assets	104,642	3	138,464	4
Deferred tax assets	39,571	1	41,982	1
Total other non-current assets, others	6,680	-	10,201	-
Total non-current assets	1,510,076	40	676,266	20
Total assets	\$ 3,770,850	100	\$ 3,345,587	100

(Continued)

AXIOMTEK CO., LTD. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

Liabilities and Equity	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Liabilities				
Current liabilities				
Total current financial liabilities at fair value through profit or loss	\$ 4,998	-	\$ -	-
Total notes payable	1,473	-	178	-
Total accounts payable	476,730	13	524,757	16
Total accounts payable to related parties	12,466	-	14,835	1
Total other payables	252,053	7	314,813	9
Current tax liabilities	59,395	2	43,270	1
Total current provisions	774	-	1,018	-
Total other current liabilities	432,515	11	34,078	1
Total current liabilities	1,240,404	28	932,949	28
Non-current liabilities				
Total non-current financial liabilities at fair value through profit or loss	-	-	6,048	-
Total bonds payable	-	-	386,161	12
Total long-term borrowings	63,729	2	119,137	4
Total deferred tax liabilities	58,178	1	75,443	2
Total other non-current liabilities	38,342	1	42,241	1
Total non-current liabilities	160,249	4	629,030	19
Total liabilities	1,400,653	37	1,561,979	47
Equity				
Equity attributable to owners of parent				
Share capital				
Ordinary share	793,130	21	790,310	24
Advance receipts for share capital	1,379	-	-	-
Capital surplus				
Total capital surplus	198,563	5	183,745	5
Retained earnings				
Legal reserve	367,165	10	331,163	10
Total unappropriated retained earnings (accumulated deficit)	1,022,874	27	425,869	13
Other equity interest				
Total other equity interest	(12,914)	-	13,779	-
Total equity attributable to owners of parent	2,370,197	63	1,744,866	52
Non-controlling interests				
	-	-	38,742	1
Total equity	2,370,197	63	1,783,608	53
Total liabilities and equity	\$ 3,770,850	100	\$ 3,345,587	100

The accompanying notes are an integral part of the consolidated financial statements.
(With PricewaterhouseCoopers audit report dated February 27, 2018)

Chairman : Yang, Yu-Te

President : Yang, Yu-Te

Principal accounting officer : Hsu, Chin-Chuan

AXIOMTEK CO., LTD. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

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

	2017		2016	
	Amount	%	Amount	%
Operating revenue	\$ 3,994,229	100	\$ 4,707,109	100
Operating costs	(2,634,227)	(66)	(2,961,663)	(63)
Gross profit	1,360,002	34	1,745,446	37
Operating expenses				
Total selling expenses	(562,038)	(14)	(660,353)	(14)
Total administrative expenses	(101,312)	(2)	(113,383)	(2)
Total research and development expenses	(403,250)	(10)	(480,916)	(10)
Total operating expenses	(1,066,600)	(26)	(1,254,652)	(26)
Net operating income	293,402	8	490,794	11
Non-operating income and expenses				
Total other income	17,432	-	26,413	-
Other gains and losses, net	722,548	18	(19,937)	-
Finance costs, net	(9,224)	-	(3,701)	-
Total non-operating income and expenses	730,756	18	2,775	-
Profit before income tax	1,024,158	26	493,569	11
Total income tax expense	(95,244)	(3)	(118,761)	(3)
Net income	\$ 928,914	23	\$ 374,808	8
Other comprehensive income				
Components of other comprehensive income that will not be reclassified to profit or loss				
Gains (losses) on remeasurements of defined benefit plans	\$ (5,745)	-	\$ 8,304	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	977	-	(1,412)	-
Components of other comprehensive income that will be reclassified to profit or loss				
Exchange differences on translation	(33,424)	(1)	(19,742)	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	5,682	-	3,356	-
Other comprehensive income, net	\$ (32,510)	(1)	\$ (9,494)	-
Total comprehensive income	\$ 896,404	22	\$ 365,314	8
Net income attributable to:				
Shareholders of the parent	\$ 926,239	23	\$ 360,023	8
Non-controlling interests	\$ 2,675	-	\$ 14,785	-
Comprehensive income attributable to:				
Shareholders of the parent	\$ 894,778	22	\$ 350,920	8
Non-controlling interests	\$ 1,626	-	\$ 14,394	-
Earnings per share				
Total basic earnings per share	\$ 11.71		\$ 4.56	
Total diluted earnings per share	\$ 10.59		\$ 4.43	

The accompanying notes are an integral part of the consolidated financial statements.
(With PricewaterhouseCoopers audit report dated February 27, 2018)

Chairman : Yang, Yu-Te

President : Yang, Yu-Te

Principal accounting officer : Hsu, Chin-Chuan

AXIOMTEK CO., LTD. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to Shareholders of the Parent						Total	Non-controlling interests	Total equity
	Share capital		Retained earnings		Other equity				
	Ordinary share	Advance receipts for share capital	Capital surplus	Legal reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements			
Beginning balance, January 1, 2016	\$ 790,310	\$ -	\$ 143,033	\$ 288,752	\$ 441,283	\$ 29,689	\$ 1,693,067	\$ 45,147	\$ 1,738,214
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	-	42,411	(42,411)	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(339,833)	-	(339,833)	-	(339,833)
Net income for 2016	-	-	-	-	360,023	-	360,023	14,785	374,808
Other comprehensive income	-	-	-	-	6,807	(15,910)	(9,103)	(391)	(9,494)
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	177	-	-	-	177	-	177
Compensation cost of employee stock options	-	-	16,175	-	-	-	16,175	-	16,175
Proceeds from issuing convertible bonds	-	-	24,360	-	-	-	24,360	-	24,360
Changes in non-controlling interests	-	-	-	-	-	-	-	(20,799)	(20,799)
Ending balance, December 31, 2016	\$ 790,310	\$ -	\$ 183,745	\$ 331,163	\$ 425,869	\$ 13,779	\$ 1,744,866	\$ 38,742	\$ 1,783,608
Beginning balance, January 1, 2017	\$ 790,310	\$ -	\$ 183,745	\$ 331,163	\$ 425,869	\$ 13,779	\$ 1,744,866	\$ 38,742	\$ 1,783,608
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	-	36,002	(36,002)	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(288,464)	-	(288,464)	-	(288,464)
Net income for 2017	-	-	-	-	926,239	-	926,239	2,675	928,914
Other comprehensive income	-	-	-	-	(4,768)	(26,693)	(31,461)	(1,049)	(32,510)
Share-based payments	2,820	1,379	4,004	-	-	-	8,203	-	8,203
Compensation cost of employee stock options	-	-	10,815	-	-	-	10,815	-	10,815
Changes in non-controlling interests	-	-	(1)	-	-	-	(1)	(40,368)	(40,369)
Ending balance, December 31, 2017	\$ 793,130	\$ 1,379	\$ 198,563	\$ 367,165	\$ 1,022,874	\$ (12,914)	\$ 2,370,197	\$ -	\$ 2,370,197

The accompanying notes are an integral part of the consolidated financial statements.
(With PricewaterhouseCoopers audit report dated February 27, 2018)

Chairman : Yang, Yu-Te

President : Yang, Yu-Te

Principal accounting officer : Hsu, Chin-Chuan

AXIOMTEK CO., LTD. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) operating activities, indirect method		
Profit (loss) before tax	\$ 1,024,158	\$ 493,569
Adjustments		
Adjustments to reconcile profit (loss)		
Provision (reversal of provision) for bad debt expense	808	353
Depreciation expense	52,299	53,909
Amortization expense	15,301	17,252
Interest income	(6,360)	(2,103)
Loss (gain) on disposal of property, plant and equipment	(2,301)	336
Loss (gain) on disposal of intangible assets	(120)	-
Loss (gain) on disposal of investments	(489)	(456)
Loss (gain) on disposal of investments	(766,094)	-
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	23	(15)
Net loss (gain) on financial liabilities at fair value through profit or loss	546	546
Interest expense	9,224	3,701
Share-based payments	10,815	16,175
Changes in operating assets and liabilities		
Changes in operating assets		
Decrease (increase) in financial assets held for trading	209,488	(145,544)
Decrease (increase) in notes receivable	1,865	973
Decrease (increase) in accounts receivable	22,401	(10,423)
Decrease (increase) in other receivable	(4,184)	(2,802)
Decrease (increase) in inventories	(158,355)	217,255
Decrease (increase) in prepayments	570	(1,948)
Decrease (increase) in other financial assets	(148,800)	-
Decrease (increase) in other current assets	(1,375)	511
Changes in operating liabilities		
Increase (decrease) in notes payable	1,560	(647)
Increase (decrease) in accounts payable	103,159	(10,264)
Increase (decrease) in other payable	(16,242)	(5,042)
Increase (decrease) in other current liabilities	9,087	(12,296)
Cash inflow (outflow) generated from operations	354,248	613,040
Interest received	6,360	2,103
Interest paid	(2,625)	(3,882)
Income taxes refund (paid)	(51,270)	(145,515)
Net cash flows from (used in) operating activities	306,713	465,746

(Continued)

AXIOMTEK CO., LTD. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) investing activities		
Proceeds from disposal of subsidiaries	\$ 801,680	\$ -
Acquisition of property, plant and equipment	(1,073,507)	(42,650)
Proceeds from disposal of property, plant and equipment	2,589	2,641
Acquisition of intangible assets	(14,217)	(14,689)
Proceeds from disposal of intangible assets	120	-
Increase in other non-current assets	1,153	32
Net cash flows from (used in) investing activities	(282,182)	(54,666)
Cash flows from (used in) financing activities		
Decrease in short-term loans	(21,000)	(291,000)
Increase in short-term loans	146,000	281,000
Repayments of long-term debt	(5,062)	(6,934)
Proceeds from long-term debt	17,856	-
Decrease in other non-current liabilities	5,852	(995)
Proceeds from issuing bonds	-	420,000
Cash dividends paid	(288,464)	(339,833)
Exercise of employee share options	8,203	-
Change in non-controlling interests	(40,368)	20,799
Net cash flows from (used in) financing activities	(176,983)	83,037
Effect of exchange rate changes on cash and cash equivalents	94	(57,526)
Net increase (decrease) in cash and cash equivalents	(152,358)	436,591
Cash and cash equivalents at beginning of period	995,597	559,006
Cash and cash equivalents at end of period	\$ 843,239	\$ 995,597

The accompanying notes are an integral part of the consolidated financial statements.
(With PricewaterhouseCoopers audit report dated February 27, 2018)

Chairman : Yang, Yu-Te

President : Yang, Yu-Te

Principal accounting officer : Hsu, Chin-Chuan

AXIOMTEK CO., LTD.
2017 Profit Distribution Table

Unit : TWD

Item	Amounts	
	Sub-total	Total
Unappropriated retained earnings at the beginning of the term		101,403,280
Other comprehensive income and loss-net defined benefit liability (assets) measuring adjustment	(4,768,290)	
Adjusted unappropriated retained earnings		96,634,990
2017 Net income	926,239,309	
10% set aside as legal reserve	(92,623,931)	
Special reserves	(12,913,553)	
Total unappropriated retained earnings		917,336,815
Distributable item:		
Shareholders' dividend – cash (\$5.53 per share)		(439,004,768)
Unappropriated retained earnings at the end of the term		478,332,047

Remarks: The 2017 net income shall be distributed with higher priority this time.

Chairman : Yang, Yu-Te

President : Yang, Yu-Te

Principal accounting officer : Hsu, Chin-Chuan