

PRIMAX ELECTRONICS LTD.

Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)



安侯建業聯合會計師事務所

KPMG

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Independent Auditors' Report

The Board of Directors
Primax Electronics Ltd.:

We have audited the accompanying balance sheets of Primax Electronics Ltd. as of December 31, 2014 and 2013, and the related statements of comprehensive income, changes in stockholders' equity, and cash flows for the years ended December 31, 2014 and 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Company's investee company Tymphany Worldwide Enterprises Ltd., which was accounted for under the equity method. Those financial statements were audited by other auditors, and our opinion, insofar as it relates to that investment, is based solely on the reports of the other auditors. The Company's investment in Tymphany Worldwide Enterprises Ltd. amounted to \$2,702,548 thousand, constituting 12% of the total assets, as of December 31, 2014. The related share of profit of associates accounted for using the equity method amounted to \$149,981 thousand, constituting 9% of the net profit before tax, for the year ended December 31, 2014.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the accompanying financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Primax Electronics Ltd. as of December 31, 2014 and 2013, and the results of its operations and cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

March 24, 2015

The accompanying financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuer and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

PRIMAX ELECTRONICS LTD.

Balance Sheets

December 31, 2014 and 2013

(expressed in thousands of New Taiwan dollars)

Assets	December 31, 2014		December 31, 2013		Liabilities and equity	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (note 6(a))	\$ 3,001,879	13	1,586,671	10	Short-term borrowings (note 6(j))	\$ 2,148,800	9	658,900	4
Financial assets at fair value through profit or loss – current (note 6(b))	21,165	-	34,014	-	Notes and accounts payable	7,493	-	1,438	-
Accounts receivable (note 6(d))	7,580,133	34	6,671,280	43	Accounts payable – related parties (note 7)	8,026,918	36	6,053,996	39
Accounts receivable – related parties (notes 6(d) and 7)	1,102,500	5	288,959	2	Financial liabilities at fair value through profit or loss – current (note 6(b))	22,902	-	35,324	-
Other receivables (note 6(d))	9,664	-	50,215	-	Salary payable (note 6(p))	387,912	2	218,552	2
Inventories, net (note 6(e))	1,458,489	7	1,787,705	11	Other payables (note 7)	902,386	4	975,048	6
Other current assets	23,765	-	40,784	-	Other current liabilities	60,855	-	58,771	-
	<u>13,197,595</u>	<u>59</u>	<u>10,459,628</u>	<u>66</u>	Current portion of long-term borrowings (note 6(k))	600,000	3	-	-
						<u>12,157,266</u>	<u>54</u>	<u>8,002,029</u>	<u>51</u>
Non-current assets:					Non-current liabilities:				
Available-for-sale financial assets – non-current (note 6(c))	275,536	2	33,918	-	Long-term borrowings (note 6(k))	900,000	4	-	-
Investments accounted for using equity method (note 6(f))	8,596,698	38	4,745,311	30	Guarantee deposits	128,204	-	85,429	-
Property, plant and equipment (note 6(g))	61,287	-	63,517	1	Other non-current liabilities (notes 6(m) and (n))	217,055	1	115,114	1
Investment property, net (note 6(h))	262,269	1	265,829	2		<u>1,245,259</u>	<u>5</u>	<u>200,543</u>	<u>1</u>
Intangible assets (note 6(i))	37,997	-	46,479	-	Total liabilities	<u>13,402,525</u>	<u>59</u>	<u>8,202,572</u>	<u>52</u>
Deferred tax assets (note 6(n))	64,021	-	59,950	-	Common stock (note 6(o))	4,346,578	19	4,335,733	28
Other non-current assets	57,635	-	69,507	1	Capital collected in advance (note 6(o))	38,903	-	3,796	-
	<u>9,355,443</u>	<u>41</u>	<u>5,284,511</u>	<u>34</u>	Capital surplus (note 6(o))	673,543	3	648,747	4
					Legal reserve (note 6(o))	456,853	2	389,998	2
					Special reserve (note 6(o))	97,300	1	138,192	1
					Unappropriated retained earnings (note 6(o))	3,132,488	14	1,957,522	12
					Other equity	404,848	2	67,579	1
					Total equity	<u>9,150,513</u>	<u>41</u>	<u>7,541,567</u>	<u>48</u>
Total assets	<u>\$ 22,553,038</u>	<u>100</u>	<u>15,744,139</u>	<u>100</u>	Total liabilities and equity	<u>\$ 22,553,038</u>	<u>100</u>	<u>15,744,139</u>	<u>100</u>

See accompanying notes to financial statements.

PRIMAX ELECTRONICS LTD.

Statements of Comprehensive Income

For the years ended December 31, 2014 and 2013
(expressed in thousands of New Taiwan dollars, except earnings per share)

	2014		2013	
	Amount	%	Amount	%
Operating revenue (notes 6(r) and 7)	\$ 42,356,385	100	37,257,934	100
Operating cost (notes 6(e), (m), (o), and (p), 7 and 12)	<u>39,690,606</u>	<u>94</u>	<u>34,786,323</u>	<u>93</u>
Gross profit	<u>2,665,779</u>	<u>6</u>	<u>2,471,611</u>	<u>7</u>
Operating expenses (notes 6(m), (o), and (p), 7 and 12):				
Selling expenses	643,337	1	599,993	2
Administrative expenses	388,961	1	283,352	1
Research and development expenses	<u>880,132</u>	<u>2</u>	<u>850,485</u>	<u>2</u>
	<u>1,912,430</u>	<u>4</u>	<u>1,733,830</u>	<u>5</u>
Net operating income	<u>753,349</u>	<u>2</u>	<u>737,781</u>	<u>2</u>
Non-operating income and expenses:				
Other income (note 6(s))	27,467	-	12,214	-
Other gains and losses (notes 6(c) and (t))	120,397	-	118,411	-
Share of profit of associates accounted for using equity method	949,194	2	9,687	-
Finance costs (note 6(u))	<u>(217,073)</u>	<u>-</u>	<u>(18,802)</u>	<u>-</u>
	<u>879,985</u>	<u>2</u>	<u>121,510</u>	<u>-</u>
Income before income taxes	1,633,334	4	859,291	2
Income tax expense (note 6(n))	<u>88,644</u>	<u>-</u>	<u>190,743</u>	<u>-</u>
Net income	<u>1,544,690</u>	<u>4</u>	<u>668,548</u>	<u>2</u>
Other comprehensive income (loss):				
Exchange differences on translation of foreign operation's financial statements, before tax	322,245	-	238,039	-
Unrealized gains and (losses) on available-for-sale financial assets, before tax	945	-	(238)	-
Actuarial gains on defined benefit plans, before tax (note 6(m))	3,344	-	1,240	-
Less: income tax relating to components of other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>326,534</u>	<u>-</u>	<u>239,041</u>	<u>-</u>
Comprehensive income	<u>\$ 1,871,224</u>	<u>4</u>	<u>907,589</u>	<u>2</u>
Earnings per share (note 6(q)):				
Basic earnings per share (NT dollars)	<u>\$ 3.57</u>		<u>1.55</u>	
Diluted earnings per share (NT dollars)	<u>\$ 3.52</u>		<u>1.53</u>	

See accompanying notes to financial statements.

PRIMAX ELECTRONICS LTD.

Statements of Changes in Equity

For the years ended December 31, 2014 and 2013
(expressed in thousands of New Taiwan dollars)

	<u>Capital</u>		<u>Retained earnings</u>			<u>Exchange differences on translation of foreign operation's financial statements</u>	<u>Unrealized gains (losses) on available-for-sale financial assets</u>	<u>Unearned employee compensation</u>	<u>Total equity</u>	
	<u>Common stock</u>	<u>Capital collected in advance</u>	<u>Capital surplus</u>	<u>Legal reserve</u>	<u>Special reserve</u>					<u>Unappropriated retained earnings</u>
Balance on January 1, 2013	\$ 4,269,698	22,794	607,334	264,990	97,300	2,100,653	(137,902)	-	-	7,224,867
Net income in 2013	-	-	-	-	-	668,548	-	-	-	668,548
Other comprehensive income in 2013	-	-	-	-	-	1,240	238,039	(238)	-	239,041
Comprehensive income in 2013	-	-	-	-	-	669,788	238,039	(238)	-	907,589
Appropriation and distribution of retained earnings (note 1):										
Legal reserve	-	-	-	125,008	-	(125,008)	-	-	-	-
Special reserve	-	-	-	-	40,892	(40,892)	-	-	-	-
Cash dividends	-	-	-	-	-	(647,019)	-	-	-	(647,019)
Issuance of restricted stock	16,360	-	21,378	-	-	-	-	-	(37,738)	-
Amortization expense of restricted stock	-	-	-	-	-	-	-	-	5,418	5,418
Compensation cost of share-based payment	-	-	9,127	-	-	-	-	-	-	9,127
Exercise of employee share options	-	37,731	-	-	-	-	-	-	-	37,731
Issuance of common stock for employee stock options and abandonment	49,675	(56,729)	10,908	-	-	-	-	-	-	3,854
Balance on December 31, 2013	4,335,733	3,796	648,747	389,998	138,192	1,957,522	100,137	(238)	(32,320)	7,541,567
Net income in 2014	-	-	-	-	-	1,544,690	-	-	-	1,544,690
Other comprehensive income in 2014	-	-	-	-	-	3,344	322,245	945	-	326,534
Comprehensive income in 2014	-	-	-	-	-	1,548,034	322,245	945	-	1,871,224
Appropriation and distribution of retained earnings (note 2):										
Legal reserve	-	-	-	66,855	-	(66,855)	-	-	-	-
Special reserve	-	-	-	-	(40,892)	40,892	-	-	-	-
Cash dividends	-	-	-	-	-	(347,105)	-	-	-	(347,105)
Issuance of restricted stock	3,550	-	11,576	-	-	-	-	-	(15,126)	-
Retirement of restricted stock	(3,200)	-	(4,254)	-	-	-	-	-	7,454	-
Amortization expense of restricted stock	-	-	-	-	-	-	-	-	21,751	21,751
Compensation cost of share-based payment	-	-	14,487	-	-	-	-	-	-	14,487
Exercise of employee stock options	-	48,589	-	-	-	-	-	-	-	48,589
Issuance of common stock for employee stock options and abandonment	10,495	(13,482)	2,987	-	-	-	-	-	-	-
Balance on December 31, 2014	\$ <u>4,346,578</u>	<u>38,903</u>	<u>673,543</u>	<u>456,853</u>	<u>97,300</u>	<u>3,132,488</u>	<u>422,382</u>	<u>707</u>	<u>(18,241)</u>	<u>9,150,513</u>

Note 1: Directors' and supervisors' remuneration of \$21,000 and employee bonuses of \$54,000 have been deducted from the statement of comprehensive income for 2012.

Note 2: Directors' and supervisors' remuneration of \$12,000 and employee bonuses of \$32,000 have been deducted from the statement of comprehensive income for 2013.

See accompanying notes to financial statements.

PRIMAX ELECTRONICS LTD.

Statements of Cash Flows

For the years ended December 31, 2014 and 2013
(expressed in thousands of New Taiwan dollars)

	2014	2013
Cash flows from operating activities:		
Income before income taxes	\$ 1,633,334	859,291
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	41,404	47,838
Losses (gains) related to inventories	63,376	21,376
Provision (reversal of provision) for bad debt allowance and sales returns and allowances	23,746	(9,244)
Interest expenses	60,684	16,538
Interest income	(17,500)	(2,736)
Compensation cost of share-based payment	8,523	9,903
Amortization expense of restricted stock	21,751	5,418
Share of profit of associates accounted for using equity method	(949,194)	(9,687)
Gain on disposal of property, plant and equipment	(921)	-
Gain on disposal of financial assets	(4,134)	-
Impairment loss on financial assets	3,500	-
	(748,765)	79,406
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	(1,746,140)	(543,788)
Other receivables	40,551	152,646
Inventories	265,840	127,706
Other current assets	17,019	35,838
Other	8,778	(18,012)
Changes in operating assets	(1,413,952)	(245,610)
Notes and accounts payable (including related parties)	1,978,977	713,211
Salary payable	175,018	(37,914)
Other payables	101,680	(165,062)
Other current liabilities	2,084	(134,998)
Other non-current liabilities	63,143	-
Other	29,720	29,940
Changes in operating liabilities	2,350,622	405,177
Changes in operating assets and liabilities	936,670	159,567
Adjustments	187,905	238,973
Cash flows from operations	1,821,239	1,098,264
Interest received	17,500	2,736
Interest paid	(60,621)	(16,448)
Income taxes paid	(263,049)	(97,758)
Net cash flows provided by operating activities	1,515,069	986,794
Cash flows from investing activities:		
Acquisition of available-for-sale financial assets	(245,600)	-
Refund from capital reduction of available-for-sale financial assets	4,616	-
Acquisition of investments accounted for using equity method	(2,578,698)	(719,576)
Acquisition of property, plant and equipment	(12,623)	(21,687)
Proceeds from disposal of property, plant and equipment	2,126	-
Acquisition of other deferred assets	(5,337)	(10,275)
Increase in refundable deposits	1,531	-
Other	(35)	(1,026)
Net cash flows used in investing activities	(2,834,020)	(752,564)
Cash flows from financing activities:		
Increase in short-term borrowings	1,489,900	658,900
Increase in long-term borrowings	1,500,000	-
Increase in guarantee deposits	42,775	38,243
Cash dividends	(347,105)	(647,019)
Exercise of employee stock options	48,589	37,731
Net cash flows provided by financing activities	2,734,159	87,855
Net increase in cash and cash equivalents	1,415,208	322,085
Cash and cash equivalents at beginning of year	1,586,671	1,264,586
Cash and cash equivalents at end of year	\$ 3,001,879	1,586,671

See accompanying notes to financial statements.

PRIMAX ELECTRONICS LTD.

Notes to Financial Statements

December 31, 2014 and 2013

(expressed in thousands of New Taiwan dollars unless otherwise specified)

(1) Organization

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

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

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

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

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

(2) Financial Statements Authorization Date and Authorization Process

The financial statements were authorized for issuance by the board of directors on March 24, 2015.

(3) New Standards and Interpretations Not Yet Adopted

- (a) Effect of the 2013 version of the International Financial Reporting Standards (“2013 Version of IFRSs”) endorsed by the FSC but not yet adopted

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PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

According to FSC Ruling No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taipei Exchange (Gre Tai Securities Market) or Emerging Stock Market shall adopt the 2013 Version of IFRSs (not including IFRS 9 “Financial Instruments”), as endorsed by the FSC, in preparing the financial statements. The new standards, amendments and interpretations issued by the International Accounting Standards Board (“IASB”) are as follows:

<u>New standards, amendments and interpretations</u>	<u>Effective date per IASB</u>
Amended IFRS 1 “Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters”	July 1, 2010
Amended IFRS 1 “Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters”	July 1, 2011
Amended IFRS 1 “Government Loans”	January 1, 2013
Amended IFRS 7 “Disclosure – Transfers of Financial Assets”	July 1, 2011
Amended IFRS 7 “Disclosure – Offsetting Financial Assets and Financial Liabilities”	January 1, 2013
IFRS 10 “Consolidated Financial statements”	January 1, 2013 (with January 1, 2014, as the effective date for investment entities)
IFRS 11 “Joint Arrangements”	January 1, 2013
IFRS 12 “Disclosure of Interests in Other Entities”	January 1, 2013
IFRS 13 “Fair Value Measurement”	January 1, 2013
Amended IAS 1 “Presentation of Items of Other Comprehensive Income”	July 1, 2012
Amended IAS 12 “Deferred Tax: Recovery of Underlying Assets”	January 1, 2012
Amended IAS 19 “Employee Benefits”	January 1, 2013
Amended IAS 27 “Separate Financial statements”	January 1, 2013
Amended IAS 32 “Offsetting Financial Assets and Financial Liabilities”	January 1, 2014
IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”	January 1, 2013

The Company assessed that the 2013 Version of IFRSs may not have any significant impact on the financial statements except for the following:

1. IAS 1 “Presentation of Financial statements”

The amendment requires entities to separate the items presented in other comprehensive income, classified by nature into two groups, on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. If the items are presented before tax, then the tax related to each of the two groups of other comprehensive income items (those that might be reclassified and those that will not be reclassified) must be shown separately. Accordingly, the Company will adjust its presentation of the statement of comprehensive income.

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PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

2. IFRS 13 “Fair Value Measurement”

The standard defines fair value, sets out a framework for measuring fair value, and requires the disclosure of fair value measurements. Based on the Company’s assessment, the adoption of the standard has no significant impact on the financial statements of the Company, and the Company will disclose any additional information about its fair value measurement accordingly.

(b) Impact of IFRSs issued by the IASB but not yet endorsed by the FSC

A summary of the 2013 Version of IFRSs issued by the IASB but not yet endorsed by the FSC is as follows:

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
•IFRS 9 “Financial Instruments”	January 1, 2018
•Amended IFRS 10 and IAS 28	January 1, 2016
•Amended IFRS 10, IFRS 12 and IAS 28	January 1, 2016
•Amended IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
•IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
•IFRS 15 “Revenue from Contracts with Customers”	January 1, 2017
•Amended IAS 1	January 1, 2016
•Amended IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
•Amended IAS 16 and IAS 41 “Bearer Plants”	January 1, 2016
•Amended IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
•Amended IAS 27	January 1, 2016
•Amended IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”	January 1, 2014
•Amended IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
•Amended IFRIC 21 “Levies”	January 1, 2014

The Company is in the process of assessing the impact on the financial position and the results of operations. The related impact will be disclosed following the completion of its assessments.

(4) Summary of Significant Accounting Policies

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

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PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

(a) Statement of compliance

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

(b) Basis of preparation

1. Basis of measurement

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

- (i) Derivative financial instruments at fair value through profit or loss are measured at fair value;
- (ii) Available-for-sale financial assets are measured at fair value; and
- (iii) The defined benefit liabilities is recognized as plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation.

2. Functional and presentation currency

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

(c) Foreign currencies

1. Foreign currency transactions

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

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

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PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

Exchange differences arising on the translation of non-monetary items are recognized in profit or loss, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

2. Foreign operations

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

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

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

The Company shall classify an asset as current when:

1. It expects to realize the asset or intends to sell or consume it in its normal operating cycle;
2. It holds the asset primarily for the purpose of trading;
3. It expects to realize the asset within twelve months after the reporting period; or
4. 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, or there are other restrictions.

The Company shall classify all other assets as non-current.

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PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

The Company shall classify a liability as current when:

1. It expects to settle the liability in its normal operating cycle;
2. It holds the liability primarily for the purpose of trading;
3. The liability is due to be settled within twelve months after the reporting period; or
4. 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 the issue of equity instruments do not affect its classification.

The Company shall classify all other liabilities as non-current.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Time deposits with maturities within three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used for the purpose of meeting short-term commitments, are reclassified as cash equivalents.

(f) Financial instruments

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

1. Financial assets

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements****(i) Available-for sale financial assets**

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

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

(ii) Loans and receivables

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

(iii) Impairment of financial assets

A financial asset not valued through profit or loss is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event (or events) causes a loss on the estimated future cash flows of the financial asset that can be estimated reliably.

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

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

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

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

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

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

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

Recovery and loss on doubtful debts of account receivables are included in operating expense; others are included in other gains and losses under non-operating income and expenses.

(iv) Derecognition of financial assets

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

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

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

2. Financial liabilities and equity instruments**(i) Classification of debt or equity**

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

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

(ii) Other financial liabilities

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

(iii) Derecognition of financial liabilities

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

(iv) Offsetting of financial assets and liabilities

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

3. Derivative financial instruments

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

(g) Inventories

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

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements****(h) Investments in subsidiaries**

Investments in subsidiaries are accounted for using the equity method. There is no difference between net income and comprehensive income in the Company's financial statements and net income and comprehensive income attributable to stockholders of the parent. The equity in the Company's financial statements and the equity attributable to stockholders of the parent in the Company's consolidated financial statements are also the same. Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(i) 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. The depreciation is computed along with the depreciable amount. The method, the useful life, and the residual amount are the same as those of property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property, plant and equipment, the carrying amount at the date of reclassification becomes its cost for subsequent accounting.

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

(j) Property, plant and equipment**1. Recognition and measurement**

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

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

2. Reclassification to investment property

Property is reclassified to investment property at its carrying amount when the use of the property changes from private to investment use.

3. Subsequent cost

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

4. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

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

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

(i) Buildings, leasehold improvement, and additional equipment: 1 ~ 51 years

(ii) Machinery and equipment: 1 ~4 years

(iii) Other equipment: 1 ~5 years

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements****(k) Lease**

1. Lessor

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

2. Lessee

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

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

(l) Intangible assets

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

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

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

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

1. Trademarks	10 years
2. Patents	2.5~10 years
3. Copyrights	15 years

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

(m) Impairment – non-financial assets

Non-financial assets, except for inventories and deferred tax assets, are assessed for impairment, and the recoverable amounts for any impaired assets are estimated at the end of each reporting period. If it is not possible to determine the recoverable amount for an individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit.

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

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

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

(n) Revenue**1. Goods sold**

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

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

2. Services

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

(o) Employee benefits

1. Defined contribution plans

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

2. Defined benefit plans

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

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

3. Short-term employee benefits

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

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements****(p) Share-based payment**

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

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

(q) Income taxes

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

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

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 shall not be recognized for the following exceptions:

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

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

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

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

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

(r) Earnings per share

The Company discloses the basic and diluted earnings per share attributable to ordinary stockholders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on 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 bonuses not yet resolved by the stockholders, and restricted stock.

(s) Operating segments

Please refer to the Company's consolidated financial statements for the years ended December 31, 2014 and 2013, for further details.

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

(5) Significant Accounting Assumptions and Judgments, and Major Sources of Estimation Uncertainty

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

Management continues to monitor the accounting assumptions, estimates and judgments. 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 in applying accounting policies.

There are no assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

(6) Explanation of Significant Accounts

(a) Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash on hand	\$ 300	639
Checking accounts and demand deposits	1,222,594	1,123,322
Time deposits	<u>1,778,985</u>	<u>462,710</u>
	<u>\$ 3,001,879</u>	<u>1,586,671</u>

Please refer to note 6(v) for interest rate risk and the sensitivity analysis of the Company's financial assets and liabilities.

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

1. The fair value of derivative financial instruments was as follows:

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Derivative financial assets – current:		
Forward exchange contracts	\$ 20,728	23,778
Foreign exchange swap contracts	437	1,328
Option trading contracts	-	8,908
	<u>\$ 21,165</u>	<u>34,014</u>
Derivative financial liabilities – current:		
Forward exchange contracts	\$ (20,065)	(18,678)
Foreign exchange swap contracts	(2,837)	(16,180)
Option trading contracts	-	(466)
	<u>\$ (22,902)</u>	<u>(35,324)</u>

2. The Company held the following derivative financial instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2014 and 2013:

<u>December 31, 2014</u>			
<u>Derivative financial instruments</u>	<u>Nominal amount</u>	<u>Maturity date</u>	<u>Predetermined rate</u>
Forward exchange contracts – buy USD / sell TWD	USD 35,000 thousand	January 6, 2015~ March 4, 2015	30.304~31.252
Forward exchange contracts – buy TWD / sell USD	USD 35,000 thousand	January 6, 2015~ March 4, 2015	30.336~31.289
Foreign exchange swap contracts – swap in TWD/swap out USD	USD 11,170 thousand	January 5, 2015~ January 9, 2015	30.989~31.749
<u>December 31, 2013</u>			
<u>Derivative financial instruments</u>	<u>Nominal amount</u>	<u>Maturity date</u>	<u>Predetermined rate</u>
Forward exchange contracts – buy USD / sell TWD	USD 126,000 thousand	January 2, 2014~ January 22, 2014	29.621~29.775
Forward exchange contracts – buy TWD / sell USD	USD 37,000 thousand	January 2, 2014~ January 13, 2014	29.341~29.531
Foreign exchange swap contracts – swap in TWD / swap out USD	USD 59,160 thousand	January 8, 2014~ February 5, 2014	29.428~30.025
Option Trading contracts – buy CNY / sell USD	USD 16,000 thousand	October 2, 2015~ December 21, 2015	6.213~6.237

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

3. Please refer to note 6(v) for credit risk, currency risk, and interest rate risk of the Company's derivative financial instruments.

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

	December 31,	December 31,
	2014	2013
	<u> </u>	<u> </u>
Stocks unlisted in domestic market	\$ <u>275,536</u>	<u>33,918</u>

- In December 2014, the Company acquired 2,272 thousand shares of Nien Made Enterprise Co., Ltd. at NT\$108 (dollars) per share for consideration of \$245,600, and the shares were recognized as available-for-sale financial assets – non-current.
- In the second quarter of 2014, Titan 1 Venture Capital Co., Ltd. refunded \$4,616 to the Company due to capital reduction. The difference between the refund and the book value amounting to \$482 was recorded by the Company as other gains and losses. Based on the resolution of its interim meeting of stockholders held on August 31, 2014, Titan 1 Venture Capital Co., Ltd. will be closed and is in the liquidation process.
- The impairment loss on Green Rich Technology Co., Ltd. was \$3,500 and was recognized as other gains and losses for the year ended December 31, 2014.
- The Company did not provide any of the aforementioned available-for-sale financial assets as collateral.

(d) Accounts receivable and other receivables (including related parties)

	December 31,	December 31,
	2014	2013
	<u> </u>	<u> </u>
Accounts receivable	\$ 7,639,093	6,705,485
Accounts receivable – related parties	1,102,500	288,959
Other receivables	9,664	50,215
Less: allowance for doubtful accounts	(19,430)	(17,796)
allowance for sales returns and discounts	(39,530)	(16,409)
	<u>\$ 8,692,297</u>	<u>7,010,454</u>

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

1. The Company did not provide any of the aforementioned accounts receivable and other receivables (including related parties) as collateral.
2. Please refer to note 6(v) for changes in the allowance for doubtful accounts and the credit risk and currency risk for the years ended December 31, 2014 and 2013.
3. The Company entered into agreements with banks to sell its accounts receivable without recourse. According to the agreements, within the limit of its credit facilities, the Company does not need to guarantee the capability of its customers to pay for reasons other than commercial disputes when transferring its accounts receivable. The Company receives partial advances upon sales of accounts receivable and pays interest calculated based on the interest rates agreed for the period through the collection of the accounts receivable. The remaining amounts are received upon the collection of the accounts receivable, and are recorded as other receivables. In addition, the Company shall pay handling charges based on a fixed rate. As of December 31, 2014 and 2013, the details of transferred accounts receivable which conformed to the criteria for derecognition were as follows:

December 31, 2014							
Buyer	Amount sold	Credit facilities	Cash received	Interest rate	Guarantee	Amount	Amount
	NT\$	US\$ (expressed in thousands)	in advance		(promissory note)	derecognized	not received
			NT\$		expressed in thousands	NT\$	
Mega International Commercial Bank	\$ -	35,000	-	-	US\$7,000	-	-
HSBC Bank	-	64,400	-	-	US\$58,000	-	-
Bank of Taiwan	-	31,000	-	-	NT\$837,000	-	-
	\$ -	130,400	-			-	-

December 31, 2013							
Buyer	Amount sold	Credit facilities	Cash received	Interest rate	Guarantee	Amount	Amount
	NT\$	US\$ (expressed in thousands)	in advance		(promissory note)	derecognized	not received
			NT\$		expressed in thousands	NT\$	
Mega International Commercial Bank	\$ -	45,000	-	-	US\$45,000	-	-
HSBC Bank	458,542	64,400	412,687	1.01%~1.04%	US\$78,000	412,687	45,855
Bank of Taiwan	-	31,000	-	-	NT\$837,000	-	-
	\$ 458,542	140,400	412,687			412,687	45,855

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

(e) Inventories

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Raw materials	\$ -	715
Finished goods and merchandise	<u>1,458,489</u>	<u>1,786,990</u>
	<u>\$ 1,458,489</u>	<u>1,787,705</u>

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

For the years ended December 31, 2014 and 2013, the Company recognized the following items as cost of goods sold:

	<u>2014</u>	<u>2013</u>
Additional losses on inventory valuation	\$ (2,000)	(13,900)
Loss on disposal of inventories	(63,140)	(5,443)
Gain (loss) on physical inventories	<u>1,764</u>	<u>(2,033)</u>
	<u>\$ (63,376)</u>	<u>(21,376)</u>

(f) Investments accounted for using equity method

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Subsidiaries	<u>\$ 8,596,698</u>	<u>4,745,311</u>

1. Please refer to the Company's consolidated financial statements for the years ended December 31, 2014 and 2013, for further details.

2. The Company did not provide investments accounted for using the equity method as collateral.

(g) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Company for the years ended December 31, 2014 and 2013, were as follows:

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

	<u>Land</u>	<u>Buildings and additional equipment</u>	<u>Machinery and equipment</u>	<u>Other equipment</u>	<u>Testing equipment</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2014	\$ 22,879	143,024	44,716	48,567	-	259,186
Additions	-	-	6,786	2,722	3,115	12,623
Disposals	-	(1,235)	(2,624)	(7,137)	-	(10,996)
Reclassifications	-	-	1,018	-	(2,226)	(1,208)
Balance on December 31, 2014	<u>\$ 22,879</u>	<u>141,789</u>	<u>49,896</u>	<u>44,152</u>	<u>889</u>	<u>259,605</u>
Balance on January 1, 2013	\$ 22,879	143,129	38,844	38,980	63	243,895
Additions	-	-	4,707	9,661	7,319	21,687
Disposals	-	(105)	(2,557)	(150)	-	(2,812)
Reclassifications	-	-	3,722	76	(7,382)	(3,584)
Balance on December 31, 2013	<u>\$ 22,879</u>	<u>143,024</u>	<u>44,716</u>	<u>48,567</u>	<u>-</u>	<u>259,186</u>
Depreciation and impairments loss:						
Balance on January 1, 2014	\$ -	131,893	30,472	33,304	-	195,669
Depreciation	-	560	5,776	6,104	-	12,440
Disposals	-	(1,235)	(1,419)	(7,137)	-	(9,791)
Balance on December 31, 2014	<u>\$ -</u>	<u>131,218</u>	<u>34,829</u>	<u>32,271</u>	<u>-</u>	<u>198,318</u>
Balance on January 1, 2013	\$ -	130,919	27,157	28,091	-	186,167
Depreciation	-	1,079	5,872	5,363	-	12,314
Disposals	-	(105)	(2,557)	(150)	-	(2,812)
Balance on December 31, 2013	<u>\$ -</u>	<u>131,893</u>	<u>30,472</u>	<u>33,304</u>	<u>-</u>	<u>195,669</u>
Carrying amounts:						
Balance on December 31, 2014	<u>\$ 22,879</u>	<u>10,571</u>	<u>15,067</u>	<u>11,881</u>	<u>889</u>	<u>61,287</u>
Balance on December 31, 2013	<u>\$ 22,879</u>	<u>11,131</u>	<u>14,244</u>	<u>15,263</u>	<u>-</u>	<u>63,517</u>
Balance on January 1, 2013	<u>\$ 22,879</u>	<u>12,210</u>	<u>11,687</u>	<u>10,889</u>	<u>63</u>	<u>57,728</u>

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

(h) Investment property

	<u>Land</u>	<u>Buildings and other equipment</u>	<u>Total</u>
Cost or deemed cost:			
Balance on January 1, 2014	\$ 162,012	172,167	334,179
Additions	-	-	-
Balance on December 31, 2014	<u>\$ 16,2012</u>	<u>172,167</u>	<u>334,179</u>
Balance on January 1, 2013	\$ 162,012	172,167	334,179
Additions	-	-	-
Balance on December 31, 2013	<u>\$ 16,2012</u>	<u>172,167</u>	<u>334,179</u>
Depreciation and impairment losses:			
Balance on January 1, 2014	\$ 33,941	34,409	68,350
Depreciation	-	3,560	3,560
Balance on December 31, 2014	<u>\$ 33,941</u>	<u>37,969</u>	<u>71,910</u>

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

	<u>Land</u>	<u>Buildings and other equipment</u>	<u>Total</u>
Balance on January 1, 2013	\$ 33,941	30,849	64,790
Depreciation	-	3,560	3,560
Balance on December 31, 2013	<u>\$ 33,941</u>	<u>34,409</u>	<u>68,350</u>
Carrying amounts:			
Balance on December 31, 2014	<u>\$ 128,071</u>	<u>134,198</u>	<u>262,269</u>
Balance on December 31, 2013	<u>\$ 128,071</u>	<u>137,758</u>	<u>265,829</u>
Balance on January 1, 2013	<u>\$ 128,071</u>	<u>141,318</u>	<u>269,389</u>
Fair value:			
Balance on December 31, 2014			<u>\$ 561,338</u>
Balance on December 31, 2013			<u>\$ 622,009</u>
Balance on January 1, 2013			<u>\$ 589,104</u>

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

(i) Intangible assets

The cost and amortization of the intangible assets of the Company for the years ended December 31, 2014 and 2013, were as follows:

	<u>Trademarks</u>	<u>Patents</u>	<u>Copyrights</u>	<u>Total</u>
Cost:				
Balance at January 1, 2014	\$ 25,584	64,271	30,832	120,687
Acquisition	-	-	-	-
Balance at December 31, 2014	<u>\$ 25,584</u>	<u>64,271</u>	<u>30,832</u>	<u>120,687</u>
Balance at January 1, 2013	\$ 25,584	64,271	30,832	120,687
Acquisition	-	-	-	-
Balance at December 31, 2013	<u>\$ 25,584</u>	<u>64,271</u>	<u>30,832</u>	<u>120,687</u>

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

	<u>Trademarks</u>	<u>Patents</u>	<u>Copyrights</u>	<u>Total</u>
Amortization:				
Balance at January 1, 2014	\$ 10,873	54,599	8,736	74,208
Amortization	<u>2,558</u>	<u>3,869</u>	<u>2,055</u>	<u>8,482</u>
Balance at December 31, 2014	<u>\$ 13,431</u>	<u>58,468</u>	<u>10,791</u>	<u>82,690</u>
Balance at January 1, 2013	\$ 8,315	50,731	6,680	65,726
Amortization	<u>2,558</u>	<u>3,868</u>	<u>2,056</u>	<u>8,482</u>
Balance at December 31, 2013	<u>\$ 10,873</u>	<u>54,599</u>	<u>8,736</u>	<u>74,208</u>
Carrying amount:				
Balance at December 31, 2014	<u>\$ 12,153</u>	<u>5,803</u>	<u>20,041</u>	<u>37,997</u>
Balance at December 31, 2013	<u>\$ 14,711</u>	<u>9,672</u>	<u>22,096</u>	<u>46,479</u>
Balance at January 1, 2013	<u>\$ 17,269</u>	<u>13,540</u>	<u>24,152</u>	<u>54,961</u>

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

(j) Short-term borrowings

The details were as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Unsecured bank loans	\$ <u>2,148,800</u>	<u>658,900</u>
Unused credit lines	\$ <u>4,469,600</u>	<u>3,257,750</u>
Annual interest rates	<u>0.80%~1.60%</u>	<u>0.80%~1.23%</u>

(k) Long-term borrowings

The details were as follows:

	<u>December 31, 2014</u>			
	<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Unsecured bank loans	TWD	1.05%~1.48%	2017	\$ 1,500,000
Less: current portion				<u>(600,000)</u>
Total				<u>\$ 900,000</u>
Unused credit lines				<u>\$ 1,789,600</u>

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

	<u>December 31, 2013</u>			
	<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Unsecured bank loans	-	-	-	\$ -
Less: current portion				<u>-</u>
Total				\$ -
Unused credit lines				\$ <u>3,508,700</u>

1. Pursuant to the loan agreements with Industrial Bank of Taiwan, Land Bank, HSBC, ANZ, and CTBC Bank, the Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements. As of December 31, 2014, the Company had not violated the financial covenants. The financial covenants include (1) a current ratio of not less than 100%; (2) a financial debt ratio of not greater than 75%; (3) an interest coverage ratio of not less than 400%; and (4) stockholders' equity of not less than \$4,000,000. If the Company violates the financial covenants, the banks have the right to charge a default penalty or to require the Company to improve its financial ratios.

2. The details of the outstanding guarantee notes are disclosed in note 9.

(l) Operating lease

1. Lessee

Non-cancellable operating lease rentals are payable as follows:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Less than one year	\$ 88,066	88,066
Between one and five years	<u>274,847</u>	<u>362,913</u>
	\$ <u>362,913</u>	<u>450,979</u>

The Company leases a number of offices under operating leases. The lease terms are between 1 and 15 years.

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

2. Lessor

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Less than one year	\$ 5,584	11,917
Between one and five years	<u>-</u>	<u>4,524</u>
	<u>\$ 5,584</u>	<u>16,441</u>

(m) Employee benefits

1. Defined benefit plans

- (i) The present value of the defined benefit obligations and the fair value adjustments of the plan assets of the Company were as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Present value of defined benefit obligations	\$ 162,598	169,353
Fair value of plan assets	<u>104,919</u>	<u>108,207</u>
Deficit in the plan	<u>57,679</u>	<u>61,146</u>
Recognized liabilities for defined benefit obligations	<u>\$ 57,679</u>	<u>61,146</u>

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

- (ii) Composition of plan assets

The Company contributes 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.

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$104,919 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.

(iii) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations for the Company for the years ended December 31, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Defined benefit obligation at January 1	\$ 169,353	166,762
Benefits paid by plan assets	(8,695)	-
Current service costs and interest	5,025	3,811
Actuarial gains	<u>(3,085)</u>	<u>(1,220)</u>
Defined benefit obligation at December 31	<u>\$ 162,598</u>	<u>169,353</u>

(iv) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company for the years ended December 31, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Fair value of plan assets at January 1	\$ 108,207	100,341
Contributions made	2,942	6,555
Benefits paid plan assets	(8,695)	-
Expected return on plan assets	2,207	1,291
Actuarial losses	<u>258</u>	<u>20</u>
Fair value of plan assets at December 31	<u>\$ 104,919</u>	<u>108,207</u>

(v) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company for the years ended December 31, 2014 and 2013, were as follows:

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

	<u>2014</u>	<u>2013</u>
Service cost	\$ 1,638	1,629
Interest cost	3,387	2,182
Expected rate of return on plan assets	<u>(2,207)</u>	<u>(1,291)</u>
Expenses	<u>\$ 2,818</u>	<u>2,520</u>
Actual return on plan assets	<u>\$ 2,465</u>	<u>1,311</u>

(vi) Actuarial gains and losses recognized in other comprehensive income

The Company's actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2014 and 2013, were as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Cumulative amount at January 1	\$ 1,676	436
Recognized during the period	<u>3,344</u>	<u>1,240</u>
Cumulative amount at December 31	<u>\$ 5,020</u>	<u>1,676</u>

(vii) Actuarial assumptions

The following are the Company's principal actuarial assumptions:

	<u>2014</u>	<u>2013</u>
Discount rate at December 31	2.125%	2.000%
Expected rate of return on plan assets at January 1	1.750%	2.000%
Future salary increase rate	3.250%	2.875%

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

(viii) Experience adjustments based on historical information

	<u>December 31, 2014</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Present value of defined benefit plans	\$ 162,598	169,353	166,762	163,447
Fair value of plan assets	<u>104,919</u>	<u>108,207</u>	<u>100,341</u>	<u>97,057</u>
Net liabilities of defined benefit obligations	<u>\$ 57,679</u>	<u>61,146</u>	<u>66,421</u>	<u>66,390</u>
Experience adjustments arising on the present value of defined benefit plans	<u>\$ 3,085</u>	<u>(63,788)</u>	<u>(59,569)</u>	<u>-</u>
Experience adjustments arising on the fair value of plan assets	<u>\$ 258</u>	<u>69,559</u>	<u>57,248</u>	<u>-</u>

The expected contribution to be made by the Company to the defined benefit plans for the one-year period after the reporting date was \$2,818.

(ix) When computing the present value of the defined benefit obligations, the Company uses judgments and estimations to determine the actuarial assumptions, including employee turnover 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.

As of December 31, 2014, the Company's accrued pension liabilities were \$57,679. If the discount rate had been increased or decreased by 0.25%, the Company's accrued pension liabilities would have been decreased by \$3,975 or increased by \$4,118, respectively. If the salary increase rate had increased or decreased by 0.25%, the Company's accrued pension liabilities would have increased by \$3,968 or decreased by \$3,851, respectively.

2. Defined contribution plans

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

The Company recognized pension costs under the defined contribution method amounting to \$36,465 and \$34,303 for the years ended December 31, 2014 and 2013, respectively, recorded as operating expenses and operating cost in the statement of comprehensive income.

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

(n) Income taxes

1. The amounts of income tax expenses for 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Current tax expense	\$ 50,513	191,107
Deferred tax expense (benefit)	<u>38,131</u>	<u>(364)</u>
Income tax expense	<u>\$ 88,644</u>	<u>190,743</u>

2. The Company had no income tax recognized directly in equity or other comprehensive income for the years ended December 31, 2014 and 2013.

3. Reconciliation of income tax expenses and profit before tax for 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Profit before tax	\$ <u>1,633,334</u>	<u>859,291</u>
Income tax using the Company's domestic tax rate	277,667	146,079
Overseas investment losses (gains) recognized under the equity method	(119,243)	4,594
Investment tax credits accrued	(42,794)	(58,836)
Prior year's income tax adjustment	(599)	48,601
10% surtax on unappropriated earnings	29,548	43,716
Other	<u>(55,935)</u>	<u>6,589</u>
	<u>\$ 88,644</u>	<u>190,743</u>

4. Deferred tax assets and liabilities

(i) 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:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Aggregate amount of temporary differences related to investments in subsidiaries	\$ <u>388,595</u>	<u>223,617</u>

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

(ii) Unrecognized deferred tax assets

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Deductible temporary differences	\$ <u>76,900</u>	<u>84,100</u>

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

(iii) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2014 and 2013 were as follows:

	<u>Investment income recognized under the equity method (overseas)</u>	<u>Unrealized foreign exchange gains</u>	<u>Others</u>	<u>Total</u>		
Deferred tax liabilities:						
Balance on January 1, 2014	\$ 47,102	3,418	1,061	51,581		
Recognized in profit or loss	<u>42,120</u>	<u>82</u>	<u>-</u>	<u>42,202</u>		
Balance on December 31, 2014	\$ <u>89,222</u>	<u>3,500</u>	<u>1,061</u>	<u>93,783</u>		
Balance on January 1, 2013	\$ 41,869	-	1,120	42,989		
Recognized in profit or loss	<u>5,233</u>	<u>3,418</u>	<u>(59)</u>	<u>8,592</u>		
Balance on December 31, 2013	\$ <u>47,102</u>	<u>3,418</u>	<u>1,061</u>	<u>51,581</u>		
	<u>Bad debt in excess of tax limit</u>	<u>Unfunded pension fund contribution</u>	<u>Unrealized sales returns and allowances</u>	<u>Loss on inventory valuation</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:						
Balance on January 1, 2014	\$ 12,114	15,153	15,789	2,943	13,951	59,950
Recognized in profit or loss	<u>(593)</u>	<u>(278)</u>	<u>14,188</u>	<u>1,439</u>	<u>(10,685)</u>	<u>4,071</u>
Balance on December 31, 2014	\$ <u>11,521</u>	<u>14,875</u>	<u>29,977</u>	<u>4,382</u>	<u>3,266</u>	<u>64,021</u>
Balance on January 1, 2013	\$ 13,249	15,582	9,472	1,779	10,912	50,994
Recognized in profit or loss	<u>(1,135)</u>	<u>(429)</u>	<u>6,317</u>	<u>1,164</u>	<u>3,039</u>	<u>8,956</u>
Balance on December 31, 2013	\$ <u>12,114</u>	<u>15,153</u>	<u>15,789</u>	<u>2,943</u>	<u>13,951</u>	<u>59,950</u>

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

5. The Company's income tax returns have been examined by the tax authority through the years up to 2012. However, the Company disagreed with the examination of the income tax returns for 2008, 2009 and 2011, and requested a reexamination. The tax effect of the reexamination has been recognized by the Company.
6. Information related to the unappropriated earnings and tax deduction ratio is summarized below:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Unappropriated earnings in 1998 and after	\$ <u>3,132,488</u>	\$ <u>1,957,522</u>
Balance of imputation credit account	\$ <u>385,069</u>	\$ <u>190,418</u>
	<u>2014 (estimated)</u>	<u>2013 (actual)</u>
Creditable ratio for earnings distribution to ROC resident stockholders	\$ <u>12.29%</u>	<u>16.96%</u>

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

(o) Capital and other equity

As of December 31, 2014 and 2013, the nominal common stock amounted to \$5,000,000. Face value of each share is \$10 (dollars), which means in total there were 500,000 thousand authorized common shares, of which 434,658 and 433,573 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

Reconciliation of shares outstanding for 2014 and 2013 was as follows:

	<u>Ordinary shares</u>	
	<u>2014</u>	<u>2013</u>
(in thousands of shares)		
Balance on January 1	433,573	426,970
Exercise of employee stock options	1,050	4,967
Issued for restricted stock	355	1,636
Retirement of restricted stock	(320)	-
Balance on December 31	<u>434,658</u>	<u>433,573</u>

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

1. Common stock

- (i) The Company issued 1,050 thousand and 4,967 thousand new shares of common stock for the exercise of employee stock options in 2014 and 2013, respectively. The related registration procedures were also completed.
- (ii) Employee stock options were exercised without registration procedures, and the exercised amounts were recorded as capital collected in advance. The exercise price and units as of December 31, 2014 and 2013, were as follows:

	December 31, 2014	
	Exercised shares (in thousands)	Exercise price
Exercise price per share: \$11.42	2,151	\$ 24,563
Exercise price per share: \$17.90	275	4,922
Exercise price per share: \$27.70	340	9,418
	2,766	\$ 38,903

	December 31, 2013	
	Exercised shares (in thousands)	Exercise price
Exercise price per share: \$11.42	173	\$ 1,976
Exercise price per share: \$18.20	100	1,820
	273	\$ 3,796

2. Capital surplus

The balances of capital surplus as of December 31, 2014 and 2013, were as follows:

	December 31, 2014	December 31, 2013
Additional paid-in capital	\$ 392,739	379,002
Employee stock options	256,985	248,367
Restricted employee stock options	23,819	21,378
	\$ 673,543	648,747

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

In accordance with the ROC Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

3. Retained earnings

According to the articles of the Company, 10% of its annual net income after settling accumulated deficit, if any, is to be set aside as legal reserve until it is equal to authorized capital. Also, a special reserve should be retained or reversed under related regulations. After the recognition or reversal of special reserve, 2% to 10% is to be appropriated as employee bonuses, and a maximum of 2% as directors' and supervisors' remuneration. The remainder, if any, is to be distributed as dividends as determined by the board of directors and approved by the stockholders.

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.

(i) Legal reserve

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

(ii) Special reserve

By choosing to apply exemptions granted under IFRS 1 "First-time Adoption of International Financial Reporting Standards" during the Company's first-time adoption of the International Financial Reporting Standards endorsed by the FSC, retained earnings increased by \$97,300 by recognizing the cumulative translation adjustments (gains) on the adoption date as deemed cost. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, the increase in retained earnings due to the first-time adoption of IFRSs shall be reclassified as special reserve, and when the relevant asset is used, disposed of, or reclassified, this special reserve shall be reversed as distributable earnings proportionately. The carrying amount of special reserve amounted to \$97,300 on December 31, 2014.

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

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. The Company recognized the special reserve amounting to \$40,892 in the 2012 earnings distribution, and it was reversed as distributable earnings in 2013.

(iii) Earnings distribution

Employee bonuses amounted to \$71,318 and \$31,966 for 2014 and 2013, respectively. Directors' and supervisors' remuneration amounted to \$28,527 and \$12,787 for 2014 and 2013, respectively. These amounts were calculated based on the Company's net profit for 2014 and 2013 by using the earnings allocation method as stated under the Company's articles. These benefits were expensed under operating costs or operating expenses during 2014 and 2013.

The distribution for employee bonuses, directors' and supervisors' remuneration, and dividends for 2014 is yet to be administered by the board of directors or decided by the meeting of the stockholders. Related information would be available on the Market Observation Post System after the convening of the meeting of the stockholders. For subsequent adjustments to the actual distributed amount as determined by a future meeting of the stockholders, the difference shall be accounted for under profit or loss in 2015.

On June 24, 2014, and June 25, 2013, the stockholders' meeting resolved the distribution of earnings for 2013 and 2012, respectively. The distribution was NT\$0.8 and 1.5 (dollars) per share, which amounted to \$347,105 thousand and 647,019 thousand, respectively. The differences between the amounts approved in the stockholders' meeting and those recognized in the financial statements for employee bonuses and remuneration for directors and supervisors were as follows:

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

	2013		
	Actual earnings distributed	Accrued in the financial statements	Difference
Employee bonuses			
Stock	\$ -	-	-
Cash	32,000	31,966	(34)
Directors' and supervisors' remuneration	12,000	12,787	787
	2012		
	Actual earnings distributed	Accrued in the financial statements	Difference
Employee bonuses			
Stock	\$ -	-	-
Cash	54,000	56,421	2,421
Directors' and supervisors' remuneration	21,000	22,587	1,587

Differences between the amounts approved in the stockholders' meeting and those recognized in the financial statements for the distributions of earnings for 2013 and 2012 were accounted for as changes in accounting estimates and recognized as profit or loss in the years 2014 and 2013, respectively.

The information about the employee bonuses and the directors' and supervisors' remuneration approved in the board of directors' and stockholders' meetings can be accessed in the Market Observation Post System.

(p) Share-based payment

1. Employee stock options and share-based payment

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

A. Exercise period:

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

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

B. Procedure for fulfilling obligation: Primax Holdings fulfills its obligation by issuing new common stock.

- (ii) Based on the resolution approved in the board of directors' meeting of Primax Holdings held on December 31, 2007, Primax Holdings declared an incentive plan to grant the right to some employees of the Company to participate in the subscription of the non-voting ordinary shares of Primax Holdings. The transaction is a kind of equity-settled share-based payment agreement, and the equity instruments under this agreement were vested at the date of grant. Primax Holdings recognized the compensation cost by using the fair value method. The difference in value between the net value per share of Primax Holdings determined at the grant date and the exercise price per share was recognized as cost of long-term investment in the Company by Primax Holdings in 2007, and was recognized as compensation cost and capital surplus by the Company. Based on the resolution approved in the board of directors' meeting of Primax Holdings held in April 2008, Primax Holdings amended the share-based payment agreement mentioned above, and consequently, the non-voting ordinary shares were replaced by options to purchase them. The amendment had no impact on the accompanying financial statements.
- (iii) In addition, Primax Holdings declared an incentive plan to grant stock options to employees of the Company in January, May and November 2008 to participate in the subscription of the non-voting ordinary shares of Primax Holdings. Some of the options are vested at the grant date; the others are vested from two years to five years after the grant date. Primax Holdings recognized the compensation cost by using the fair value method as cost of long-term investment in the Company, and the Company correspondingly recognized it as compensation cost and capital surplus.

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

- (iv) Based on the resolution approved in the board of directors' meetings of Primax Holdings and the Company held in December 2008, the Company issued employee stock options in exchange for part of the unvested or unexercised employee stock options issued by Primax Holdings. Specifically, 2.94 units of employee stock options were issued by the Company in exchange for 1 unit of the employee stock options issued by Primax Holdings. Each unit of the Company's options could be converted into 1 common share of the Company. The exercise price of Primax Holdings' options is USD0.2 per unit; the exercise price of the Company's options is NT\$11.42 (dollars) per unit after the modification. Meanwhile, the Company granted a certain amount of retention bonus to employees at the modification date, and the Company shall pay the retention bonus when the Company's stock options are exercised. The other terms and conditions of the employee stock options are not changed. According to the modification, the Company decreased the capital surplus by \$118,089, and recognized a corresponding increase in retention bonus payable (recorded as accrued expense and other liabilities) on December 30, 2008. The incremental fair value of \$55,308 resulting from the modification will be recognized as compensation cost over the remainder of the vesting period.
- (v) In accordance with the revised employee stock option plan mentioned above, the Company issued 9,545,248 units of employee stock options in November 2009. Each unit could be converted into 1 common share of the Company.
- (vi) In September 2011, the Company's board of directors resolved to issue employee stock options (Plan 3). The plan was approved by the SFB in October 2011, and the maximum number of options authorized to be granted was 5,000 units with each unit eligible to be converted into 1,000 common shares of the Company when exercised. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries in which the Company owns, directly or indirectly, more than fifty percent (50%) of the subsidiary's voting rights. The Company actually issued 1,500 units and 3,500 units in November 2011 and October 2012, respectively, which were evaluated at fair value. In accordance with the employee stock option plan mentioned above, the Company recognized the investment and capital surplus amounting to \$265 and \$190 in 2014 and 2013, respectively.

As of December 31, 2014, outstanding employee stock options of the Company for equity-settled share-based payment were as follows:

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

	<u>Plan 1 (note 1)</u>	<u>Plan 2 (note 2)</u>	<u>Plan 3 (note 3)</u>	
			<u>Issued in November 2011</u>	<u>Issued in October 2012</u>
Modification and grant date	December 30, 2008	December 30, 2008	November 24, 2011	October 22, 2012
Exercise price	\$11.42	\$11.42	\$17.90	\$27.70
Granted units (thousand)	30,828	7,224	1,500	3,500
Service period (from the grant date of the original stock options)	5 years (May 23, 2005~ November 11, 2014)	6~8 years (January 2, 2008~November 11, 2017)	5 years (November 24, 2011~November 23, 2016)	5 years (October 22, 2012~ October 21, 2017)
Vesting period (from the grant date of the original stock options)	2~3 years	3~5 years	2~3 years	2~3 years

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

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

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

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

	<u>Plan 1</u>	<u>Plan 2</u>
Excise price of Primax Holdings' stock options (USD)	0.20	0.20
Expected time until expiration (years)	2.37~5	6~8
Stock price per share of Primax Holdings (USD)	0.91677~1	0.91677~0.92827
Expected volatility of stock price	34.78%~44.59%	38.98%~48.44%
Expected cash dividend rate	-	-
Risk-free interest rate	2.439%~2.665%	2.509%~2.538%

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

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

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

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

	Plan 1	
	<u>Before the modification</u>	<u>After the modification</u>
Granted units of options	Primax Holdings 7,365	the Company 21,654

	Plan 2	
	<u>Before the modification</u>	<u>After the modification</u>
Granted units of options	Primax Holdings 2,331	the Company 6,853

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

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

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

	Plan 2	
	Before the modification	After the modification
Excise price	USD0.20	NT\$11.42 (dollars)
Expected time until expiration (years)	3.51~5.85	3.51~5.85
Stock price per share	USD1.12	NT\$11.42 (dollars)
Expected volatility of stock price	39.30%~45.36%	39.30%~45.36%
Expected dividend rate	-	-
Risk-free interest rate	1.50%~1.95%	1.50%~1.95%

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

	2014		2013	
	Weighted- average exercise price	Stock options (in thousands)	Weighted- average exercise price	Stock options (in thousands)
Outstanding at January 1	18.74	7,552	16.98	12,414
Granted during the year	-	-	-	-
Forfeited during the year	16.40	(65)	11.42	(420)
Exercised during the year	13.72	(3,543)	11.63	(3,244)
Expired during the year	25.47	(220)	22.38	(1,198)
Outstanding at December 31	22.66	<u>3,724</u>	18.74	<u>7,552</u>
Exercisable at December 31	19.57	<u>2,308</u>	11.94	<u>3,939</u>

As of December 31, 2014 and 2013, the information on the employee stock option plans outstanding was as follows:

	December 31, 2014	December 31, 2013
Employee stock option plan 1	-	1,485
Employee stock option plan 2	1,032	2,365
Employee stock option plan 3 –Issued in November 2011	200	700
Employee stock option plan 3 –Issued in October 2012	<u>2,492</u>	<u>3,002</u>
Outstanding at end of year	<u>3,724</u>	<u>7,552</u>
Weighted-average expected time remaining until expiration (year)	<u>2.37</u>	<u>2.62</u>

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

2. Restricted stock

- (i) After the stockholders' meeting on June 25, 2013, the Company decide to issue 2,000 thousand 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.
- (ii) 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.
- (iii) As of December 31, 2014, the outstanding restricted stock of the Company was as follows:

Grant date	October 1, 2013	November 20, 2013	February 10, 2014	July 17, 2014
Fair value on grant date (per share)	22.8	25.15	27.30	52.00
Exercise price	Free grants	Free grants	Free grants	Free grants
Granted units (thousand shares)	1,450	186	135	220
Vesting period	1~3 years (notes 1 and 2)	1~2 years (notes 2 and 3)	1~2 years (notes 2 and 3)	1~2 years (note 2)

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

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

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

- (iv) The related information on restricted stock of the Company for 2014 and 2013 was as follows:

	2014	2013
Outstanding at January 1	1,636	-
Granted during the year	355	1,636
Forfeited during the year	-	-
Exercised during the year	(361)	-
Expired during the year	(320)	-
Outstanding at December 31	1,310	1,636

3. Expenses and liabilities attributable to share-based payment for 2014 and 2013 were as follows:

	2014	2013
Expenses attributable to employee stock options	\$ 8,523	9,903
Restricted stock	21,751	5,418
Total	\$ 30,274	15,321
Salary payable:		
Current	\$ 9,476	35,017

- (q) Earnings per share

1. Basic earnings per share

The calculation of basic earnings per share at December 31, 2014 and 2013, based on the net income and the weighted-average number of common shares outstanding was as follows:

	2014	2013
Net income	\$ <u>1,544,690</u>	<u>668,548</u>
Weighted-average number of common shares (thousand shares)	<u>432,362</u>	<u>430,269</u>
Basic earnings per share (NT dollars)	\$ 3.57	1.55

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

Weighted-average number of common shares (thousand shares)

	<u>2014</u>	<u>2013</u>
Ordinary shares at January 1	\$ 431,937	426,970
Exercise of employee stock options	353	3,299
Exercise of restricted stock	72	-
Ordinary shares at December 31	\$ <u>432,362</u>	<u>430,269</u>

2. Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2014 and 2013, based on the net income and the weighted-average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares was as follows:

	<u>2014</u>	<u>2013</u>
Net income	\$ <u>1,544,690</u>	<u>668,548</u>
Weighted-average number of common shares (diluted / thousand shares)	<u>438,990</u>	<u>436,038</u>
Diluted earnings per share (NT dollars)	\$ <u>3.52</u>	<u>1.53</u>
	<u>2014</u>	<u>2013</u>
Weighted-average number of ordinary shares at December 31 (basic)	432,362	430,269
Effect of employee stock options	3,621	3,447
Effect of employee stock bonuses	2,199	2,234
Effect of restricted stock	<u>808</u>	<u>88</u>
Weighted-average number of ordinary shares at December 31 (diluted)	<u>438,990</u>	<u>436,038</u>

(r) Operating revenue

The operating revenue in the years ended December 31, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Goods sold	\$ 41,177,774	36,273,146
Services rendered	<u>1,178,611</u>	<u>984,788</u>
	\$ <u>42,356,385</u>	<u>37,257,934</u>

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

(s) Other income

The other income in the years ended December 31, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Interest revenue of cash in banks	\$ 17,500	2,736
Rent revenue	9,704	9,268
Cash dividends	<u>263</u>	<u>210</u>
	<u>\$ 27,467</u>	<u>12,214</u>

(t) Other gains and losses

The other gains and losses in the years ended December 31, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Net losses on financial assets/liabilities measured at fair value through profit or loss	\$ (1,737)	(1,310)
Net gains on foreign currency	70,102	62,495
Impairment loss on available-for-sale financial assets	(3,500)	-
Gain on disposal of financial assets	4,134	-
Other	<u>51,398</u>	<u>57,226</u>
	<u>\$ 120,397</u>	<u>118,411</u>

(u) Finance costs

The finance costs in the years ended December 31, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Interest expense	\$ 60,684	16,538
Expense of prematurely terminated contract for derivative financial instruments	156,389	-
Finance costs	<u>-</u>	<u>2,264</u>
	<u>\$ 217,073</u>	<u>18,802</u>

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

(v) Financial instruments

1. Credit risk

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

	December 31,	December 31,
	2014	2013
Past due 0-30 days	\$ 635,451	297,306
Past due 31-90 days	154,618	62,181
Past due 91-180 days	3,108	-
Past due 181-365 days	-	-
Past due over a year	-	-
	\$ <u>793,177</u>	<u>359,487</u>

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

The changes in the allowance for 2014 and 2013 were as follows:

	Individually	Collectively	Total
	assessed	assessed	
	impairment	impairment	
Balance on January 1, 2014	\$ -	17,796	17,796
Impairment loss recognized	-	625	625
Amounts written off	-	-	-
Exchange differences on translation of foreign currency	-	1,009	1,009
Balance on December 31, 2014	\$ <u>-</u>	<u>19,430</u>	<u>19,430</u>

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2013	\$ 15,380	18,045	33,425
Amounts written off	(19,412)	-	(19,412)
Exchange differences on translation of foreign currency	<u>4,032</u>	<u>(249)</u>	<u>3,783</u>
Balance on December 31, 2013	<u>\$ -</u>	<u>17,796</u>	<u>17,796</u>

2. Liquidity risk

The following table shows the contractual maturities of financial liabilities:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6~12 months</u>	<u>1~2 years</u>	<u>2~5 years</u>	<u>Over 5 years</u>
December 31, 2014							
Non-derivative financial liabilities:							
Short-term borrowings	\$ 2,148,800	2,148,800	2,148,800	-	-	-	-
Notes and accounts payable	7,493	7,493	7,493	-	-	-	-
Accounts payable - related parties	8,026,918	8,026,918	8,026,918	-	-	-	-
Other payables	596,881	596,881	596,881	-	-	-	-
Long-term borrowings	1,500,000	1,528,286	309,315	307,576	611,302	300,093	-
Guarantee deposits	128,204	128,204	-	-	-	-	128,204
Derivative financial liabilities:							
Outflow	22,902	-	-	-	-	-	-
Inflow	-	1,212,301	1,212,301	-	-	-	-
	<u>-</u>	<u>(1,189,105)</u>	<u>(1,189,105)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,431,198</u>	<u>12,459,778</u>	<u>11,112,603</u>	<u>307,576</u>	<u>611,302</u>	<u>300,093</u>	<u>128,204</u>
December 31, 2013							
Non-derivative financial liabilities:							
Short-term borrowings	\$ 658,900	658,900	658,900	-	-	-	-
Notes and accounts payable	1,438	1,438	1,438	-	-	-	-
Accounts payable - related parties	6,053,996	6,053,996	6,053,996	-	-	-	-
Other payables	427,118	427,118	427,118	-	-	-	-
Guarantee deposits	85,429	85,429	-	-	-	-	85,429
Derivative financial liabilities:							
Outflow	35,324	-	-	-	-	-	-
Inflow	-	2,879,992	2,879,992	-	-	-	-
	<u>-</u>	<u>(2,888,449)</u>	<u>(2,888,449)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,262,205</u>	<u>7,218,424</u>	<u>7,132,995</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,429</u>

The Company 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.

Notes to Financial Statements

3. Currency risk

(i) Exposure to foreign currency risk

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

	<u>December 31, 2014</u>			<u>December 31, 2013</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:TWD	369,084	31.6	11,663,048	276,066	29.95	8,268,172
<u>Non-monetary items</u>						
USD:TWD	45,910	31.6	1,450,756	154,580	29.95	4,629,671
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:TWD	336,307	31.6	10,627,314	237,179	29.95	7,103,540
<u>Non-monetary items</u>						
USD:TWD	43,260	31.6	1,367,016	83,580	29.95	2,503,221

(ii) Sensitivity analysis

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

A weakening (strengthening) of 5% of the TWD against the USD as of December 31, 2014 and 2013, would have increased or decreased the net profit after tax by \$35,967 and \$136,580, respectively. The analysis is performed on the same basis for both periods.

4. Interest rate analysis

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

5. Fair value

(i) Fair value and carrying amount

The management of the Company believes that the carrying amounts of the financial assets and liabilities in the financial statements to be a reasonable approximation of fair value.

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

(ii) Valuation techniques and assumptions used in fair value determination

The Company uses the following methods in determining the fair value of its financial assets and liabilities:

- A. The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value is estimated on the basis of the contract's spot exchange rate and swap point.
- B. Available-for-sale financial assets – non-current held by the Company are investments in unlisted stock in domestic and foreign markets. The fair value is determined under the market-price method.

(iii) Fair value hierarchy

The table below analyzes financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows:

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

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

-Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2014				
Financial assets at fair value through profit or loss – current	\$ -	-	21,165	21,165
Available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>275,536</u>	<u>275,536</u>
	-	-	296,701	296,701
Financial liabilities at fair value through profit or loss – current	<u>-</u>	<u>-</u>	<u>(22,902)</u>	<u>(22,902)</u>
	<u>\$ -</u>	<u>-</u>	<u>273,799</u>	<u>273,799</u>
December 31, 2013				
Financial assets at fair value through profit or loss – current	\$ -	-	34,014	34,014
Available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>33,918</u>	<u>33,918</u>
	-	-	67,932	67,932
Financial liabilities at fair value through profit or loss – current	<u>-</u>	<u>-</u>	<u>(35,324)</u>	<u>(35,324)</u>
	<u>\$ -</u>	<u>-</u>	<u>32,608</u>	<u>32,608</u>

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

The following table shows a reconciliation of the beginning balances to the ending balances on fair value measurements in Level 3 of the fair value hierarchy, which were financial assets or liabilities derived from forward exchange contracts and stock investments:

	2014			2013		
	Fair value through profit or loss	Available for sale	Total	Fair value through profit or loss	Available for sale	Total
Balance on January 1	\$ (1,310)	33,918	32,608	350	33,918	34,268
Recognized in profit or loss	(1,737)	634	(1,103)	(1,310)	-	(1,310)
Acquisition / disposal / pay- off	1,310	240,984	242,294	(350)	-	(350)
Balance on December 31	\$ (1,737)	275,536	273,799	(1,310)	33,918	32,608

There were no transfers from one level to another in the years ended December 31, 2014 and 2013.

(w) Financial risk management

1. Briefings

The Company is exposed to the following risks arising from financial instruments:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) 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.

2. Structure of risk management

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

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

3. Credit risk

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

(i) Cash and cash equivalents

The Company deposited \$2,814,705 (including restricted deposits) in Industrial Bank of Taiwan and 5 other financial institutions, and \$1,212,429 (including restricted deposits) in HSBC and 6 other financial institutions, representing 12% and 8% of total assets as of December 31, 2014 and 2013, respectively. The Company believes that there is no significant credit risk from the above-mentioned financial institutions.

(ii) Accounts receivable

Sales to individual customers (including related parties) constituting over 10% of total revenue for the years ended December 31, 2014 and 2013, totaled 21% and 19%, respectively. As of December 31, 2014 and 2013, 16% of the ending balance of accounts receivable (including accounts receivable – related parties) was accounted for by those customers. In order to reduce credit risk, the Company assesses the financial status of the customers and the possibility of collection of receivables on a regular basis. The above-mentioned customers are profitable and have a good credit record, and the Company did not suffer any significant credit loss from those customers during the financial reporting period.

(iii) Derivative instruments

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

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

4. Liquidity risk

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

The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Company had unused short-term bank facilities of \$6,259,200 and \$6,766,450 as of December 31, 2014 and 2013, respectively.

5. Market risk

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

(i) Currency risk

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

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

(ii) Interest rate risk

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

(x) 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.

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

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

The Company's debt ratio as of December 31, 2014 and 2013, was 59% and 52%, respectively.

(7) Related-party Transactions

(a) The Company and its subsidiaries

Name of investor	Name of subsidiary	Location	Percentage of shareholding		Description
			December 31, 2014	December 31, 2013	
The Company	Primax Industries (Cayman Holding) Ltd. (Primax Cayman)	Cayman Islands	100.00%	100.00%	
The Company	Primax Technology (Cayman Holding) Ltd. (Primax Tech.)	Cayman Islands	100.00%	100.00%	
The Company	Destiny Technology Holding Co., Ltd. (Destiny BVI)	British Virgin Islands	100.00%	100.00%	
The Company	Primax Destiny Co., Ltd. (Destiny Japan)	Japan	100.00%	100.00%	
The Company	Primax Electronics Korea Co., Ltd. (Primax Korea)	Korea	100.00%	100.00%	Primax Korea was incorporated in July 2013
The Company	Diamond (Cayman) Holdings Ltd. (Diamond)	Cayman Islands	100.00%	-	Diamond was incorporated in January 2014
Primax Cayman	Primax Industries (Hong Kong) Ltd. (Primax HK)	Hong Kong	100.00%	100.00%	
Diamond	Tymphany Worldwide Enterprises Ltd. (TWEL)	Cayman Islands	70.00%	-	(note)
Primax HK and Primax Tech.	Dongguan Primax Electronic & Telecommunication Products Ltd. (PCH2)	China	100.00%	100.00%	
Primax HK	Primax Electronics (KS) Corp., Ltd. (PKS1)	China	100.00%	100.00%	
Primax HK	Primax Electronics (Chongqing) Corp., Ltd. (PCQ1)	China	100.00%	100.00%	
Primax Tech.	Polaris Electronics Inc. (Polaris)	United States	100.00%	100.00%	
Destiny BVI	Destiny Electronic Corp. (Destiny Beijing)	China	100.00%	100.00%	
TWEL	Tymphany HK Ltd. (TYM HK)	Hong Kong	100.00%	-	(note)
TWEL	TYP Enterprises, Inc. (TYP)	United States	100.00%	-	(note)
TYM HK	Huizhou Ultrasound Audio Corp. (Huizhou Ultrasound)	China	100.00%	-	(note)
TYM HK	Tymphany Australia Pty Ltd. (TYM Australia)	Australia	100.00%	-	(note)

Note: TWEL was incorporated in October 2013, acquiring all shares of TYM HK by issuing new common stock. The Company acquired 70% of the shares of TWEL by cash through its Diamond subsidiary on January 10, 2014. Therefore, the Company indirectly acquired all shares of TWEL's subsidiaries.

(Continued)

PRIMAX ELECTRONICS, LTD.

Notes to Financial Statements

(b) Parent company and ultimate controlling company

The Company is the ultimate controlling party of the Company and its subsidiaries.

(c) Related-party transactions

1. Sales

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

	Sales		Accounts receivable	
	2014	2013	December 31, 2014	December 31, 2013
Subsidiaries	\$ <u>4,552,898</u>	<u>2,971,908</u>	<u>1,102,500</u>	<u>288,959</u>

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

The Company's sales of products to subsidiaries' customers on behalf of its subsidiaries amounted to \$2,203,836 and \$2,132,856 for the years ended December 31, 2014 and 2013, respectively. Related sales and purchase were eliminated and recorded on a net basis.

2. Purchases

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

	Purchases		Accounts payable – related party	
	2014	2013	December 31, 2014	December 31, 2013
Subsidiaries	\$ <u>38,664,339</u>	<u>34,068,376</u>	<u>8,026,918</u>	<u>6,053,996</u>

The prices of purchases were determined based on the cost plus a reasonable profit margin. The payment terms of related parties and other vendors are 60 days and 45 to 90 days, respectively.

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements**

3. Purchase of service

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

	<u>Purchase of service</u>		<u>Other payables</u>	
	<u>2014</u>	<u>2013</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Subsidiaries	\$ <u>67,377</u>	<u>42,104</u>	<u>6,505</u>	<u>4,225</u>

4. Guarantees and endorsements

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Purchasing of raw materials	\$ 51,192	82,962
Bank loans	<u>1,106,000</u>	<u>-</u>
	\$ <u>1,157,192</u>	<u>82,962</u>

(d) Key management personnel compensation

	<u>2014</u>	<u>2013</u>
Short-term employee benefits	\$ 63,291	67,889
Post-employment benefits	755	1,058
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	<u>7,690</u>	<u>1,937</u>
	\$ <u>71,736</u>	<u>70,884</u>

For information related to share-based payments, please refer to note 6(p).

(8) Pledged Assets: None

(Continued)

PRIMAX ELECTRONICS, LTD.**Notes to Financial Statements****(9) Commitments and Contingencies**

- (a) Please refer to notes 7 for guarantees and endorsements provided to related parties.
- (b) Guarantee notes provided as part of agreements with banks to sell its accounts receivable and long-term borrowings were as follows; please refer to note 6(d) for related information.

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Sales of accounts receivable	\$ <u>2,891,000</u>	<u>4,520,850</u>
Long-term borrowings	\$ <u>5,404,000</u>	<u>3,279,000</u>

(10) Loss Due to Major Disasters: None**(11) Subsequent Events**

Based on the resolution approved by the board of directors' meeting held on October 15, 2014, the Company signed a share subscription agreement and a share purchase agreement with Global TEK and its primary stockholders, respectively; therefore, the Company acquired 16,530 shares of Global TEK (30% of its shares), comprising 9,300 shares of newly issued common stock and 7,230 shares from its primary stockholders. The consideration of \$545,490 was all transferred on January 5, 2015.

The Company holds only 30% of Global TEK's shares. However, the Company has controlling power over its related activities by acquiring more than 50% of the board of director's voting rights based on the resolution of its interim meeting of stockholders held on February 13, 2015. The Company will include the Global TEK in consolidated financial statements from the same date in accordance with IFRS 10.

As of March 24, 2015, the purchase price allocation was still in progress. The Company engaged experts to evaluate the fair value of identifiable net assets. Please refer to the Company's consolidated financial statements for the years ended December 31, 2014 and 2013, for detailed information.

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PRIMAX ELECTRONICS, LTD. AND SUBSIDIARIES

Notes to Financial statements

(12) Others

The following is the summary statement of current-period employee benefit, depreciation, and amortization expenses by function:

By function By item	2014			2013		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	113,803	1,106,082	1,219,885	41,392	879,781	921,173
Labor and health insurance	4,935	59,249	64,184	2,776	55,169	57,945
Pension	3,100	36,183	39,283	1,786	35,037	36,823
Others	3,658	44,276	47,934	2,127	42,431	44,558
Depreciation	10	12,430	12,440	10	12,304	12,314
Amortization	-	25,404	25,404	-	31,964	31,964

The average number of the Company's employees for the years ended December 31, 2014 and 2013, was 701 and 662, respectively.

(13) Segment Information

Please refer to the Company's consolidated financial statements for the years ended December 31, 2014 and 2013, for details.