

PRIMAX**Primax Electronics Ltd.**

2016 Annual Report

PRIMAX**Primax Electronics Ltd.**

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

Tel: +886-2-2798-9008

www.primax.com.tw



1. Names, titles, telephone numbers and e-mail addresses of the Spokesperson and Deputy Spokesperson:

Spokesperson: Sean Lin / Title: Special Assistant to the Chairman / Telephone: +886-2-2798-9008 / E-mail: IR@primax.com.tw
Deputy Spokesperson: Cherryie Chen / Title: Investor Relation Manager / Telephone: +886-2-2798-9008 / E-mail: IR@primax.com.tw

2. Registered address and telephone of corporate headquarters

Registered address of corporate headquarters: No. 669, Ruiguang Road, Neihu District, Taipei City / Telephone: +886-2-2798-9008

3. Name, address, website, and telephone number of share registration and transfer agent

Name: SinoPac Securities / Address: 3F, No. 17, Bo'ai Road, Zhongzheng District, Taipei City / Telephone: +886-2-2381-6288
Website: <http://www.sinopac.com>

4. Names, address, website, and telephone number of the CPA, CPA firms retained for service in the most recent period

Names of CPAs: YUNG-HUA HUANG, CHI-LUNG YU / Name of CPA firm: KPMG Taiwan
Address: 68F., No.7, Section 5, Sinyi Road, Sinyi District, Taipei City / Telephone: +886-2-8101-6666
Website: <http://www.kpmg.com.tw>

5. Names of the exchanges in foreign countries where the stock of PRIMAX is listed for trading and the means for inquiry of the securities: None

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



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I. Letter to Shareholders

Dear shareholders,

2016 has been a year of challenge and opportunity to PRIMAX. In the wake of the declining growth in the PC peripherals industries under frail demand, PRIMAX could still make ceaseless effort in optimizing the products and upgrading related technologies and manufacturing process and could assist major customers to launch new products in the market of high competition. This contributed to the successful growth and transformation from PC to Non-PC business.

Tymphony, a subsidiary of PRIMAX in audio products, has demonstrated its strength in significant growth of revenue and profit in 2016 after years of hard work. In supporting the momentum of the growth in mobile device related business, the business beyond PC peripherals helped to contribute a bigger share of revenue and profit to PRIMAX.

PRIMAX furthered its effort in pushing product quality and yield rate to a higher standard and reinforcing related investment in process automation for better control of manufacturing cost and expenses so as to optimize the gross profit structure of products. In light of the importance of the research and development of new technologies and new products in the future, expenses have been incurred only for achieving the set objectives. As a result, PRIMAX again yielded positive operating results in 2016.

The Company's 2016 business operation is reported as follows:



1. 2016 Financial Performance

(1) Financial Results

The consolidated revenues of Primax group in 2016 amounted to NT\$64,329,462 thousand, an increase of 1.25% over 2015. The consolidated net income in 2016 amounted to NT\$2,048,662 thousand, an increase of 12.75% over 2015.

(2) Budget Execution

It is not applicable, since no financial forecast was published in 2016.

(3) Cash Flow Analysis

Unit: NT\$1,000

Item	2016	2015	Net change
Net cash inflow (outflow) from operating activities	2,282,949	5,022,351	(2,739,402)
Net cash inflow (outflow) from investing activities	(731,991)	(1,974,604)	1,242,613
Net cash inflow (outflow) from financing activities	(2,615,165)	(2,227,894)	(387,271)

(4) Profitability Analysis

Unit: NT\$1,000

Item	2016	2015 (restated)
Return on Equity (%)	16.28	15.65
Operating Income to paid-in Capital (%)	53.68	47.75
Profit before tax to paid-in Capital (%)	62.53	54.80
Net Profit Margin (%)	3.18	2.86
Earnings per Share (NT\$)	4.40	4.06

(5) R&D Investments

Primax group spent NT\$2,204,249 thousand on research and development in 2016. This investments were mainly for new product and new technology developments, as well as manufacturing process improvements, mainly automation.

2. 2017 Business Strategy and Technology Developments

PRIMAX has been successful for the last few years in its strategy of new technologies and new products, such as the touch technology, fingerprint module, backlight keyboard, cable/wireless audio, high-end camera modules packaging process. These are good examples that Primax could not only invest in key technologies but execute to translate these technologies into different applications that make financial sense and therefore contribute to revenue and profit growth.

In the aspects of strategic and product planning development, the non-PC segment has performed well in 2016. We will keep abreast of the market trend and consumer demand proactively by aiming at the research and development of cloud technology, mobile devices, digital home and IoT and related application products. Such as the application of high-end camera module, dual camera, and the wireless audio products and headphones, so as to optimize the product portfolio and maximize the total return. The Company seeks to explore potential business

opportunity in automotive electronic products based on its core technology in camera and audio.

The PC segment has long been a stable cash cow business. Since the market demand being saturated, the Company has to improve its production efficiency and product quality for existing products, and develops new products such as gaming peripherals, high-end trackpads, and other human machine interface for different applications with more complicated technology integration.

In sum, PRIMAX will continue its successful execution to expand market share and improve cost structure for existing product lines, and then extend the technologies to different applications and platforms albeit the change in the macroeconomic environment and the challenges from the competitors. In addition, PRIMAX will continue its management efforts and execution efficiency to achievesustainable growth in both revenues and profits.

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



II. Company profile

1. Establishment date: March 20, 2006

2. Company background:

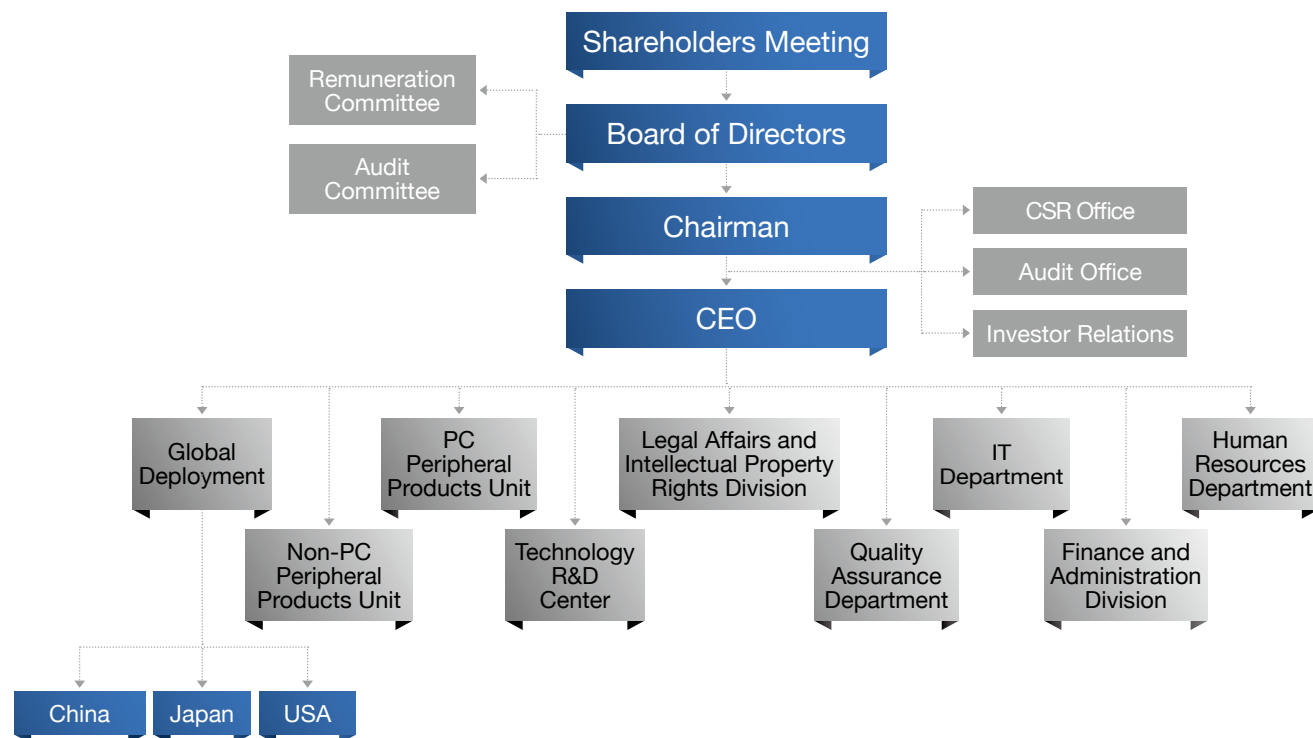
日期	大事記
March 2006	The company was approved to establish on March 20 2006. Formerly titled as Primax Electronics Ltd., the company had initial capital of NT\$1,000,000.
October 2007	The company was renamed as Primax Electronics Ltd.
December 2007	The company acquired PRIMAX Technology Co., Ltd. (hereinafter, former "PRIMAX") . The company remained the acquirer and former PRIMAX remained the acquiree.
February 2008	The company renamed as PRIMAX Electronics Limited with Mr. Liang, Li-Sheng acted as the Chairman.
December 2009	IPO of the company shares.
December 2009	The company listed its stock for trading in the emerging stock market of Taiwan.
December 2009	The Board of Investment, MOEA, approved PRIMAX to invest for the establishment of PRIMAX Kunshan Plant via a third place.
February 2011	The Board of Investment, MOEA, approved PRIMAX to invest for the establishment of PRIMAX Chongqing Plant via a third place.
October 2012	PRIMAX successfully listed its stock for trading at TWSE.
October 2012	New capital of NT\$235,290,000, raised by issuing new shares and made its stated capital amounting to NT\$4,269,698,210.
January 2014	PRIMAX successfully acquired 70% of the equity shares issued by speaker manufacturer Tymphony Group and made registration of change in shareholding.
January 2015	PRIMAX successfully acquired 30% of the equity shares issued by automobile and aerospace precision machinery manufacturer, GLOBALTEK.
October 2016	PRIMAX disposed 20% of the equity shares of GLOBALTEK, which ended the power of control over GLOBALTEK.



III. Corporate Governance Report

1. Organizational system

(1) Organizational Structure



(2) The business operations of each main department

Department	Main job responsibilities
Audit Committee	1. Supervising the adequate presentation of the Company's financial statements. 2. Supervising the commission (discharge) of the CPAs and their independence and performance. 3. Supervising the effective implementation of the Company's internal control. 4. Supervising the Company's compliance with the relevant laws and regulations. 5. Supervising the control of the Company's existing or potential risks. 6. Supervising the performance of the Company's internal audit department.
Remuneration Committee	1. Enact the policy, system and standard and structure of remuneration to the directors (including the Chairman), general manager, and vice general manager in accordance with the Company's objectives, operational performance and competitive environment, and has it reviewed as required. 2. Periodically assess the operational performance of the chairman, general manager, and vice general manager and approve the contents and amount of their respective salaries and compensation. 3. Assess and approve the welfare standard of the general manager and vice general manager.
CSR Office	The CSR Office is established by the Chairman with the authorization of the Board of Directors: 1. Responsible for enacting CSR policies, systems or related management approach 2. Assist each business and staff unit to promote and implement corporate social responsibility projects in response to the Company's economic, environmental and social issues 3. Study domestic and foreign benchmark enterprises' best practices of business sustainable practices and provide advice and guidance to the relevant departments for practice in order to continue to strengthen the Company's competitiveness of its sustainable operations
Audit Office	Review and audit the implementation of the internal control system, and regularly report it to the Board of Directors and management, and measure operational efficiency with recommendations for improvement suggested in a timely manner in order to ensure effective implementation of the internal control system and to improve the effectiveness of the overall organization
Investor Relations	A spokesman system and operation, investor relations activities and opinions process, external information disclosure, and media publishing and contact related business
Quality Assurance Department	1. Quality system planning and supervision 2. Design quality and technology upgrade 3. Product quality upgrade 4. Customer complaints process and improvement 5. Employee quality training plan and implementation
Legal Affairs and Intellectual Property Rights Division	Intellectual property rights management and legal affairs handling
Finance and Administration Division	1. Dealing with accounting, finance, tax and shareholder service matters 2. Supporting project implementation and promotion matters
Human Resources Department	1. Employees and Human Resource Management 2. Salary and benefits management 3. Education and Training and Development 4. General Affairs Services 5. Health and Safety Management
Product Business Group	It is divided into PC peripheral products and non-PC peripheral products; also, each business group is in charge of research and development and marketing. • R&D: - New product research, design and development - New product project assessment, analysis and planning - New product manufacturing technology and document and data transfer • Marketing - Product planning, marketing and market development
Technology R&D Center	Be responsible for the research, design and development of the core technology of all products.
IT Department	1. Organize and plan the safety, implementation and system integration of the Company's electronic information 2. The enactment and maintenance of computerized information management system and current manual processes analysis and future operating process design 3. The new application system planning and development and the function expansion and update of the developed application system 4. User education and training and operational planning 5. Disaster recovery management planning and execution 6. Equipment Planning and Management 7. Computer operation management



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

(1) Directors and Supervisors

Directors and Supervisors (I)

03. 31. 2017 / Unit: Shares / %

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when elected		Current shareholding		Spouse & Minor Shareholding			Shareholding by Nominee Arrangement		Main experience (education and degree)	Currently hold a position with the Company and others	Other officers, directors, or supervisors who are a spouse or a relative within the second degree of kinship		
							Shares	%	Shares	%	Shares	%		Shares	%			Title	Name	Relationship
Chairman	Republic of China	Liang, Li-Sheng	Male	06.29.2015	3 years	10.23.2009 (Note 8)	1,500,001	0.34	1,500,001	0.34	0	0		0	0	Department of Business Administration, Tamkang University Chairman of Primax Electronics Ltd.	Note 1	Director/ General Manager	Yang, Hai-Hung	In-law
Director / General Manager	Republic of China	Yang, Hai-Hung	Male	06.29.2015	3 years	10.23.2009 (Note 8)	1,962,465	0.45	1,812,465	0.41	0	0		0	0	Master of Mechanical Engineering, University of Texas, USA General Manager of Products Division of PRIMAX	Note 2	Chairman	Liang, Li-Sheng	In-law
Director	Republic of China	Yang, Chi-Ting	Male	06.29.2015	3 years	03.11.2011	1,926,963	0.44	1,926,963	0.43	1,900,962	0.43		0	0	MBA, University of Southern California, USA Chaillease Holding Company Limited Chief Auditor	Note 3	—	—	—
Director	Republic of China	Pan, Yung-Chung	Male	06.29.2015	3 years	09.05.2014	8,291,046	1.89	8,264,046	1.86	0	0		0	0	Department of Electronics, Feng Chia University General Manager of Business Department of PRIMAX	Note 4	Director / General Manager of Business Department	Pan Yung-Tai	Brothers
Director / General Manager of Business Department	Republic of China	Pan, Yung-Tai	Male	06.29.2015	3 years	09.05.2014	4,617,987	1.05	4,668,599	1.05	815,517	0.18		0	0	Department of Mechanical Engineering, Chung Yuan Christian University General Manager of Business Department of PRIMAX	Note 5	Director	Pan, Yung-Chung	Brothers
Director / Vice General Manager	Republic of China	Tsao, Chung-Feng	Male	06.29.2015	3 years	06.29.2015	3,078,651	0.70	3,212,651	0.72	406,586	0.09		0	0	EMBA, National Taiwan University PRIMAX Vice General Manager	None	—	—	—
Independent Director	Republic of China	Ku, Tai-Chao	Male	06.29.2015	3 years	03.30.2010	0	0	0	0	0	0		0	0	Bachelor of Law, National Taiwan University Vice President of Taiwan Stock Exchange Corporation	None	—	—	—
Independent Director	Republic of China	Wei, Yung-Tu	Male	06.29.2015	3 years	06.29.2015	500,000	0.11	620,000	0.14	0	0		1,000,000	0.22	MBA, University of Georgia USA President of Deloitte & Touche	Note 6	—	—	—
Independent Director	Republic of China	Cheng, Chih-Kai	Male	06.29.2015	3 years	06.29.2015	0	0	0	0	0	0		0	0	Department of Management Science, National Chiao Tung University, Senior Vice President of Synnex USA	Note 7	—	—	—

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

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

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

Note 4 : Destiny Technology (Japan) Corporation Director, Tymphany Worldwide Enterprises Ltd. Representative of Institutional Director, TYP Enterprises, Inc. Director, Tymphany HK Ltd. Director, Premium Loudspeakers (Huizhou) Co., Ltd. Representative of Institutional Director, and Dongguan Tymphany Acoustic Technology Co., Ltd Representative of Institutional Director.

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

Note 6 : Synnex Technology International Corporation Independent Director, Taiwan Cement Independent Director, Far Eastern Department Stores Independent Director, Wowprime Director, MiTAC Holdings Corporation, Representative of Institutional Director, Vanguard International Semiconductor Corporation Director, Sercomm Corporation Representative of Institutional Supervisor, Chilsin Electronics Corp. Representative of Institutional Supervisor, Iron Force Industrial Co., Ltd. Director, Yong Qin CO., LTD. Chairman, and Kaimei Electronic Corp. Representative of Institutional Supervisor.

Note 7 : Crown Bioscience Inc. Director, Ureka Therapeutics (California) Director, B Current Impact Investment Inc. Chairman, and Social Enterprise Insights Director.

Note 8 : Based on the date of election after the acquisition date of PRIMAX.

Directors and Supervisors (II)

03.31.2017

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

- Note: Please tick "v" the corresponding boxes if directors or supervisors have qualified any of the following conditions during the two years prior to being elected or during the term of office.
- (1) Not an employee of the Company or any of its affiliates.
 - (2) Not a director or supervisor of the Company's affiliates (The same does not apply, however, if the person is an independent director of the Company, its parent company, or of the parent company and established in accordance of applicable domestic laws or the laws of the host countries).
 - (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under someone else's name (s), in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
 - (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
 - (5) Not a director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five (5) in holdings.
 - (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Company.
 - (7) Not a professional individual or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal affairs, financial, accounting services, or consultation to the Company or to any affiliate of the Company, or a spouse thereof. This rule shall be waived for members of the remuneration committee established by companies listed in TWSE or Gre Tai Securities Market who perform the function of the committee in accordance with Article VII of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
 - (8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
 - (9) Not been a person of any conditions defined in Article 30 of the Company Law.
 - (10) Not a governmental, juridical person, or its representative as defined in Article 27 of the Company Law.

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

03.31.2017; Unit: share; %

Title	Nationality	Name	Gender	Date Elected	Shareholding		Spouse & Minor Shareholding				Shareholding by Nominee Arrangement		Main experience (education and degree)	Currently serving duties at other company	Manager who is the spouse or a relative within the second degree of kinship		
					Shares	%	Shares	%			Shares	%			Title	Name	Relationship
Director / General Manager	Republic of China	Yang, Hai-Hung	Male	07.02.2010	1,812,465	0.41	0	0			0	0	Master of Mechanical Engineering, University of Texas, USA General Manager of Products Department of PRIMAX	Note 1	—	—	—
Director / General Manager of Business Department	Republic of China	Pan, Yung-Tai	Male	12.28.2007 (note 7)	4,668,599	1.05	815,517	0.18			0	0	Department of Mechanical Engineering, Chung Yuan Christian University General Manager of Business Department of PRIMAX	Note 2	—	—	—
Director / Vice General Manager	Republic of China	Tsao, Chung-Feng	Male	12.28.2007 (note 7)	3,212,651	0.72	406,586	0.09			0	0	EMBA, National Taiwan University Vice General Manager of PRIMAX	None	—	—	—
Senior Vice General Manager	Republic of China	Hsiao, Ying-Yee	Male	09.19.2016	0	0	0	0			0	0	Swiss Business School EMBA CFO of CMC Magnetics co., Ltd.	None	—	—	—
Vice General Manager	Republic of China	Chou, Yen-Chou	Male	01.17.2011	492,000	0.11	0	0			0	0	Doctoral of Industrial Engineering, University of Cincinnati USA Senior Assistant General Manager of Operations, Hon Hai Group	Note 3	—	—	—
Vice General Manager	Republic of China	Lee, Chiu-Sheng	Male	10.01.2014	510,000	0.11	42,000	0.01			0	0	Department of Industrial Engineering, National Tsing Hua University FOXCONN VP Operations	Note 4	—	—	—
Vice General Manager	Republic of China	Chiang, Yan-Ying	Female	04.01.2015	626,606	0.14	0	0			0	0	Department of Labor Relations, Chinese Culture University; EMBA, National Chengchi University PRIMAX Senior Assistant General Manager	None	—	—	—
Vice General Manager	Republic of China	Chang, Ching-Kai	Male	04.01.2015	646,203	0.15	0	0			0	0	Department of Information Engineering, Tamkang University PRIMAX Senior Assistant General Manager	None	—	—	—
Vice General Manager	Republic of China	Chang, Yao-Han	Male	10.07.2015	139,000	0.03	0	0			0	0	Graduate Institute of International Affairs and Strategic Studies, Tamkang University PRIMAX Senior Assistant General Manager	None	—	—	—
Vice General Manager	Republic of China	Wei, Hao-San	Male	10.07.2015	409,732	0.09	10,000	0.002			0	0	Electrical Engineering Institute, California State University, Long Beach (USA) PRIMAX Senior Assistant General Manager	Note 5	—	—	—
Vice General Manager	Republic of China	Chuo, Yu-Shan	Male	01.01.2017	0	0	0	0			0	0	EMBA, NCCU General Manger, Automotive Electronics Division, Quanta Storage Inc.	None	—	—	—
Assistant General Manager	Republic of China	Pan, Yen-Jen	Male	12.05.2013	24,000	0.005	0	0			0	0	Department of Accounting, Soochow University Assistance General Manager, Auditing Services, PwC Taiwan	Note 6	—	—	—

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

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

Note 3 : Destiny Technology (Japan) Corporation Supervisor.

Note 4 : Dongguan PRIMAX Electronic Telecommunication Products Co., Ltd. Director and General Manager, Primax Electronic (Kunshan) Co., Ltd. General Manager, and Primax Electronics (Chongqing) Corp. Ltd. General Manager.

Note 5 : Destiny Technology (Japan) Corporation Director, Beijing Destiny Electronic Technology Corporation General Manager,

Note 6 : Dongguan Dong Cheng Tymphany Acoustic Technology Co., Ltd. Supervisor.

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

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

(1) Remuneration to Directors in the most recent year (2016)

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

Title	Name	Remuneration to Directors										Ratio of total remuneration (A+B+C+D) to net income (%) (Note 1)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of total remuneration (A+B+C+D+E+F+G) to net income (%) (Note 1)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Pension (B)		Compensation to Directors (C) (Note 2)		Bonus to Directors (D)						Salary, Bonuses and Allowances (E)		Pension (F)		Profit Sharing- Employee Bonus (G) (Note 3)						
		The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities			The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company		All Consolidated Entities		The Company	All Consolidated Entities	
Chairman	Liang, Li-Sheng	12,361	12,361	0	0	36,800	36,800	725	725			2.58	2.58	43,200	43,200	0	0	0	0	0	0	4.81	4.81	0
Director / General Manager	Yang, Hai-Hung																							
Director	Yang, Chi-Ting																							
Director	Pan, Yung-Chung																							
Director / General Manager of Business Department	Pan, Yung-Tai																							
Director / Vice General Manager	Tsao, Chung-Feng																							
Independent Director	Ku, Tai-Chao																							
Independent Director	Wei, Yung-Tu																							
Independent Director	Cheng, Chih-Kai																							

Note 1: The Company's 2016 net income amounted to NT\$1,934,070 thousand.

Note 2: Refers to the earnings distribution proposal in the most recent year (2016) resolved by the Board of Directors (03.07.2017) for an amount of NT\$36,800 thousand to be distributed as remuneration to directors and supervisors. The remuneration amount to be distributed in current year will be proportionally to the amount distributed last year.

Note 3: Refers to the earnings distribution proposal in the most recent year (2016) resolved by the Board of Directors (03.07.2017) for an amount of NT\$74,000 thousand to be distributed as cash dividend to employees. The cash dividend amount to be distributed in current year will be proportionally to the amount distributed last year.



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

(2) Remuneration to General Manager and Vice General Manager in the most recent year (2016)

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

Title	Name	Salary (A)		Pension (B)		Bonuses and Allowances (C)		Profit Sharing-Employee Bonus (D) (Note 1)				Ratio of total remuneration (A+B+C+D) to net income (%) (Note 2)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company		All Consolidated Entities				
								Cash	Stock	Cash	Stock			
Director / General Manager	Yang, Hai-Hung													
Director / General Manager of Business Department (Note 3)	Pan, Yung-Chung													
Director / General Manager of Business Department	Pan, Yung-Tai													
Senior Vice General Manager (Note 4)	Lee, Yi-Ping													
Director / Vice General Manager	Tsao, Chung-Feng													
Vice General Manager	Chou, Yen-Chou													
Vice General Manager (Note 5)	Liu, Chia-Lun	38,451	39,713	0	0	55,063	55,063	0	0	0	0	4.84%	4.90%	None
Vice General Manager	Lee, Chiu-Sheng													
Vice General Manager	Chiang, Yan-Ying													
Vice General Manager	Chang, Ching-Kai													
Vice General Manager	Wei, Hao-San													
Vice General Manager	Chang, Yao-Han													
Senior Vice General Manager (Note 6)	Hsiao, Ying-Yee													

Note 1 : Refers to the earnings distribution proposal in the most recent year (2016) resolved by the Board of Directors (03.07.2017) for an amount of NT\$74,000 Thousand to be distributed as cash dividend to employees. The employee bonus to General Manager and Vice General Manager had not yet been discussed by the Remuneration Committee as of the printing date of the annual report; therefore, the cash dividend is distributed in current year proportionally to the amount distributed last year.

Note 2 : The net income of the Company in 2016 amounted to NT\$1,934,070 thousand.

Note 3 : Pan, Yung-Chung retired from the general manager of the business department on 12.31.2016.

Note 4 : Lee, Yi-Ping resigned on 08.31.2016.

Note 5 : Liu, Chia-Lun resigned on 06.30.2016.

Note 6 : Hsiao, Ying-Yee assumed office on 09.19.2016.



Range of remuneration paid to each General Manager and Vice General Manager of the Company	Name of General Manager and Vice General Manager	
	The Company	All Consolidated Entities
Less than NT\$2,000,000	Liu, Chia-Lun Hsiao, Ying-Yee	Liu, Chia-Lun Hsiao, Ying-Yee
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (not inclusive)	Tsao, Chung-Feng	Tsao, Chung-Feng
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (not inclusive)	Lee, Chiu-Sheng Pan, Yung-Chung Chang Yao-Han Chiang, Yan-Ying Chang, Ching-Kai Lee, Yi-Ping Chou, Yen-Chou	Lee, Chiu-Sheng Pan, Yung-Chung Chang, Yao-Han Chiang, Yan-Ying Chang, Ching-Kai Lee, Yi-Ping Chou, Yen-Chou
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (not inclusive)	Pan, Yung-Tai Wei, Hao-San	Pan, Yung-Tai Wei, Hao-San
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (not inclusive)	Yang, Hai-Hung	Yang, Hai-Hung
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (not inclusive)	—	—
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (not inclusive)	—	—
NT\$100,000,000 and more	—	—
Total	13	13

(3) Name of the managers receiving remuneration to employees in the most recent year (2016) and the distribution implemented.

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

Title	Name	Stock amount (Note 1)	Cash amount (Note 1)	Total	Ratio of total amount to net income (%) (Note 2)
Director / General Manager	Yang, Hai-Hung				
General Manager of Business Department (Note 3)	Pan, Yung-Chung				
General Manager of Business Department	Pan, Yung-Tai				
Director / Vice General Manager	Tsao, Chung-Feng				
Senior Vice General Manager (Note 4)	Lee, Yi-Ping				
Vice General Manager	Chou, Yen-Chou				
Vice General Manager (Note 5)	Liu, Chia-Lun	—	—	—	0%
Vice General Manager	Lee, Chiu-Sheng				
Vice General Manager	Chiang, Yan-Ying				
Vice General Manager	Chang, Ching-Kai				
Vice General Manager	Wei, Hao-San				
Vice General Manager	Chang, Yao-Han				
Senior Vice General Manager (Note 6)	Hsiao, Ying-Yee				
Assistant General Manager	Pan, Yen-Jen				

Note 1 : Refers to the earnings distribution proposal in the most recent year (2016) resolved by the Board of Directors (03.07.2017) for an amount of NT\$74,000 thousand to be distributed as cash dividend to employees. The employee bonus to General Manager and Vice General Manager had not yet been discussed by the Remuneration Committee as of the printing date of the annual report; therefore, the cash dividend is distributed in current year proportionally to the amount distributed last year.

Note 2 : The net income of the Company in 2016 amounted to NT\$1,934,070 thousand.

Note 3 : Pan, Yung-Chung retired from the general manager of the business department on 12.31.2016.

Note 4 : Lee, Yi-Ping resigned on 08.31.2016.

Note 5 : Liu, Chia-Lun resigned on 06.30.2016.

Note 6 : Hsiao, Ying-Yee assumed office on 09.19.2016.

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

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

Identity	Ratio of total remuneration to net income (loss)			
	2015		2016	
	The Company	Consolidation	The Company	Consolidation
Director	4.78%	4.78%	4.81%	4.81%
Supervisors	0.19%	0.19%	N/A	N/A
General Manager / Vice General Manager	6.48%	6.57%	4.84%	4.90%

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

The Company's remuneration to Directors and Supervisors is proposed to the Board of Directors and resolved in the shareholders' meeting in accordance with the Articles of Association. The remuneration to the General Manager and Vice General Manager is defined in accordance with the job position held and the responsibilities borne, and by referring to the industry standard for the equivalent job position. In addition, it is proposed to the Remuneration Committee and the Board of Directors for resolutions; moreover, the performance bonus is based on the Company's current operating performance and individual job performance.

4. Corporate governance operation

(1) Board of Directors operation:

The attendance of the directors and supervisors for the 10 Board meetings (A) held by the Company as of the printing date of the annual report (8 meetings in 2016 and 2 meetings in 2017) as follows:

Title	Name	Attendance in Person [B]	By Proxy	Attendance Rate (%) [B/A]	Remark
Chairman	Liang, Li-Sheng	10	0	100	—
Director	Yang, Hai-Hung	10	0	100	—
Director	Yang, Chi-Ting	9	1	90	—
Director	Pan, Yung-Tai	8	2	80	—
Director	Pan, Yung-Chung	8	2	80	—
Director	Tsao, Chung-Feng	10	0	100	—

Title	Name	Attendance in Person[B]	By Proxy	Attendance Rate (%) [B/A]	Remark
Independent Director	Ku, Tai-Chao	9	1	90	—
Independent Director	Wei, Yung-Tu	10	0	100	—
Independent Director	Cheng, Chih-Kai	8	2	80	—

Other mandatory notes:

I. If any of the following applies to the operation of the Board, specify the date, the session, the content of the motion, the opinions of independent directors, and the responses to the opinions of the independent directors:

(1) Particulars inscribed in Article 14, Paragraph 3 of the Securities and Exchange Act : None.

(2) Further to the aforementioned issues, other resolutions of the Board with adverse opinions or qualified opinions from the independent directors on records or written declaration : None.

II. In circumstances where Directors should be excused from participation in the proposal with a conflict of interest, specify the names of the Directors, the content of the motions, the reasons for the avoiding the conflict of interests and the voting are specified below:

(1) For Motion No. 1 discussed in the Board on January 25, 2016 on bonus to the senior management in 2015, Director Yang, Hai-Hung; Pan, Yung-Tai; Pan, Yung-Chung and Tsao, Chung-Feng were parties related to the motion and had themselves excused from the discussion and voting on the motion to avoid the conflict of interest. For Motion No. 2 discussed on the same day regarding bonus to the Chairman in 2015, the Chairman is a party related to the motion and had himself excused from the discussion and voting of the motion for avoiding a conflict of interest.

(2) For Motion No. 5 discussed in the Board on March 24 2016 on the amendment to the "Regulations Governing the Remuneration to the Chairman" of the Company, the Chairman is a party related to the motion and was excused from the discussion and voting on the motion for avoiding a conflict of interest. Motion No. 6 on the amendment to the "Regulations Governing the Remuneration to Managers", Director Yang, Hai-Hung; Pan, Yung-Tai, and Pan, Yung-Chung, and Tsao, Chung-Feng were parties related to the motion, and had themselves excused from the discussion and voting on the motion. Motion No. 7 discussed on the same day on the adjustment of salaries to senior officers in 2016 and Motion No. 8 on the bonus to senior management and key officers in 2016, Director Yang, Hai-Hung; Pan, Yung-Tai, and Pan, Yung-Chung, and Tsao, Chung-Feng were parties related to the motions, and had themselves excused from the discussion and voting on the motions for avoidance of a conflict of interest. For Motion No. 9 discussed on the same day regarding the performance standard and bonus to the Chairman in 2016, the Chairman is a party related to the motion and had himself excused from the discussion and voting of the motion for avoiding a conflict of interest.

(3) For Motion No. 1 discussed by the Board on January 23 2017 regarding bonus to the senior officers in 2016, Director Yang, Hai-Hung; Pan, Yung-Tai, and Pan, Yung-Chung, and Tsao, Chung-Feng were parties related to the motions, and had themselves excused from the discussion and voting on the motions for avoidance of a conflict of interest. For Motion No. 2 discussed on the same day regarding bonus to the Chairman in 2016, the Chairman is a party related to the motion and had himself excused from the discussion and voting of the motion for avoiding a conflict of interest. For Motion No. 3 discussed on the same day regarding remuneration to employees in 2016, Director Yang, Hai-Hung; Pan, Yung-Tai, were parties related to the motion, and had themselves excused from the discussion and voting on the motion for avoidance of a conflict of interest. For Motion No. 4 discussed on the same day regarding the initial offering of RS for employees, Director Yang, Hai-Hung; Pan, Yung-Tai, were parties related to the motion, and had themselves excused from the discussion and voting on the motion for avoidance of a conflict of interest.

(4) For Motion No. 4 discussed on the Board on March 7 2017 regarding the adjustment of salaries for senior officers in 2017, Director Yang, Hai-Hung; Pan, Yung-Tai, and Tsao, Chung-Feng were parties related to the motions, and had themselves excused from the discussion and voting on the motions for avoidance of a conflict of interest. For Motion No. 5 discussed on the same day regarding bonus to senior management and key officers in 2017, Director Yang, Hai-Hung; Pan, Yung-Tai, and Tsao, Chung-Feng were parties related to the motions, and had themselves excused from the discussion and voting on the motions for avoidance of a conflict of interest. For Motion No. 6 regarding the performance standard and bonus to the Chairman in 2017, the Chairman is a party related to the motion and had himself excused from the discussion and voting of the motion for avoiding a conflict of interest.

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

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

(1) The Company's Board of Directors had resolved on January 12, 2011 to have the Remuneration Committee setup. The Remuneration Committee members were appointed in accordance with Article 5 of the Company's "Remuneration Committee Charter". The Remuneration Committee under the Board of Directors is aimed to strengthen the function of the Board of Directors.

(2) The Company's Board of Directors had resolved on July 7, 2015 to have the Audit Committee setup. The Audit Committee members were appointed in accordance with Article 4 of the Company's "Audit Committee Charter". The Audit Committee under the Board of Directors is aimed to strengthen the function of the Board of Directors.

(3) Substantiate corporate governance and improve information transparency: the Board of Directors is operated in accordance with the "Rules of Procedure for Board of Directors Meetings". The Company's board meeting is convened in accordance with the "Rules of Procedure for Board of Directors Meetings" adequately.

(4) Advanced study of directors and supervisors: The Company arranges advanced studies for directors and supervisors to help them obtain necessary information conveniently in order to maintain their core values and professional strengths and abilities.

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

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

1. The Company's Audit Committee is with three members appointed. The tenure of the current term is from July 7, 2015 to July 6, 2018.
2. There were 7 Audit Committee meetings (A) held in 2016 with the attendance of the Independent Directors as follows:

Title	Name	Actual number of meeting attended in person (B)	Actual attendance rate (%) (B/A)	Remark
Independent Director	Ku, Tai-Chao	7	100	—
Independent Director	Wei, Yung-Tu	7	100	—
Independent Director	Cheng, Chih-Kai	5	71	—

Other mandatory notes:

- I. If any of the following applies to the operation of the Audit Committee, specify the date, the session, the content of the motions, the resolution of the Audit Committee, and responses to the opinions of the Audit Committee.
 - (1) Particulars inscribed in Article 14, Paragraph 5 of the Securities and Exchange Act: None.
 - (2) Further to the aforementioned issues, other motions not passed by the Audit Committee but resolved at the consent of more than two-thirds of the Directors: None.
- II. The Independent Directors have themselves excused from participating in a proposal with a conflict of interest, the name of the Independent Director, the content of the motion, causes for avoiding conflicts of interest, and voting scenario should be detailed as follows: None.
- III. The communication among the Independent Directors, Internal Auditor, and CPAs:
 - (1) The Company's Internal Auditor communicates with the Independent Directors on the audit findings in the meetings of the Audit Committee regularly and reports on the implementation of internal audit and the follow-up with defects detected in the audits. In the meetings, the committee requires that the level of risk shall be specified in the audit report and report on the outcome of internal audit on the risk attribute inherent to the operation cycle. Recommendations prescribed the Independent Directors shall be executed at once. The Company's Audit Committee has a good communication with the Internal Auditor in the conduct of internal audits.
 - (2) The Company's contracted CPAs report financial statements auditing or audit result and other mandatory communicating matters in the Article Committee on a quarterly basis; in addition, report any special events to the Audit Committee promptly. There had not any special event referred to above occurred in 2016. The Company's Audit Committee has a good communication with the contracted CPAs.

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

Assessment items	Operation			How does the Company's corporate governance differ from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	Summary	
I Does the Company have the Corporate Governance Best-Practice Principles enacted and disclosed in accordance with the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies"?	V		The Company has the Corporate Governance Best-Practice Principles enacted and disclosed.	No significant difference
II. The Company's equity structure and shareholders' equity		V	The Company has the spokesperson and acting spokesperson designated; moreover, there are the Shareholder Services and Legal Affairs Services to handle the suggestions or disputes of the shareholders.	No significant difference
		V	The Stock Affairs Agent commissioned by the Company and the shareholding of the Company's directors, managers, and major shareholders	
		V	The Company has adequate risk control mechanism and firewall enacted in accordance with the related rules of the Internal Control System.	
		V	The Company has enacted Rule Governing the Prevention of Insider Trading to prohibit insiders from using undisclosed information to trade marketable securities.	

Assessment items	Operation			How does the Company's corporate governance differ from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	Summary	
III. Composition of the Board of Directors and its duties		V	The Company has the "Corporate Governance Best-Practice Principles" enacted; also, the diversification of the board directors is stated in Article 20. The Company will have the election of board directors implemented in accordance with the Principles.	No significant difference
		V	The Company will have other functional committee setup in the future depending on the needs of the actual operation.	
		V	The Company has enacted the "Rules Governing the Performance Evaluation of the Board of Directors" and its assessment methods. Also, performs at least one assessment before the end of the year. The assessment method can be downloaded from the Company's website or MOPS. The last performance evaluation of the Board was completed in January 2017. The score is outstanding.	
		V	The Audit Committee of the Company has the CPA's independence and performance assessed regularly every year in accordance with the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" as follows: (1) Review CPA's resume. (2) He/she is not a director, supervisor, manager, or holding a position with other companies that may affect the job responsibility or cause a conflict of interest. (3) Does not have the same CPA contracted as the auditor for seven consecutive years. (4) Obtain the declaration of independence from the commissioned CPA annually. (5) Review the auditing and tax service quality and timeliness. (6) No litigation or any disciplinary action received from the competent authorities. (7) Review the scale of operation and reputation of the CPA Firm. (8) Interaction with the management and internal auditor The most recent review was completed on March 6, 2017, when the Audit Committee was considered and the above requirements were met.	
IV		V	Has the TWSE/GTSM-listed company established a full-time (part-time) position for handling issues of corporate governance or appointed designated personnel to administer corporate governance (including but not limiting to feeding information for the Directors and Supervisors for the performance of their assigned duties, reporting on Board meeting and Shareholders Meeting, company registration and registration of change, and preparation of minutes of Board meetings and Shareholders Meetings on record)?	No significant difference
V		V	Has the Company established channels for communications with the stakeholders (including but not limiting to shareholders, employees, customers and suppliers), and special page for stakeholder relation at the official website of the Company with proper responses to the issues of corporate social responsibility of high concern to the stakeholders?	No significant difference

Assessment items	Operation			How does the Company's corporate governance differ from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	Summary	
VI. Has the Company commissioned a professional stock affairs agency to handle the affairs related to shareholders' meeting?	√		The Company has "SinoPac Securities Stock Affairs Agency" commissioned to handle the related matters.	No significant difference
VII. Information disclosure Has the Company setup website to disclose financial operations and corporate governance information? Does the Company have other information disclosure methods adopted (such as, constructing an English website, designating specific individuals to be responsible for the Company's information collection and disclosure, substantiating a spokesperson system, the public offering conference recording uploaded to the Company's website, etc.)?	√		The Company has setup the websites with the "Investment" section included for having information disclosed full financial business and corporate governance information.	No significant difference
	√		The Company has constructed an English website with a spokesperson and acting spokesperson designated to be responsible for communicating to the public on behalf of the Company; in addition, has specific individuals designated to have information disclosed on the MOPS in accordance with the law and regulations.	
VIII. Does the Company have any other important information that can help understand the Company's corporate governance operation (including but not limited to the interests of employees, employee care, investor relations, supplier relations, the rights of stakeholders, the advanced study of directors and supervisors, the implementation of risk management policy and risk measurement standard, the implementation of customer policy, the liability insurance acquired by the Company for the directors and supervisors, etc.)?	√		- The Company has committed based on the Labor Standards Law to protect the basic rights of employees and has enacted the Employee Welfare Committee in accordance with the Employee Welfare Act. The existing welfare system includes: a periodical health check, birthday and three festival gifts (vouchers), weddings and funeral subsidy, scholarships and financial aid, domestic and overseas travel subsidy, emergency assistance loans, year-end party and lotteries, and other community activities. - The Company attaches great importance to the harmonious labor relations. For safeguarding employees' rights and benefits, employees can perform a two-way communication for the Company's systems and work environmental issues through department meetings, staff seminars, labor relation meetings, employee suggestion boxes, etc.; also, regularly inspect and maintain the safety and health of the working environment in order to ensure employees' work safety and health. - The Company has a smooth communication channel constructed with the employees, bankers, customers, vendors, and other stakeholders of the Company in order to protect the legitimate interests of both parties. - The Company has established the procedures for customer management service, customer satisfaction surveys, and handling customer complaint. Regarding customer grievances, properly identify the root cause of the problem and accountability, and evaluate customer satisfaction periodically to ensure providing customers with the best services. - The Company has various internal regulations and internal control systems enacted lawfully, a variety of risk management and assessment performed; in addition, the internal audit unit will have the implementation of internal control system audited periodically and occasionally. - Advanced study of Directors: Please refer to the Annual Report "2016 Director's Advanced Studies" (page 19). - The Company has acquired liability insurance for directors and supervisors every year.	No significant difference
IX. Specify the measures taken for improvement of corporate governance with reference to the evaluation of corporate governance by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the most recent year, and the issues pending on improvement at top priority (Skip if not included in evaluation). The rating result of corporate governance on PRIMAX in 2015 was among the top 21% - 35% of the enterprises. In 2016, electronic voting system has been introduced to the General Meeting of shareholders and voting is cast on a motion by motion basis. This measure indicated that PRIMAX high treasure the rights of the shareholders. In addition, the meeting has also passed the Corporate Social Responsibility Best Practice Principles and the Regulations Governing the Evaluation of Board Performance. The Corporate Social Responsibility Office has been established for the fortification of the function of the Board and realization of corporate social responsibility. In disclosure and information transparency, PRIMAX has made improvement in the disclosure of complete information contained in the annual report and on the official website of the Company. Furthermore, PRIMAX has declared material information in Chinese and in English at the MOPS website. PRIMAX has improved in all aspects, in 2016 the corporate governance evaluation results ranked significantly increased to the top 5%.				

Continuing education / Training of board directors in 2016:

Title	Name	Date of continuing education	Organizer	Course Title	Hours of study	Total hours of continuing education in 2016
Director	Liang, Li-Sheng	11.29.2016	Taiwan Corporate Governance Association	Group Governance	3	6
		12.02.2016	Taiwan Corporate Governance Association	The View of Professional Directors in Corporate Governance and Construction of Competent Board of Directors	3	
Director	Yang, Hai-Hung	10.07.2016	Taiwan Corporate Governance Association	The 12th International Corporate Governance Summit: The Development and Efficacy of Diversified Organization of the Board and the Best Practice in the Performance of the Functions of Nomination Committee	3	6
		10.28.2016	Taiwan Corporate Governance Association	The Opportunity and Risk of Digital Technology Trend	3	
Director	Yang, Chi-Ting	01.26.2016	Securities and Futures Institute	The 2016 Corporate Governance Forum Series - Insider Trade and Corporate Social Responsibility	3	6
		05.11.2016	Taiwan Corporate Governance Association	The Prevention and Detection of Corporate Corruption	3	
Director	Pan, Yung-Tai	10.20.2016	Financial Supervisory Commission	The 11th Taipei Corporate Governance Forum - Full day class	6	6
Director	Pan, Yung-Chung	10.20.2016	Financial Supervisory Commission	The 11th Taipei Corporate Governance Forum - Full day class	6	6
Director	Tsao, Chung-Feng	05.20.2016	Taiwan Corporate Governance Association	Function and Performance Evaluation of the Board	3	6
		05.20.2016	Taiwan Corporate Governance Association	Protection of Business Secrets	3	
Independent Director	Ku, Tai-Chao	01.26.2016	Taiwan Academy of Banking and Finance	The 2016 Corporate Governance Forum Series - Insider Trade and Corporate Social Responsibility	3	6
		06.03.2016	Taiwan Corporate Governance Association	The essence of the obligations to the proxies of the Directors and Supervisors	3	
Independent Director	Wei, Yung-Tu	03.04.2016	Taiwan Corporate Governance Association	Cases of major controversy over the responsibilities of the Directors and Supervisors in financial reporting	3	21
		04.13.2016	Taiwan Academy of Banking and Finance	Wealth Management and Tax Planning for High Assets Customers	3	
		07.06.2016	Taiwan Corporate Governance Association	The Trend of Change in Taxation	3	
		07.28.2016	Securities and Futures Institute	Case Study on Public Acquisition and Defense An Inevitable Legal War	3	
		07.29.2016	Securities and Futures Institute	The Practice of Independent Directors and Functional Committees	3	
		09.07.2016	Securities and Futures Institute	The Prospect of Taiwan Economy under Global Economic Turbulence and Trend of Global Application of the Regional Industry Chain in the Future	3	
		12.06.2016	Securities and Futures Institute	The Development of International and Domestic Anti-Tax Sheltering and the Responses of the Enterprises	3	
Independent Director	Cheng, Chih-Kai	03.22.2016	Taiwan Institution of Directors	2016 Economic Outlook and Decision of Reengineering	3	6
		03.25.2016	Taiwan Corporate Governance Association	Loyalty to the Principal - The Essence of the Obligation of Proxies to the Directors and Supervisors.	3	

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

To improve corporate governance and strengthen the function of the Board of Directors, PRIMAX had established the Remuneration Committee in 2011 to assist the Board of Directors assessing and verifying the remuneration policy and system of the Chairman and managers. The

Board of Directors has three members appointed to form the Remuneration Committee in accordance with the Company's "Remuneration Committee Charter". The Remuneration Committee shall meet at least twice a year and there were 3 meetings convened in the most recent year.

1. Information of the Remuneration Committee members

Identity	Conditions	Whether with more than five years of work experience or not? And the following professional qualifications			Meet the independence criteria (Note)								Number of other public companies in which the individual is concurrently serving as an Independent Director	Remark
		An instruction or higher position in a Department of Commerce, Legal Affairs, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College,	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist who has passed a national examination and been awarded a Certificate in a profession necessary for the business of the Company	With work experience in the areas of Commerce, Legal Affairs, Finance, or Accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Ku, Tai-Chao	—	—	V	V	V	V	V	V	V	V	V	0	—
Independent Director	Cheng, Chih-Kai	—	—	V	V	V	V	V	V	V	V	V	0	Assumed office on 07.07.2015
Others	Yao, Heng-Shan	—	—	V	V	V	V	V	V	V	V	V	0	Assumed office on 03.27.2014

Note: Please tick the corresponding boxes • if the member has qualified any of the following conditions during the two (2) years prior to being elected or during the term of office.

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

2. The operation of the Remuneration Committee

- (1) The Company's Remuneration Committee is with three members appointed.
- (2) The tenure of the current term is from July 7, 2015 to June 28, 2018. There were 3 Remuneration Committee meetings (A) held in the most recent year with the attendance of the members as follows:

Title	Name	Actual number of meeting attended in person (B)	Actual number of meeting attended by proxies	Actual attendance rate (%) (B/A)	Remark
Convenor	Ku, Tai-Chao	3	0	100%	
Member	Cheng, Chi-Kai	3	0	100%	
Member	Yao, Heng-Shan	3	0	100%	

Other mandatory notes:

1. If the Board of Directors has decided not to accept or amend the proposal of the Remuneration Committee, the date of the Board meeting, the term, the content of the motion, the resolution of the Board meeting, and the Company's handling the opinions of the Remuneration Committee should be detailed (such as, if the remuneration resolved in the Board meeting is better than the proposal of the Remuneration Committee, the difference amount and the root cause should be detailed) : None.

2. For the matters resolved by the Remuneration Committee with the opposition or reservation of the members documented or written, the date of the Remuneration Committee meeting, the term, the content of the motion, the opinions of all members, and the handling the opinions of the members should be detailed: None.

Note:

- (1) For members of the Remuneration Committee resigned before the end of the fiscal year, specify the date of departure, the attendance rate (%) will be counted by the ratio of its presence in the meetings of the Remuneration Committee in the duration of employment to the total number of meetings held by the committee in the same period.
- (2) If there is an election of members the Remuneration Committee held before the end of the fiscal year, specify the names of the new and former members, and note that if the members are newly elected, former members, or re-elected to the seats. The attendance rate (%) will be counted by the ratio of its presence in the meetings of the Remuneration Committee in the duration of employment to the total number of meetings held by the committee in the same period.

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

Assessment items	Operation		How does the Company's corporate social responsibility differ from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	
I. Substantiating and promoting corporate governance			
	V		The Company's "Primax Corporate Social Responsibility Best-Practice Principles" were enacted and approved by the Board of Directors for publication. The detailed information of the 2016 implementation effect was fully disclosed in the annual Corporate Social Responsibility Report.
	V		The Company follows the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies" thereby holds training regularly to reinforce their knowledge in this regard. In 2016, the Company has held 3 occasions related to social charity.
	V		The corporate social responsibility office was established by the Chairman with the authorization of the Board of Directors. The designated individuals are to be in charge of proposing and executing the policy, system, related guidelines and solid promotional plan of the corporate social responsibility; also, to report it to the Board of Directors regularly.
II. The development of sustainable environment	V		The Company has regularly participated in external remuneration survey to ensure the competitiveness of remuneration and to be referred for the making of internal remuneration policies. Moreover, in addition to the security of a fixed annual salary, performance bonus will be distributed according to the annual achievement of the Company and personal performance and contribution of each employee, without discrimination against gender, religion, race, and nationality.
	V		The Company has the concept of environmental protection substantiated in the green design and green management proactively while providing products and services; in addition, the raw materials used in the products are in line with international environmental standards and customer requirements.
	V		The Company has established a green procurement management system and the control in manufacturing process and materials to ensure the products in line with environmental requirements; moreover, a dedicated unit is assigned to maintain the production plant environment quality in Mainland China and to strengthen the implementation of energy-saving and carbon reduction measures.
	V		The Company has enacted the "Greenhouse Gas Inventory and Voluntary Reduction Declaration", and is committed to greenhouse gas inventory in order to actually grasp the situation of gas emissions and initiate further greenhouse gas reductions voluntarily according to the inventory result.



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

Assessment items	Operation			How does the Company's corporate social responsibility differ from the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	Summary	
III. Maintaining social welfare				
Has the Company assessed whether the suppliers have a record of impacting the environment and society before conducting businesses with such suppliers?	V		All suppliers of the company must pass a strict evaluation procedure before qualified as a supplier to the Company (including review, contract review, two-way communication, channels of complaints and claims) in the management of environment, health and safety. These include the conduct of environmental tests, observation of domestic labor laws and the EICC. In addition, the Company also conducts on-site evaluation on the management of hazardous substances covering: the organizational structure of the suppliers in the management of green products, training of personnel, production management, product design, IQC inspection and the prevention of pollution by hazardous substances.	No significant difference.
Are the contracts signed with the Company's major suppliers containing the clause allowing the Company to have the contracts terminated or cancelled at any time when the suppliers violate their corporate social responsibility policy that have significant impact on the environment and society?	V		The "Supplier Declaration" to be signed by the suppliers upon the request of the Company contains the contents of environmental statement and statement of conflict minerals. If a supplier is involved in a breach of the relevant requirements, the Company may directly have the trading relationship cancelled or terminated.	
IV. Strengthening information disclosure				
Has the Company disclosed the relevant and reliable information about corporate social responsibility on its website and MOPS?	V		The Company's website is designed with a "corporate social responsibility" section; also, the information regarding corporate social responsibility is disclosed in the annual report. The CSR report has been issued since the year 2014 in response to the important issues concerning the stakeholders, and provides the CSR mailbox as one of the communication channels to the stakeholders.	No significant difference.
V. If the Company has established the corporate social responsibility best practice principles in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies", elaborate the difference between the practice and the documented principles: The Company has established the "PRIMAX Corporate Social Responsibility Best Practice Principles" and implemented these principles in the aspects of corporate governance, concern for the employees, safeguarding the community, and protection of the earth. The practice is congruent with the principles. For reference of corporate governance, refer to the section of "corporate governance in operation". For information on concern for the employees, guarding the community, and protection of the earth, refer to the CSR report of the year.				
VI. Other important information that helps understand the operation of corporate social responsibility 1. The Company has staff managed in accordance with the Labor Standards Law and other relevant labor laws and regulations, and has specific personnel designated to handle various matters in order to protect the interests of employees. 2. The Company has arranged the safety and health tasks for the organization and staff, the necessary health and safety education and training for the staff to perform job responsibility, the disaster prevention measures training, and health check in accordance with the Labor Safety and Health Act. 3. The Company takes responsibility for consumer protection and product safety, and actively solves the product problems raised by customers 4. The Company takes the health of the employees as vital responsibility and proactively advocates the improvement of their health including the holding of ball games, development of sports organizations, subsidy for road running, calorific value chart in the employee cafeteria, lectures on prevention of diseases, alleviation of stress, and withdrawal from smoking and other health related topics. 5. In the pursuit of corporate governance, the Company follows the instructions of the Financial Supervisory Commission of the ROC in evaluation and proposed corrective action plan for improvement in the course of examination so as to make a viable system for the operation of the Board. 6. In social charity, the Company sees education is an issue that deserved utmost attention. In 2016, the Company has entered into an agreement with NTUST under which an amount of NT\$30 million will be injected in a period of 3 years for the establishment of a Joint Technology R & D Center. In addition, the Company has also engaged in cooperation with EDUCATION X TECHNOLOGY making a donation of NT\$10 million over a period of 5 years for the establishment of a cloud education platform and development of digital teaching materials.				
VII. If the Company's Corporate Social Responsibility Report passes the validation standards of relevant certification body, it should be detailed: The Company's 2016 Corporate Social Responsibility Report will be written in accordance with GRI G4 version and will be certified by SGS in accordance with the AA1000 Class I High Assurance Verification.				



(6) Substantiating ethical corporate management and policies:

Assessment items	Operation		How does the Company's ethical corporate management differ from the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	
I. Enriching ethical corporate management policies and programs	V		1. The Company has enacted the "Procedures for Ethical Management and Guidelines for Conduct" to ensure the business management in compliance with the related regulations for the TWSE/GTSM listed companies or other behavioral guidelines. 2. The Company's "Rules of Procedure for Board of Directors Meetings" is with the board director's "avoiding conflict of interest" clause included. For the board directors or their representatives with a conflict of interest against the motion to be resolved in the board meeting that is detrimental to the Company's best interest, the conflicting directors or representatives may state their opinions and inquiries but may not participate in discussion and voting. In addition, they should be excused from the discussion and voting in the meeting, and may not vote on behalf of other directors. 3. The Company has enacted the "Rule Governing the Prevention of Insider Trading" to explicitly define that directors, supervisors, managers, and employees should exercise due diligence as a good administrator, loyalty, and good faith to conduct business, and to sign a confidentiality agreement not to disclose any material information to any third party.
			It is in conformity with the ethical corporate management code without any significant nonconformity identified.
	V		In addition to enacting the "Procedures for Ethical Management and Guidelines for Conduct", the Company's "Work Rules" and "Code of Conduct" are also introduced to regulate staff's complying with the laws and ethics. In addition, the Company requires suppliers and subcontractors to sign the "Supplier Declaration" in order to establish a fair, honest, trustworthy, and transparent trading environment.
Has the Company explicitly expressed the ethical corporate management policies and approaches in the Articles of Association and external documents, and the commitment of having the management policies substantiated by the Board of Directors and the management?			
Has the Company setup the program to prevent unethical conduct, and has the operating procedures, guidelines for conduct, and disciplinary act and grievance system enacted in each program and executed accordingly?			
Has the Company adopted preventive measures for the events stated in Article 7, Paragraph 2 of the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies" or other operating activities with a higher risk of unethical conduct within the business scope?	V		It is clearly defined in the Company's "Procedures for Ethical Management and Guidelines for Conduct" not to accept illegal gains, prohibiting facilitation payments, and other prevention program and operating procedures; moreover, regulating the procedures for political contributions, charitable donations, and sponsorship program.
II. Substantiating ethical corporate management	V		The Company has the ethical corporate management evaluation procedure, prior to establishing a business relation, clearly defined in the "Procedures for Ethical Management and Guidelines for Conduct". It prohibits the Company from dealing with any unethical companies and requires having the ethical corporate management clauses included in the contracts to be signed by the Company and the counterparty.
	V		The Company has designated the Human Resources Department to promote the ethical corporate management and to report the execution status to the Board of Directors. For any unethical conduct occurred, the designated unit will have the process and subsequent discussion and corrective action reported to the Board of Directors.
	V		1. The Company's "Rules of Procedure for Board of Directors Meetings" and "Procedures for Ethical Management and Guidelines for Conduct" are with the board director's "avoiding conflict of interest" clause included. For the board directors or their representatives with a conflict of interest against the motion to be resolved in the board meeting that is detrimental to the Company's best interest, the conflicting directors or representatives may state their opinions and inquiries but may not participate in discussion and voting. In addition, they should be excused from the discussion and voting in the meeting, and may not vote on behalf of other directors. 2. The Company's employees that have a conflict of interest against the business executed by them should have it reported to the direct supervisor and the designated unit.
Has the Company enacted a policy to prevent conflicts of interest, provided an appropriate communication channel, and substantiated its implementation?			

Assessment items	Operation		How does the Company's ethical corporate management differ from the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies" and its root cause?
	Yes	No	
III. The operation of the Company's reporting system	V		The Company has an accounting system and internal control system enacted in accordance with the relevant laws and regulations. The Audit Office has regularly checked the compliance of the accounting system and internal control system and has the result reported to the Board of Directors.
	V		The Company has regularly organized internal education and training on ethical corporate management, and advocated the importance of protecting the confidentiality of business information.
	V		The Company has the award and punishment, grievance system, and disciplinary action stipulated in the "Procedures for Ethical Management and Guidelines for Conduct", and has ethical corporate management included in the Code of Conduct and human resources policies.
	V		The Company has established a system for filing complaints synonymously. In addition, a designated body for handling business secret has also been established for the management of the business secret, retention of secrets and confidentiality procedure. The performance will be reviewed regularly to ensure sustainability and effectiveness.
IV. Strengthening information disclosure	V		The Company has the relevant norms included in the "Procedures for Ethical Management and Guidelines for Conduct" to ensure that whistleblowers will not be treated improperly.
	V		Please refer to the MOPS (http://newmops.twse.com.tw/) or the Company's website (http://www.primax.com.tw/) for the ethical corporate management best-practice principles. Please also refer to the annual CSR report for the information of activity promotion.
V. If the Company has the ethical corporate management best-practice principles enacted in accordance with the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies", please state the difference between its operations and the enacted Principles: No significant difference found. The Human Resources Department is the dedicated unit to have the Ethical Corporate Management Best Practice Principles, Code of Conduct, and related approaches enacted, to clearly prohibit accepting any illegal gains; also, to advocate the importance of ethics and moral value through internal training and promotion activities, to establish a reporting system, and to ensure an effective operation.			
VI. Other important information that helps understand the operation of ethical corporate management (such as, the Company's discussing and amending its Ethical Corporate Management Best Practice Principles and others) . (I) Require the Company's suppliers and subcontractors to sign the "Supplier Declaration". (II) It is clearly defined in the Company's "Procedures for Ethical Management and Guidelines for Conduct" that the Company's colleagues should explain the Company's ethical corporate management policy and the relevant regulations to the counterparty throughout the business process, and should specifically disclaim, directly or indirectly, any offer, promise, request, or accept illegal gains in any form or name, including kickbacks, commissions, facilitation payments, or any illegal gains offered or received from other channels. (III) Strengthen advocating the importance of integrity and moral at the orientation scheduled for new recruits.			

(7) If the Company has the corporate governance best practice principles enacted and the relevant regulations, the inquiry approaches should be disclosed:

Please visit the MOPS (<http://newmops.twse.com.tw/>) or the Company's website (<http://www.primax.com.tw/>) for the Company's corporate governance best practice principles and the relevant regulations.

(8) Other important information that helps understand the operation of corporate governance: None

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

1. Internal Control Declaration

PRIMAX Electronics Limited Statement of Internal Control System

Date: March 7, 2017

The Company's 2016 internal control system is declared as follows in accordance with the results of the self-examination:

1. The Company is fully acknowledged that it is the responsibility of the Board of Directors and the management to establish, executes, and maintains the internal control system. The Company has already had established such a system. The purpose is to have the operating effect and efficiency (including profitability, performance, assets security, etc.), reported reliably, timely, transparently, and in compliance with the relevant specifications, law, and regulations, and with reasonable assurance provided.
2. Internal control system has its inherent limitations, regardless how perfect the design is. An effective internal control system can only provide a reasonable assurance for the achievement of the three objectives referred to above. Moreover, due to changes in the environment and situation, the effectiveness of the internal control system may thus vary along with it. However, the Company's internal control system is designed with a self-monitoring mechanism. Therefore, the Company will be able to take action to have nonconformities corrected upon identification.
3. The Company has based on the internal control system effectiveness criteria of the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "Regulations") to determine whether the internal control system design and implementation is effective or not. According to the internal control system effectiveness criteria of the "Regulations Governing Establishment of Internal Control Systems by Public Companies", the internal control system is classified into five composing elements in accordance with the management and control process, including: 1. environment control, 2. risk assessment, 3. control operation, 4. information and communication, and 5. supervise operation. Each composing element contains a number of projects. Please refer to the "Regulations Governing Establishment of Internal Control Systems by Public Companies" for the projects in the preceding paragraph.
4. The Company has adopted the internal control system criteria in the preceding paragraph to assess the effectiveness of the internal control system design and execution.
5. The Company based on the assessment result in the preceding paragraph, believes that the Company's internal control system on December 31, 2016 (including the supervision and management of subsidiaries), including understanding the operational results and effectiveness and the level of efficiency achieved, is reported reliably, timely, transparently, and in compliance with the relevant specifications, laws, and regulations, and the internal control system design and implementation is valid and can provide reasonable assurance of achieving the above objectives.
6. This Declaration will be the focus of the Company's annual report and prospectus, and it will be published to the public. If the information disclosure in the preceding paragraph involves fraudulent, concealment, and any false presentation, the relevant legal obligation for such violation will be handled in accordance with Article 20, Article 32, Article 171, and Article 174 of the Securities Exchange Act.
7. This Declaration has been passed by a session of the Board dated March 7 2017 with the presence of 9 Directors in common consent.

PRIMAX Electronics Limited

Chairman:

Signature

General Manager:

Signature

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

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

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

1. The content of the important resolution reached in the shareholders' meeting and its implementation.

Time	Important issues
6.20.2016	1. Passed the motion of amendment to the "Articles of Incorporation" of PRIMAX. Status: approved by MOEA for incorporation on 8.12.2016. 2. Passed the motion of 2016 Review of Operation and Financial Statements. 3. Passed the motion of the proposal for distribution of earnings of PRIMAX in 2015. Status: Scheduled the distribution base on 7.25.2016 and released on 8.24.2016 for a cash dividend of NT\$2.1 per share. 4. Passed the proposal of issuing "New Restricted Employee Shares". Status: approved by FSC on 10.18.2016 and became effective, and could be offered within one year thereafter. 5. Passed the motion of lifting the ban on conflict of interest of the new Directors. 6. Passed the motion of regulating the retirement of the chairman of the Company. Status: follow the regulation in subsequent action.

2. Important resolutions of the Board of Directors

Time	Important issues
1.25.2016	1. Passed the motion of the proposal for bonus payment for the senior managers in 2015. 2. Passed the motion of the proposal for bonus payment for the Chairman in 2015. 3. Passed the motion of amendment to the "Articles of Incorporation" of PRIMAX. 4. Passed the motion of the establishment of the "Corporate Governance Best Practice Principles" of PRIMAX.
3.24.2016	1. Passed the motion of the assessment of the state of independence of the CPAs acting as external auditors for PRIMAX. 2. Passed the motion of the revocation of the "Regulation Governing the Retirement of the Appointed Managers". 3. Passed the Company's "Rules Governing Remuneration to the Chairman" enacted. 4. Passed the motion of amendment to the "Regulation Governing the Remuneration to Managers". 5. Passed the motion of adjustment of salaries for the senior managers in 2016. 6. Passed the motion of proposal for bonus payment to senior managers and key personnel in 2016. 7. Passed the motion of proposal for the standard of performance evaluation of the Chairman and bonus payment in 2016. 8. Passed the motion of planning for the offering of "RS Warrants". 9. Passed the motion of the proposal for distribution of earnings in 2015. 10. Passed the motion of the plan for remuneration to Directors and to the employees in 2015. 11. Passed motion of the date, time, place and content of the major proposals for the regular session of General Meeting of shareholders in 2016. 12. Passed the motion of lifting the ban on conflict of interest of the Directors. 13. Passed the motion of the "Corporate Social Responsibility Best Practice Principles" of PRIMAX.
5.12.2016	1. Passed the motion of the proposal for distribution of dividend. 2. Passed the motion of amendment to the "Regulations Governing the Evaluation of Board Performance". 3. Passed the motion of the Disposition of Long-term equity investment.
6.21.2016	1. Passed the ex-dividend day and the dividend payment day for the distribution of earnings in 2015. 2. Passed the motion of disposing the equity shares of Global TEK.
8.11.2016	1. Passed the motion of the plan for investment of Grove Ventures. L.P. 2. Passed the motion of 2016 new restricted employee shares issuance.
8.30.2016	1. Passed the motion of the replacement of the CFO.
9.21.2016	1. Passed the motion of reconsideration of the disposal of the equity shares of GlobalTEK.
11.10.2016	1. Passed the motion of routine assessment of the state of independence of the CPAs acting as external auditors for PRIMAX. 2. Passed the motion of the Regulation For the Evaluation of Performance of the Board of PRIMAX.

Time	Important issues
1.23.2017	1. Passed the motion of bonus payment to senior managers in 2016. 2. Passed the motion of bonus payment to the Chairman in 2016. 3. Passed the motion of remuneration to the employees in 2016. 4. Passed the motion of the initial offering of RS warrants in 2016. 5. Passed the motion of the establishment of the Nomination Committee and organization code of the Nonimation Committee.
3.7.2017	1. Passed the motion of distributin of earnings in 2016. 2. Passed the motion of adjustment of salaries for the senior managers in 2017. 3. Passed the motion of bonus payment to the senior managers and key personnel in 2017. 4. Passed the motion of the of proposal for the standard of performance evaluation of the Chairman and bonus payment in 2017. 5. Passed the motion of the offering of RS warrants. 6. Passed the motion of the remuneration to the Directors and the employees in 2016. 7. Passed the motion of the nomination members for the 1st term of the Nomination Committee. 8. Passed the proposal of lifting the non-compete clause against the directors. 9. Passed motion of the date, time, place and content of the major proposals for the regular session of General Meeting of shareholders in 2017.

(12) For the matters resolved by the Board of Directors with the opposition or reservation of the directors or supervisors documented or written in the most recent year and as of the printing date of the annual report, please detail the content of the opposition or reservation: None.

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

04.15.2017

Title	Name	Date of office	Date of departure	Reason for resignation or discharge
General Manager of Business Department	Pan, Yung-Chung	02.22.1989	12.31.2016	Retirement
Senior Vice General Manager	Lee, Yi-Ping	01.02.2013	08.31.2016	Resignation

5. CPAs fees

Unit: NT\$1,000

Name of CPA firm		Name of CPAs	Audit period	Remark
KPMG		Huang, Yung-Hwa、Yu, Chi-Lung	2016	—
Audit fees classification		Audit fees	Non-audit fees	Total
Range of Amount				
1	Under 2,000	—	—	—
2	2,000（inclusive）～ 4,000	—	—	—
3	4,000（inclusive）～ 6,000	—	—	—
4	6,000（inclusive）～ 8,000	—	—	—
5	8,000（inclusive）～ 10,000	9,180	—	9,180
6	10,000 and more	—	—	—

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

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

Name of CPA firm	Name of CPAs	Audit fees	Non-audit fees					CPA's auditing period	Remark
			System design	Industrial and commercial registration	Human resources	Others	Subtotal		
KPMG	Huang, Yung-Hua Yu, Chi-Lung	9,180	0	0	0	0	0	2016 The full year	—

- (2) If the audit firm was replaced and the audit fee paid to the new audit firm was less than the payment of the previous year, the audit fee amount before and after the replacement and the reasons called for the replacement should be disclosed: None.
- (3) If the audit fee reduced more than 15% from the year before, the decrease of the audit fee amount and ratio and the reason for such decrease should be disclosed: None.

6. CPAs replacement

(1) Information of former CPAs:

Item	Explanation
Date of replacement	05.13.2015
Reason for replacement and explanation	KPMG internal work adjustment
Please indicate whether the termination or rejection of the commission is initiated by the consigner or the CPAs.	None
Please state the opinions other than an unqualified opinion were rendered in the Auditor's Report within the last two years and the root causes.	None
Whether different from the opinion of the issuer or not?	None
Other disclosures (Article 10, Part 1- (4) ~ (7) of Section 6, of This standard should be disclosed)	None

(2) About the successor CPAs

Item	Explanation
Name of CPA Firm	KPMG
Name of CPAs	Huang, Yung-Hua and Yu, Chi-Lung
Commissioning date	05.13.2015
The advisory matters and results prior to the commission regarding the accounting treatment or accounting principle of specific transactions and the possible audit opinion on the financial report.	None
The written opinion of the successor CPAs regarding the oppositions to the opinions of the former CPA's.	None

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

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

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

(1) Changes in equity transfer and equity pledge

Title	Name	2016		01/01/2017~03/31/2017	
		Change in quantity of shareholding	Change in quantity of shares under lien	Change in quantity of shareholding	Change in quantity of shares under lien
Chairman	Liang, Li-Sheng	0	0	0	0
Director/General Manager	Yang, Hai-Hung	0	0	0	0
Director	Yang, Chi-Ting	0	0	0	0
Director	Pan, Yung-Chung	(27,000)	0	0	(713,000)
Director / General Manager of Business Department	Pan, Yung-Tai	(184,000)	0	0	0
Director / Vice General Manager	Tsao, Chung-Feng	74,000	0	0	0
Independent Director	Ku, Tai-Chao	0	0	0	0
Independent Director	Wei, Yung-Tu	0	0	0	0
Independent Director	Cheng, Chih-Kai	0	0	0	0
Senior Vice General Manager	Hsiao, Ying-Yee (Note 1)	0	0	0	0
Senior Vice General Manager	Lee, Yi-Ping (Note 2)	(63,000)	0	0	0
Vice General Manager	Chou, Yen-Chou	180,000	0	0	0
Vice General Manager	Liu, Chia-Lun (Note 3)	7,000	0	0	0
Vice General Manager	Lee, Chiu-Sheng	110,000	0	45,000	0
Vice General Manager	Chiang, Yan-Ying	(17,500)	0	(19,000)	0
Vice General Manager	Chang, Ching-Kai	56,500	0	15,000	0
Vice General Manager	Chang, Yao-Han	64,000	0	15,000	0
Vice General Manager	Wei, Hao-San	56,000	0	0	0
Vice General Manager	Chuo, Yu-Shan (Note 4)	0	0	0	0
Assistant General Manager	Pan, Yen-Jen	27,000	0	(3,000)	0

Note 1 : Assumed office on 09.19.2016.

Note 2 : Resigned from office on 08.31.2016.

Note 3 : Resigned from office on 06.30.2016.

Note 4 : Assumed office on 01.01.2017.

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

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

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

03.27.2017 / Unit: Shares

Name	Current Shareholding		Spouse and minor Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees.		Remark
	Shares	%	Shares	%	Shares	%	Name	Relationship	
ALPINE ASIA INVESTMENTS LIMITED	28,581,062	6.43%	0	0	0	0	CAMPBELL TECHNOLOGY CORPORATION (Director: Yang, Hai-Hung)	Kindred within the 2nd tier	—
CAMPBELL TECHNOLOGY CORPORATION	11,204,909	2.52%	0	0	0	0	ALPINE ASIA INVESTMENTS LIMITED (Director: Liang, Li-Sheng)	Kindred within the 2nd tier	—
HSBC Entrusted Bit Coin Global Choice-Global High Yield Certificate	9,757,000	2.19%	0	0	0	0	None	None	—
Yeh, Yu-Fen	9,600,227	2.16%	0	0	0	0	None	None	—
HSBC Entrusted HSBCGIF Asian small business fund	8,860,000	1.99%	0	0	0	0	None	None	—
Pan, Yung-Chung	8,264,046	1.86%	0	0	0	0	None	None	—
Lazard Emerging Markets Small Cap Equity Trust	8,237,000	1.85%	0	0	0	0	None	None	—
Carmignac Portfolio	7,914,087	1.78%	0	0	0	0	None	None	—
Public Service Pension Fund Management Board	7,611,000	1.71%	0	0	0	0	None	None	—
JPMorgan Chase Bank N.A. Taipei Branch in custody for Franklin Templeton Investment Funds-Templeton Asian Smaller Companies Fund	7,445,000	1.67%	0	0	0	0	None	None	—

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

03.31.2017 / Unit: 1,000 shares / %

Long-term Investment	Ownership by PRIMAX		Ownership by Directors, Managers and Directly/Indirectly Owned Subsidiaries		Total Ownership	
	Shares	%	Shares	%	Shares	%
Dongguan PRIMAX Electronic Telecommunication Products Co., Ltd.	— (Note 1)	100.00	—	—	— (註 1)	100.00
Primax Electronics (Kun Shan) Co., Ltd.	— (Note 1)	100.00	—	—	— (註 1)	100.00
Primax Electronics (Chongqing) Co., Ltd.	— (Note 1)	100.00	—	—	— (註 1)	100.00
Beijing Destiny Electronic Technology Co., Ltd.	— (Note 1)	100.00	—	—	— (註 1)	100.00
Destiny Technology (Japan) Corp.	0.5	100.00	—	—	0.5	100.00
Polaris Electronics Inc.	1,600	100.00	—	—	1,600	100.00
Primax Industries (Hong Kong) Ltd.	602,817	100.00	—	—	602,817	100.00
Primax Technology (Cayman Holding) Ltd.	285,067	100.00	—	—	285,067	100.00
Primax Industries (Cayman Holding) Ltd.	8,147,636	100.00	—	—	8,147,636	100.00
Destiny Technology Holding Co., Ltd.	1,050	100.00	—	—	1,050	100.00
Diamond (Cayman) Holdings Ltd.	84,050	100.00	—	—	84,050	100.00
Gratus Technology Corp	300	100.00	—	—	300	100.00
Tymphony Worldwide Enterprises Ltd. (Note 2)	38,501	70.00	—	—	38,501	70.00
TYP Enterprises, Inc. (Note 2)	0.35	70.00	—	—	0.35	70.00
Tymphony HK Ltd. (Note 2)	101,077	70.00	—	—	101,077	70.00
TYMPHANY LOGISTICS, INC (Note 2)	140	70.00	—	—	140	70.00
Premium Loudspeakers (Huizhou) Co., Ltd. (Note 2)	— (Note 1)	70.00	—	—	— (Note 1)	70.00
Dongguan Tymphony Acoustic Technology Co., Ltd. (Note 2)	— (Note 1)	70.00	—	—	— (Note 1)	70.00
Dongguan Dongcheng Tymphony Acoustic Technology Co., Ltd. (Note 2)	— (Note 1)	70.00	—	—	— (Note 1)	70.00

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

Note 2: Indirectly holds 70% of the company's shares through Diamond (Cayman) Holdings Ltd.



IV. Capital Overview

1. Capitalization

03.27.2017 / Unit: Shares

Type of stock shares	Authorized capital stock			Remark
	Outstanding stock shares	Unissued stock shares	Total	
Common stock	444,754,324	55,245,676	500,000,000	Listed in TWSE

03.27.2017 / Unit: NT\$1,000 / 1,000 shares

Year / Month	Issuing price	Authorized capital stock		Paid-in capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital increase by Assets other than cash	Others
2006.03	10	100	1,000	100	1,000	Initial capital stock	None	Note 1
2007.06	10	90,000	900,000	85,400	854,000	Capital increase in cash for NT\$853,000 thousand	None	Note 2
2007.09	10	400,000	4,000,000	321,500	3,215,000	Capital increase in cash for NT\$2,361,000 thousand	None	Note 3
2007.11	10	400,000	4,000,000	379,000	3,790,000	Capital increase in cash for NT\$575,000 thousand	None	Note 4
2009.11	10	500,000	5,000,000	379,935	3,799,349	Conversion of employee stock warrant for NT\$9,349 thousand	None	Note 5
2010.04	10	500,000	5,000,000	383,079	3,830,791	Conversion of employee stock warrant for NT\$31,442 thousand	None	Note 6

Note 1: Fu-Jian-Shang-Zi No. 09574650700 Letter dated 03.20.2006.

Note 2: Jing-Shou-Shang-Zi No. 09601140030 Letter dated 06.26.2007.

Note 3: Jing-Shou-Shang-Zi No. 09601235870 Letter dated 09.27.2007.

Note 4: Jing-Shou-Shang-Zi No. 09601273090 Letter dated 11.07.2007.

Note 5: Jing-Shou-Shang-Zi No. 09801254590 Letter dated 11.04.2009.

Note 6: Jing-Shou-Shang-Zi No. 09901076470 Letter dated 04.16.2010.



03.27.2017 / Unit: NT\$1,000 / 1,000 shares

Year / Month	Issuing price	Authorized capital stock		Paid-in capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital increase by Assets other than cash	Others
2010.09	10	500,000	5,000,000	385,336	3,853,364	Conversion of employee stock warrant for NT\$22,573 thousand	None	Note 7
2011.01	10	500,000	5,000,000	386,397	3,863,965	Conversion of employee stock warrant for NT\$10,601 thousand	None	Note 8
2011.03	10	500,000	5,000,000	397,475	3,974,746	Conversion of employee stock warrant for NT\$110,781 thousand	None	Note 9
2011.12	10	500,000	5,000,000	398,439	3,984,399	Conversion of employee stock warrant for NT\$9,653 thousand	None	Note 10
2012.04	10	500,000	5,000,000	401,080	4,010,798	Conversion of employee stock warrant for NT\$26,399 thousand	None	Note 11
2012.05	10	500,000	5,000,000	401,458	4,014,582	Conversion of employee stock warrant for NT\$3,785 thousand	None	Note 12
2012.10	10	500,000	5,000,000	403,441	4,034,408	Conversion of employee stock warrant for NT\$19,826 thousand	None	Note 13
2012.10	10	500,000	5,000,000	426,970	4,269,698	Capital increase in cash for NT\$235,290 thousand	None	Note 13
2013.03	10	500,000	5,000,000	428,966	4,289,658	Conversion of employee stock warrant for NT\$19,960 thousand	None	Note 14
2013.05	10	500,000	5,000,000	431,346	4,313,457	Conversion of employee stock warrant for NT\$23,799 thousand	None	Note 15
2013.10	10	500,000	5,000,000	432,796	4,327,957	Stock dividend – new restricted employee shares for NT\$14,500 thousand	None	Note 16
2013.12	10	500,000	5,000,000	433,573	4,335,733	1. Conversion of employee stock warrant for NT\$5,916 thousand 2. Stock dividend – new restricted employee shares for NT\$1,860 thousand	None	Note 17
2014.03	10	500,000	5,000,000	433,981	4,339,813	1. Conversion of employee stock warrant for NT\$2,730 thousand 2. Stock dividend – new restricted employee shares for NT\$1,350 thousand	None	Note 18
2014.06	10	500,000	5,000,000	433,831	4,338,313	1. Conversion of employee stock warrant for NT\$750 thousand 2. Cancellation of new restricted employee shares for NT\$2,250 thousand	None	Note 19
2014.08	10	500,000	5,000,000	434,051	4,340,513	Stock dividend – new restricted employee shares for NT\$2,200 thousand	None	Note 20
2014.12	10	500,000	5,000,000	434,658	4,346,578	1. Conversion of employee stock warrant for NT\$7,015 thousand 2. Cancellation of new restricted employee shares for NT\$950 thousand	None	Note 21
2015.03	10	500,000	5,000,000	438,649	4,386,487	1. Conversion of employee stock warrant for NT\$27,659 thousand 2. Stock dividend – new restricted employee shares for NT\$12,250 thousand	None	Note 22

Note 7: Jing-Shou-Shang-Zi No. 09901206110 Letter dated 09.13.2010.
Note 8: Jing-Shou-Shang-Zi No. 10001005610 Letter dated 01.11.2011.
Note 9: Jing-Shou-Shang-Zi No. 10001060980 Letter dated 03.31.2011.
Note 10: Jing-Shou-Shang-Zi No. 10001275550 Letter dated 12.05.2011.
Note 11: Jing-Shou-Shang-Zi No. 10101059950 Letter dated 04.09.2012.
Note 12: Jing-Shou-Shang-Zi No. 10101091810 Letter dated 05.22.2012.
Note 13: Jing-Shou-Shang-Zi No. 10101211370 Letter dated 10.12.2012.
Note 14: Jing-Shou-Shang-Zi No. 10201041250 Letter dated 03.07.2013.

Note 15: Jing-Shou-Shang-Zi No. 10201096770 Letter dated 05.28.2013.
Note 16: Jing-Shou-Shang-Zi No. 10201214400 Letter dated 10.22.2013.
Note 17: Jing-Shou-Shang-Zi No. 10201247440 Letter dated 12.11.2013.
Note 18: Jing-Shou-Shang-Zi No. 10301032580 Letter dated 12.11.2013.
Note 19: Jing-Shou-Shang-Zi No. 10301102920 Letter dated 06.12.2014.
Note 20: Jing-Shou-Shang-Zi No. 10301160910 Letter dated 08.14.2014.
Note 21: Jing-Shou-Shang-Zi No. 10301251420 Letter dated 12.12.2014.
Note 22: Jing-Shou-Shang-Zi No. 10401045290 Letter dated 03.24.2015.

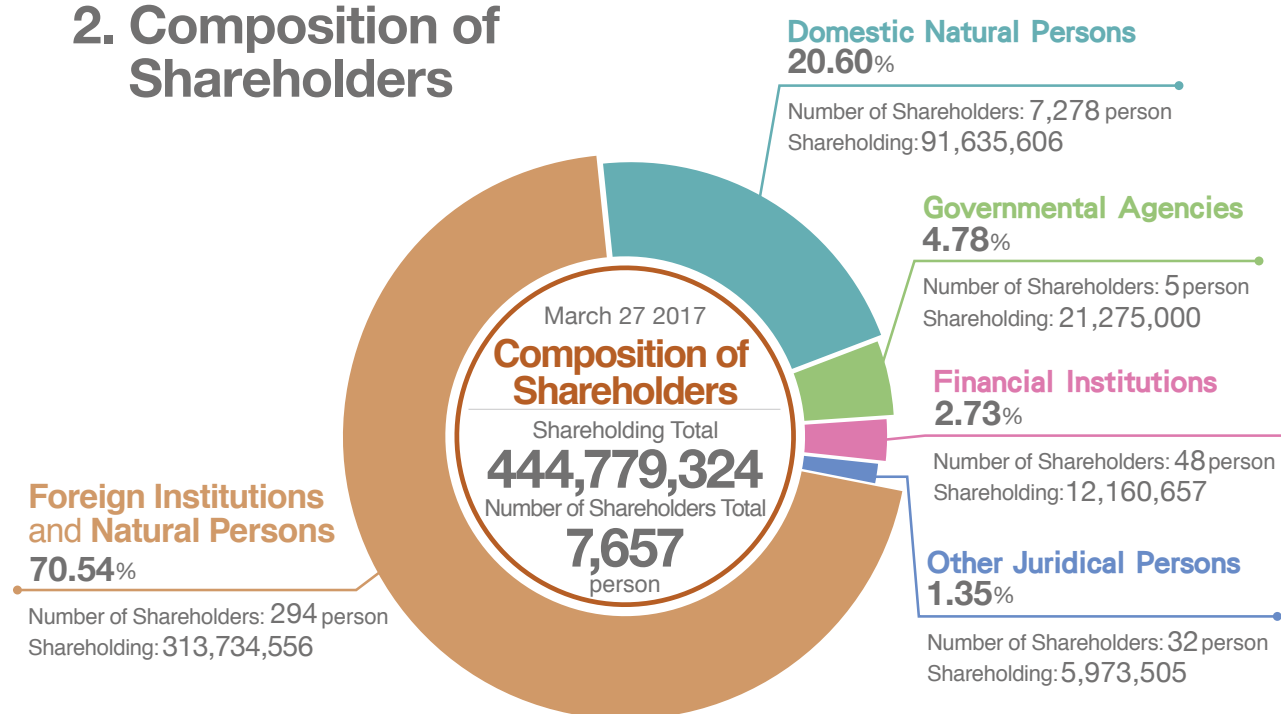
03.27.2017 / Unit: NT\$1,000 / 1,000 shares

Year / Month	Issuing price	Authorized capital stock		Paid-in capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital increase by Assets other than cash	Others
2015.06	10	500,000	5,000,000	439,529	4,395,287	Conversion of employee stock warrant for NT\$8,800 thousand	None	Note 23
2015.09	10	500,000	5,000,000	441,214	4,412,137	1. Stock dividend – new restricted employee shares for NT\$17,750 thousand 2. Cancellation of new restricted employee shares for NT\$900 thousand	None	Note 24
2016.01	10	500,000	5,000,000	441,188	4,411,877	1. Conversion of employee stock warrant for NT\$1,640 thousand 2. Cancellation of new restricted employee shares for NT\$1,900 thousand	None	Note 25
2016.03	10	500,000	5,000,000	441,794	4,417,938	1. Conversion of employee stock warrant for NT\$7,061 thousand 2. Cancellation of new restricted employee shares for NT\$1,000 thousand	None	Note 26
2016.06	10	500,000	5,000,000	441,903	4,419,028	1. Conversion of employee stock warrant for NT\$2,390 thousand. 2. Cancellation of new restricted employee shares for NT\$1,300 thousand	None	Note 27
2016.09	10	500,000	5,000,000	441,748	4,417,478	Cancellation of new restricted employee shares for NT\$1,550 thousand.	None	Note 28
2016.12	10	500,000	5,000,000	442,134	4,421,343	Conversion of employee stock warrant for NT\$3,865 thousand.	None	Note 29
2017.02	10	500,000	5,000,000	444,704	4,447,043	1. Conversion of employee stock warrant for NT\$1,220 thousand. 2. Stock dividend – new restricted employee shares for NT\$24,500 thousand.	None	Note 30
2017.03	10	500,000	5,000,000	444,754	4,447,543	Conversion of employee stock warrant for NT\$500 thousand	None	Note 31

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

Note 29: Jing-Shou-Shang-Zi No. 10501279810 Letter dated 12.02.2016.
Note 30: Jing-Shou-Shang-Zi No. 10601026170 Letter dated 02.24.2017.
Note 31: Jing-Shou-Shang-Zi No. 10601038880 Letter dated 03.27.2017.
Note 32: Employee stock option amounted to NT\$ 250,000 has been exercised pending on registration.

2. Composition of Shareholders



3. Distribution Profile of Share Ownership

03.27.2017 / Unit: person / shares

Shareholder Ownership (Unit: Share)	Number of Shareholders	Total Shares Owned	Ownership (%)
1 to 999	275	37,815	0.009%
1,000 to 5,000	5,614	11,415,949	2.567%
5,001 to 10,000	761	6,512,971	1.464%
10,001 to 15,000	170	2,268,429	0.51%
15,001 to 20,000	181	3,426,412	0.77%
20,001 to 30,000	114	2,993,442	0.673%
30,001 to 50,000	116	4,811,942	1.082%
50,001 to 100,000	113	8,285,052	1.863%
100,001 to 200,000	73	10,680,827	2.401%
200,001 to 400,000	60	17,411,336	3.915%
400,001 to 600,000	33	16,029,893	3.604%
600,001 to 800,000	29	20,293,472	4.563%
800,001 to 1,000,000	18	16,678,759	3.75%
Over 1,000,001	100	323,933,025	72.83%
Total	7,657	444,779,324	100.00%

4. List of Major Shareholders

03.27.2017 / Unit: Shares

Name of Major Shareholders	Shares	Total Shares Owned	Ownership (%)
ALPINE ASIA INVESTMENTS LIMITED		28,581,062	6.43%
CAMPBELL TECHNOLOGY CORPORATION		11,204,909	2.52%
HSBC Entrusted Bit Coin Global Choice-Global High Yield Certificate		9,757,000	2.19%
Yeh, Yu-Fen		9,600,227	2.16%
HSBC Entrusted HSBCGIF Asian small business fund		8,860,000	1.99%
Pan, Yung-Chung		8,264,046	1.86%
Lazard Emerging Markets Small Cap Equity Trust		8,237,000	1.85%
Carmignac Portfolio		7,914,087	1.78%
Public Service Pension Fund Management Board		7,611,000	1.71%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Franklin Templeton Investment Funds - Templeton Asian Smaller Companies Fund		7,445,000	1.67%

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

Item	Year	2015	2016
Market price per share	Highest Market Price	48.5	51.5
	Lowest Market Price	30.8	34.2
	Average Market Price (Note 1)	42.27	42.45
Net worth per share	Before Distribution	23.90	25.05
	After Distribution	21.80	22.55
Earnings per share	Weighted average Shares (thousand shares)	436,372	439,169
	Earnings per share	4.06	4.4
Dividend per share (Note 2)	Cash dividend (Note 4)	2.1	2.5
	Stock dividend	0	0
	From retained earnings	0	0
	From capital reserve	0	0
Return on investment analysis (Note 3)	Accumulated Undistributed Dividends	0	0
	Price/Earning (P/E) ratio	10.41	9.65
	Price/Dividend (P/D) ratio	20.13	16.98
	Cash dividend yield rate	0.0497	0.0589

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

Note 2: The Company's 2016 earnings distribution proposal was resolved by the Board of Directors on March 07, 2017, but not yet presented in the shareholder's meeting for resolutions.

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

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

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

Note 4: The dividend payout ratio of the Company's 2014 and 2015 distributions was 51.21% and 52.33% respectively. The expected dividend payout ratio for the 2016 distribution was 57.49%.

6. The Company's dividend policy and its implementation

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

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

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

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

The Company's 2016 earnings distribution proposal was resolved by the Board of Directors on March 7 2017 with a cash dividend of NT\$1,111,885,810 (Dividend payout ratio is approximately 57.49%) to be distributed to shareholders. This earnings distribution proposal will be resolved in the general shareholders' meeting on May 25 2017 and then processed accordingly.

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

8. Remuneration to employees, directors and supervisors

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

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

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

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

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

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

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

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

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

The Company's Board of Directors resolved on March 7, 2017 to have remuneration to employees in cash and remuneration to directors and supervisors distributed for an amount of NT\$74,000,000 and NT\$36,800,000, respectively, which was different from the estimated amount of NT\$74,000,000 and NT\$36,803,496 by an amount of NT\$0 and NT\$3,496 due to a change in accounting estimates. Once

the actual distribution amount is resolved in the shareholders' meeting and the change in estimate is not significant enough to have the financial statements recomposed, the amount of difference will be recognized as profit or loss in the following year.

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

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

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

The Company had cash dividend to employees and remuneration to directors and supervisors distributed in 2015 for an amount of NT\$78,500,000 and NT\$32,000,000, respectively, which was different from the estimated amount of NT\$78,268,840 and NT\$31,907,533 by an amount of - NT\$231,160 and - NT\$92,467 due to a change in estimates. Also, the change in estimate was not significant enough to have the financial statements recomposed; the amount of difference would be recognized as profit or loss in the following year.

9. The Company's buying back shares: None

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

11. Employee stock warrant status

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

The Company merged the former Primax on 12.28.2007 and acquired its related employee stock warrant previously issued; also, it was exchanged for the employee stock warrant issued by Primax Electronics Holdings, LTD. (British Cayman Islands) as the main business entity in 2008; also, all rights and obligations were the same as those offered by the former Primax Electronics Holdings, LTD. (British Cayman Islands) had intended to propose a dissolution and liquidation plan in 2009; therefore, it was again exchanged for the employee stock warrant issued by Primax as the main business entity and with all rights and obligations same as those offered by Primax Electronics Holdings, LTD. (British Cayman Islands). The Company's

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

03.31.2017

Type of Stock Option	1st Tranche ESOP in 2008 (Note 1)		ESOP issued in 2011 (Note 2)	
The effective date of declaration	12.01. 2009	12.01. 2009	10.26. 2011	10.26. 2011
Issuance date (Note 3)	01.02.2008	11.12. 2009	11.24. 2011	10.22. 2012
Duration	8 years	8 years	5 years	5 years
Number of stock warrant issued (Note 4)	6,482,700	370,440	1,500	3,500
Ratio of number of stock option to the total number of outstanding shares (%)	1.47	0.08	0.34	0.79
Subscription period	A 43% stock option can be exercised starting from the 4th year to the end of the 6th year and the remaining 57% stock option can be exercised starting from the 6th year to the end of the 8th year.	A 43% stock option can be exercised starting from the 4th year to the end of the 6th year and the remaining 57% stock option can be exercised starting from the 6th year to the end of the 8th year.	A 50% stock option can be exercised at the end of the 2nd year; also, a 100% stock option can be exercised at the end of the 3rd year till the expiry date.	A 50% stock option can be exercised at the end of the 2nd year; also, a 100% stock option can be exercised at the end of the 3rd year till the expiry date.
Mode of exercise	Exchange for new shares	Exchange for new shares	Exchange for new shares	Exchange for new shares
Period and ratio restricted for subscription (%)	Note 1	Note 1	Note 2	Note 2
Quantity of shares acquired through exercise of ESOP	6,174,000	159,289	675,000	1,914,500
Amount of stock option exercised	70,507,084	1,819,081	12,040,000	50,648,500
Quantity of shares not being subscribed under ESOP (Note 5)	308,700	211,151	825,000	1,585,500
Subscription price per share for the unexercised options	11.42	11.42	16.20	25.20
Quantity of shares not being subscription under the exercise of options in proportion to total outstanding shares (%)	0.07	0.05	0.19	0.36
The impact on shareholders' equity	The stock warrant will be executed annually after three years and five years from the issuing date; also, the former shareholding's equity will be diluted year after year with a limited dilution effect.	The stock warrant will be executed annually after three years and five years from the issuing date; also, the former shareholding's equity will be diluted year after year with a limited dilution effect.	The stock warrant will be executed annually after two years and three years from the issuing date; also, the former shareholding's equity will be diluted year after year with a limited dilution effect.	The stock warrant will be executed annually after two years and three years from the issuing date; also, the former shareholding's equity will be diluted year after year with a limited dilution effect.

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

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

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

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

It was issued on 01.02.2008 and had expired.

Note 2: The current employee stock warrant is for five years. A 50% stock option can be exercised after having the "employee stock warrant" issued for two years starting from the issuing date and a 100% stock option can be exercised after three years from the issuing date. If the employees after receiving the stock warrant had left the employment for any reason or had committed severe negligence of violating labor contracts or work rules, or poor job performance, the Company is entitled to have the outstanding stock warrant withdrawn and then have it cancelled. The stock option that is not exercised on the expiry date will be deemed as a waiver and the stock option holders may not assert their stock option rights. The issuing date of 2011.11.24 has passed.

Note 3: Except for the stock warrant issued on 11.12.2009, 11.24.2011, and 10.22.2012, the issuing date of the remaining stock warrants by Primax Electronics Holdings, LTD (British Cayman Islands) and former Primax as the main business entities referred to the employee stock warrant issued on 12.30.2008 by the Company as the business entity.

Note 4: That was the units issued on 12.01.2009 and 10.26.2011 with the approval of the Financial Supervisory Commission, respectively. In addition, except for the 2011 employee stock warrant subject to the subscription of 1,000 shares per unit while the remaining respective employee stock warrant is subject to 1 share per unit.

Note 5: It is the balance of the issued unit net of the unit executed and invalid and cancelled unit.

(2) The managers received employee stock warrant and the name, acquisition, and subscription of the employees on the top-ten stock warrant subscribers list:

03.31.2017 / Unit: NT\$1,000 / 1,000 shares / %

Title	Name	Number of Options Granted	The quantity of subscription units in proportion to the total subscription quantity	Exercised				Unexercised			
				Shares	Price Per Share	Value of Shares	% of Shares to Outstanding Common Shares	Shares	Price Per Share	Value of Shares	% of Shares to Outstanding Common Shares
Director/General Manager	Yang, Hai-Hung										
General Manager of Business Department	Pan, Yung-Tai										
Vice General Manager	Tsao, Chung-Feng										
Vice General Manager	Chou, Yen-Chou										
Vice General Manager	Liu, Chia-Lun (Note 2)	5,830	1.31	4,969	11.42	56,749	1.24	211	11.42	5,561	0.08
Vice General Manager	Lee, Chiu-Sheng			50	18.20	910					
Vice General Manager	Chiang, Yan-Ying			50	17.90	895					
Vice General Manager	Chang, Ching-Kai			425	26.50	3,312					
Vice General Manager	Wei, Hao-San				25.20	7,560					
Vice General Manager	Chang, Yao-Han										
Senior Assistant General Manager	Lee, Hung-Ta										
Senior Assistant General Manager	Luo, Ming-Deh										
Assistant General Manager	Lin, Chun-Hsien										
Senior Assistant General Manager	Chang, Chen-Deh			515	11.42	5,876					
Assistant General Manager	Cheng, Cheng-Ho	1,245	0.28	25	18.20	455					
Assistant General Manager	Cheng, Cheng-Ho			225	17.90	4,027					
Senior General Manager (Note 3)	Chen, Chi-Hsu			100	17.10	1,710	0.28	100	25.20	2,520	0.00002
General Manager	Ling, Rai-Yuan			140	27.70	3,878					
General Manager	Ma, Yu-Cheng			90	26.50	2,385					
Senior General Manager	Chen, Kuang-Tzer			50	25.20	1,260					
Senior Assistant General Manager	Chen, Ying-Shou										

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

Note 2: Resigned on 06.30.2016.

Note 3: Resigned on 12.31.2016.

Note 4: A total of 444,754,324 shares were issued on 03. 31.2017.

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

12. The process of new restricted employee shares

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

03.31.2017

Type of new restricted employee shares	The first issue in 2014	The second issue in 2014	The first issue in 2016
The effective date of declaration	10.06.2014	10.06.2014	10.18.2016
Issuing date	02.24.2015	08.18.2015	02.13.2017

Type of new restricted employee shares	The first issue in 2014	The second issue in 2014	The first issue in 2016
Number of new restricted employee shares issued (shares)	1,225,000	1,775,000	2,450,000
Issuing price	0	0	0
Ratio of the number of new restricted employee shares issued to total outstanding shares (%)	0.28	0.40	0.55
Vested conditions of the new restricted employee shares	Shall comply with the Company's operating results and individual performance as defined in the Rules.		
The limitation of rights of the new restricted employee shares	1. Employees may not have the new restricted employee shares sold, mortgaged, transferred, gifted, pledged, or disposed in any form before fulfilling the vested conditions. 2. The attendance, motion, speech, and voting right of the shareholders' meeting should be implemented in accordance with the trust and depository contracts. 3. Except for the limitations in the preceding paragraph, the other rights of the new restricted employee shares received according to the Rules, including but not limited to stock dividends, bonuses and rights to additional paid-in capital, stock subscription from cash capital increase, voting right, etc., before fulfilling the vested conditions, are without any limitation same as the Company's common stock issued.		
The custody of new restricted employee shares	It is handled in accordance with the trust depository method.		
The process of new restricted employee shares received or subscribed before fulfilling the vested conditions	The new restricted employee shares received but not yet fulfilling the vested conditions will be called back without compensation by the Company and it will then be cancelled.		
Number of new restricted employee shares called or buyback (shares)	240,000	160,000	0
Number of new restricted employee shares derestricted (shares)	633,000	484,500	0
Number of new restricted employee shares (shares)	352,000	1,130,500	2,450,000
Ratio of the number of new restricted employee shares to the total outstanding shares (%)	0.08	0.25	0.55
The impact on shareholders' equity	No significant impact.	No significant impact.	No significant impact.

Note: A total of 444,754,324 shares were issued on 03. 31,2017.

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

Title	Name	Number of new restricted employee shares	Ratio of the number of new restricted employee shares to the total outstanding shares	Released				Unreleased			
				Number of shares	Issued price	Amount of issuance	Released Restricted Shares as a Percentage of Shares Issued	Number of shares	Issued price	Amount of issuance	Unreleased Restricted Shares as Percentage of Shares Issued
Managers	General Manager	Yang, Hai-Hung	2,500,000	417,000	0	0	0.09%	2,083,000	0	0	0.47%
	General Manager of Business Department	Pan, Yung-Tai									
	Senior Vice General Manager	Hsiao, Ying-Yee									
	Vice General Manager	Chou, Yen-Chou									
	Vice General Manager	Tsao, Chung-Feng									
	Vice General Manager	Chuo, Yu-Shan									
	Vice General Manager	Lee, Chiu-Sheng									
	Vice General Manager	Chiang, Yan-Ying									
	Vice General Manager	Chang, Ching-Kai									
	Vice General Manager	Chang, Yao-Han									
	Vice General Manager	Wei, Hao-San									
	Assistant General Manager	Pan, Yen-Jen									

Title	Name	Number of new restricted employee shares	Ratio of the number of new restricted employee shares to the total outstanding shares	Released				Unreleased			
				Number of shares	Issued price	Amount of issuance	Released Restricted Shares as a Percentage of Shares Issued	Number of shares	Issued price	Amount of issuance	Unreleased Restricted Shares as Percentage of Shares Issued
Employees	Senior Assistant General Manager	Chang, Chen-Deh	1,545,000	390,500	0	0	0.09%	1,154,500	0	0	0.26%
	Senior Assistant General Manager	Huang, Chien-Nan									
	Assistant General Manager	Ying, Chung-Wen									
	Assistant General Manager	Hung, Chi-Ming									
	Assistant General Manager	Chen, Ying-Shou									
	Assistant General Manager	Wang, Wen-Lu									
	Assistant General Manager	Liou, Rai-Ming									
	Assistant General Manager	Wu, Ta-Chuan									
	Assistant General Manager	Hu, Ching-Yuan									
	Assistant General Manager	Shan, Yi-Kuang									
	Assistant General Manager	Lu, Yu-Hung									
	Assistant General Manager	Chih, Chao-Hsi									

Note: A total of 444,754,324 shares were issued on 03.31.2017.

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

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

14. Fund plan and its execution

- (1) Project content:
- The prior issuance or private placement of marketable securities that was not yet completed or it was completed within the last three years without significant effect up to the last quarter prior to the printing date of the annual report: Not Applicable.
- (2) Project execution:
- Analyze the intended use of each project in the preceding paragraph up to the prior quarter of the printing date of the annual report, the execution, and comparison with the expected effect: Not Applicable.



V. Operation overview

1. Business content:

(1) Business Scope

1. The main business operations of the Company

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

2. Business ratio

Unit: NT\$1,000

Item	Year	2016	
		Total Sales	(%) of Total Sales
PC peripherals		25,730,665	40.00
Non-PC peripherals		38,598,797	60.00
Total		64,329,462	100.00

3. The Company's current products (services)

PC peripheral products	Non-PC peripheral products
① Computer input device - Basic roller mouse - Traditional optical mouse - Advanced Laser mouse - Wireless radio frequency optical and laser mouse - Bluetooth mouse - Wireless Bluetooth dual-mode mouse - Wireless presenter - Mini Mouse - Wired keyboard - Wireless keyboard - Bluetooth keyboard - Mechanical keyboard - Game mouse and keyboard - Backlit keyboard - Notebook computer keyboards - Ultra-thin tablet PC keyboard - Keyboard module - Smart TV remote control - Living room input device - MFi (Made for iPod, Made for iPhone) Wired Keyboard - Bluetooth wireless game joystick - Games peripherals - Capacitive stylus pen	① Mobile device components products - Mobile phone built-in camera and fingerprint identification module 24-megapixel OIS camera module 13-megapixel + 13-megapixel dual-camera module 14-megapixel web camera module - Capacitive fingerprint identification module - Ultrasonic fingerprint identification module - Communications peripheral equipment - Bluetooth headphones / Bluetooth stereo headphones / Bluetooth stereo module / Bluetooth desktop / car handsfree device / Bluetooth USB audio frequency signal receiver - Bluetooth GPS receiver / Bluetooth USB data transmission receiver - Desktop charging cradle / car charger / USB charging cable / Portable power supply unit / wireless charger / wireless charging module - MP3 charging dock / radio wired control device / remote - Phone data transmission lines / USB Card Receiver ② Business equipment products - Image Scanner - Flatbed scanner - Automatic document feeder (ADF) - Automatic reversing document feeder (ARDF) - Double-sided automatic document feeder (DADF) - Office scanner module - Scanner module software and firmware development - Printer - Black and white and color laser printer control panel development - Black and white and color laser printer software and firmware development - Dot matrix business printer - Thermal printer - Portable thermal photograph printer - Multifunction Printers - Black and white and color laser Multifunction Printers - Multifunction Printers control panel development - Multifunction Printers software and firmware development - Fax machine - Black and white fax machine - Information processing device - Computer terminals - Mobile Internet devices - Point of sales (POS) - Cash register (CR) - Lottery Machines - Office automation products - Shredder - Binding machine - Laminator - Paper cutter - Smart network camera - Surveillance camera - Conference camera ③ Digital home and audio products - Portable wireless networks storage device - Bluetooth portable speaker - One-piece sound bar (2.1, 5.1 sound track) - Computers / audio speakers - Headphones - Speaker driver ④ Wearable device products: - Smart Band - Smart Watch
② Notebook computer touch panel	
③ Digital Writing Tablet	
④ Network camera module 300,000 pixel – 2-megapixel camera 2-megapixel autofocus web camera	

4. New products (service) development plan

PC peripheral products	Non-PC peripheral products	
Computer input device mouse and keyboard	① Mobile device components products	② Business equipment products
Backlit keyboard	Full HD slim NB camera module	Commercial double-sided automatic document feeder (DADF) scanner
Keyboard module	5/8-megapixel prime lens camera module (front lens)	Commercial network scanner
Bluetooth and wireless controller and presenter	5/8-megapixel telescopic zoom lens camera module.	High-speed multifunction printer scanner module
Game mouse and keyboard	13/16/20 -megapixel close-loop fast automatic focus camera module.	High-speed color laser printer control panel development
Game console peripherals	13/16/20/24-megapixel OIS + automatic focus camera module	Barcode label black and white / color printer
Multi-point touch panel	Phase difference fast focus camera module	High-speed B & W / Color Laser multifunction product control panel development
Digital Writing Tablet	13-megapixel +13-megapixel dual-lens camera module	Mobile Internet devices
Smart TV remote control	13-megapixel +8-megapixel dual-lens zoom lens module	Point of Sales (POS) service machine control board development
Ultra-thin tablet PC keyboard and leather keyboard	360° panorama / Sports camera	Portable photo printer and Internet of Things (IoT) interface development
Capacitive stylus pen	Surveillance camera	③ Digital home and audio products
Bluetooth stylus pen	Phone fingerprint identification module	Home Network Attached Storage (NAS) device
Tablet phone game controller	Credit card fingerprint identification module	Portable Wireless Network Attached Storage hard drive
Living room input device		Digital home entertainment media server
Thin mechanical keyboard		Digital home wireless audio system
Thin film keyboard		Digital home-related applied software
Tablet PC high-speed transmission expansion port		Portable Wireless Speaker
Audio conference keyboard		Noise control sound system
High wattage wireless charging device		Noise resistance earphones
		Sports earphones with health status measurement function
		④ Automotive Electronics and related products
		Vehicle use camera module

(2) Industry Overview

1. Industry current status and development

(1) PC peripheral products

PRIMAX's PC peripheral products are mainly the keyboard and mouse of desktop and notebook computer; also, the market change of such product line is closely related to the development of personal computers. In recent years, the global market and Taiwan desktops and notebook computer sales had experienced negative growth due to the impact of the Tablet PC and Microsoft windows 10 failed to boost up demand for computers. However, the demand for tablet PC was also declining in the last year due to a saturated market; however, overall, desktop and notebook computer sales are mostly generated by the top-three brands moving towards the trend of "the bigger, the better." PRIMAX had adopted the key-customer strategy to minimize the impact of a weak computer market. According to IDC, a famous market research firm, the growth of tablet PC in 2016

turned negative mainly because of the slowdown in the demand of the consumer market and the small panel tablet PC was affected by the low price big screen smart phones. However, compared to the slowdown in the consumer market, the commercial, educational and large-sized tablet computer market will gradually warm up. In terms of consumer demand and technology upgrade, detachable tablet PC has began to grow and the demand for input devices is also increasing. PRIMAX has achieved preliminary results in the consumer tablet keyboard and will follow the trend of the commercial, educational, large-size tablet and detachable tablet PC to actively expand the market with stable growth. In addition, the cyber game market is growing in recent years. The upgrade of online game quality and network speed has generated the demand for

advanced cyber game peripheral products. As such, the Company has committed significant effort in the gaming market from the very beginning and has successfully developed 5 major gaming brands as our customers. Further growth is expected in 2017.

(2) Non-PC peripheral products

① Mobile device components products

According to the statistics released by IDC, global supply of mobile phones in 2016 was 1.47 billion units of which 310 million units were supplied by Samsung, 220 million units were supplied by Apple, 140 million units were supplied by Huawei, 99 million units were supplied by OPPO, and 77 million units were supplied by vivo. The top 3 brands of China, HOV, emerged as the fastest growing brands. Traditionally, Q1 of 2017 will be a slow season particularly in China, which will be the market of digesting the inventory carried forward from the previous year. High demand is expected to resume in Q2. These top 5 producers will still maintain the lion shares in the world market. However, the market in China is getting saturated and the famous brands of mobile phone tend to shift their gravity to Southeast Asia, Africa, Eastern Europe and Russia. As the

market of Southeast Asia tends to be protectionist, manufacturing in the region will be the primary objective of the mobile phone manufacturers. Accordingly, suppliers of parts and components are also planning to cope with the change. The emerging market will replace existing market and become the prime force driving the growth of the global mobile phone market. It is expected that the global shipment volume of smart phone in 2017 will be more than 1.4 billion units. Driven by the rise of mobile APP in record high, the integrated application of the ecology chain starts to thrive, including mobile payment, IoT, and others. This allows for infinite imagination for the improvement of the way of life for mankind. Likewise, related parts and components for the mobile devices, such as camera lens module, fingerprint identification, wireless charger, and even different sensor equipment, will be in the area of growth in demand. In the area of camera lens module, the demand for high-end lens camera will continue to grow in 2017. Further to OAS, fast focus, slim products, application of double-lens will emerge as the mainstream item in the second half of the year and will challenge the suppliers of camera lens module





suppliers in encapsulation technology and flexibility in production capacity planning. The prevalence of mobile payment makes fingerprint identification the second to none choice of consumers. This function is expected to gain more than 60% of the market share of smart phone.

② Business equipment products

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

Scanners, printers and business machines are products of mature technologies. Although high resolution and network connection of the products are still in demand, the price falls without a pause. The sluggish economy worldwide also mired the growth of the emerging market, to the extent that the

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

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

③ Digital home and audio products

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

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

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

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

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

In 2016, the new trend for smart sound system is the inclusion of voice assistance function that made it the center of control for smart home. Voice assistance function has attracted the attention of all sectors after the launch of Siri service by Apple. The handset is portable and convenient to carry. Yet, there is still limitation inherent to the device in certain situations and actual lives. In other words, one must take it out for using. In the advent of smart sound through voice assistance, the habit of using changed. Consumers just need to speak it out and get response. This makes voice assistance into application of daily lives possible. Accordingly, smart sound market can be upgraded and expanded to a new domain.

④ Wearable devices products

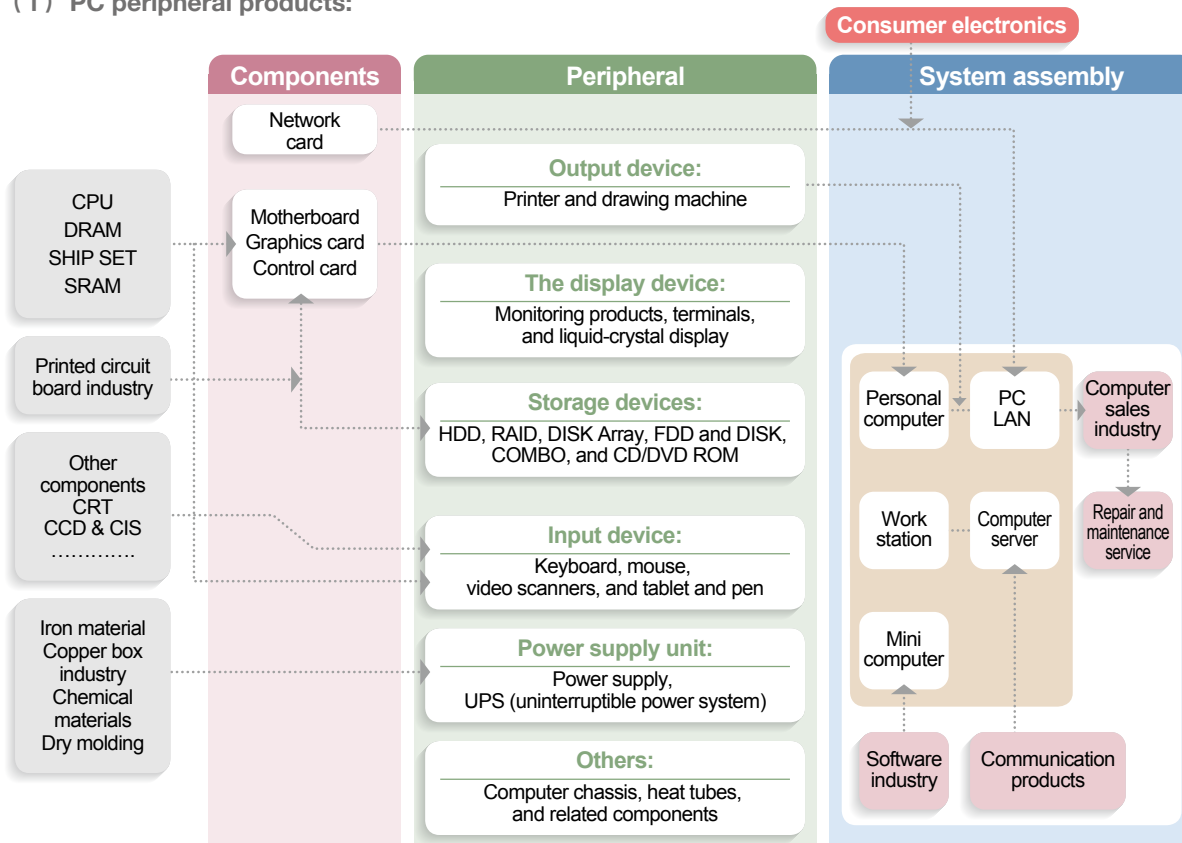
Wearable devices have become popular very quickly in the last two years and have attracted new firms, PC brands, and mobile device manufacturers to the industry. IDC, a well-known research institution, projected that the CAGR of wearable devices from 2016 to 2020 will be 20.3% and the shipment volume in 2020 will be 213 million units worldwide. Wearable

devices include sports bracelets, smart watch, and smart glasses of which smart watch enjoyed 27.8% CAGR and surpassed the growth of sports bracelet. In addition, this smart watch will account for 52.1% (currently is 41%) of the wearable device market by 2020.

Newly established companies, such as, Fitbit and Pebble had entered the wearable device market the earliest, followed by mobile device manufacturers, such as, Samsung, LG, Sony, etc. that had a smart watch with a higher price and more functions launched to meet the demands of more consumers. Wearable devices market is not yet mature; also, product applications, user interface, and operating system platform are still in rapid evolution. However, the continuing expectations of consumers in mobile computing and the participation of leading manufacturers, added to the smart watch launched by Apple with the attention of consumers gathered, wearable devices in the coming years will be one of the focuses for the growth of consumer electronics products.

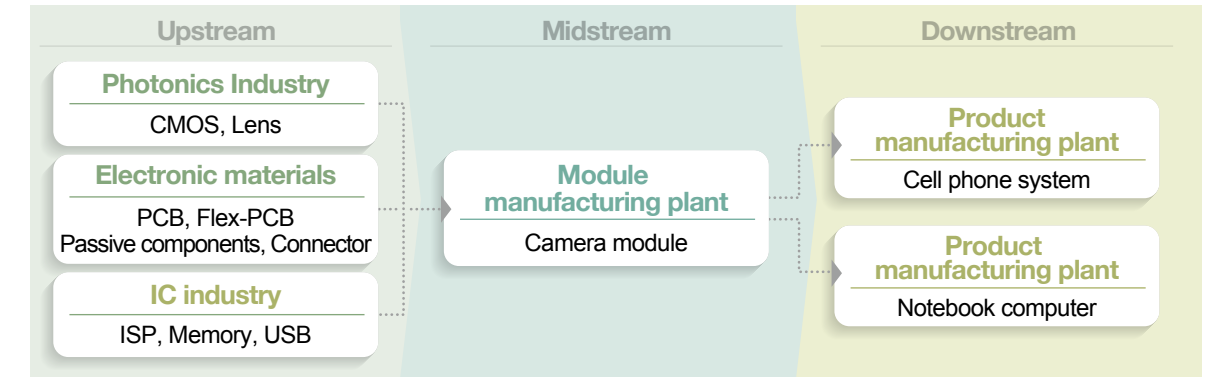
2. The correlation of upstream, midstream and downstream of industries

(1) PC peripheral products:

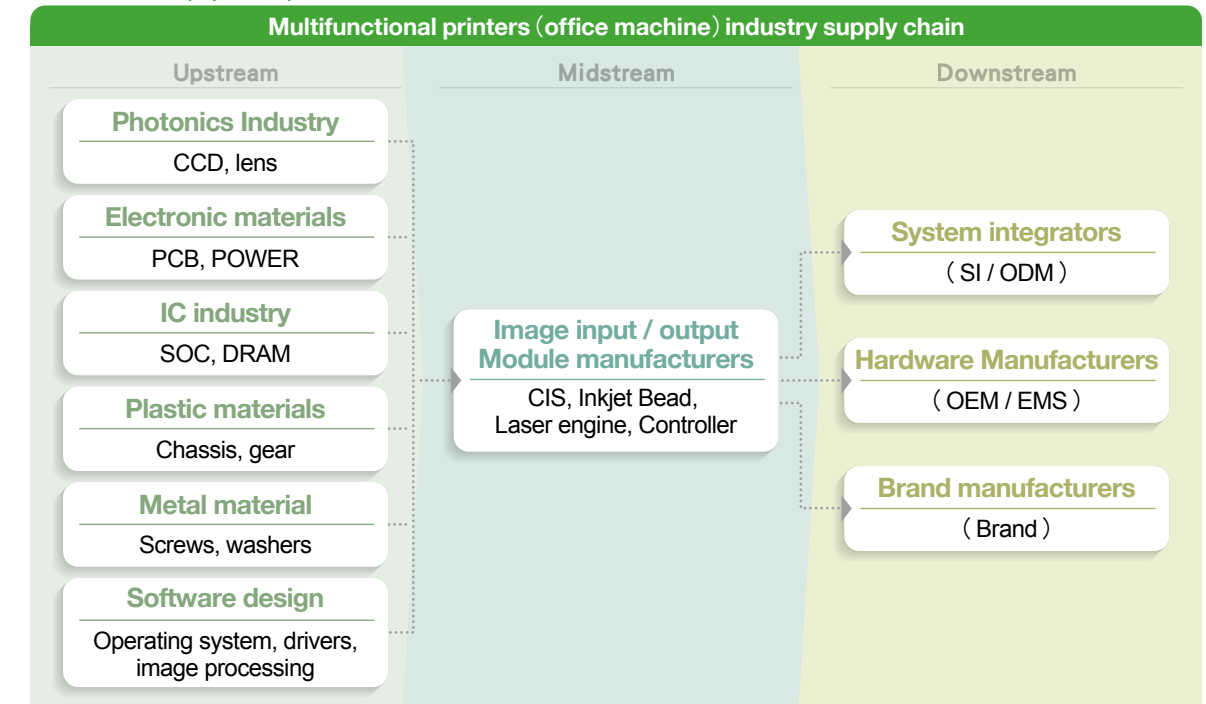


(2) Non-PC peripheral products

① Mobile device components products:



② Business equipment products:

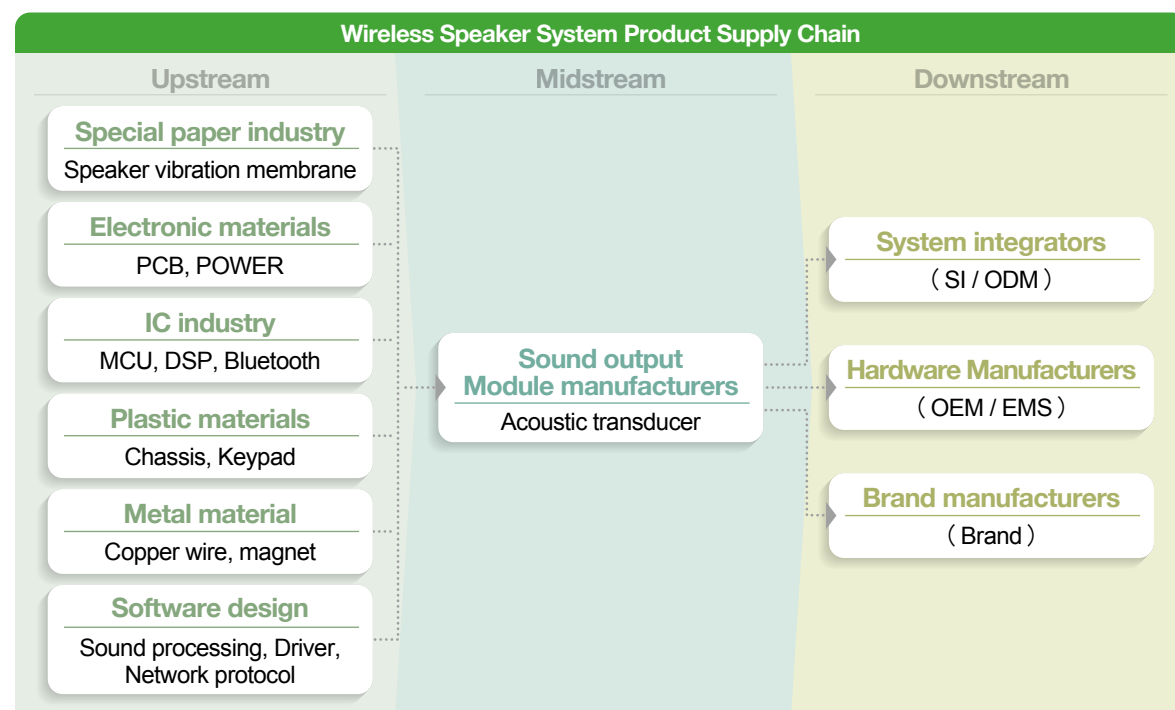


Multi-function printers (multi-function products, MFP) are composed of several important modules, namely, document scanners, printers (head), control panels, operating panels, automatic document feeders (ADF), and paper trays. An image sensor is the key component of the Document Scanner, including CCD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

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

③ Digital home and audio products:

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



④ Wearable device products:

Wearable devices contain sensors, display interface, wireless communication module, battery, and waterproof chassis. PRIMAX is currently focusing on the mainstream products of wearable devices, including smart band and smart watch with product design and manufacturing services provided.

3. Product development trends

(1) PC peripheral products

PRIMAX's PC peripherals are mainly used with desktop computers, notebook computers and personal digital information products. The PC peripherals market competition will be more severe due to the PC market shrinking and brand concentration effect. In response to the development trend of downstream product applications, keyboard and mouse manufacturers will respond to the future smart home, mobile device peripherals, IA (information home appliance) products, Internet of Things (IoT), wearable products, and current consumer's personal and human needs, and continue to research and develop the peripheral input devices for network television, entertainment computers, game consoles, handheld computers, mobile devices, etc. in order to improve the added value of products and increase the technology gap

from competitors; therefore, working towards high value-added products R&D is the future trend of the industry.

(2) Non-PC peripheral products

① Mobile device components products

The camera and fingerprint identification module manufactured by PRIMAX are mainly used in Notebook PC, tablet PC and smart phone. There is a few trends in the use of this item in Notebook PC; (1) Slim: the thickness of the lens must be congruent with the thickness of the panel. In the other words, the thinner the panel, the thinner the lens. According, corresponding encapsulation technology needs to be improved. Further to the CSP and COB technologies, which could be supplied by many lens suppliers, PRIMAX has advanced to the slimmest Chip on Stiffener (CoS) and even the Flip-chip technology in Chip of Flex (CoF) technology and is second

to none in the world market; (2) High resolution visual display, from BGA, HD (720P), FHD (1080P) to 4K2K. Currently, HD has emerged as the mainstream item of Notebook PC and consumer PC will also emerge as the mainstream item this year; (3) Double-lens module: In 2015, PRIMAX is the first manufacturer that launched the double AA process to make the best precision effect double-lens module. There are different trends of development in smart phone and other mobile devices: (1) Big megapixel: devices with 16 megapixels and 24 megapixels are expected to launch to market this year; (2) High sensitive: most commonly high aperture value. The higher the aperture value, the closer the depth of the view which make focusing difficult. Corresponding focusing technology has to be improved as well. PRIMAX is a world-class precision device manufacturer. With the introduction of the AA precision technology introduced in 2011, PRIMAX can engage in mass and efficient production and surpassed its competitors at home; (3) Fast focusing: acceleration of the speed in focusing is necessary for capturing image in transient moment. The speed and precision of close-loop motor has long been the mainstream of this new technology. In addition, center motor is also another option for upgrade; (4) Optical Anti-Shake: this is indeed a basic requirement for digital camera. In the past, the dimension, technological advancement and cost cannot satisfy the needs of mobile phone. Nokia has taken the first move for a breakthrough and there are a few leading brands planning to launch the same kind of products to satisfy the needs of the camera module manufacturers. Active Alignment (AA) technology will be a determinant for attracting purchase orders; (5) Low height: mobile phone will be getting slimmer, and will pose greater challenge to materials control and encapsulation technology. As mentioned, PRIMAX is good in the low height technology and is second to none in the industry; (6) other new functions: Phase Detection Auto-Focus (PDAF); (7) Double-camera module: there are numerous applications and depth of field and optical focusing will be the most popular. One of the distinctive feature of PRIMAX is the design of double-camera module with self-made equipment to achieve the most precise and efficient production. The industry chain as mentioned, including sensor, lens, VCM motors, IR filter and others have been well developed and are in strategic partnership.

In the area of fingerprint identification module, PRIMAX is one the key supplier that can engage

in mass production of capacitance and ultrasound fingerprint identification module. In capacitance model, PRIMAX can offer spray coating and ceramic plate in physical appearance. In the industry, there is a variety of choices for sensor. Indeed, the big is getting bigger in the industry and picking up the right strategic partner will be critical for success in competition.

② Business equipment products

With the rapidly growing sales of smartphones and tablet PC, consumers through Wi-Fi connection can have a photo shot and printed at the same time, and can have a document printed directly from the mobile device (ex: Apple AirPrint®) or store the scanned document images directly into the smartphones or tablets PC. The new functions of cloud printing (such as HP ePrint and Google Cloud Print) and scan-to-cloud are derived and met the needs of family life, entertainment and work at the same time. In order to meet the printing needs (convenience, easy operations, compatibility, consistent print quality, etc.) of mobile device users in various brands and platforms, the multifunction printer leaders, such as, Hewlett-Packard, Canon, Xerox, and Samsung, had set up the Mopria Alliance, jointly in September 2013 and enacted mobile printing standards, established a unified printing protocol, and initially focused on Android platform mobile devices. Currently, Mopria Alliance has 20 company members, including the multifunction printer brands, control panel chip design companies and application software development companies in the USA and Japan.

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

③ Digital home and audio products

Along with the popularity of broadband network

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

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

④ Wearable device products:

The global wearable consumer electronics sales have been growing steadily since the year of 2012 for two reasons, first of all, the industry's major manufacturers have entered the wearable device market, and consumer trust in the brand name is expected to drive a wave of buying power. Furthermore, due to the increase in product sales channels, the wearable products that were only sold on the Internet before were sold in general channels now; therefore, the high visibility helps stimulate consumer's desire to buy and the actual sales.

The wearable device penetration rate is low currently and it is with room to grow. New companies

and international companies actively engaged in the market. IDC, a market research institute, reported the sales of wearable devices to over 101 million units in 2016 (29% annual growth rate) and a double-digit growth rate is expected in the next five years. However, wearable devices will not be able to replace smartphones in the next five years, but an auxiliary tool to the existing devices.

4. Product competition

(1) PC peripheral products

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

(2) Non-PC peripheral products

① Mobile device components products

The mobile phone industry takes billion of units of production and there are many competitors in the industry. Currently, there are 70 camera module suppliers in the world but less than 25 of which can supply more than a million pieces of products with full product line for camera monthly. The market is so huge that new entrants have been attracted to the competition ceaselessly. This is particularly the case in the vertical integration of related industries and the horizontal integration with mobile devices and other product lines. The competition from these two posed the gravest threat. The profit margin in this industry fell significantly and quickly since 2015. It was exacerbated with the requirement of great capital investment in the capacity of high-end items that the module suppliers tended to be in the world of survival to the fittest. Yet, the continued expansion of capacity led to excessive production capacity since 2016.

Firms tended to become irrational in taking purchase orders. As a result, there will be a reshuffle of the module suppliers to certain degree and small firms will be ousted or moving to the emerging market or niche market. Fingerprint module technology entails low entrance barrier and competitive has been getting increasing keen. PRIMAX will map out its overall strategy with reference to the intensity of competition.

② Business equipment products

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

③ Digital home and audio products

PRIMAX, in addition to securing a stable development of the existing product line, actively strives to plan and develop new product lines with high market potential. Currently, the development is centered on the digital home-related applications for the products of network attached storage devices (NAS), portable wireless Hard Drive, home digital video and audio multimedia server, digital home wireless audio systems, personal mobile wireless speakers, etc.

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

when the mobile device is out of power, a very user-friendly and practical design.

In addition, the market of technology consumer products also thrived with the rising demand for smart phone, which also triggered a number of personal wireless multimedia entertainment needs. PRIMAX has long been engaging in the development of image processing and wireless Bluetooth communication technology, and the study on wireless audiovisual data transmission sharing since 2012. Two products are the gravity of study: (1) Wireless storage devices; and (2) Digital wireless sound equipment. Smart phone featured high resolution screen and powerful processor that allows for the playing of high definition films and smart phone also has its fatal imitation of small and expensive internal storage space. As such, it cannot be used as a computer that can be easily connected to an external HDD and wireless storage device emerged as the best solution. PRIMAX has also noticed that sound system featuring Bluetooth connectivity will be the mainstream product in the future. The prices of products of this kind varied widely. From USD10 a piece to almost USD1,000 a piece. Sound system of this kind is no longer a high-end item that only people with high income, who are usually at the 30s or 40s, can afford. Now, this kind of products is also affordable to the young people. Lowering the barrier for buying the products entailed many competitors in the market. Likewise, traditional sound system brand oriented towards high-end items tended to launch products for players at entry level. They wish to earn the brand loyalty of the consumers at young age. Such change in market prompts the traditional sound system brands to release more OEM products that give PRIMAX much better business opportunity.

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

capacity that can match good sound quality. This will bring account great change in market.

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

④ Wearable devices products

Currently, low-end wearable devices, such as smart bands, are with a low market barrier; therefore, there will be many manufacturers entering the wearable device market with low market barriers

in a short-run, resulting in market saturation and the launch of homogeneous products will cause a serious red-ocean market crisis. For high-end wearable devices, such as smart watch, the hardware specifications, process requirements and software compatibility are facing considerable difficulties. Currently, few notable products are mainly launched by Apple, Samsung, LG and other international companies; also, in conjunction with a communications network services, medical services, etc. It is necessary to explore the business models that can really promote the wearable devices successfully in the market.

(3) Technologies and R&D Overview

1. R&D Expenses overview

Unit: NT\$1,000

Year	R&D expense	Percentage of operating income
2016	2,204,249	3.43%

Note: PRIMAX started to adopt IFRSs since 2013.

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

Year	R&D achievements
2010	- Designed and developed Bluetooth wireless keyboard for Tablet PC. - Designed and developed 3 megapixel OAS automatic focusing camera module. - Designed and developed high-efficiency multifunction wireless charging platform. - Designed and developed Bluetooth low energy-consumption equipment. - Designed and developed Thermal Printer and color management technology.
2011	- Designed and developed 8-megapixel OAS automatic focusing camera module - Design and developed touch screen multimedia PC peripherals. - Design and developed backlit keyboard. - Designed and developed Wi-Fi mouse. - Designed and developed Wi-Fi Keyboard.
2012	- Designed and developed 13 megapixel OAS automatic focusing camera module. - Designed and developed Smart TV remote control - Designed and developed multi-point touch panel and automatic stylus pen. - Designed and developed NFC (Near Field Communication technology) paired with Bluetooth Keyboard Mouse - Designed and developed network multimedia storage device. - Designed and developed compound real document scanner.
2013	- Designed and developed tablet PC thin keyboard - Designed and developed new generation low power-consumption Bluetooth 4.0 input device. - Designed and developed dual-mode (low power-consumption Bluetooth, 2.4G) wireless mouse. - Designed and developed low power-consumption Bluetooth 4.0 stylus pen. - Designed and developed hand-gesture identification keyboard. - Designed and developed Smart TV remote control with voice input. - Designed and developed 13 megapixel OAS + automatic focusing camera module. - Designed and developed multi-lens suspension control (hand gesture recognition) camera module. - Designed and developed new generation high-capacity network multimedia wireless storage device. - Designed and developed wireless network printer control panel. - Designed and developed full-function multifunction printer single-chip control panel. - Designed and developed new generation color multifunction printer control panel. - Designed and developed high-speed high-quality color scanner module. - Designed and developed high-speed ultra-thin double-sided color scanner module. - Designed and developed eyeball identification dual-lens camera module.
2014	- Designed and developed new style thin multicolor backlit keyboard. - Designed and developed new generation wearable devices. - Designed and developed mobile device game peripherals. - Designed and developed integrated keyboard protection set. - Designed and developed mechanical game keyboard.

Year	R&D achievements
2014	- Designed and developed Smart TV remote control with voice commands. - Designed and developed 16 megapixel, 20 megapixel, and 26 megapixel OAS + fast focusing camera module. - Designed and developed 24 megapixel OAS automatic focusing camera module. - Designed and developed global minimum 13-megapixel autofocus camera module. - Designed and developed ultra-thin speakers. - Designed and developed new structural reverse push-pull speaker units.
2015	- Designed and developed IoT device platform, gateways, and terminal device. - Designed and developed automatic noise-cancelling headphones. - Designed and developed headphone and wearable device containing bio-sensing function. - Designed and developed array microphone with voice identification feature. - Designed and developed wireless audio and headphone that can play network streaming music synchronously. - Designed and developed new generation wireless storage and access device with high-speed communications capabilities. - Designed and developed 21 megapixel + 5 megapixel top-notch double-lens camera, - Designed and developed 3 megapixel vehicle use double-lens camera module. - Designed and developed multilayer thin film multicolor backlit module for keyboard. - Designed and developed ultra-thin membrane keyboard. - Designed and developed new generation folding Bluetooth low power-consumption keyboard. - Designed and developed keyboard with multi-operating system switching function. - Designed and developed USB Type-C keyboard and mouse. - Designed and developed high-power wireless charging module. - Designed and developed low-profile loudspeaker transducer. - Designed and developed battery modules positioning structure and battery module.
2016	- Designed and developed 13-megapixel +13-megapixel double lens module, the highest standard of the industry. - Designed and developed 24-megapixel optical anti-shake camera module. - Designed and developed 3-megapixel vehicle dual-lens camera module. - Designed and developed capacitive fingerprint identification module (spray-on and Porcelain Veneer). - Designed and developed ultrasonic fingerprint identification module. - Designed and developed thin mechanical game keyboard. - Designed and developed a keyboard with voice input.
2017	- Designed and developed voice assistance module featuring matrix microphone. - Designed and developed slim home entertainment sound bar - Designed and developed home entertainment system will full support to Dolby. - Designed and developed wireless earbuds. - Designed and developed voice input and gesture recognition smart speaker - Designed and developed 180-degree remote control Surveillance Camera - Designed and developed multiple-lens 360-degree wireless and real-time transmission 4K Video camera system - Designed and developed double-optical components paper feeding scanning module. - Designed and developed a new generation of mid-end paper feeding scanning module. - Designed and developed a new generation of low-end paper feeding scanning module. - Designed and developed paper jamming detection technology module - Designed and developed image dynamic correction technology - Designed and developed Bluetooth mobile labeling machine - Designed and developed palm thermal label printer - Designed and developed sportive camera stabilizing rod. - Designed and developed sportive camera control extension rod. - Designed and developed a new generation mid to high speed wireless online printer control panel.

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

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

1. Short-term business development plan

(1) PC peripheral products

- a. Grasped the technological development trend of mouse, keyboard, tablet keyboard, stylus pen, and smart remote control, and continue to research and develop new products in order to facilitate business promotion.
- b. Established a key components supply chain and establish the VMI / JIT system to effectively reduce inventory stock and to resolve material shortage problems.

- c. Improved plant productivity, reduce costs, and continue to strengthen OEM/EMS business in order to increase turnover stably and improve gross profit rate. Grasped mobile application and related technology development trend.

(2) Non-PC peripheral products

① Mobile device components products

With the advantage of accreditation by a few big European and American brands, we committed the best of our effort in the market of China. Positioned



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

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

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

② Business equipment products

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



terms of office automation products, along with the continuous improvement of in-house technologies, a number of important patents have been obtained and new customers have been solicited successfully. Also, PRIMAX has transformed into an ODM business operation successfully and worked with customers to actively develop new products.

③ Digital home and audio products

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

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

2. Long-term business development plan

(1) PC peripheral products

- a. Continue to upgrade automation capabilities, reduce labor costs and labor shortage, and enhance lean productivity and technology strength.

- b. Develop new product lines (such as wearable devices, mobile device game peripherals, etc.) in order to develop new businesses and increase turnover.

(2) Non-PC peripheral products

① Mobile device components products

The large customer base and the targeted key parts and components suppliers of lens module/fingerprint module in the upstream (such as image chips, optical lens, motor, IR screened glass, and ceramic) will be the bargaining chip for PRIMAX in its long-term strategy for achieving effective strategic cooperation. With close partnership, PRIMAX can maintain an edge in cost competition, technology advantage and resources guarantee. In addition, PRIMAX will (1) expand its operation in supporting customers in broadening the entire product line of camera lens module/fingerprint module in depth and will support customer-defined physical platform, including TV, wearable devices, tablet PC, mobile phone, and even vehicle use equipment for the needs of strategic customers and similar technology modules so derived; (2) expand other product lines of the customers in scope with the use of package deal to ensure sustained competitive advantage.

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

② Business equipment products

PRIMAX will continue to expand the technology and business of scanners and multi-function products, becoming the World No. 1 ODM Company. On the other hand, in response to the huge market demand for wireless broadband and mobile multimedia devices, PRIMAX has actively supported the development, integration and application upgrade of the mobile device scanning and printing related technologies. PRIMAX has accumulated profound ability and experience in the high-end scanner, automatic document feeder, automatic binding machine, and control panel design. PRIMAX



will be able to expand such products businesses successfully with over two decades of experience in developing and producing image products and embedded devices. In terms of office automation products, continue to invest in technology development to lead the market in energy-saving, system integration and excellent user-friendly design and to grow together with the target key customers.

③ Digital home and audio products

In terms of long-term business development plans regarding new product development, PRIMAX, in addition to developing and expanding the technology and business of wireless network storage devices and digital home related products continuously, it will work closely with key customers to jointly develop new products to meet market demand and to create a win-win situation. In terms of customer base, we will expand the Company's existing customer base and target the leading brands in the market, including cooperating with the consumer electronics manufacturers in Europe, USA and Japan, leading the market in energy-saving, system integration, and excellent user-friendly design and growing together with the target key customers. In addition to the development of hardware products, on the other hand, in response to the emerging cloud computing applications, PRIMAX will continue to upgrade the development, integration and application capabilities upgrade of the related software technologies. PRIMAX will be able to expand the business of such products and services with the profound design, R&D, management and execution capacity.

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

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



2. Market and production and sales overview

(1) Market analysis

1. Sales area of major commodities

By area	Year	2015 (restated)		2016	
		Amount (NT\$1,000)	%	Amount (NT\$1,000)	%
Mainland China		38,259,055	60.22	35,009,994	54.42
USA		11,216,040	17.65	14,221,870	22.11
Others		14,063,092	22.13	15,097,598	23.47
Total		63,538,187	100.00	64,329,462	100.00

2. Market share

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

3. Future market supply and demand and growth

(1) PC peripheral products

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

In 2016, the PC market fell by 6% and the global shipment of PC in 2017 was expected to fall marginally. Despite the negative growth in the PC market, the gaming market thrived. According to JPR, the hardware for gaming market in 2017 is expected to yield more than USD 30 billion in revenue while gaming peripheral items will be a market of USD 5 billion by value with an annual growth of 13% until 2020. PRIMAX has laid hand on this market since 2015 and has cultivated its links with the few international famous brands. The outcome is positive so far. To the contrast, the unit price of gaming product shipment is high that can help to fill the gap left behind by PC and tablet PC, and has contributed to revenue growth.

(2) Non-PC peripheral products

2-1. Mobile device components products

PRIMAX's mobile devices components include

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

The shipment volume of Notebook PC in 2010 exceeded 200 million units. However, the shipment of Notebook PC turned sluggish in the last few years at just about 250 million units annually. Since the built in camera module of Notebook PC is a standard device, the shipment volume of built in camera module of Notebook PC will commensurate with the shipment volume of Notebook PC.

Tablet PC has its heyday in 2012~2013 but started to decline in 2014 (except Apple, which still enjoyed stable growth). The shipment volume of this item in 2017 is expected to be the same. With the growth of shipment of mobile phone worldwide and the increased matching rate between camera module and audiovisual lens for mobile phones, the shipment volume of mobile phone camera module grew annually. With the prevalence of 3G and 4G, and the forthcoming 5G mobile network, the built-in sub camera for mobile phone (which is the visual lens) will increase in proportion year after year and will take the lead in driving the shipment of smart phone. There will be more than 70% of smart phone featuring a front camera and a rear camera. The ranking of brands is reshuffling all the times worldwide and the makers of China have earned the top 6 positions. In addition, some makers in India have their brands ranking around the 10th place. These indicated the dynamic and momentum of the high growth in the emerging market.

2-2. Business equipment products

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

2-3. Digital home and audio products

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

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

4. Competitive niches

A. Sufficient production capacity and economies of scale.

The consumer electronics product life cycle is shortening. All manufacturers strive to contribute by



investing resources in new product development and cost reduction; therefore, Original Equipment Manufacturing (OEM) has become the mainstream practice in markets under the consideration of reducing costs and speeding up production. In this trend, the manufacturers with experience in the related products and sufficient production capacity are preferred by international corporations for the OEM business. PRIMAX has decades of experience in the development, design and production of image products and embedded devices; also, it has strong and experienced R&D teams and strict manufacturing and quality control processes. PRIMAX with the support of its strong R&D teams can immediately adjust the production process upon the customers' request and help customers optimize existing products; also, it can immediately respond to customer demands. PRIMAX has four production sites setup in Mainland China, including Dongguan, Kunshan, Chongqing and Huizhou, and continues to expand production capacity, possessed production capacity with "economies of scale" effect and flexible production planning. Such economies of scale, flexible production planning, and professional process technology have prevented competitors from entering the market easily. Moreover, such rich production resources have provided PRIMAX with advantages in competition for international companies OEM businesses.

B. Global logistics production

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

C. Maintain strong partnerships with international companies

Ever since its establishment, PRIMAX has paid perpetual attention to the research and development of PC peripherals, mobile device components, business equipment, digital home and audio products. The quality and stability of products are highly recognized by our customers with continued purchase. The main customers of PRIMAX are famous international big firms.

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

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

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

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

Advantages:

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

International brand manufacturers for operating branding business continuously, maintaining R&D technology and reducing production costs have the production operations commissioned to professional OEM factories in order to concentrate on the design, marketing and R&D to simplify management complexity, to improve operational efficiency, to



streamline the organizational structure at the same time, to pool resources, to reduce production costs, to enhance brand value and to increase market share. In the electronics industry, the global division of labor is becoming obvious, and this operating mode has become necessary for all international brands; therefore, a large OEM business opportunity is in the making.

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

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

※ PC peripheral products

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

※ Non-PC peripherals

※ ① Mobile device components products

PRIMAX's mobile device components include notebook computers, smartphones, tablet PCs built-in camera module, fingerprint identification modules and communications peripheral equipment Bluetooth headphones, charging cradles, etc. Consumers like to use mobile phone cameras to take pictures or shoot video for sharing with friends and family. Therefore, the manufacturers of smartphone and tablet PCs continue to introduce high-pixel smartphone and tablet PCs with built-in camera modules. In addition, along with the prevailing network and increased bandwidth, notebook computers' built-in camera module has become a standard accessory. Apparently, the built-in camera module has a great room for market growth. In addition, the mobile pay market is in full swing of development and the demand for fingerprint identification is huge and sudden; therefore, such demand has been the highest within two years. The increasing functions of mobile phones obviously consume more power. The mobile phone was able to be in a standby mode for over one week but not anymore. Instead, the demand for various mobile power supplies, USB charging cable and vehicle charging cable is growing substantially. In addition, the demand for Bluetooth headphones will continue to rise along with the development of network phones and portable device industry; therefore, PRIMAX's revenue growth will be activated as well.

※ ② Business equipment products

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

※ ③ Digital home and audio products

The broadband network environment is becoming mature and home Wi-Fi wireless network prevailing rate is growing year by year; therefore,

the wireless transmission related applications are flourishing. Consumers' demands for home entertainment audio and video streaming will drive the sales of home network storage devices and home entertainment server to go up. The explosive growth of mobile devices, such as the prevailing smartphones and tablet PCs, has caused the market demand for wireless audio and video storage devices to increase and it will drive consumers to buy portable wireless hard drives as the capacity expansion of mobile devices.

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

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

Disadvantages:

A. Shorter product life cycles

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

※ Responsive measures:

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

B. Severe price competition jeopardizes profit margin

In recent years, the rapid development of 3C

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

※ Responsive measures:

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

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

In recent years, the provincial labor departments of China have wages increased for the protection

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

※ Responsive measures:

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

(2) Intended use and production process of main products

1. The intended use of main products

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

2. Production process



(3) Supply of main raw materials

PRIMAX's products are mainly divided into two product lines of PC peripheral products and non-PC peripheral products. PRIMAX's products are mainly purchased through Primax HK (by triangular trade to buy from the sub-subsidiary, Dongguan Primax), Kunshan Primax and Chongqing Primax. Since they are 100% owned subsidiaries and sub-subsidiaries of PRIMAX, the delivery lead-time and sources of supply can be fully controlled

without the possibility of a supply shortage. For the main raw materials of the subsidiaries and sub-subsidiaries, PRIMAX has acquired through long-term cooperating suppliers for stabilizing supply source and quality; also, there are at least two suppliers of main raw materials retained for service; therefore, there should be no risk of a supply shortage or supply interruption that is detrimental to the Company's operations.

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

1. The information of the suppliers that were identified accounted for more than 10% of the total purchase amount in any of the last two years

There was no supplier that accounted for more than 10% of the total purchase amount in any of the last two years.

2. The information on the customers that accounted for more than 10% of the total sales amount in any of the last two years

Unit: NT\$ million

Year	2015 (restated)				2016			
Item	Name	Amount	Ratio to net sales (%)	Relation to issuer	Name	Amount	Ratio to net sales (%)	Relation to issuer
1	Company A	13,605	21.41	None	Company A	9,525	14.81	None
—	Others	49,933	78.59	—	Others	54,804	85.19	—
—	Net sales	63,538	100.00	—	Net sales	64,329	100.00	—

PRIMAX's top-ten customers in the last two years were all international well-known companies, a diversified and stable customer base. PRIMAX's top-ten customers accounted for 53.37% and 50.04% of the net annual sales in 2015 and 2016, respectively. Among the top-ten customers, the percentage of sales from one single client and one single group did not exceed 30% of the total

sales; therefore, as for the concern over PRIMAX's sales target, there is no risk of sales centralization. PRIMAX, in addition to maintaining good relations with the existing customers, is actively developing new products in order to expand the market and customers for other products for dispersing customers of sales and for minimizing the risk of sales centralization.

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

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

Main products (by department)	Production	Year	2015 (restated)			2016		
			Capacity	Output	Amount	Capacity	Output	Amount
PC peripheral products			200,872	92,758	26,386,263	217,258	88,041	21,562,052
Non-PC peripheral products			679,591	343,285	31,154,963	999,890	309,369	34,169,840
Total			880,463	436,043	57,541,226	1,217,148	397,410	55,731,892

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

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

Major Products	Year	2015 (restated)				2016			
		Domestic sales		Exporting sales		Domestic sales		Exporting sales	
		Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
PC peripheral products		6,404	2,124,479	135,153	27,950,138	1,526	242,656	94,216	25,053,772
Non-PC peripheral products		21,179	3,704,236	136,590	27,815,031	14,662	2,696,179	257,747	34,980,538
Service income		0	0	0	1,944,303	0	0	0	1,356,317
Total		27,583	5,828,715	271,743	57,709,472	16,188	2,938,835	351,963	61,390,627

3. The number of staffs, average service years, average age and academic degree of staffs in the last two years and as of the printing date of the annual report.

Year		2015	2016	01/01/2017~04/15/2017
Number of employees	Technician (Engineering)	816	1,419	1,552
	Management and business personnel	2,209	2,694	2,593
	Total	3,025	4,113	4,145
Average age		38	35	35
Average years of service		5	5	4
Educational distribution ratio (%)	Ph.D.	0.3	0.3	0.3
	Master's	9.2	9.7	9.8
	Bachelor's	66	66	65.4
	Senior High School Education	15.9	15.4	15.2
	Below Senior High School Education	8.5	8.6	9.3

4. Environmental protection expenses information

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

PRIMAX's 2016 environmental protection expenditure for each plant statistics

Unit: NT\$

Classification	Description	Expense
1. Direct Costs for Reducing Environmental Impact		
(1) Pollution control cost	Fees for air pollution control, water pollution control, and others	5,061,250
(2) Resource Conservation Cost	Costs for resource (e.g. water) conservation	8,605,580
(3) Waste Disposal and Recycling	Costs for waste treatment (including recycling, incineration and landfill)	2,030,952
2. Indirect Cost for Reducing Environmental Impact (Environmental Managerial Cost)	(1) Cost of training	27,589,640
	(2) Environmental management system and certification expenditures	
	(3) Environmental impact measurement and monitoring fees	
	(4) Environmental protection product costs	
	(5) Environmental protection organization fees	
3. Other Environmental Costs	(1) Costs for decontamination and remediation	0
	(2) Environmental damage insurance fees and environmental taxes and expenses	
	(3) Costs related to environmental settlement, compensations, penalties and lawsuits	
Total		43,287,422

5. Labor relations

(1) The Company staff benefit package, education, training, retirement system and its implementation, as well as agreement between the employers and employees and the employees' interest protection measures

1. Staff's welfare measures and its implementation

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

2. Education, training, and its implementation

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

- **On-the-job training:** On-the-job learning and development is to help the staff enhance job experience by attending work meetings, project (mission) assignments, job rotation, etc.
- **Internal Training:** Internal training is divided into three categories of supervisor training, professional training, and general training, including new recruit's basic courses, supervisor courses at all levels, professional and technical courses, the course of quality, general education lectures, English courses, etc.
- **External professional training:** In order to encourage colleagues to continue their self-enhancement of professional capacity or to learn a second professional skill for career plans, the



Company has the professional external training cost fully subsidized.

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

3. Retirement system and its implementation

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

For employees who have chosen the old system or the new system but with seniority under the old system reserved, PRIMAX has a retirement plan enacted in accordance with the Labor Standards Law and has a labor pension reserve appropriated on a monthly basis and deposited in the special account with the Bank of Taiwan for the use of future pension payment. In addition, for employees that are



entitled to the new system, PRIMAX has an amount equivalent to 6% of the monthly salary appropriated as a labor pension reserve in accordance with the Labor Pension Act and has the amount deposited in the personal account with the Bureau of Labor Insurance.

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

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

- (1) Hold departmental meetings regularly, communicate the Company's and departmental business plans, business overview and market conditions to colleagues.

- (2) Enact sexual harassment prevention measures and a grievance and disciplinary approach to maintain a good working relationship and interaction principles between genders in order to prevent sex discrimination or harassment.
- (3) Establish labor-management meeting, organize labor-management meetings for communication and consultation regularly, and promote harmonious labor relations.
- (4) Establish the employee welfare committee to organize group recreational activities and handle welfare matters regularly.
- (5) Set-up flexible working hour system so that employees can manage to balance work and personal life.
- (6) Education and training plan and subsidy, provide staff with occupational training and encourage employees to develop a second skill.
- (7) In addition to the basic security of labor and health insurance, a group insurance is also available for a greater protection of employee's life safety, healthcare, and family.
- (8) Organize employee physical check-ups and health and safety checks regularly to ensure employee's physical and mental health and safety of the working environment.

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

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

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

6. Material Contracts

Nature of contract	Contracting Party	Term of Agreement	Main contents	Restrictions
OEM product	Customer E	08/01/2014~ project ended	OEM camera modules and mouse	Classified
OEM product	Customer G	02/20/2006~ project ended	OEM consumer electronic products	Classified
OEM product	Customer B	05/22/2007~ project ended	OEM MFP	Classified
OEM product	Customer V	06/30/2008~6/30/2018	OEM consumer electronic products	Classified
OEM product	Customer U	08/2007~Project ended	OEM mouse	Classified
OEM product	Customer T	02/20/2008~ project ended	OEM consumer electronic products	Classified
OEM product	Customer H	06/01/2008~ project ended	OEM MFP	Classified
OEM product	Customer O	01/2006~Project ended	OEM consumer electronic products	Classified
Licensing	W	12/1/2012~11/30/2017	Technology Transfer Licensing	Classified
Trade and lease	Shin Kong Life Insurance	12/2008~12/2023	Sale and lease of Primax building	None
Loan Agreement	CTBC Bank	01/05/2015~01/05/2018	Bank mid-term and long - term loan	None
Loan Agreement	Export-Import Bank of the ROC	2/12/2015~2/12/2020	Bank mid-term and long - term loan	None



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

1. Financial status

Unit: NT\$1,000

Item \ Year	2016	2015	Difference	
			Amount	%
Current assets	27,799,554	30,413,161	(2,613,607)	-8.59%
Investment		-		
Fixed assets	4,717,422	6,284,023	(1,566,601)	-24.93%
Intangible assets	2,673,670	3,322,191	(648,521)	-19.52%
Other assets	1,931,403	1,712,358	219,045	12.79%
Total assets	37,122,049	41,731,733	(4,609,684)	-11.05%
Current liabilities	22,801,219	26,154,964	(3,353,745)	-12.82%
Long-term liabilities	2,076,372	2,660,184	(583,812)	-21.95%
Total liabilities	24,877,591	28,815,148	(3,937,557)	-13.66%
Capital stock	4,424,367	4,427,051	(2,684)	-0.06%
Capital surplus	791,466	777,368	14,098	1.81%
Retained earnings	5,665,353	4,660,556	1,004,797	21.56%



Unit: NT\$1,000

Item	Year	2016	2015	Difference	
				Amount	%
Other equity		118,538	565,406	(446,868)	-79.03%
Non-controlling Interests		1,244,734	2,486,204	(1,241,470)	-49.93%
Total shareholders' equity		12,244,458	12,916,585	(672,127)	-5.20%

Notes to items of significant change:

1. Decrease of fixed assets from the previous period: mainly because of the disposal of Global TEK.
 2. Decrease of long-term liabilities from the previous period: mainly because of the reimbursement of long-term loans.
 3. Increase of retained earnings from the previous period: mainly because of the good profitability of the consolidated company.
 4. Decrease of other equity from the previous period: mainly because of the decrease of foreign exchange translation adjustment.
 5. Decrease of non-controlling interest from the previous period: mainly because of the disposal of Global TEK.
- In sum, not only the operation performance of the company in this fiscal year is stable but also with the growth of operating income and stable cash inflows that make the financial structure of the company healthy.

2. Financial performance

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

Unit: NT\$1,000

Item	Year	2016	2015 (restated)	Amount increase or decrease	(%)
Net Sales		64,329,462	63,538,187	791,275	1.25%
Operating costs		57,062,275	56,794,922	267,353	0.47%
Gross profit		7,267,187	6,743,265	523,922	7.77%
Operating expense		4,893,716	4,636,397	257,319	5.55%
Operating income		2,373,471	2,106,868	266,603	12.65%
Non-operating income and expense		390,981	311,034	79,947	25.70%
Income before tax of the continued operations		2,764,452	2,417,902	346,550	14.33%
Income tax expense (benefit)		777,686	631,009	146,677	23.24%
Net profit in current period (including the net income of discontinued operations)		2,048,662	1,816,935	231,727	12.75%

Notes to items of significant change (changes for more than 20% from the previous period and the amount exceeding NT\$10 million) :

1. Increase of non-operating incomes from the previous period: mainly because of the disposal of available-for-sale financial assets and net earnings from disposal of investments accounted for using equity method.
2. Increase of income tax expense from the previous period: mainly because of the increase of net income before tax of the continued operation.

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

The Company sales forecast is based on the industrial environment and future market supply and demand; also, taken into account the business development, current purchase orders status, production base capacity planning, etc. For the sales forecast of each major product in 2017, in terms of PC peripherals business unit, product sales will likely remain the same or grow slightly, while the non-PC peripherals business unit is expected to grow steadily due to the

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

3. Cash flow

(1) The changes in cash flow analysis in the most recent year (2016)

Unit: NT\$1,000

Cash balance 12.31.2015	Net cash provided from operating activities in 2016	Net cash used from investing and financing activities in 2016	Cash balance 12.31.2016	Remedy for liquidity shortage	
				Investment plan	Financing plan
7,623,380	2,282,949	(1,263,464)	6,359,916	—	—

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

- (1) Operating activities: Net cash flow provided from operating activities amounted to NT\$2,282,949 thousand is mainly the result of the increase in profit and the decrease of notes and accounts receivable.
- (2) Investing activities: Net cash used from investing activities amounted to NT\$731,991 thousand is mainly the result of the increase of acquiring property, plant, and equipment.
- (3) Financing activities: Net cash used from financing activities amounted to NT\$2,615,165 thousand is mainly the result of the reimbursement of short-term loans, long-term loans, and the release of cash dividend.

(2) Improvement plan for inadequate liquidity: The Company is without any inadequate liquidity that has occurred in the most recent year.

(3) Cash flow analysis within the year (2017)

Unit: NT\$1,000

Cash balance 12.31.2016	Net cash provided from operating activities in 2017	Net cash provided from investing and financing activities in 2017	Cash balance 12.31.2017	Remedy for liquidity shortage	
				Investment plan	Financing plan
6,359,916	3,584,139	2,020,265	8,380,181	—	—

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

- (1) Operating activities: Net cash inflow from operating activities is expected to be NT\$3,584,139 thousand mainly because of the projected profit in the period.
- (2) Investing activities: Net cash outflow from investing activities is expected to be NT\$1,874,103 thousand mainly because of the acquisition of property, plant and equipment.
- (3) Financing activities: Net cash inflow from financing activities is expected to be NT\$310,229 thousand mainly because of the exercise of employee stock warrants.

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

Note: The financial data of the year (2017) is consolidated amount.

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

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

(1) Investment policy

The Company's management team for the operational requirements and future strategic development has professional information provided by the responsible units. The Finance and Management Office is to have data collected and proposals presented to the responsible

supervisor. For the investment proposals presented, the history and prospect of the invested company, market conditions and business constitution should be assessed for the reference of the decision-maker in making investment decisions.



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

12.31.2016 / Unit: NT\$1,000

Item	Remarks	Amount of profit (loss) in 2016	The main reason for the profit or loss	Improvement plan
Primax Industries (Cayman Holding) Ltd.		251,896	Normal operation	—
Primax Technology (Cayman Holding) Ltd.		11,354	Normal operation	—
Destiny Technology Holding Co., Ltd		(3,452)	Normal operation	—
Destiny Technology (Japan) Corporation		242	Normal operation	—
Diamond (Cayman) Holdings Ltd.		145,891	Normal operation	—
Gratus Technology Corp.		75	Normal operation	—
Primax Industries (Hong Kong) Ltd.		213,540	Normal operation	—
Polaris Electronics Inc.		11,071	Normal operation	—
Tymphany Worldwide Enterprises Ltd		166,285	Normal operation	—
Tymphany HK Ltd		337,425	Normal operation	—
TYP Enterprises Ltd		2,692	Normal operation	—
TYMPHANY LOGISTICS, INC		4,674	Normal operation	—
Dongguan Primax Electronic Telecommunication Products Ltd.		(103,572)	Normal operation	—
Beijing Destiny Electronic Technology Ltd		(3,452)	Normal operation	—
Primax Electronics (Kunshan) Corp., Ltd.		69,114	Normal operation	—
Primax Electronics (Chongqing) Corp., Ltd.		246,273	Normal operation	—
Premium Loudspeakers (Huizhou) Co., Ltd.		88,159	Normal operation	—
Dongguan Tymphany Acoustic Technology Co., Ltd		25,180	Normal operation	—
Dongguan Dongcheng Tymphany Acoustic Technology Co., Ltd		0	Normal operation	—
WUXI GLOBAL TEK FABRICATION CO., LTD		7,343	Normal operation	—
GLOBAL TEK (XI'AN) CO., LTD		2,171	Normal operation	—
GLOBAL TEK (WU'XI) CO., LTD		37,395	Normal operation	—

Note: The amount in the 2016 financial statements audited by the CPAs

6. Risk analysis and evaluation

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

1. Changes in exchange rate

PRIMAX's revenue-based business is targeting on exporting business. The exporting products are mainly quoted in US dollars; also, PRIMAX's transactions conducted with overseas suppliers and the purchase of machinery equipment from overseas suppliers are denominated in US dollars too, resulting in mutual offset effect, so it provides a natural hedging effect against changes in the exchange rate. PRIMAX's 2016 net foreign exchange gain amounted to NT\$242,423 thousand, accounted for 0.38% of net sales. Therefore, the overall foreign exchange does not constitute a risk factor burden on the profit status. However, PRIMAX in response to the risk of changes in the exchange rate on PRIMAX's profit or loss, in addition to using spot and forward foreign exchange transactions

for foreign exchange hedging, will continue to monitor changes in the exchange rate and the foreign exchange positions within PRIMAX; also, will maintain foreign currency assets and liabilities balanced in order to avoid the risk of changes in exchange rates and reduce the impact of changes in exchange rate on PRIMAX's profit and loss.

2. Changes in interest rate

The consolidated Group's 2016 interest expense accounted for 0.14% of the net sales, indicating that such interest expense had no significant impact on the consolidated company's profits and losses. In addition, PRIMAX regularly assesses bank loan interest rates and maintains good relations with banks in order to obtain more

favorable interest rates and to reduce interest expenses.

3. Inflation

According to the announcement of the Directorate-General of Budget, Accounting and Statistics (DGBAS), Executive Yuan, R.O.C. (Taiwan), the December, 2016 Consumer Price Index (CPI) rose by 1.70%, the Wholesale Price Index (WPI) annual growth rate was 1.84%, indicating that there was no significant inflation occurred, which had no significant impact on PRIMAX's December 2016 profit and loss. PRIMAX



always pays attention to fluctuations in market prices and will have sales price and raw materials and inventory adjusted accordingly; however, there was no significant impact that occurred as a result of inflation.

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

1. Engaged in high-risk and highly leveraged investments

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

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

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

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

3. Derivative products trading

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

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

1. Research and development plans in the future

The premium items of PRIMAX are PC peripherals, mobile device parts and components, business machine and digital home products. In the future, PRIMAX seeks to continue its joint ventures with international big firms and engage in strategic partnership with startup firms with gravity on gaming mouse, keyboard and keyboard module, multiple colors keyboard backlight module, double-lens cell phone camera module, computer built-in camera module, Bio-identification module, Bluetooth and wireless smart sound systems, Bluetooth and wireless earphone related items, multiple-purpose business machine scanner module, jet and laser multiple-purpose business machine, automobile electronics, automation production line, web sound system equipment, AI home appliance, smart health

and smart home technology products. These will help to upgrade the research and development capacity of PRIMAX further and increase the market share of the products so that PRIMAX will be more internationalized and highly competitive.

2. Projected investment in research and development

PRIMAX's projected research and development expenses are based on the progress of new products and new technology development; also, maintain a certain percentage of growth depending on future operating conditions in order to ensure PRIMAX's competitive advantage. PRIMAX plans to invest in research and development for around NT\$2.5 billion in 2017.

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

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

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

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

PRIMAX pays attention to, collects and analyzes PC peripheral products, mobile devices components and products, and market and technology development of MFP and digital home products. In addition to reducing the impact of technological change, enhance the research and development of high value-added products with high margins in order to have PRIMAX's products diversified and stabilized, and ensure a profit source. PRIMAX

with outstanding process technologies continues to expand the strategic alliance system in-depth and in-width with the existing customers from product design, production, logistics support, distribution and after-sales service in order to strengthen the mutual long-term co-existence and common prosperity. The technological and industrial changes do not have a significant impact on PRIMAX's financial operations so far.

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

PRIMAX has a positive corporate image and is one of the leading suppliers of PC peripherals, mobile device parts and components, business machine and digital home products. With sound human resources development and training, and the employee-oriented humane style of management, PRIMAX has attracted a large number of good people and technologies. With the strengthening of the management team and the result of business

operation as feedback to the shareholders, PRIMAX has performed its professed corporate social responsibility. In the quest for the maximization of shareholders' equity, PRIMAX also seeks to perform its corporate social responsibility to its entirety so that the corporate image could be reinforced. As such, there is nothing that affected the corporate image in the most recent year to the date this annual report was printed.

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

The Board of Tymphany Worldwide Enterprise Limited, a key subsidiary of PRIMAX, resolved on March 13, 2017 to establish a Hong Kong subsidiary, Tymphany Acoustic Technology HK Limited, by acquiring 100% of the stakes of Bang& Olufsen s.r.o. at the price of EUR18 million. Through this

transaction, Tymphany can fully expand its territory of audio products all over Europe with cultivating in-depth cooperation with customers. In addition, PRIMAX can further expand the design, technology and production process of audio products in depth and in scope.

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

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

1. The risks of centralized purchase and responsive measures

PRIMAX, except for the finished product procurement, has retained two or more qualified suppliers for procurement in order to maintain purchase flexibility, ensure uninterrupted

supply, and uphold bargaining advantage in order to achieve the goal of reducing cost. In summary, PRIMAX has not faced any risks of centralized purchasing of raw materials or supply interruption.

2. The risks of centralized sales and the responsive measures

PRIMAX's customers for sales are international well-known technology giants, a diversified clientele with stability. The top-ten customers accounted for 50% of net sales in 2016. Within the top-ten customers, the proportion of sales to a single customer does not exceed 30% of net sales;

therefore, PRIMAX did not have any centralized sales. PRIMAX, in addition to maintaining good relations with the existing customers, actively develops new products to expand the market and customers for new products in order to have the customers dispersed and to minimize the risk of centralized sales.

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

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

(12) Litigation or non-litigation events

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

CSAA Insurance Exchange (USA) had sued PRIMAX's affiliate, Polaris Electronics, Inc. and the customer, Woods Industries, Inc., in the Superior Court of California (USA) on November 18, 2013 in accordance with product liability clause and had demanded compensation for fire damages by subrogation on behalf of the insured, Manuel Dias and Pamela Dias. PRIMAX has reported it to the insurance company for record upon notice and has helped clarify the source of the product in question (Surge Protector) and necessary information. The case is still in the process of the California Superior Court of the United States.

The plaintiff, the couples of Millicent Lombardi and Anthony Lombardi, was injured by a paper shredder and had a lawsuit filed with Eastern District Court of New York State (USA) on October 27, 2015 against PRIMAX's customer, ACCO Brands Corp. and its dealer, Staples, Inc., for damages. ACCO Brands Corp. and Staples, Inc. claimed that the paper shredder was manufactured by the Company and supplied to ACCO Brands Corp. for sales; therefore, a lawsuit was filed with Eastern District Court of New York State (USA) on April 14, 2016 against PRIMAX for third party liability. The United States District Court for Eastern District of New York rejected the case on December 15, 2016 for reason of the lack of legal jurisdiction over the Company.

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

(13) Other important risks and responsive measures: **None**

7. Other important events: **None**



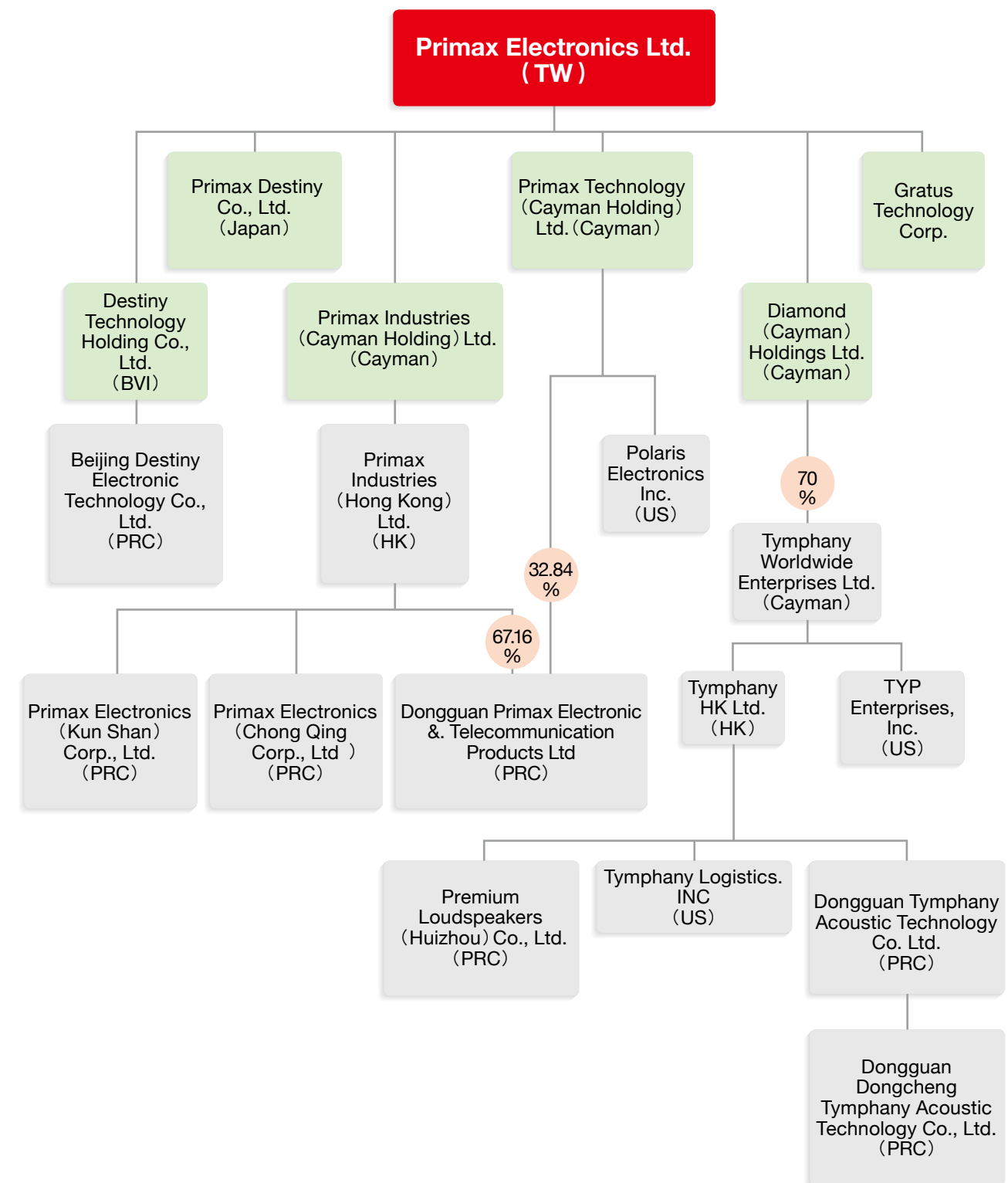
VII. Special notes

1. Affiliated company's information

(1) Affiliated company's consolidated business report

(1) Affiliated company's overview

1. Affiliated company's organizational chart (12.31.2016)



VII. Special notes



2. Affiliated company's profile

Unit: NT\$1,000 / 12.31.2016

Company Name	Establishment Date	Address	Paid-in capital	Principal businesses or production projects
Dongguan Primax Electronic & Telecommunication Products Ltd.	12.21.1995	B4079, Liu Wu Dao Section, Xincheng Qu, Shijie Chen, Dongguan City	2,075,044	Produce and sell PC peripherals, mobile device components, business equipment and other products.
Primax (Kunshan) Electronics Co., Ltd.	11.17.2009	No. 2688 Tong Xin Road, Yushan Zhen, Kunshan City	908,593	Produce PC peripheral products.
Primax Electronics (Chongqing) Corp. Ltd.	02.23.2011	No. 999, Building No. 1, Xing Guang Blvd, Yongcuan Qu, Chongqing City	583,149	Produce PC peripheral products.
Beijing Destiny Electronic Technology Corp., Ltd	03.24.1994	Suite 201-202, 2F., No. 10, He Fang Road, Dinghai District, Beijing	41,105	Research and develop PC peripheral products and business equipment.
Destiny Technology (Japan) Corp., Ltd	07.28.1995	6th Fl., Hamamatsucho MK Bldg., 1-4-12 Kaigan, Minato-ku, Tokyo 105-0022 JAPAN	6,933	PC peripherals, mobile device components, business equipment, other products of Market development, customer service, etc.
Polaris Electronics, Inc.	04.24.1996	356 S. Milpitas Blvd, Milpitas. CA. 95035 USA	51,646	Trading of PC peripherals, mobile device components, business equipment, and market development and customer service.
Primax Industries (Hong Kong) Ltd.	05.19.1989	Rm.1520-21, 15/F., Block A, Hi-Tech Industrial Centre, 5-21 Pak Tin Par Street, Tsuen Wan, N.T., Hong Kong.	2,509,105	Trading of PC peripherals, mobile device components, business equipment.
Primax Technology (Cayman Holding) Ltd.	10.08.1997	2nd Floor, Midtown Plaza, Elgin Avenue, George Town, Grand Cayman KY1-1106, Cayman Islands.	920,167	Holding company
Primax Industries (Cayman Holding) Ltd.	10.24.1996	2F, Zephyr House, Mary St. P.O. Box 709, George Town, Grand Cayman, Cayman Islands, British West Indies.	2,629,975	Holding company
Destiny Technology Holding Co., Ltd.	01.19.2001	Sealight House, Tortola, British Virgin Islands	33,893	Holding company
Diamond (Cayman) Holdings Ltd.	10.08.2013	P.O. Box 32052, The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, Grand Cayman, KY1-1208 Cayman Islands.	2,713,050	Holding company
Tymphany Worldwide Enterprises Ltd.	10.29.2013	P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands.	550,010	Holding company
TYP Enterprises, Inc.	01.06.2014	3 Harbor Drive, Suite 209 Sausalito, CA94965	16	Market development and customer service of speakers and its parts and components.
Tymphany HK Ltd.	05.11.1995	ROOM 1307-8 DOMINION CENTRE. 43-59 QUEENS ROAD EAST, WANCHAI, HONG KONG	601,015	Holding company and sale of sound system accessories, speakers and parts and components, related market development and customer service.

Unit: NT\$1,000 / 12.31.2016

Company Name	Establishment Date	Address	Paid-in capital	Principal businesses or production projects
Premium Loudspeakers (Huizhou) Co., Ltd.	08.09.2004	Tiffany Industrial Park, Xinlian Village, Xinxu Town, Huiyang District, Huizhou, Guangdong Province	146,303	Research and development, design and sale of various sound system accessories, speakers and parts and components.
TYMPHANY LOGISTICS, INC	04.29.2015	356 S. Milpitas Blvd, Milpitas. CA. 95035 USA	6,456	Sale of sound system accessories, speakers and parts and components.
Dongguan Tymphany Acoustic Technology Co., Ltd	09.06.2015	Liu Wu Dao Section, Xincheng Qu, Shijie Chen, Dongguan City	16,140	Research and development, design and sale of various sound system accessories, speakers and parts and components.
Dongguan Dongcheng Tymphany Acoustic Technology Co., Ltd	10.11.2016	No. 27, Dayuan Road, Zhang Village, Dongcheng District, Dongguan	93,064	Research and development, design and sale of various sound system accessories, speakers and parts and components.
Gratus Technology Corp	04.01.2015	356 S. Milpitas Blvd, Milpitas. CA. 95035 USA	9,684	Market development and customer service in PC peripherals, mobile device components, and business equipment.

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

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

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

12.31.2016

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



12.31.2016

Company Name	Title	Name or representative
Beijing Destiny Electronic Technology Corp. Ltd.	Chairman	Destiny Technology Holding Co., Ltd. Representative: Liang, Li-Sheng
	Director	Destiny Technology Holding Co., Ltd. Representative: Yang, Hai-Hung
	Director	Destiny Technology Holding Co., Ltd. Representative: Ying, Chung-Wen
	General Manager	Wei, Hao-San
Destiny Technology (Japan) Corp. Ltd.	Director	Wei, Hao-San
	Director	Pan, Yung-Chung
	Director	Lee, Yi-Ping
	Supervisor	Chou, Yen-Chou
Polaris Electronics, Inc.	Director	Yang, Hai-Hung
	Director	Liang, Li-Sheng
Primax Industries (Hong Kong) Ltd.	Director	Liang, Li-Sheng
	Director	Yang, Hai-Hung
Primax Technology (Cayman Holding) Ltd.	Director	Liang, Li-Sheng
	Director	Yang, Hai-Hung
	Director	Lee, Yi-Ping
Primax Industries (Cayman Holding) Ltd.	Director	Liang, Li-Sheng
	Director	Yang, Hai-Hung
	Director	Lee, Yi-Ping
Destiny Technology Holding Co., Ltd.	Director	Liang, Li-Sheng
Diamond (Cayman) Holdings Ltd.	Director	Primax Electronics Ltd. Representative: Liang, Li-Sheng Lee, Yi-Ping
Tymphany Worldwide Enterprises Ltd.	Director	Diamond (Cayman) Holdings Ltd. Representative: Liang, Li-Sheng Yang, Hai-Hung Pan, Yung-Chung Pan, Yung-Tai
		United Industrial Development Limited Representative: Edward Townsend Boyd III Thomas Lee Jacoby
TYP Enterprises, Inc.	Director	Edward Townsend Boyd III Thomas Lee Jacoby Representative: Pan, Yung-Chung
Tymphany HK Ltd.	Director	Edward Townsend Boyd III Representative: Pan, Yung-Chung
Premium Loudspeakers (Huizhou) Co., Ltd	Executive Director	Representative: Pan, Yung-Chung
	Supervisor	Lee, Yi-Ping
TYMPHANY LOGISTICS, INC	Director	Liang, Li-Sheng
Dongguan Tymphany Acoustic Technology Co., Ltd	Executive Director	Representative: Pan, Yung-Chung
	Supervisor	Lee, Yi-Ping
Dongguan Dongcheng Tymphany Acoustic Technology Co., Ltd	Executive Director	Representative: Wu, Chih-Ming
	Supervisor	Pan, Yen-Jen
Gratus Technology Corp.	Director	Liang, Li-Sheng
	Director	Yang, Hai-Hung

(2) Affiliated company's operation overview

Unit: NT\$1,000 / 12.31.2016

Company Name	Capital amount	Total assets	Total liabilities	Net worth	Operating sales	Operating income	Earnings in current period (After tax)	Earnings per share (NT\$) (After tax)
Dongguan Primax Electronic &Telecommunication Products Co., Ltd.	2,075,044	18,213,585	13,757,449	4,456,136	45,237,957	413,292	(103,572)	—
Primax Electronics (Kunshan) Co., Ltd.	908,593	1,272,998	352,407	920,591	1,013,113	34,857	69,114	—
Primax Electronics (Chongqing) Corp. Ltd.	583,149	3,488,733	2,573,537	915,196	5,879,924	170,030	246,273	—
Beijing Destiny Electronic Technology Co., Ltd.	41,105	56,606	30,290	26,316	109,530	(8,318)	(3,452)	—
Destiny Technology (Japan) Co., Ltd.	6,933	19,228	3,082	16,146	25,704	1,224	242	484.00
Polaris Electronics, Inc.	51,646	1,358,038	963,716	394,322	3,910,475	17,077	11,071	6.92
Primax Industries (Hong Kong) Ltd.	2,509,105	4,771,167	337,205	4,433,962	16,363,218	503	213,540	0.35
Primax Technology (Cayman Holding) Ltd.	920,167	1,955,366	0	1,955,366	0	(206)	(24,669)	(0.09)
Primax Industries (Cayman Holding) Ltd.	2,629,975	4,501,546	54,393	4,447,153	632,059	(1,538)	211,690	0.03
Destiny Technology Holding Co., Ltd.	33,893	26,320	0	26,320	0	0	(3,452)	(3.29)
Diamond (Cayman) Holdings Ltd.	2,713,050	3,007,259	0	3,007,259	(139)	(18,271)	144,863	1.72
Tymphany Worldwide Enterprises Ltd.	550,010	1,634,075	71,029	1,563,046	261,293	11,582	349,720	9.08
Tymphany HK Ltd.	601,015	4,514,701	2,974,575	1,540,126	8,605,899	188,644	337,425	2.34
TYP Enterprises, Inc.	16	37,723	32,847	4,876	127,165	4,731	2,692	5,384.00
Premium Loudspeakers (Huizhou) Co., Ltd.	146,303	1,816,872	1,230,103	586,768	4,054,479	88,273	125,942	—
Dongguan Tymphany Acoustic Technology Co., Ltd	16,140	2,003,048	1,954,613	48,435	3,878,361	45,143	35,972	—
Gratus Technology Corporation	9,684	10,141	266	9,875	4,307	244	75	0.25





Unit: NT\$1,000 / 12.31.2016

Company Name	Capital amount	Total assets	Total liabilities	Net worth	Operating sales	Operating income	Earnings in current period (After tax)	Earnings per share (NT\$) (After tax)
Tymphony Logistics, Inc.	6,456	1,173,362	1,163,795	9,567	1,986,995	6,268	3,436	17.18
Dongguan Dongcheng Tymphony Acoustic Technology Co., Ltd	93,064	94,402	1,339	93,063	0	0	0	—

- (2) Affiliated company's consolidated financial statements:**
- (1) Declaration of affiliated company's Consolidated Financial Statements: See Page 88.
 - (2) Independent Auditor's Report on the affiliated company's consolidated financial statements: See Page 89 ~ 180.
- (3) Relations Report: Not applicable**

- 2. The process of private placement in the most recent year and as of the printing date of the annual report: None
- 3. The disposition of the Company's stock shares by the subsidiaries in the most recent year and as of the printing date of the annual report: None
- 4. Other supplementary information: None
- 5. The occurrence of the events affecting shareholders' equity or securities price as defined in Article 36, Paragraph 3 Section 2 of Securities Exchange Act in the most recent year and as of the printing date of the annual report: None



VIII. Financial review

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

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

Unit: NT\$1,000

Item	Year	Financial Summary for The Last Five years (Note 1)				
		2012	2013	2014	2015	2016
Current assets		15,384,183	17,385,420	23,078,336	30,413,161	27,799,554
Property, plant and equipment		3,822,324	3,389,048	3,935,145	6,284,023	4,717,422
Intangible assets		54,961	46,479	2,916,644	3,322,191	2,673,670
Other assets		757,256	769,975	1,093,648	1,712,358	1,931,403
Total assets		20,018,724	21,590,922	31,023,773	41,731,733	37,122,049
Current liabilities	Before distribution	12,648,580	13,828,775	19,254,757	26,154,964	22,801,219
	After distribution	13,295,599	14,175,880	20,045,864	27,082,897	23,913,105
Non-current liabilities		144,506	220,580	1,460,269	2,660,184	2,076,372
Total liabilities	Before distribution	12,793,086	14,049,355	20,715,026	28,815,148	24,877,591
	After distribution	13,440,105	14,396,460	21,506,133	29,743,081	25,989,477
Equity attributable to Shareholders of the Parent		7,224,867	7,541,567	9,150,513	10,430,381	10,999,724
Capital stock		4,292,492	4,339,529	4,385,481	4,427,051	4,424,367
Capital surplus		607,334	648,747	673,543	777,368	791,466
Retained earnings	Before distribution	2,462,943	2,485,712	3,686,641	4,660,556	5,665,353
	After distribution	1,815,924	2,138,607	2,895,534	3,732,623	4,553,467
Other equity		(137,902)	67,579	404,848	565,406	118,538
Treasury stock		—	—	—	—	—
Non-controlling Interests		771	—	1,158,234	2,486,204	1,244,734
Total shareholders' equity	Before distribution	7,225,638	7,541,567	10,308,747	12,916,585	12,244,458
	After distribution	6,578,619	7,194,462	9,517,640	11,988,652	11,132,572

Note 1: The financial information from 2012 to 2016 has been audited by the CPAs.

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

Unit: NT\$1,000

Item	Year	Financial Summary for The Last Five Years (Note 1)				
		2012	2013	2014	2015	2016
Current assets		9,913,021	10,459,628	13,197,595	16,329,746	16,123,543
Investments accounted for using equity method		3,778,057	4,745,311	8,596,698	10,088,961	9,317,894
Property, plant and equipment		57,728	63,517	61,287	65,554	68,785
Intangible assets		54,961	46,479	37,997	29,514	22,966
Other assets		432,405	429,204	659,461	1,182,141	1,551,115
Total assets		14,236,172	15,744,139	22,553,038	27,695,916	27,084,303
Current liabilities	Before distribution	6,893,386	8,002,029	12,157,266	15,204,972	13,579,780
	After distribution	7,540,405	8,349,134	12,948,373	16,132,905	14,691,666
Non-current liabilities		117,919	200,543	1,245,259	2,060,563	2,504,799
Total liabilities	Before distribution	7,011,305	8,202,572	13,402,525	17,265,535	16,084,579
	After distribution	7,658,324	8,549,677	14,193,632	18,193,468	17,196,465
Shareholders' equity		7,224,867	7,541,567	9,150,513	10,430,381	10,999,724
Capital stock		4,292,492	4,339,529	4,385,481	4,427,051	4,424,367
Capital surplus		607,334	648,747	673,543	777,368	791,466
Retained earnings	Before distribution	2,462,943	2,485,712	3,686,641	4,660,556	5,665,353
	After distribution	1,815,924	2,138,607	2,895,534	3,732,623	4,553,467
Other equities		(137,902)	67,579	404,848	565,406	118,538
Treasury stock		—	—	—	—	—
Total shareholders' equity	Before distribution	7,224,867	7,541,567	9,150,513	10,430,381	10,999,724
	After distribution	6,577,848	7,194,462	8,359,406	9,502,448	9,887,838

Note 1: The financial information from 2012 to 2016 has been audited by the CPAs.

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

Unit: NT\$1,000

Item	Year	Financial Summary for The Last Five Years (Note 1)				
		2012	2013	2014	2015 (restated)	2016
Operating revenue		43,132,771	42,319,988	52,239,777	63,538,187	64,329,462
Gross profit		4,497,277	3,752,695	6,218,799	6,743,265	7,267,187
Net operating income		1,404,096	694,444	1,829,742	2,106,868	2,373,471
Non-operating income and expenses		172,794	216,308	217,839	311,034	390,981
Income before income taxes		1,576,890	910,752	2,047,581	2,417,902	2,764,452
Net income of the continued operations		1,183,698	668,554	1,608,967	1,786,893	1,986,766
Loss from discontinued operations		—	—	—	30,042	61,896
Net income		1,183,698	668,554	1,608,967	1,816,935	2,048,662
Other comprehensive income (after tax)		(137,661)	239,067	342,273	225,310	(547,079)
Total comprehensive income		1,046,037	907,621	1,951,240	2,042,245	1,501,583
Net income attributable to stockholders of the Parent		1,183,461	668,548	1,544,690	1,773,122	1,934,070
Net income attributable to non-controlling interests		237	6	64,277	43,813	114,592
Total comprehensive income attributable to stockholders of the Parent		1,045,995	907,589	1,871,224	1,987,738	1,432,480
Total comprehensive income attributable to non-controlling interests		42	32	80,016	54,507	69,103
Earnings per share (Note 2)		2.91	1.55	3.57	4.06	4.4

Note 1: The financial information from 2012 to 2016 has been audited by the CPAs.

Note 2: Basic earnings per share.

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

Unit: NT\$1,000

Item	Year	Financial Summary for The Last Five Years (Note 1)				
		2012	2013	2014	2015	2016
Operating revenue		39,129,275	37,257,934	42,356,385	51,638,181	45,739,783
Gross profit		3,200,641	2,471,611	2,665,779	2,934,548	3,633,341
Net operating income		1,323,770	737,781	753,349	926,670	1,549,861
Non-operating income and expenses		100,150	121,510	879,985	1,007,253	797,663
Income before income taxes		1,423,920	859,291	1,633,334	1,933,923	2,347,524
Net income of the continued operations		1,183,461	668,548	1,544,690	1,773,122	1,934,070
Loss from discontinued operations		—	—	—	—	—
Net income		1,183,461	668,548	1,544,690	1,773,122	1,934,070
Other comprehensive income (after tax)		(137,466)	239,041	326,534	214,616	(501,590)
Total comprehensive income		1,045,995	907,589	1,871,224	1,987,738	1,432,480
Earnings per share (Note 2)		2.91	1.55	3.57	4.06	4.4

Note 1: The financial information from 2012 to 2016 has been audited by the CPAs.

Note 2: Basic earnings per share.

(5) Auditors' Opinions from 2012 to 2016

Year	Accounting Firm	CPA	Audit Opinion
2012	KPMG	Wu, Mei-Pin and Chen, Cheng-Chien	Unqualified opinion
2013	KPMG	Wu, Mei-Pin and Chen, Cheng-Chien	Unqualified opinion
2014	KPMG	Wu, Mei-Pin and Chen, Cheng-Chien	Modified unqualified opinions
2015	KPMG	Huang, Yung-Hua and Yu, Chi-Lung	Modified unqualified opinions
2016	KPMG	Huang, Yung-Hua and Yu, Chi-Lung	Unqualified opinions

2. The financial analysis of the last five years

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

Analysis items		Year				
		The financial analysis of the last five years				
		2012	2013	2014	2015 (restated)	2016
Financial structure (%)	Debit ratio	63.91	65.07	66.77	69.05	67.02
	Ratio of long-term fund to property, plant and equipment	192.82	229.04	299.07	247.88	303.57
Solvency (%)	Current ratio	121.63	125.72	119.86	116.28	121.92
	Quick ratio	79.45	93.98	92.42	86.61	90.80
	Times interest earned (times)	35.43	53.34	31.76	17.52	31.55
Operating performance	Account receivable turnover (times)	7.18	5.65	5.72	5.11	4.59
	Days sales outstanding	50.84	64.60	63.81	71.43	79.52
	Inventory turnover days (times)	7.13	8.39	10.26	9.34	8.14
	Account payable turnover (times)	3.96	3.86	3.99	3.62	3.20
	Average day in sales	51.19	43.52	35.58	39.08	44.84
	Property, plant and equipment turnover (times)	11.23	11.74	14.26	12.44	11.69
	Total assets turnover (times)	2.25	2.03	1.99	1.75	1.89
Profitability	Return on total assets (%)	6.36	3.28	6.33	5.33	5.39
	Return on shareholders' equity (%)	18.25	9.06	18.03	15.65	16.28
	Pre-tax income to paid-in capital (%)	36.93	21.00	47.11	54.80	62.53
	Net margin (%)	2.74	1.58	3.08	2.86	3.18
	Earnings per share (NT\$)	2.91	1.55	3.57	4.06	4.40
Cash flow	Cash flow ratio (%)	11.02	21.63	17.42	19.20	10.01
	Cash flow adequacy ratio (%)	114.18	159.46	179.72	132.27	128.21
	Cash reinvestment ratio (%)	11.51	19.76	21.34	23.31	7.80
Leverage	Operating leverage	1.75	2.60	1.65	1.64	1.66
	Financial leverage	1.03	1.03	1.04	1.07	1.04
Explain the changes in financial ratios over the last two years. (It is not necessary to analyze the changes for less than 20%)						
1. Ratio of long-term fund to property, plant and equipment: the ratio moved upward mainly due to the decrease of property, plant and equipment in 2016. 2. Times interest earned: the ratio moved upward mainly because the profit position in 2016 has improved with decrease of interest expense. 3. Cash flow ratio: the cash flow ratio moved downward in 2016 mainly because of the decrease of net cash flow from operating activities. 4. Cash reinvestment ratio: the ratio moved downward in 2016 mainly because of decrease of net cash flow from operating activities.						

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

Analysis items		Year				
		The financial analysis of the last five years				
		2012	2013	2014	2015	2016
Financial structure (%)	Debit ratio	49.25	52.10	59.43	62.34	59.39
	Ratio of long-term fund to property, plant and equipment	12,719.63	12,189.04	16,962.44	19,054.43	19,632.95
Solvency (%)	Current ratio	143.80	130.71	108.56	107.40	118.73
	Quick ratio	115.09	108.15	96.38	90.46	101.67
	Times interest earned (times)	40.61	52.96	27.92	37.23	74.85
Operating performance	Account receivable turnover (times)	8.18	5.82	5.52	6.11	5.49
	Days sales outstanding	44.62	62.71	66.12	59.74	66.48
	Inventory turnover days (times)	14.50	18.68	24.45	24.29	17.38
	Account payable turnover (times)	6.27	6.11	5.63	5.03	3.92
	Average day in sales	25.17	19.54	14.93	15.03	21.00
	Property, plant and equipment turnover (times)	658.97	614.59	678.77	814.22	680.96
	Total assets turnover (times)	2.86	2.49	2.21	2.06	1.67

Analysis items		Year				
		The financial analysis of the last five years				
		2012	2013	2014	2015	2016
Profitability	Return on total assets (%)	8.86	4.55	8.33	7.23	7.16
	Return on shareholders' equity (%)	18.25	9.05	18.51	18.11	18.05
	Pre-tax income to paid-in capital (%)	33.35	19.82	37.58	43.83	53.10
	Net margin (%)	3.02	1.79	3.65	3.43	4.23
	Earnings per share (NT\$)	2.91	1.55	3.57	4.06	4.40
Cash flow	Cash flow ratio (%)	0.81	12.33	12.46	6.82	29.33
	Cash flow adequacy ratio (%)	24.91	103.17	192.99	103.65	172.23
	Cash reinvestment ratio (%)	3.43	4.31	11.06	2.03	23.82
Leverage	Operating leverage	1.04	1.06	1.05	1.04	1.02
	Financial leverage	1.03	1.02	1.09	1.06	1.02
Explain the changes in financial ratios over the last two years. (It is not necessary to analyze the changes for less than 20%)						
1. Times interest earned: the ratio moved upward in 2016 mainly because of the improved profit position with the decrease of interest expense. 2. Inventory turnover days: the turnover days moved downward in 2016 mainly because of the growth of gross margin and the decrease of the cost of goods sold. 3. Account payable turnover: the turnover rate moved downward in 2016 mainly because of the growth of gross margin and the decrease of the cost of goods sold. 4. Average day in sales: average day in sales moved upward in 2016 mainly because of the decrease of inventory turnover. 5. Pre-tax income to paid-in capital: the ratio moved upward in 2016 mainly because of the increase of pre-tax income in 2016. 6. Net margin: the ratio moved upward mainly because of the increase of net income in 2016. 7. Cash flow ratio: the ratio moved upward mainly because of the increase of net cash flow from operating activities with the decrease of current liabilities in 2016. 8. Cash flow adequacy ratio: the ratio moved upward mainly because of the increase of net cash flow from operating activities in 2016. 9. Cash reinvestment ratio: the ratio moved upward mainly because of the increase of cash flow from operating activities in 2016.						

1. Financial structure

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

2. Solvency

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

3. Operating performance

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

4. Profitability

- (1) Return on total assets = [Net income + Interest expense × (1 - tax rate)] / Average total assets
- (2) Return on shareholders' equity = Net Income attributable to shareholders of the parent / Average equity attributable to shareholders of the parent
- (3) Net margin = Net income / Net sales
- (4) Earnings per share = (Net income attributable to shareholders of the parent - preferred stock dividend) / Weighted average number of shares outstanding

5. Cash flows

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

6. Leverage:

- (1) Operating leverage = (Net sales - variable costs) / Income from operations
- (2) Financial leverage = Income from operations / (Income from operations - interest expenses)

3. The Audit Committee's review report on the 2016 financial statements

The Audit Committee's review report

The Board of Directors has prepared the Company's 2016 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of KPMG was retained to audit Primax's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of PRIMAX Electronics Limited. According to Article 219 of the Company Law, we hereby submit this report.

PRIMAX Electronics Limited – Shareholders' Meeting

Chairman of the Audit Committee:

Wei, Yong Du

March 7 2017



4. The 2016 consolidated financial statements and notes had been audited by the CPAs

Representation Letter

The entities that are required to be included in the combined financial statements of PRIMAX ELECTRONICS LTD. as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, PRIMAX ELECTRONICS LTD. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: PRIMAX ELECTRONICS LTD.
Chairman: LIANG LI SHENG
Date: March 7, 2017



安侯建業聯合會計師事務所

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Independent Auditors' Report

To the Board of Directors of PRIMAX ELECTRONICS LTD.:

Opinion

We have audited the consolidated financial statements of PRIMAX ELECTRONICS LTD. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Other Matter

We did not audit the financial statements of certain subsidiaries. Those financial statements were audited by other auditors. Therefore, our opinion, insofar as it relates to those subsidiaries, is based solely on the reports of the other auditors. As of December 31, 2016 and 2015, the assets of these subsidiaries constitute 14% and 17%, respectively, of the consolidated total assets. For the years ended December 31, 2016 and 2015, the operating revenue of these subsidiaries constitute 14% and 13%, respectively, of the consolidated operating revenue.

PRIMAX ELECTRONICS LTD. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unmodified opinion with other matter paragraph.

Key Audit Matters

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

1. Evaluation of inventories

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

Description of key audit matter:

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

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the policies of evaluating the inventories of the Group; inspecting whether existing inventory policies are applied; examine the accuracy of the aging of inventories by sampling and analyse the changes of the aging of inventories; inspecting the reasonability for allowance provided on inventory valuation in the past and compare it to the current year to ensure that the measurements and assumptions are reasonable; sampling the inventories sold in the subsequent period to assess whether the allowance for inventories are reasonable.

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

2. Impairment assessment of intangible assets

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

3. Disposal of subsidiaries

Please refer to Note 4(c) "Basis of consolidation", Note 4(i) "Discontinued operations", Note 6 (g) "Loss of control of subsidiaries", and Note 12 (b) "Discontinued operations" of the consolidated financial statements.

Description of key audit matter:

The Company sold parts of its shares in its subsidiary, Global TEK Fabrication Co., Ltd, and lost control over the subsidiary on October 3, 2016. This is a non-recurring transaction to the Group, wherein the trading parties are its related parties. Therefore, the disposal of subsidiaries is one of the key audit matters for our audit.

How the matter was addressed in our audit:

The principal audit procedures on the disposal of its subsidiary included: assessing whether the transactions complying with the Regulations Governing the Acquisition and Disposal of Assets by Public Companies and the Regulation of Internal Control System of PRIMAX ELECTRONICS LTD.; reading the contracts to fully understand the trading parties involved, prices, and other agreements; inspecting the external materials of cash proceeds and amendment of shares register; obtaining the audit report from other auditors on the date the Group lost its control over the subsidiary to be the base to derecognize the assets and liabilities of the subsidiary and to present its operating results as discontinued operation in the consolidated statement of comprehensive income. Evaluating the completeness of the disclosure in the the consolidated financial reports.

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

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

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

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



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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are YUNG-HUA HUANG and CHI-LUNG YU.

KPMG

Taipei, Taiwan (Republic of China)
March 7, 2017

Notes to Readers

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

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



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

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Assets				
Current assets:				
1100 Cash and cash equivalents (note 6(a))	\$ 6,359,916	17	\$ 7,623,380	18
1110 Current financial assets at fair value through profit or loss (note 6(b))	141,317	-	88,717	-
1170 Notes and accounts receivable, net (note 6(d))	13,603,873	37	14,424,622	35
1180 Accounts receivable from related parties, net (notes 6(d) and 7)	102,841	-	54,995	-
1200 Other receivables, net (note 6(d))	495,392	2	462,242	1
1310 Inventories (note 6(e))	6,670,547	18	7,350,609	18
1470 Other current assets (note 8)	425,668	1	408,596	1
	<u>27,799,554</u>	<u>75</u>	<u>30,413,161</u>	<u>73</u>
Non-current assets:				
1523 Available-for-sale financial assets – non-current (note 6(e))	887,801	2	584,430	1
1600 Property, plant and equipment (notes 6(f) and 8)	4,717,422	13	6,284,023	15
1760 Investment property (note 6(j))	35,677	-	258,709	1
1780 Intangible assets (note 6(k))	2,673,670	7	3,322,191	8
1840 Deferred tax assets (note 6(p))	570,205	2	390,414	1
1985 Long-term prepaid rents (note 8)	264,014	1	306,125	1
1990 Other non-current assets (note 8)	173,706	-	172,680	-
	<u>9,322,495</u>	<u>25</u>	<u>11,318,572</u>	<u>27</u>
Total assets	<u>\$ 37,122,049</u>	<u>100</u>	<u>\$ 41,731,733</u>	<u>100</u>
Liabilities and Equity				
Current liabilities:				
Short-term borrowings (note 6(i))	2100		2100	
Notes and accounts payable	2170		2170	
Current financial liabilities at fair value through profit or loss (note 6(b))	2120		2120	
Other payables (note 7)	2200		2201	
Salary payable (note 6(r))	2201		2201	
Other current liabilities	2300		2300	
Long-term borrowings, current portion (note 6(m))	2320		2320	
	<u>27,799,554</u>	<u>75</u>	<u>30,413,161</u>	<u>73</u>
Non-current liabilities:				
Long-term borrowings (note 6(m))	2540		2540	
Long-term deferred revenue (note 6(i))	2630		2630	
Other non-current liabilities (notes 6(o) and (p))	2600		2600	
Total liabilities				
Equity attributable to owners of parent:				
Ordinary shares (note 6(q))	3110		3110	
Capital collected in advance (note 6(q))	3140		3140	
Capital surplus (note 6(q))	3200		3200	
Legal reserve (note 6(q))	3310		3310	
Special reserve (note 6(q))	3320		3320	
Unappropriated retained earnings (note 6(q))	3350		3350	
Other equity interest	3400		3400	
Non-controlling interests (note 6(h))	36XX		36XX	
Total equity				
Total liabilities and equity	<u>\$ 37,122,049</u>	<u>100</u>	<u>\$ 41,731,733</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

	2016		2015 (restated)	
	Amount	%	Amount	%
4000 Operating revenue (notes 6(t) and 7)	\$ 64,329,462	100	\$ 63,538,187	100
5000 Operating costs (notes 6(e), (o), (q), (r), (u) and 12)	<u>57,062,275</u>	<u>89</u>	<u>56,794,922</u>	<u>89</u>
Gross profit	<u>7,267,187</u>	<u>11</u>	<u>6,743,265</u>	<u>11</u>
Operating expenses (notes 6(f), (o), (q), (r), (u) and 12):				
6100 Selling expenses	1,555,372	2	1,445,224	2
6200 Administrative expenses	1,134,095	2	1,147,541	2
6300 Research and development expenses	<u>2,204,249</u>	<u>3</u>	<u>2,043,632</u>	<u>3</u>
Total operating expenses	<u>4,893,716</u>	<u>7</u>	<u>4,636,397</u>	<u>7</u>
Net operating income	<u>2,373,471</u>	<u>4</u>	<u>2,106,868</u>	<u>4</u>
Non-operating income and expenses:				
7010 Other income (note 6(v))	149,924	-	173,459	-
7020 Other gains and losses (notes 6(c), (g) and (w))	331,952	-	280,153	-
7070 Share of profit of subsidiaries accounted for using equity method	-	-	3,772	-
7050 Finance costs	<u>(90,895)</u>	<u>-</u>	<u>(146,350)</u>	<u>-</u>
Total non-operating income and expenses	<u>390,981</u>	<u>-</u>	<u>311,034</u>	<u>-</u>
Profit from continuing operations before tax	<u>2,764,452</u>	<u>4</u>	<u>2,417,902</u>	<u>4</u>
Less: income tax expense (note 6(p))	<u>777,686</u>	<u>1</u>	<u>631,009</u>	<u>1</u>
Profit from continuing operations	<u>1,986,766</u>	<u>3</u>	<u>1,786,893</u>	<u>3</u>
8100 Profit from discontinued operations, net of tax (note 12(b))	<u>61,896</u>	<u>-</u>	<u>30,042</u>	<u>-</u>
Profit	<u>2,048,662</u>	<u>3</u>	<u>1,816,935</u>	<u>3</u>
8300 Other comprehensive income (loss):				
8310 Items that may not be reclassified subsequently to profit or loss:				
8311 Actuarial gains (losses) on defined benefit plans	<u>(1,340)</u>	<u>-</u>	<u>(8,540)</u>	<u>-</u>
	<u>(1,340)</u>	<u>-</u>	<u>(8,540)</u>	<u>-</u>
8360 Items that may be reclassified subsequently to profit or loss:				
8361 Exchange differences on translation of foreign operation's financial statements	(656,445)	(1)	(60,203)	-
8362 Unrealised gains on available-for-sale financial assets (notes 6(c) and (x))	110,706	-	294,053	-
8399 Income tax expense related to items that may be reclassified to profit or loss	-	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss	<u>(545,739)</u>	<u>(1)</u>	<u>233,850</u>	<u>-</u>
8300 Other comprehensive income after tax	<u>(547,079)</u>	<u>(1)</u>	<u>225,310</u>	<u>-</u>
Comprehensive income	<u>\$ 1,501,583</u>	<u>2</u>	<u>\$ 2,042,245</u>	<u>3</u>
Profit attributable to:				
8610 Owners of parent	\$ 1,934,070	3	\$ 1,773,122	3
8620 Non-controlling interests	<u>114,592</u>	<u>-</u>	<u>43,813</u>	<u>-</u>
	<u>\$ 2,048,662</u>	<u>3</u>	<u>\$ 1,816,935</u>	<u>3</u>
Comprehensive income attributable to:				
8710 Owners of parent	\$ 1,432,480	2	\$ 1,987,738	3
8720 Non-controlling interests	<u>69,103</u>	<u>-</u>	<u>54,507</u>	<u>-</u>
	<u>\$ 1,501,583</u>	<u>2</u>	<u>\$ 2,042,245</u>	<u>3</u>
Earnings per share (note 6(s))				
9710 Basic earnings per share (NT dollars)				
Profit from continuing operations	\$ 4.36		\$ 4.04	
Profit from discontinued operations	<u>0.04</u>	<u>-</u>	<u>0.02</u>	<u>-</u>
Profit per share	<u>\$ 4.40</u>	<u>-</u>	<u>\$ 4.06</u>	<u>-</u>
9810 Diluted earnings per share (NT dollars)				
Profit from continuing operations	\$ 4.32		\$ 3.99	
Profit from discontinued operations	<u>0.04</u>	<u>-</u>	<u>0.02</u>	<u>-</u>
Profit per share	<u>\$ 4.36</u>	<u>-</u>	<u>\$ 4.01</u>	<u>-</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent												
	Share capital		Retained earnings					Exchange differences on translation of foreign operation's financial statements			Total equity attributable to owners of parent	Non-controlling interests	Total equity
Ordinary shares	Capital collected in advance	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Unrealized gains (losses) on available-for-sale financial assets	Unearned employee compensation						
Balance at January 1, 2015	\$ 4,346,578	38,903	673,543	456,853	97,300	3,132,488	422,382	707	(18,241)	1,158,234	10,308,747		
Profit	-	-	-	-	-	1,773,122	(71,337)	-	-	1,773,122	1,816,935		
Other comprehensive income	-	-	-	-	-	(8,100)	(71,337)	294,053	-	214,616	225,310		
Comprehensive income	-	-	-	-	-	1,765,022	(71,337)	294,053	-	1,987,738	2,042,245		
Appropriation and distribution of retained earnings:													
Legal reserve	-	-	-	154,469	-	(154,469)	-	-	-	-	-		
Cash dividends on ordinary share	-	-	-	-	-	(791,107)	-	-	-	(791,107)	-		
Issuance of restricted employee stock	30,000	-	91,693	-	-	-	-	-	(121,693)	-	-		
Retirement of restricted employee stock	(2,800)	-	(10,258)	-	-	-	-	-	13,058	-	-		
Amortization expense of restricted employee stock	-	-	-	-	-	-	-	-	46,477	-	46,477		
Compensation cost of share-based payment	-	-	-	4,087	-	-	-	-	-	4,087	4,740		
Exercise of employee stock option	-	32,673	-	-	-	-	-	-	-	-	32,673		
Issuance of ordinary shares for employees stock option and abandonment	38,099	(56,402)	18,303	-	-	-	-	-	-	-	-		
Acquire non-controlling interests in a business combination	4,411,877	15,174	777,368	611,322	97,300	3,951,934	351,045	294,760	(80,399)	10,430,381	12,916,585		
Balance at December 31, 2015	-	-	-	-	-	1,934,070	(610,956)	110,706	-	114,592	2,048,662		
Profit	-	-	-	-	-	(1,340)	(610,956)	110,706	-	(501,590)	(547,079)		
Other comprehensive income	-	-	-	-	-	1,932,730	(610,956)	110,706	-	1,432,480	1,501,583		
Comprehensive income	-	-	-	-	-	-	-	-	-	-	-		
Appropriation and distribution of retained earnings:													
Legal reserve	-	-	-	177,312	-	(177,312)	-	-	-	-	-		
Cash dividends on ordinary share	-	-	-	-	-	(927,933)	-	-	-	(927,933)	-		
Retirement of restricted employee stock	(3,850)	-	(6,350)	-	-	-	-	-	10,200	-	-		
Amortization expense of restricted employee stock	-	-	-	-	-	-	-	-	43,182	-	43,182		
Compensation cost of share-based payment	-	-	-	-	-	-	-	-	-	2,517	3,596		
Exercise of employee stock option	-	19,097	-	-	-	-	-	-	-	-	1,079		
Issuance of ordinary shares for employees stock option and abandonment	13,316	(31,247)	17,931	-	-	-	-	-	-	19,097	-		
Exercise of ordinary shares for employees stock option and abandonment	-	-	-	-	-	-	-	-	-	-	-		
Recognise non-controlling interests due to dispose subsidiaries	-	-	-	-	-	-	-	-	-	(1,311,652)	(1,311,652)		
Balance at December 31, 2016	\$ 4,421,343	3,024	791,466	788,634	97,300	4,779,419	(259,911)	405,466	(27,017)	10,999,724	12,244,458		

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from (used in) operating activities:		
Profit from continuing operations before tax	\$ 2,764,452	2,417,902
Profit from discontinued operations before tax	105,225	55,051
Profit before tax	2,869,677	2,472,953
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	1,650,235	1,473,215
Losses related to inventories	947,465	427,434
Provision (reversal of provision) for bad debt expense and sales returns and discounts	137,481	(409)
Gain on disposal of subsidiaries	(248,006)	-
Gain on disposal of available-for-sale financial assets	(140,969)	-
Impairment losses on property, plant and equipment	86,850	-
Interest expense	98,693	160,220
Interest income	(126,400)	(161,713)
Compensation cost of share-based payment	46,778	51,217
Other	14,814	30,339
Total adjustments to reconcile profit (loss)	2,466,941	1,980,303
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss — current	(53,611)	8,771
Notes and accounts receivable	(1,165)	(3,355,531)
Accounts receivable from related parties	(47,846)	5,586
Other receivable — current and non-current	(117,856)	(80,280)
Inventories	(691,918)	(2,536,143)
Other current assets	(185,378)	162,065
Deferred tax assets	(223,244)	(222,248)
Other operating assets	(6,288)	47,455
Changes in operating assets	(1,327,306)	(5,970,325)
Notes and accounts payable	(1,271,222)	5,698,649
Salary payable	(80,924)	174,267
Other payables	224,411	1,121,644
Other current liabilities	104,737	122,026
Other operating liabilities	115,582	(1,732)
Changes in operating liabilities	(907,416)	7,114,854
Total changes in operating assets and liabilities	(2,234,722)	1,144,529
Total adjustments	232,219	3,124,832
Cash inflow generated from operations	3,101,896	5,597,785
Interest received	126,400	161,713
Interest paid	(98,448)	(160,105)
Income taxes paid	(846,899)	(577,042)
Net cash flows from operating activities	2,282,949	5,022,351
Cash flows from (used in) investing activities:		
Net cash flow from acquisition of subsidiaries	-	(39,041)
Proceeds from disposal of subsidiaries (minus subsidiaries' cash)	108,980	-
Acquisition of property, plant and equipment	(1,107,108)	(1,964,248)
Proceeds from disposal of property, plant and equipment	72,617	66,055
Acquisition of unamortized expense	(50,813)	(50,646)
Proceeds from disposal of available-for-sale financial assets	220,270	-
Other investint activities	24,063	13,276
Net cash flows used in investing activities	(731,991)	(1,974,604)
Cash flows from (used in) financing activities:		
Decrease in short-term borrowings	(974,439)	(1,100,639)
Decrease in long-term borrowings	(759,456)	(261,402)
Increase (decrease) in guarantee deposits	27,566	(46,069)
Increase in other payables to related parties	-	(61,350)
Cash dividends	(927,933)	(791,107)
Exercise of employee share options	19,097	32,673
Net cash flows used in financing activities	(2,615,165)	(2,227,894)
Effect of exchange rate changes on cash and cash equivalents	(199,257)	(10,496)
Net increase (decrease) in cash and cash equivalents	(1,263,464)	809,357
Cash and cash equivalents at beginning of period	7,623,380	6,814,023
Cash and cash equivalents at end of period	\$ 6,359,916	7,623,380

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

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

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

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

The consolidated financial statements of the Company as at and for the year ended December 31, 2015, comprised the Company and subsidiaries (together referred to as "the Group"). The major business activities of the Group were the manufacture and sale of multi-function printers, scanners, digital camera modules, computer mice, keyboards, track pads, mobile phone accessories, consumer electronics products, shredders, amplifiers, speakers, audio systems and industrial automation parts. Please refer to note 14 for further information.

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

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

The consolidated financial statements were authorized for issuance by the board of directors on March 7, 2017.

(3) New standards, amendments and interpretations adopted

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the FSC but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

(Continued)

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

- (b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC is listed below. As of the date the Group's financial statements were issued, except for IFRS 9 and IFRS 15, which should be applied starting January 1, 2018, the FSC has yet to announce the effective dates of the other IFRSs.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018

(Continued)

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts"	January 1, 2018
Annual Improvements to IFRSs 2014 - 2016 Cycle :	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
IAS 40 "Transfers of Investment Property"	January 1, 2018

Those standards that possibly impact the Company's financial statements are listed below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 28, 2014	IFRS 15 "Revenue from	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
April 12, 2016	Contracts with Customers"	

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Issuance / Release Dates	Standards or Interpretations	Content of amendment
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.
January 29, 2016	Amendments to IAS 7 "Disclosure Initiative"	The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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Issuance / Release Dates	Standards or Interpretations	Content of amendment
2016.6.20	Amendments to IFRS 2 "Clarifications of Classification and Measurement of Share based Payment Transactions"	The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: • the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; • share-based payment transactions with a net settlement feature for withholding tax obligations; and • a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
December 8, 2016	IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	The IFRIC 22 clarifies the transaction date used to determine the exchange rate. The transaction date is the date on which the Company initially recognizes the prepayment or deferred income arising from the advance consideration.

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

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

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

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

(b) Basis of preparation

(i) Basis of measurement

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

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

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

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

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

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

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

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

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

(ii) List of subsidiaries in the consolidated financial statements

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

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2016	December 31, 2015	
The Company	Primax Industries (Cayman Holding) Ltd. (Primax Cayman)	Holding company	100.00 %	100.00 %	
The Company	Primax Technology (Cayman Holding) Ltd. (Primax Tech.)	Holding company	100.00 %	100.00 %	
The Company	Destiny Technology Holding Co., Ltd. (Destiny BVI.)	Holding company	100.00 %	100.00 %	
The Company	Primax Destiny Co., Ltd. (Destiny Japan)	Market development and customer service	100.00 %	100.00 %	
The Company	Primax Electronics Korea Co., Ltd. (Primax Korea)	Market development and customer service	- %	100.00 %	Primax Korea was closed and finished the liquidation process in March 2016
The Company	Diamond (Cayman) Holdings Ltd. (Diamond)	Holding company	100.00 %	100.00 %	
The Company	Gratus Technology Corp. (Gratus Tech.)	Market development and customer service	100.00 %	100.00 %	
The Company	Global TEK Fabrication Co., Ltd. (Global TEK)	Manufacture and sale of sophisticated machinery components, automotive parts, industrial automation parts, communication parts and aerospace components	- %	30.00 %	(notes 2 & 3)
Primax Cayman	Primax Industries (Hong Kong) Ltd. (Primax HK)	Export and import trading	100.00 %	100.00 %	
Diamond	Tymphany Worldwide Enterprises Ltd. (TWEL)	Holding company	70.00 %	70.00 %	(note 1)
Global TEK	Global TEK Co., Ltd. (GT)	Manufacture of sophisticated machinery components and automotive parts	- %	100.00 %	(notes 2 & 3)
Global TEK	Global TEK Fabrication Co., Ltd. (Samoa) (GTF-S)	Holding company	- %	100.00 %	(notes 2 & 3)

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2016	December 31, 2015	
Primax HK and Primax Tech.	Dongguan Primax Electronic & Telecommunication Products Ltd. (PCH2)	Manufacture of multifunctional peripherals, computer mice, mobile phone accessories, consumer electronics products, and shredders	100.00 %	100.00 %	
Primax HK	Primax Electronics (KS) Corp., Ltd. (PKS1)	Manufacture of computer, peripherals and keyboards	100.00 %	100.00 %	
Primax HK	Primax Electronics (Chongqing) Corp., Ltd. (PCQ1)	Manufacture of computer peripherals and keyboards	100.00 %	100.00 %	
Primax Tech.	Polaris Electronics Inc. (Polaris)	Sale of multi-function printers and computer peripheral devices	100.00 %	100.00 %	
Destiny BVI.	Destiny Electronic Corp. (Destiny Beijing)	Research and development of computer peripheral devices and software	100.00 %	100.00 %	
TWEL	Tymphany HK Ltd. (TYM HK)	Sale of audio accessories, amplifiers and their components	100.00 %	100.00 %	(note 1)
TWEL	TYP Enterprises, Inc. (TYP)	Market development and customer service of amplifiers and their components	100.00 %	100.00 %	(note 1)
TYM HK	Premium Loudspeakers (Hui Zhou) Co., Ltd. (Premium Hui Zhou)	Manufacture, research and development, design, and sale of audio accessories, amplifiers and their components	100.00 %	100.00 %	(note 1)
TYM HK	TYMPHANY LOGISITCS, INC. (TYML)	Sale of audio accessories, amplifiers and their components	100.00 %	100.00 %	TYML was incorporated in May 2015
TYM HK	Dongguan Tymphany Acoustic Technology Co., Ltd. (Tymphany Dongguan)	Manufacture, research and development, design, and sale of audio accessories, amplifiers and their components	100.00 %	100.00 %	Tymphany Dongguan was incorporated in September 2015
Tymphann Dongguan	Dong Guan Dong Cheng Tymphany Acoustic Technology Co., Ltd. (TYDC)	Research and development, design, and sale of audio accessories, amplifiers and their components	100.00 %	- %	TYDC was incorporated in October 2016
GT	GP Tech, Inc. (GP)	Sale of automotive parts, industrial automation parts, communication parts and aerospace components	- %	100.00 %	(notes 2 & 3)
GTF-S	Global TEK Fabrication Co., Ltd. (HK) (GTF-HK)	Holding company	- %	100.00 %	(notes 2 & 3)
GTF-S	Global TEK Co., Ltd. (Samoa) (GTS)	Holding company	- %	100.00 %	(notes 2 & 3)

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Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2016	December 31, 2015	
GTF-HK	WUXI GLOBAL TEK FABRICATION CO., LTD. (WUXI GLOBAL TEK)	Manufacture of sophisticated machinery components	- %	100.00 %	(notes 2 & 3)
GTS	GLOBAL TEK (XI' AN) CO., LTD. (GLOBAL TEK XI' AN)	Manufacture of industrial automation parts, communication parts and aerospace components	- %	100.00 %	(notes 2 & 3)
GTS and WUXI GLOBAL TEK	GLOBAL TEK CO. (WUXI), LTD. (GLOBAL TEK WUXI)	Manufacture of sophisticated machinery components and automotive parts	- %	100.00 %	(notes 2 & 3)

Note 1: TWEL was incorporated in October 2013, acquiring all shares of TYM HK by issuing new ordinary shares. The Company acquired 70% of the shares of TWEL by cash through its subsidiary Diamond on January 10, 2014. Therefore, the Company indirectly acquired all shares of TWEL's subsidiaries, and included them in the consolidated financial statements from the same date.

Note 2: The Company acquired 30% of the shares of Global TEK by cash on January 5, 2015. Therefore, the Company indirectly acquired all shares of Global TEK's subsidiaries. The Company has control over its relevant activities by acquiring more than 50% of the board of directors' voting rights based on the resolution of its interim meeting of shareholders held on February 13, 2015. The Company included all Global TEK's subsidiaries in the consolidated financial statements from the same date. Before the Company has control, investments in subsidiaries are accounted for using the equity method.

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

(d) Foreign currencies

(i) Foreign currency transactions

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

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

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(ii) Foreign operations

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

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

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

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

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

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

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

(f) Cash and cash equivalents

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

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

(g) Financial instruments

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

(i) Financial assets

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

1) Financial assets at fair value through profit or loss

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

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

2) Available-for-sale financial assets

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

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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3) Loans and receivables

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

4) Impairment of financial assets

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

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

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

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

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

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

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

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

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

5) Derecognition of financial assets

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

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

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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2) Other financial liabilities

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

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

(iii) Derivative financial instruments

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

(h) Inventories

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

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(i) Discontinued operations

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

(j) Investment property

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

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

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

(k) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Reclassification to investment property

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(iii) Subsequent cost

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

(iv) Depreciation

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

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

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

- 1) Buildings, leasehold improvement, and additional equipment: 1 ~ 51 years
- 2) Machinery and equipment: 1 ~10 years
- 3) Office and other equipment: 1 ~5 years

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

(l) Lease

(i) Lessor

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

(ii) Lessee

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

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(m) Intangible assets

(i) Goodwill

1) Recognition

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

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

2) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

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

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

- | | |
|---------------------------|--------------|
| 1) Customer relationships | 10 years |
| 2) Technology | 10 years |
| 3) Trademarks | 10 years |
| 4) Patents | 2.5~10 years |
| 5) Copyrights | 15 years |

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

(Continued)

PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(n) Impairment of non-financial assets

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

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

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

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

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

(o) Revenue

(i) Goods sold

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

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

(Continued)

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

(ii) Services

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

(p) Deferred grant revenue

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

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

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

(q) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

(Continued)

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

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

(iii) Short-term employee benefits

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

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

(r) Share-based payment

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

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

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

(s) Income taxes

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

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

(Continued)

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

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

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

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

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

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

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

(t) Business combination

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

(Continued)

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

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

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

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

(u) Earnings per share

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

(v) Operating segments

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

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

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

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

(Continued)

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

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

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

(a) Valuation of inventories

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

(b) Assessment of impairment of intangible assets (including goodwill)

The assessment of impairment of intangible assets required the Group to make subjective judgments on cash-generating units, allocate the intangible assets to relevant cash-generating units, and estimate the recoverable amount of relevant cash-generating units. Changes in economic conditions or changes in assessment caused by business strategies could result in significant impairment charges or reversal in future years.

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

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

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

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

Level 3: inputs for the assets or liability that are not based on observable market data.

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

(Continued)

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	\$ 2,946	4,097
Checking accounts and demand deposits	1,761,981	2,939,622
Time deposits	4,594,989	4,679,661
	<u>\$ 6,359,916</u>	<u>7,623,380</u>

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

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

(i) Details of financial instruments were as follows:

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss – current:		
Non-derivative financial assets:		
Mutual funds	\$ -	969
Derivative financial assets:		
Forward exchange contracts	\$ 141,317	87,748
Foreign exchange swap contracts	-	-
	<u>\$ 141,317</u>	<u>87,748</u>
Financial liabilities at fair value through profit or loss – current:		
Derivative financial liabilities:		
Forward exchange contracts	\$ (72,909)	(60,105)
Foreign exchange swap contracts	(77,521)	-
	<u>\$ (150,430)</u>	<u>(60,105)</u>

(Continued)

PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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- (ii) The Group held the following derivative financial instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2016 and 2015:

December 31, 2016			
Derivative financial instruments	Nominal amount	Maturity date	Predetermined rate
Forward exchange contracts — buy USD / sell TWD	USD 252,000 thousand	January 5, 2017~ March 27, 2017	31.157~32.015
Forward exchange contracts — buy TWD / sell USD	USD 189,500 thousand	January 5, 2017~ March 27, 2017	31.765~32.290
Foreign exchange swap contracts — swap in TWD / swap out USD	USD 81,000 thousand	January 5, 2017~ January 19, 2017	31.245~31.920
December 31, 2015			
Derivative financial instruments	Nominal amount	Maturity date	Predetermined rate
Forward exchange contracts — buy USD / sell TWD	USD 205,000 thousand	January 7, 2016~ February 26, 2016	32.754~32.892
Forward exchange contracts — buy TWD / sell USD	USD 205,000 thousand	January 7, 2016~ February 26, 2016	32.802~33.010
Forward exchange contracts — buy USD / sell CNY	USD 63,500 thousand	January 4, 2016~ January 19, 2016	6.4115~6.5934
Forward exchange contracts — buy CNY / sell USD	USD 40,000 thousand	January 19, 2016	6.6380
Forward exchange contracts — buy JPY / sell USD	USD 516 thousand	January 25, 2016	120.75~122.40

- (iii) Please refer to note 6(y) for the liquidity risk of the Group's financial instruments.
- (iv) The Group did not provide any of the aforementioned financial assets at fair value through profit or loss – current as collateral.

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

	December 31, 2016	December 31, 2015
Stocks listed in domestic markets	\$ 586,404	551,600
Stocks unlisted in domestic markets	287,517	16,297
Stocks unlisted in foreign markets	13,880	16,533
	<u>\$ 887,801</u>	<u>584,430</u>

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

- (i) WK Technology Fund IV Ltd. refunded \$1,600 and \$1,280 to the Group due to capital reduction in July 2015 and April 2016, respectively.
- (ii) WK Global Investment III Ltd. refunded \$2,254 to the Group due to capital reduction in April 2016.
- (iii) Titan 1 Venture Capital Co., Ltd. and Neosonica Technologies Inc. were closed and finished the liquidation process in August and March 2015, respectively. The Group received \$175 due to the liquidation and recorded it as other gains and losses.
- (iv) The impairment loss was \$939 for the year ended December 31, 2015 and was recognized as other gains and loss.
- (v) The Group held 30% share of Global TEK's shares and sold 20% shares of them at \$50 per share on October 3, 2016. The Group reclassified the remaining amounted to \$275,500 to available-for-sale financial assets – non-current. Please refer to note 6(g) for further information about disposal of Global TEK's shares.
- (vi) In the second quarter of 2016, the Group sold 841 thousand shares of Nien Made Enterprise Co., Ltd. for \$220,270. The gain on disposal which was recognized as other gains and losses, amounted to \$140,969, deducting the cost of \$79,301.
- (vii) The unrealized gains were \$110,706 and \$294,053 for the years ended December 31, 2016 and 2015, respectively, and were recognized as unrealized gains on available-for-sale financial assets.
- (viii) The Group did not provide any of the aforementioned available-for-sale financial assets as collateral.
- (d) Notes and accounts receivable, and other receivables (including related parties)

	December 31, 2016	December 31, 2015
Notes receivable	\$ 3,761	134,860
Accounts receivable	13,798,350	14,353,936
Accounts receivable – related parties	102,841	54,995
Other receivables	495,392	462,242
Less: allowance for doubtful accounts	(99,936)	(29,247)
allowance for sales returns and discounts	(98,302)	(34,927)
Total	<u>\$ 14,202,106</u>	<u>14,941,859</u>

- (i) The Group did not provide any of the aforementioned notes and accounts receivable, and other receivables (including related parties) as collateral.
- (ii) Please refer to note 6(y) for the movements in the allowance for doubtful accounts and the credit risk and currency risk for the years ended December 31, 2016 and 2015.

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

- (iii) The Company entered into agreements with banks to sell its accounts receivable without recourse. According to the agreements, within the limit of its credit facilities, the Company does not need to guarantee the capability of its customers to pay for reasons other than commercial disputes when transferring its accounts receivable. The Company receives partial advances upon sales of accounts receivable and pays interest calculated based on the interest rates agreed for the period through the collection of the accounts receivable. The remaining amounts are received upon the collection of the accounts receivable, and are recorded as other receivables. In addition, the Company shall pay handling charges based on a fixed rate. As of December 31, 2016 and 2015, the details of transferred accounts receivable which conformed to the criteria for derecognition were as follows:

December 31, 2016							
Buyer	Amount sold NTS	Credit facilities US\$ (expressed in thousand)	Cash received in advance NTS	Interest rate	Guarantee (promissory note) expressed in thousands	Amount derecognized NTS	Amount not received NTS
Mega International Commercial Bank	\$ 374,057	20,000	336,651	1.75 %	US\$ 5,000	336,651	37,406
HSBC Bank	592,397	64,400	533,157	1.42 %	US\$ 58,000	533,157	59,240
Bank of Taiwan	449,051	26,000	404,146	2.10 %	NTS 772,200	404,146	44,905
	<u>\$ 1,415,505</u>	<u>110,400</u>	<u>1,273,954</u>			<u>1,273,954</u>	<u>141,551</u>
December 31, 2015							
Buyer	Amount sold NTS	Credit facilities US\$ (expressed in thousand)	Cash received in advance NTS	Interest rate	Guarantee (promissory note) expressed in thousands	Amount derecognized NTS	Amount not received NTS
Mega International Commercial Bank	\$ -	25,000	-		US\$ 7,000	-	-
HSBC Bank	-	64,400	-		US\$ 58,000	-	-
Bank of Taiwan	-	26,000	-		NTS 725,400	-	-
	<u>\$ -</u>	<u>115,400</u>	<u>-</u>			<u>-</u>	<u>-</u>

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

(e) Inventories

	December 31, 2016	December 31, 2015
Raw materials	\$ 1,618,227	1,465,472
Semi-finished goods and work in process	1,485,837	1,488,325
Finished goods and merchandise	3,566,483	4,396,812
	<u>\$ 6,670,547</u>	<u>7,350,609</u>

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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For the years ended December 31, 2016 and 2015, the Group recognized the following items as cost of goods sold:

	2016	2015
Losses on inventory valuation	\$ (792,757)	(140,387)
Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity	(135,888)	(92,214)
Loss on disposal of inventories	(19,737)	(184,276)
Gain on physical inventories	7,126	1,033
	<u>\$ (941,256)</u>	<u>(415,844)</u>

(f) Business combination

(i) Global TEK Group

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, and acquired 30% of Global TEK's shares.

Global TEK is a manufacturer of sophisticated machinery components. By obtaining control of Global TEK and its subsidiaries, the Company will integrate Global TEK's experience in sophisticated machinery components with the Company's own technology related to audio systems and camera modules to provide the ultimate vehicle digital system to consumers. The acquisition will allow the Group to take part in the vehicle component supply chain, driving the growth of its revenue and profit in the foreseeable future.

1) Consideration transferred

According to the share subscription agreement and share purchase agreement, the consideration transferred was \$545,490 without contingent cost or other equity instruments. The settlement date was January 5, 2015.

2) Obtaining control

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

3) According to IFRSs, the fair value of net assets acquired should be measured on the acquisition date. Therefore, the Company evaluated the fair value and useful lives of intangible assets at the time of acquisition. The Company engaged experts to evaluate its identifiable net assets. According to the result, identifiable intangible assets comprised customer relationships amounting to \$109,000, technology amounting to \$100,000, and goodwill amounting to \$340,999.

(Continued)

PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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- 4) Details of consideration transferred, assets acquired, and liabilities assumed at the date of acquisition were as follows:

Items	Amount
Cash	\$ 545,490
Fair value of non-controlling interest	1,272,810
Fair value	<u>\$ 1,818,300</u>

Items	Amount
Fair value of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	\$ 506,449
Current financial assets at fair value through profit or loss	1,203
Notes and accounts receivable, net	615,534
Other receivables	11,703
Inventories	430,922
Other current assets	67,166
Property, plant and equipment	1,095,093
Deferred tax assets	13,475
Long-term prepaid rents	102,359
Other non-current assets	25,724
Short-term and long-term borrowings	(741,297)
Notes and accounts payable	(412,070)
Salary payable and other payables	(309,387)
Other current liabilities	(28,679)
Deferred tax liabilities	(103,855)
Other non-current liabilities	(6,039)
	<u>1,268,301</u>
Intangible assets recognized from purchase price allocation:	
Customer relationships	109,000
Techniques	100,000
Goodwill	340,999
	<u>549,999</u>
	<u>\$ 1,818,300</u>

(Continued)

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

- 5) Intangible assets

- a) Goodwill

Goodwill mainly came from the reputation, profitability, and value of employees which have been established by Global TEK and its subsidiaries in the automotive, instrument, aerospace and sophisticated machinery components market. There was no tax effect attributable to goodwill recognized from the acquisition.

- b) Customer relationships

Customer relationships mainly came from continuous cooperation with clients for which the relationships are expected to be beneficial in the future.

- c) Technology

Global TEK owned the manufacturing technology for the automotive parts, industrial automation parts, communication parts, aerospace components, medical equipment and sophisticated machinery components. The technology is expected to be beneficial in the future.

- 6) The cost of acquisition

The valuation fees and on-site examination expenses of \$824 due to the acquisition transaction were recognized as administrative expenses in the statement of comprehensive income in the year ended December 31, 2015.

- 7) Simulated operating results

Operating results of Global TEK and its subsidiaries were merged into the Company's consolidated comprehensive income statement since the date of obtaining control, contributing operating revenue of \$2,051,106 and profit of \$30,042. If the acquisition had occurred on January 1, 2015, the simulated operating revenue and profit would have been \$65,746,063 and \$1,825,736, respectively.

- (g) Loss of control of subsidiaries

The Group held 30% shares of Global TEK's shares and sold 20% of them at \$50 per share on October 3, 2016. The total proceeds were received. The Group recorded the total gain of \$248,004 under other gains or losses, including the amount of \$83,219 from the remaining shares measured at fair value due to losing its control over Global TEK. The Group reclassified the carrying amounts of the remaining shares to available-for-sale financial asset — non-current.

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

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

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

(h) Material non-controlling interests of subsidiaries

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

Name of subsidiaries	Main operation place Business/Registered Country	Proportion of Ownership and Voting Rights Held by Non- controlling Interests	
		December 31, 2016	December 31, 2015
TWEL and its subsidiaries	Hong Kong and China/Cayman Is.	30 %	30 %
Global TEK and its subsidiaries	Taiwan and China/Taiwan	- %	70 %

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

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

(i) TWEL and its subsidiaries:

	December 31, 2016	December 31, 2015
Current assets	\$ 4,510,885	4,380,696
Non-current assets	3,377,729	3,126,982
Current liabilities	(3,496,113)	(3,440,368)
Non-current liabilities	(243,387)	(97,340)
Net assets	<u>\$ 4,149,114</u>	<u>3,969,970</u>
Non-controlling interests	<u>\$ 1,244,734</u>	<u>1,190,991</u>
	2016	2015
Operating revenue	<u>\$ 8,902,027</u>	<u>6,683,250</u>
Profit	\$ 237,550	75,945
Other comprehensive income	(62,004)	31,069
Comprehensive income	<u>\$ 175,546</u>	<u>107,014</u>
Profit attributable to non-controlling interests	<u>\$ 71,265</u>	<u>22,784</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 52,664</u>	<u>32,104</u>
	2016	2015
Cash flows from operating activities	\$ (572,724)	499,900
Cash flows from investing activities	(221,015)	(129,569)
Cash flows from financing activities	(607)	9,852
Effect of foreign currency exchange translation	(22,145)	32,610
Net increase (decrease) in cash and cash equivalents	<u>\$ (816,491)</u>	<u>412,793</u>
Dividends paid to non-controlling interests	<u>\$ -</u>	<u>-</u>

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

(ii) Global TEK and its subsidiaries

	December 31, 2016	December 31, 2015
Current assets	\$ -	\$ 1,447,425
Non-current assets	-	1,805,801
Current liabilities	-	(994,338)
Non-current liabilities	-	(408,586)
Net assets	<u>\$ -</u>	<u>\$ 1,850,302</u>
Non-controlling interests	<u>\$ -</u>	<u>\$ 1,295,213</u>
	January to September, 2016	February to December, 2015
Operating revenue	<u>\$ 1,929,626</u>	<u>2,051,106</u>
Profit	\$ 61,896	30,042
Other comprehensive income	(38,410)	1,961
Comprehensive income	<u>\$ 23,486</u>	<u>32,003</u>
Profit attributable to non-controlling interests	<u>\$ 43,327</u>	<u>21,029</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 16,439</u>	<u>22,403</u>
	January to September, 2016	February to December, 2015
Cash flows from operating activities	\$ 321,226	184,499
Cash flows from investing activities	(161,102)	(194,508)
Cash flows from financing activities	38,022	(211,459)
Effect of foreign currency exchange translation	(26,190)	(6,419)
Net increase (decrease) in cash and cash equivalents	<u>\$ 171,956</u>	<u>(227,887)</u>
Dividends paid to non-controlling interests	<u>\$ -</u>	<u>-</u>

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

(i) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the years ended December 31, 2016 and 2015, were as follows:

	Land	Buildings, leasehold improvement, and additional equipment	Machinery and equipment	Office and other equipment	Construction in progress and testing equipment	Government grants	Total
Cost or deemed cost:							
Balance on January 1, 2016	\$ 284,973	4,145,565	6,578,407	680,211	503,242	(12,731)	12,179,667
Additions	-	49,514	396,263	41,155	988,516	-	1,475,448
Disposals	-	(94,696)	(696,426)	(83,133)	(63)	-	(874,318)
Reclassifications	111,822	381,033	425,506	(12,851)	(977,213)	(4,813)	(76,516)
Disposal of subsidiaries	(262,094)	(340,019)	(461,910)	(58,963)	(133,277)	-	(1,256,263)
Effect of movements in exchange rates	-	(338,639)	(569,536)	(55,962)	(33,527)	1,258	(996,406)
Balance on December 31, 2016	<u>\$ 134,701</u>	<u>3,802,758</u>	<u>5,672,304</u>	<u>510,457</u>	<u>347,678</u>	<u>(16,286)</u>	<u>10,451,612</u>
Balance on January 1, 2015	\$ 22,879	3,062,153	4,741,057	578,964	779,029	(12,911)	9,171,171
Additions	-	22,316	740,599	58,719	1,910,503	-	2,732,137
Disposals	-	(146,771)	(392,772)	(42,442)	(263)	-	(582,248)
Acquisition from business combination	262,094	305,927	328,301	74,644	124,127	-	1,095,093
Reclassifications	-	935,689	1,218,445	19,211	(2,293,135)	-	(119,790)
Effect of movements in exchange rates	-	(33,749)	(57,223)	(8,885)	(17,019)	180	(116,696)
Balance on December 31, 2015	<u>\$ 284,973</u>	<u>4,145,565</u>	<u>6,578,407</u>	<u>680,211</u>	<u>503,242</u>	<u>(12,731)</u>	<u>12,179,667</u>
Depreciation and impairments loss:							
Balance on January 1, 2016	\$ -	1,737,377	3,718,475	449,371	-	(9,579)	5,895,644
Depreciation	-	245,594	1,126,355	79,501	-	(4,622)	1,446,828
Impairment loss	-	-	74,584	384	11,882	-	86,850
Disposals	-	(90,910)	(619,931)	(76,609)	-	-	(787,450)
Reclassifications	-	35,827	(249,717)	(29,572)	-	-	(243,462)
Disposal of subsidiaries	-	(47,041)	(58,972)	3,579	(11,882)	-	(114,316)
Effect of movements in exchange rates	-	(149,736)	(358,412)	(42,720)	-	964	(549,904)
Balance on December 31, 2016	<u>\$ -</u>	<u>1,731,111</u>	<u>3,632,382</u>	<u>383,934</u>	<u>-</u>	<u>(13,237)</u>	<u>5,734,190</u>
Balance on January 1, 2015	\$ -	1,643,871	3,214,184	384,695	-	(6,724)	5,236,026
Depreciation	-	250,280	927,402	97,889	-	(2,929)	1,272,642
Disposals	-	(140,657)	(306,801)	(37,535)	-	-	(484,993)
Reclassifications	-	5,146	(72,971)	10,459	-	-	(57,366)
Effect of movements in exchange rates	-	(21,263)	(43,339)	(6,137)	-	74	(70,665)
Balance on December 31, 2015	<u>\$ -</u>	<u>1,737,377</u>	<u>3,718,475</u>	<u>449,371</u>	<u>-</u>	<u>(9,579)</u>	<u>5,895,644</u>
Carrying amounts:							
Balance on December 31, 2016	<u>\$ 134,701</u>	<u>2,071,647</u>	<u>2,039,922</u>	<u>126,523</u>	<u>347,678</u>	<u>(3,049)</u>	<u>4,717,422</u>
Balance on December 31, 2015	<u>\$ 284,973</u>	<u>2,408,188</u>	<u>2,859,932</u>	<u>230,840</u>	<u>503,242</u>	<u>(3,152)</u>	<u>6,284,023</u>
Balance on January 1, 2015	<u>\$ 22,879</u>	<u>1,418,282</u>	<u>1,526,873</u>	<u>194,269</u>	<u>779,029</u>	<u>(6,187)</u>	<u>3,935,145</u>

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

- (i) The unamortized deferred revenue of equipment subsidy amounted to \$1,310,945 and \$1,018,732 for the years ended December 31, 2016 and 2015, respectively.
- (ii) Please refer to note 8 for further information on property, plant and equipment provided as collateral.
- (j) Investment property

	Land	Buildings and other equipment	Total
Cost or deemed cost:			
Balance on January 1, 2016	\$ 162,012	172,167	334,179
Additions	-	-	-
Reclassifications	(111,822)	(140,432)	(252,254)
Balance on December 31, 2016	<u>\$ 50,190</u>	<u>31,735</u>	<u>81,925</u>
Balance on January 1, 2015	\$ 162,012	172,167	334,179
Additions	-	-	-
Balance on December 31, 2015	<u>\$ 162,012</u>	<u>172,167</u>	<u>334,179</u>
Depreciation and impairment losses:			
Balance on January 1, 2016	\$ 33,941	41,529	75,470
Depreciation	-	3,560	3,560
Reclassifications	-	(32,782)	(32,782)
Balance on December 31, 2016	<u>\$ 33,941</u>	<u>12,307</u>	<u>46,248</u>
Balance on January 1, 2015	\$ 33,941	37,969	71,910
Depreciation	-	3,560	3,560
Balance on December 31, 2015	<u>\$ 33,941</u>	<u>41,529</u>	<u>75,470</u>
Carrying amounts:			
Balance on December 31, 2016	<u>\$ 16,249</u>	<u>19,428</u>	<u>35,677</u>
Balance on December 31, 2015	<u>\$ 128,071</u>	<u>130,638</u>	<u>258,709</u>
Balance on January 1, 2015	<u>\$ 128,071</u>	<u>134,198</u>	<u>262,269</u>
Fair value:			
Balance on December 31, 2016		\$ <u>84,490</u>	
Balance on December 31, 2015		\$ <u>592,092</u>	
Balance on January 1, 2015		\$ <u>561,338</u>	

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

- (i) The fair value of investment property is based on the quotation from third parties, which is categorized within Level 3.
- (ii) Investment property comprises a number of commercial properties which are leased to third parties. Each of the leases contains an initial non-cancellable period between 1 and 2 years. Subsequent renewals are negotiated with the lessee, and no contingent rents are charged. Please refer to note 6(n) for further information.
- (iii) The Group reclassified \$219,472 as property, plant and equipment from investment property due to the change of the use of such property in 2016.
- (iv) The Group did not provide any of the aforementioned investment property as collateral.
- (k) Intangible assets

The cost and amortization of the intangible assets of the Group for the years ended December 31, 2016 and 2015, were as follows:

	Goodwill	Customer Relationships	Technology	Trademarks, Patents and Copyrights	Total
Cost or deemed cost:					
Balance at January 1, 2016	\$ 2,191,382	827,800	519,300	122,128	3,660,610
Acquisition	-	-	-	9	9
Disposal of subsidiary	(340,999)	(109,000)	(100,000)	-	(549,999)
Effect of movements in exchange rates	-	-	-	(93)	(93)
Balance at December 31, 2016	<u>\$ 1,850,383</u>	<u>718,800</u>	<u>419,300</u>	<u>122,044</u>	<u>3,110,527</u>
Balance at January 1, 2015	\$ 1,850,383	718,800	419,300	122,079	3,110,562
Acquisition	-	-	-	17	17
Acquisition from business combination	340,999	109,000	100,000	-	549,999
Effect of movements in exchange rates	-	-	-	32	32
Balance at December 31, 2015	<u>\$ 2,191,382</u>	<u>827,800</u>	<u>519,300</u>	<u>122,128</u>	<u>3,660,610</u>

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

	Goodwill	Customer Relationships	Technology	Trademarks, Patents and Copyrights	Total
Amortization and impairment loss:					
Balance at January 1, 2016	\$ -	151,559	95,346	91,514	338,419
Amortization	-	80,055	52,644	6,708	139,407
Disposal of subsidiary	-	(17,713)	(23,214)	-	(40,927)
Effect of movements in exchange rates	-	-	-	(42)	(42)
Balance at December 31, 2016	<u>\$ -</u>	<u>213,901</u>	<u>124,776</u>	<u>98,180</u>	<u>436,857</u>
Balance at January 1, 2015	\$ -	70,141	40,916	82,861	193,918
Amortization	-	81,418	54,430	8,642	144,490
Effect of movements in exchange rates	-	-	-	11	11
Balance at December 31, 2015	<u>\$ -</u>	<u>151,559</u>	<u>95,346</u>	<u>91,514</u>	<u>338,419</u>
Carrying amounts:					
Balance at December 31, 2016	<u>\$ 1,850,383</u>	<u>504,899</u>	<u>294,524</u>	<u>23,864</u>	<u>2,673,670</u>
Balance at December 31, 2015	<u>\$ 2,191,382</u>	<u>676,241</u>	<u>423,954</u>	<u>30,614</u>	<u>3,322,191</u>
Balance at January 1, 2015	<u>\$ 1,850,383</u>	<u>648,659</u>	<u>378,384</u>	<u>39,218</u>	<u>2,916,644</u>

- (i) Intangible assets were transferred out due to the resolution to dispose parts of shares of Global TEK which were approved during the board of directors' meeting in 2016. Please refer to note 6(g) for further detail.
- (ii) For intangible assets obtained from having control over Global TEK and its subsidiaries on January 5, 2015, please refer to note 6(f) for further detail.
- (iii) The Group did not provide any of the aforementioned intangible assets as collateral.
- (l) Short-term borrowings

The details were as follows:

	December 31, 2016	December 31, 2015
Unsecured bank loans	\$ -	1,130,518
Secured bank loans	-	220,051
Short-term borrowings	<u>\$ -</u>	<u>1,350,569</u>
Unused credit lines	<u>\$ 13,301,651</u>	<u>10,729,002</u>
Annual interest rates	<u>0.93%~1.27%</u>	<u>0.85%~5.89%</u>

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

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

- (m) Long-term borrowings

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

December 31, 2015				
	Currency	Annual interest rate	Maturity year	Amount
Unsecured bank loans	TWD	0.95~2.78%	2016~2020	\$ 1,374,282
"	USD	2.66%	2018	41,037
Secured bank loans	TWD	1.73%~2.13%	2016~2026	215,963
"	USD	3.2404%~3.3%	2018~2030	46,205
Less: current portion				(622,347)
Total				<u>\$ 1,055,140</u>
Unused credit lines				<u>\$ 228,086</u>

- (i) Pursuant to the loan agreements with Industrial Bank of Taiwan, The Export-Import Bank of the ROC and CTBC Bank, the Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements. As of December 31, 2016, 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.
- (ii) Please refer to note 9 for the details of the outstanding guarantee notes.
- (iii) Please refer to note 8 for further information on assets provided as collateral.

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

(n) Operating lease

(i) Lessee

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2016	December 31, 2015
Less than one year	\$ 234,469	251,403
Between one and five years	327,873	508,595
More than five years	12,989	7,203
	<u>\$ 575,331</u>	<u>767,201</u>

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

(ii) Lessor

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

	December 31, 2016	December 31, 2015
Less than one year	<u>\$ 1,060</u>	<u>1,060</u>

(o) Employee benefits

(i) Defined benefit plans

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

	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	\$ 160,593	180,297
Fair value of plan assets	96,865	113,587
Deficit in the plan	63,728	66,710
Asset ceiling	-	-
Net defined benefit liability	<u>\$ 63,728</u>	<u>66,710</u>

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

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

1) Composition of plan assets

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

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$96,865 at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations for the Group for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Defined benefit obligation at January 1	\$ 180,297	162,598
Business combinations	-	18,522
Disposal of subsidiary	(3,105)	-
Discontinued operations	(16,279)	-
Benefits paid	(4,995)	(15,239)
Current service costs and interest cost	3,417	5,000
Remeasurement of net defined liabilities	1,258	9,416
Defined benefit obligation at December 31	<u>\$ 160,593</u>	<u>180,297</u>

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

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Group for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Fair value of plan assets at January 1	\$ 113,587	104,919
Business combinations	-	15,299
Disposal of subsidiary	(15,904)	-
Remeasurement of net defined liabilities	(271)	748
Contributions paid	3,506	5,432
Interest income	942	2,428
Benefits paid	(4,995)	(15,239)
Fair value of plan assets at December 31	<u>\$ 96,865</u>	<u>113,587</u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Current service costs	\$ 1,401	1,322
Net interest of net liabilities for defined benefit	1,074	1,196
Expenses	<u>\$ 2,475</u>	<u>2,518</u>

5) Actuarial assumptions

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

	December 31, 2016	December 31, 2015
Discount rate	1.375 %	1.375%~1.750%
Future salary increase rate	3.250 %	2%~3.250%

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date was \$3,336. The weighted-average duration of the defined benefit plans is 12 years.

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

6) Sensitivity analysis

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

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

	Influences of defined benefit obligations	
	Increased 0.25%	Decreased 0.25%
December 31, 2016		
Discount rate	\$ (3,586)	3,708
Future salary increase rate	\$ 3,545	(3,447)
December 31, 2015		
Discount rate	\$ (4,354)	4,513
Future salary increase rate	\$ 4,342	(4,213)

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

There were no changes in the method and assumptions used in the preparation of the sensitivity analysis for 2016 and 2015.

(ii) Defined contribution plans

The continuing operations allocate 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Group contribute a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

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

The Group recognized pension costs under the defined contribution method amounting to \$370,871 and \$379,653 for the years ended December 31, 2016 and 2015, respectively, recorded as operating cost and operating expenses in the statement of comprehensive income.

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(p) Income taxes from continuing operations

- (i) The components of income tax expenses for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Current tax expense	\$ 970,336	823,113
Deferred tax expense (benefit)	(192,650)	(192,104)
Income tax expense	<u>\$ 777,686</u>	<u>631,009</u>

- (ii) Reconciliation of income tax expenses and profit before tax for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Income tax calculated based on the Company's domestic tax rate	\$ 606,212	710,249
Overseas investment gains recognized under the equity method	(47,655)	(105,331)
Non-taxable income	(96,547)	(104,317)
Prior year's income tax adjustment	3,501	225
10% surtax on unappropriated earnings	65,978	60,246
Investment tax credits accrued	(41,196)	(83,224)
Other	287,393	153,161
Income tax expense	<u>\$ 777,686</u>	<u>631,009</u>

(iii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

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

	December 31, 2016	December 31, 2015
Aggregate amount of temporary differences related to investments in subsidiaries	<u>\$ 422,133</u>	<u>475,399</u>

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

2) Unrecognized deferred tax assets

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

	December 31, 2016	December 31, 2015
Deductible temporary differences	\$ 109,500	73,829
Tax losses	-	73,004
	<u>\$ 109,500</u>	<u>146,833</u>

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

3) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2016 and 2015, were as follows:

	Investment income recognized under the equity method (overseas)	Unrealized foreign exchange gains	Amortization of appraised value adjustment of intangible assets	Others	Total
Deferred tax liabilities:					
Balance on January 1, 2016	\$ 155,486	-	152,009	9,566	317,061
Disposal of subsidiary	(43,432)	-	(63,309)	(13,168)	(119,909)
Recognized in profit or loss	24,523	-	(15,069)	21,140	30,594
Balance on December 31, 2016	<u>\$ 136,577</u>	<u>-</u>	<u>73,631</u>	<u>17,538</u>	<u>227,746</u>
Balance on January 1, 2015	89,222	3,500	94,596	1,351	188,669
Acquisition from business combination	23,824	-	73,246	6,785	103,855
Recognized in profit or loss	42,440	(3,500)	(15,833)	3,479	26,586
Recognized in other comprehensive income	-	-	-	(2,049)	(2,049)
Balance on December 31, 2015	<u>\$ 155,486</u>	<u>-</u>	<u>152,009</u>	<u>9,566</u>	<u>317,061</u>

(Continued)

PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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	Bad debt in excess of tax limit	Loss carryforward	Unfunded pension fund contribution	Unrealized sales returns and allowances	Loss on inventory valuation	Deferred granted revenue	Unrealized exchange losses	Others	Total
Deferred tax assets:									
Balance on January 1, 2016	\$ 33,566	22,328	14,473	44,241	9,446	189,223	19,653	57,484	390,414
Disposal of subsidiary	-	(8,300)	-	-	(3,852)	-	(2,314)	(28,987)	(43,453)
Recognized in profit or loss	(1,930)	(14,028)	(175)	13,374	173,979	31,547	(17,290)	37,767	223,244
Balance on December 31, 2016	<u>\$ 31,636</u>	<u>-</u>	<u>14,298</u>	<u>57,615</u>	<u>179,573</u>	<u>220,770</u>	<u>49</u>	<u>66,264</u>	<u>570,205</u>
Balance on January 1, 2015	\$ 11,653	38,914	14,875	29,977	19,860	15,595	-	23,817	154,691
Acquisition from business combination	-	-	463	-	2,842	-	2,581	7,589	13,475
Recognized in profit or loss	21,913	(16,586)	(994)	14,264	(13,256)	173,628	17,072	26,078	222,119
Recognized in other comprehensive income	-	-	129	-	-	-	-	-	129
Balance on December 31, 2015	<u>\$ 33,566</u>	<u>22,328</u>	<u>14,473</u>	<u>44,241</u>	<u>9,446</u>	<u>189,223</u>	<u>19,653</u>	<u>57,484</u>	<u>390,414</u>

(iv) The Company income tax returns have been examined by the tax authority through the years up to 2013. However, the Company disagreed with the examination of the income tax return for 2008 and requested an administrative remedy. The tax effect of the administrative remedy has been recognized by the Company.

(v) Information related to the unappropriated earnings and tax deduction ratio is summarized below:

	December 31, 2016	December 31, 2015
Unappropriated earnings in 1998 and after	<u>\$ 4,779,419</u>	<u>3,951,934</u>
Balance of imputation credit account	<u>\$ 508,028</u>	<u>420,838</u>
	<u>2016 (estimated)</u>	<u>2015 (actual)</u>
Creditable ratio for earnings distribution to ROC residents stockholders	<u>19.06 %</u>	<u>13.69 %</u>

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

(q) Capital and other equity

As of December 31, 2016 and 2015, the nominal ordinary shares amounted to \$5,000,000. Face value of each share is \$10 (dollars), which means in total there were 500,000 thousand authorized ordinary shares, of which 442,134 and 441,188 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

(Continued)

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

Reconciliation of shares outstanding for the years ended December 31, 2016 and 2015, was as follows:

	Ordinary shares	
(in thousands of shares)	2016	2015
Balance on January 1	441,188	434,658
Exercise of employee stock options	1,331	3,810
Issued for restricted stock	-	3,000
Retirement of restricted stock	(385)	(280)
Balance on December 31	<u>442,134</u>	<u>441,188</u>

(i) Ordinary shares

- 1) The Company issued 1,331 thousand and 3,810 thousand new shares of ordinary shares for the exercise of employee stock options in 2016 and 2015, respectively. The related registration procedures were also completed.
- 2) Employee stock options exercised without registration procedures were recorded as capital collected in advance. The exercise price and units as of December 31, 2016 and 2015, were as follows:

	December 31, 2016	
	Exercised shares (in thousands)	Exercise price
Exercise price per share: \$25.20	<u>120</u>	<u>\$ 3,024</u>
	December 31, 2015	
	Exercised shares (in thousands)	Exercise price
Exercise price per share: \$11.42	235	\$ 2,679
Exercise price per share: \$26.50	472	12,495
	<u>707</u>	<u>\$ 15,174</u>

(ii) Capital surplus

The balances of capital surplus as of December 31, 2016 and 2015, were as follows:

	December 31, 2016	December 31, 2015
Additional paid-in capital	\$ 508,583	447,630
Employee stock options	229,175	236,277
Restricted employee stock options	53,708	93,461
	<u>\$ 791,466</u>	<u>777,368</u>

(Continued)

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

(iii) Retained earnings

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

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

1) Legal reserve

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

2) Special reserve

By choosing to apply exemptions granted under IFRS 1 "First-time Adoption of International Financial Reporting Standards" during the Company's first-time adoption of the International Financial Reporting Standards endorsed by the FSC, retained earnings increased by \$97,300 by recognizing the cumulative translation adjustments (gains) on the adoption date as deemed cost. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, the increase in retained earnings due to the first-time adoption of IFRSs shall be reclassified as special reserve, and when the relevant asset is used, disposed of, or reclassified, this special reserve, shall be reversed as distributable earnings proportionately. The carrying amount of special reserve amounted to \$97,300 on December 31, 2016.

(Continued)

PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
Notes to Consolidated 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.

3) Earnings distribution

On June 20, 2016, and June 29, 2015, the stockholders' meeting resolved the distribution of earnings for 2015 and 2014, respectively. The distribution was NT\$2.1 and 1.8 (dollars) per share, which amounted to \$927,933 thousand and \$791,107 thousand, respectively.

(r) Share-based payment

(i) Employee stock options and share-based payment

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

a) Exercise period:

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

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

b) Procedure for fulfilling obligation: Primax Holdings fulfills its obligation by issuing new ordinary shares.

(Continued)

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

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

(Continued)

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

- 5) In accordance with the revised employee stock option plan mentioned above, the Company issued 9,545,248 units of employee stock options in November 2009. Each unit could be converted into 1 ordinary share of the Company.
- 6) In September 2011, the Company's board of directors resolved to issue employee stock options (Plan 3). The plan was approved by the SFB in October 2011, and the maximum number of options authorized to be granted was 5,000 units with each unit eligible to be converted into 1,000 ordinary shares of the Company when exercised. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries in which the Company owns, directly or indirectly, more than fifty percent (50%) of the subsidiary's voting rights. The Company actually issued 1,500 units and 3,500 units in November 2011 and October 2012, respectively, which were evaluated at fair value. In accordance with the employee stock option plan mentioned above, the Company recognized the investment and capital surplus amounting to \$2,517 and \$1,523 in 2016 and 2015, respectively.
- 7) As of December 31, 2016, outstanding employee stock options of the Company for equity-settled share-based payment were as follows:

	Plan 1 (note 1)	Plan 2 (note 2)	Plan 3 (note 3)	
			Issued in November 2011	Issued in October 2012
Modification and grant date	December 30, 2008/ November 12, 2009	December 30, 2008/ November 12, 2009	November 24, 2011	October 22, 2012
Exercise price	11.42	11.42	16.20	25.2
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.

(Continued)

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

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

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

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

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

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

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

(Continued)

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

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

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

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

	2016		2015	
	Weighted-average exercise price	Stock options (in thousands)	Weighted-average exercise price	Stock options (in thousands)
Outstanding at January 1	24.66	1,728	22.66	3,724
Granted during the year	-	-	-	-
Forfeited during the year	25.20	(25)	25.66	(169)
Exercised during the year	25.62	(746)	18.67	(1,750)
Expired during the year	-	-	27.70	(77)
Outstanding at December 31	22.16	<u>957</u>	24.66	<u>1,728</u>
Exercisable at December 31	22.16	<u>957</u>	24.66	<u>1,728</u>

As of December 31, 2016 and 2015, the information on the employee stock option plans outstanding was as follows:

	December 31, 2016	December 31, 2015
Employee stock option plan 1	-	-
Employee stock option plan 2	211	211
Employee stock option plan 3 - Issued in November 2011	-	-
Employee stock option plan 3 - Issued in October 2012	746	1,517
Outstanding at end of year	<u>957</u>	<u>1,728</u>
Weighted-average expected time remaining until expiration (years)	<u>0.82</u>	<u>1.82</u>

(Continued)

PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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- 10) TWEL issued employee stock options to its employees. As of December 31, 2016, the outstanding employee stock options of TWEL for equity-settled share-based payment were as follows:

	November 2014	July 2015
Grant date	November 18, 2014	July 1, 2015
Exercise price	\$15.74	\$18.82
Granted units (thousand)	700	2,750
Service period	5 years	5 years
Vesting period	3 ~4 years	3 ~5 years

The information on the outstanding stock appreciation rights of TWEL using the Black-Scholes option pricing model to measure the fair value was as follows:

	December 2014	July 2015
Exercise price	\$15.74	\$18.82
Expected time until expiration (years)	4~4.5	4~5
Stock price per share	\$14.81	\$18.23
Expected volatility of stock price	29.49%~30.14%	30.06%~30.45%
Expected dividend rate	-	-
Risk-free interest rate	1.09%~1.17%	0.96%~1.08%

The related information on the stock appreciation rights plan of TWEL was as follows:

	2016		2015	
	Weighted-average exercise price	Stock options (in thousands)	Weighted-average exercise price	Stock options (in thousands)
Outstanding at January 1	18.20	3,450	15.74	700
Granted during the year	-	-	18.82	2,750
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	16.50	(142)	-	-
Outstanding at December 31	18.27	3,308	18.20	3,450
Exercisable at December 31	-	-	-	-

(Continued)

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

- (ii) Restricted stock

- 1) As of December 31, 2016, the outstanding restricted stock of the Company was as follows:

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

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

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

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

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

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

(Continued)

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

- 2) The related information on restricted stock of the Company for 2016 and 2015 was as follows:

(Thousand shares)	2016	2015
Outstanding at January 1	3,270	1,310
Granted during the year	-	3,000
Forfeited during the year	-	-
Vesting during the year	(1,214)	(660)
Expired during the year	(285)	(380)
Outstanding at December 31	<u>1,771</u>	<u>3,270</u>

- (iii) Expenses and liabilities attributable to share-based payment for 2016 and 2015 were as follows:

	2016	2015
Expenses attributable to employee stock options	\$ 3,596	4,740
Restricted stock	43,182	46,477
Total	<u>\$ 46,778</u>	<u>51,217</u>
Salary payable:		
Current	<u>\$ 1,938</u>	<u>4,092</u>

- (s) Earnings per share

- (i) Basic earnings per share

The calculation of basic earnings per share for the years ended December 31, 2016 and 2015, based on the profit attributable to owners of parent of the Company and the weighted-average number of ordinary shares outstanding was as follows:

(Continued)

PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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	2016	2015
Profit attributable to owners of parent		
Continuing operations	\$ 1,915,501	1,764,109
Discontinued operations	18,569	9,013
Total	<u>\$ 1,934,070</u>	<u>1,773,122</u>
Weighted-average number of ordinary shares		
(thousand shares)	<u>439,169</u>	<u>436,372</u>
Basic earnings per share (NT dollars)		
Continuing operations	\$ 4.36	4.04
Discontinued operations	0.04	0.02
Total	<u>\$ 4.40</u>	<u>4.06</u>

Weighted-average number of ordinary shares (thousand shares)

	2016	2015
Ordinary shares at January 1	437,818	433,348
Exercise of employee stock options	760	2,818
Vesting of restricted stock	591	206
Ordinary shares at December 31	<u>439,169</u>	<u>436,372</u>

- (ii) Diluted earnings per share

The calculation of diluted earnings per share for the years ended December 31, 2016 and 2015, based on the profit attributable to owners of parent of the Company and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares was as follows:

	2016	2015
Profit attributable to owners of parent		
Continuing operations	\$ 1,915,501	1,764,109
Discontinued operations	18,569	9,013
Total	<u>\$ 1,934,070</u>	<u>1,773,122</u>
Weighted-average number of ordinary shares (diluted)		
(thousand shares)	<u>443,212</u>	<u>441,810</u>
Diluted earnings per share		
Continuing operations	\$ 4.32	3.99
Discontinued operations	0.04	0.02
Total	<u>\$ 4.36</u>	<u>4.01</u>

(Continued)

PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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	2016	2015
Weighted-average number of ordinary shares at December 31 (basic)	439,169	436,372
Effect of employee stock options	745	1,707
Effect of employee stock bonuses	2,174	2,769
Effect of restricted stock	<u>1,124</u>	<u>962</u>
Weighted-average number of ordinary shares at December 31 (diluted)	<u>443,212</u>	<u>441,810</u>

(t) Operating revenue

The details of operating revenue for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Goods sold	\$ 62,973,145	61,593,884
Services rendered	<u>1,356,317</u>	<u>1,944,303</u>
Continuing operations	64,329,462	63,538,187
Discontinued operations	<u>1,926,626</u>	<u>2,051,106</u>
Total	<u>\$ 66,256,088</u>	<u>65,589,293</u>

Please refer to note 12(b) for profit and loss, and cash flows from discontinued operations.

(u) Employee and directors' and supervisors' remuneration

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

Details of remuneration to employees and directors for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Employee remuneration	\$ 74,000	78,269
Directors' remuneration	<u>36,803</u>	<u>31,907</u>
	<u>\$ 110,803</u>	<u>110,176</u>

(Continued)

PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2016 and 2015. Any differences between the estimated amounts in the financial statements and the actual amounts approved by the Board of Directors, if any, shall be accounted for as a change in accounting estimate and recognized in the distribution year.

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

	Actual earnings Distributed	2015 Accrued in the financial statement	Difference
Employee remuneration			
Stock	\$ -	-	-
Cash	78,500	78,269	(231)
Directors' remuneration	32,000	31,907	(93)

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

(v) Other income

The other income from continuing operations for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Interest revenue of cash in banks	\$ 124,882	160,753
Rent revenue	5,028	9,711
Dividend income	14,692	263
Other	<u>5,322</u>	<u>2,732</u>
	<u>\$ 149,924</u>	<u>173,459</u>

(Continued)

PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(w) Other gains and losses

The other gains and losses from continuing operations for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Net gains (losses) on financial assets/liabilities measured at fair value through profit or loss	\$ (9,111)	27,871
Foreign currency exchange gains, net	242,423	350,762
Impairment losses on available-for-sale financial assets	-	(939)
Impairment losses on property plant and equipment	(22,677)	-
Net losses on disposal of property, plant and equipment	(19,100)	(29,678)
Net gains on disposal and liquidation of available-for-sale financial assets	140,969	175
Gains on disposal of subsidiaries	248,006	-
Compensation loss	(200,263)	(75,322)
Other	(48,295)	7,284
	<u>\$ 331,952</u>	<u>280,153</u>

(x) Reclassification adjustments of components of other comprehensive income

The reclassification adjustment for other comprehensive income for the year ended December 31, 2016 and 2015, were as follows:

	2016	2015
Unrealized gains and losses of available-for-sale financial assets, net of tax:		
Net change in fair value	\$ 251,675	294,053
Net change in fair value reclassified to profit or loss	(140,969)	-
Net change in fair value recognized in other comprehensive income	<u>\$ 110,706</u>	<u>294,053</u>

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(y) Financial instruments

(i) Credit risk

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

	December 31, 2016	December 31, 2015
Past due 0-30 days	\$ 763,565	1,215,010
Past due 31-90 days	213,509	122,456
Past due 91-180 days	17,593	14,149
Past due 181-360 days	13,247	26,023
Past due over a year	-	-
	<u>\$ 1,007,914</u>	<u>1,377,638</u>

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

The movements in the allowance for the years ended December 31, 2016 and 2015, were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2016	\$ -	29,247	29,247
Impairment loss recognized	-	74,106	74,106
Amounts written off	-	-	-
Exchange differences on translation of foreign currency	-	(605)	(605)
Disposal of subsidiaries	-	(2,812)	(2,812)
Balance on December 31, 2016	<u>\$ -</u>	<u>99,936</u>	<u>99,936</u>

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2015	\$ -	26,034	26,034
Impairment loss recognized	-	4,194	4,194
Acquisition from business combination	-	469	469
Amounts written off	-	(2,217)	(2,217)
Exchange differences on translation of foreign currency	-	767	767
Balance on December 31, 2015	<u>\$ -</u>	<u>29,247</u>	<u>29,247</u>

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows	Within 6 months	6~12 months	1~2 years	2~5 years	Over 5 years
December 31, 2016							
Non-derivative financial liabilities:							
Notes and accounts payable	\$ 16,892,918	16,892,918	16,892,918	-	-	-	-
Other payables	2,713,494	2,713,494	2,713,494	-	-	-	-
Long-term borrowings	601,111	609,653	277,546	110,096	137,431	84,580	-
Guarantee deposits	143,237	143,237	-	-	-	-	143,237
Derivative financial liabilities:	150,430	-	-	-	-	-	-
Outflow	-	2,766,941	2,766,941	-	-	-	-
Inflow	-	(2,615,359)	(2,615,359)	-	-	-	-
	<u>\$ 20,501,190</u>	<u>20,510,884</u>	<u>20,035,540</u>	<u>110,096</u>	<u>137,431</u>	<u>84,580</u>	<u>143,237</u>
December 31, 2015							
Non-derivative financial liabilities:							
Short-term borrowings	\$ 1,350,569	1,350,569	1,350,569	-	-	-	-
Notes and accounts payable	18,723,930	18,723,930	18,723,930	-	-	-	-
Other payables	2,737,288	2,737,288	2,737,288	-	-	-	-
Long-term borrowings	1,677,487	1,735,887	338,378	332,881	641,587	326,777	96,264
Guarantee deposits	118,641	118,641	-	-	-	-	118,641
Derivative financial liabilities:	60,105	-	-	-	-	-	-
Outflow	-	1,217,415	1,217,415	-	-	-	-
Inflow	-	(1,157,310)	(1,157,310)	-	-	-	-
	<u>\$ 24,668,020</u>	<u>24,726,420</u>	<u>23,210,270</u>	<u>332,881</u>	<u>641,587</u>	<u>326,777</u>	<u>214,905</u>

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(iii) Currency risk

1) Exposure to foreign currency risk

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

	December 31, 2016			December 31, 2015			
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rat	TWD	
<u>Financial assets</u>							
<u>Monetary items</u>							
USD:CNY	\$	385,629	6.937	12,447,718	472,140	6.4936	15,611,768
USD:HKD		101,376	7.755	3,272,316	403,487	7.7510	13,341,701
USD:TWD		428,216	32.279	13,822,384	430,293	33.066	14,228,077
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD:CNY		366,735	6.937	11,837,839	434,501	6.4936	14,367,209
USD:HKD		94,552	7.755	3,052,044	395,385	7.7510	13,073,812
USD:TWD		377,974	32.279	12,200,623	397,940	33.066	13,158,292

2) Sensitivity analysis

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

A weakening (strengthening) of 5% of the TWD, CNY and HKD against the USD as of December 31, 2016 and 2015, would have increased or decreased the net profit after tax by \$101,754 and \$107,163, respectively. The analysis is performed on the same basis for both periods.

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2016 and 2015, foreign exchange gain (loss) (including realized and unrealized portions) amounted to 242,423 and 350,762, respectively.

(iv) Interest rate analysis

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

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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If the interest rate had increased or decreased by 0.25%, and assumed all other variables remain constant the net profit before tax would have increased or decreased by \$8,287 and \$3,427 for the years ended December 31, 2016 and 2015, respectively. This is mainly due to bank savings and borrowings with variable interest rates.

(v) Other price risk:

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

	2016	2015
	Other comprehensive income after tax	Other comprehensive income after tax
Securities' price on December 31		
10% rise	\$ 58,640	55,160
10% fall	\$ (58,640)	(55,160)

(vi) Fair value

1) Kinds of financial instruments and fair value

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

	December 31, 2016				
	Carrying amounts	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss – current	\$ 141,317	-	-	141,317	141,317
Available-for-sale financial assets – non-current	\$ 887,801	586,404	-	301,397	887,801
Loans and receivables					
Cash and cash equivalents	\$ 6,359,916				
Notes and accounts receivable (including related parties)	13,706,714				
Other receivables	495,392				
Refundable deposits	44,429				
Total	\$ 20,606,451				

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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	December 31, 2016				
	Carrying amounts	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss – current	\$ 150,430	-	-	150,430	150,430
Financial liabilities carried at amortized cost					
Borrowings	\$ 601,111				
Notes and accounts payable	16,892,918				
Other payables	3,878,606				
Salary payable	1,146,183				
Guarantee deposits	143,237				
Total	\$ 22,662,055				
	December 31, 2015				
	Carrying amounts	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss – current	\$ 88,717	969	-	87,748	88,717
Available-for-sale financial assets – non-current	\$ 584,430	551,600	-	32,830	584,430
Loans and receivables					
Cash and cash equivalents	\$ 7,623,380				
Notes and accounts receivable (including related parties)	14,479,617				
Other receivables	462,242				
Refundable deposits	63,463				
Total	\$ 22,628,702				
Financial liabilities at fair value through profit or loss – current	\$ 60,105	-	-	60,105	60,105
Financial liabilities carried at amortized cost					
Borrowings	\$ 3,028,056				
Notes and accounts payable	18,723,930				
Other payables	3,891,786				
Salary payable	1,227,107				
Guarantee deposits	118,641				
Total	\$ 26,989,520				

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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2) Fair value valuation techniques for financial instruments measured at fair value

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

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

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

- The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value is estimated on the basis of the contract's spot exchange rate and swap point.
- Available-for-sale financial assets – non-current are investments in domestic or foreign non-listed stock. The fair value is based on a valuation technique. For stocks in the emerging market, the estimated fair value is adjusted for the lack of liquidity. When prices listed in the emerging market are unavailable, the fair value is estimated on the basis of unadjusted prior trade prices.

3) Transfers between Level 1 and 3

The fair value of shares of Nien Made Enterprise Co., Ltd. amounted to \$586,404 and \$551,600 as of December 31, 2016 and 2015, respectively. The shares of Nien Made Enterprise Co., Ltd. have been listed on the TWSE since December 2015 and have quoted prices. Thus, the fair value measurement transferred from Level 3 to Level 1 for the year ended December 31, 2015.

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

	2016			2015		
	Fair value through profit or loss	Available for sale	Total	Fair value through profit or loss	Available for sale	Total
Balance on January 1	\$ 27,643	32,830	60,473	15,695	292,916	308,611
Recognized in profit or loss	(9,113)	-	(9,113)	27,643	(939)	26,704
Recognized in other comprehensive income	-	(3,399)	(3,399)	-	294,053	294,053
Transfer out of Level 3	-	-	-	-	(551,600)	(551,600)
Acquisition / disposal	(27,643)	271,966	244,323	(15,695)	(1,600)	(17,295)
Balance on December 31	<u>\$ (9,113)</u>	<u>301,397</u>	<u>292,284</u>	<u>27,643</u>	<u>32,830</u>	<u>60,473</u>

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

The fair value measurements of the Group which are categorized within level 3 are classified as financial assets and liabilities at fair value through profit or loss – derivative financial instruments and available-for-sale financial assets – equity securities. The quantitative information about significant unobservable inputs was as follows:

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

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

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(z) Financial risk management

(i) Briefings

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

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

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

(ii) Structure of risk management

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

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

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's cash and cash equivalents; notes, accounts, and other receivables; and derivative instruments.

1) Cash and cash equivalents

The Group had deposited \$5,994,946 (including restricted deposits) in the DBS Bank and 9 other financial institutions, and \$7,104,404 (including restricted deposits) in Postal Savings Bank of China and 8 other financial institutions, representing 16% and 17% of total assets, as of December 31, 2016 and 2015, respectively. The Group believes that there is no significant credit risk from the above-mentioned financial institutions.

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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2) Notes and accounts receivable

Sales to individual customers constituting over 10% of total revenue for the years ended December 31, 2016 and 2015, totaled 15% and 21%, respectively. As of December 31, 2016 and 2015, 7% and 12%, respectively, of the ending balance of notes and accounts receivable were accounted for by those customers. In order to reduce credit risk, the Group assesses the financial status of the customers and the possibility of collection of receivables on a regular basis. The above-mentioned customers are profitable and have a good credit record, and the Group did not suffer any significant credit loss from those customers during the financial reporting period.

3) Derivative instruments

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

(iv) Liquidity risk

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

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group had unused bank facilities of \$13,301,651 and \$10,957,088 as of December 31, 2016 and 2015, respectively.

(v) Market risk

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

1) Currency risk

The Group is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the TWD, USD, HKD, and CNY. These transactions are denominated in USD.

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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2) Interest rate risk

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

3) Other market price risk

The Group is exposed to equity price risk due to the investments in listed equity securities. Those equity securities are strategic investments and is not held for trading.

(aa) Capital management

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

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

The Group's debt ratio as of December 31, 2016 and 2015, was 67% and 69%, respectively.

(7) Related-party transactions:

(a) Parent company and ultimate controlling company

The Company is the ultimate controlling party of the Group.

(b) Other related-party transactions

(i) Sales

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

	Sales		Notes and accounts receivable	
	2016	2015	December 31, 2016	December 31, 2015
Other related parties	\$ <u>238,563</u>	<u>153,394</u>	<u>102,841</u>	<u>54,995</u>

There were no significant differences in the selling prices and trading terms between the related parties and other customers.

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(ii) Loans from related parties

The outstanding balance of loans to the Group from its related parties was as follows:

	2015	
	Highest balance	Ending balance
Key management personnel of Global TEK	\$ <u>125,344</u>	<u>63,994</u>

(iii) Property transaction—disposal of equity securities

Details of the Company's disposal of the shares of its subsidiary to its related parties were as follows:

Relationship	Account	2016		Proceeds from disposal (note)	Gains or losses from disposal	2015		Proceeds from disposal	Gains or losses from disposal
		Trading quantities	Trading targets			Trading quantities	Trading target		
Other related parties	Investment using equity method	11,020 (thousand)	shares	549,347	164,785	-	-	-	-

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

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

(c) Key management personnel compensation

	2016	2015
Short-term employee benefits	\$ 183,825	174,528
Post-employment benefits	1,129	1,233
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	17,088	15,124
	\$ <u>202,042</u>	<u>190,885</u>

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

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(8) Pledged assets:

As of December 31, 2016 and 2015, assets pledged as collateral were as follows:

Pledged assets	Pledged to secure	December 31, 2016	December 31, 2015
Other current assets – restricted assets	Guarantee letters issued by bank	\$ -	4,502
Other non-current assets – restricted assets	Loan collateral and guarantee letters issued by bank	\$ 1,163	4,667
Property, plant and equipment	Loan collateral	\$ -	699,107
Long-term prepaid rent	Loan collateral	\$ -	99,832

(9) Commitments and contingencies:

- (a) The Group's guarantee of purchasing materials and borrowings, please refer to note 13.
- (b) The following are savings accounts provided by the Group to the bank in order for the bank to issue a guarantee letter to customs as guarantee deposits. Please refer to note 8.

	December 31, 2016	December 31, 2015
Guarantee letters	\$ 198,121	39,912

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

	December 31, 2016	December 31, 2015
Sales of accounts receivable	\$ 2,805,777	2,874,690
Long-term borrowings	\$ 2,160,000	2,598,906
Purchase of material	\$ -	39,732

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

	December 31, 2016	December 31, 2015
Property, plant and equipment	\$ 63,890	66,482

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- (e) TWEL Group entered into patent license agreements with several companies in July 2015. According to the agreements, royalty to be paid in the future are as follows:

	December 31, 2016	December 31, 2015
	\$ -	69,670

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

(10) Losses due to major disasters:None

(11) Subsequent events:None

(12) Other:

- (a) Employee benefit, depreciation, and amortization expenses are summarized by function from continuing operations are below:

By item	2016			2015		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefits						
Salaries	3,829,623	2,572,977	6,402,600	4,217,912	2,434,943	6,652,855
Labor and health insurance	105,984	107,713	213,697	111,028	98,844	209,872
Pension	272,241	101,105	373,346	284,197	97,974	382,171
Others	46,599	151,697	198,296	77,354	146,764	224,118
Depreciation	1,264,078	110,004	1,374,082	1,056,396	119,772	1,176,168
Amortization	19,708	162,226	181,934	13,264	157,646	170,910

- (b) Discontinued operations

The Group sold parts of the shares of Global TEK on October 3, 2016. Since the segment of Global TEK and its subsidiaries was not a discontinued operation or classified as held for sale on December 31, 2015, the comparative statement of comprehensive income has been restated to show the discontinued operation separately from continuing operations.

Profit and loss, and cash flows from discontinued operations are summarized as follows:

	2016	2015
Operating revenue	\$ 1,926,626	2,051,106
Operating cost	(1,457,401)	(1,654,033)
Gross profit	469,225	397,073
Operating expenses	(277,699)	(335,759)
Net operating income	191,526	61,314
Non-operating income and expenses	(86,301)	(6,263)
Profit before income taxes	105,225	55,051
Income tax expense	(43,329)	(25,009)
Profit from discontinued operations	\$ 61,896	30,042

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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	2016	2015
Profit attributable to:		
Owners of Parent	\$ 18,569	9,013
Non-controlling interests	43,327	21,029
	<u>\$ 61,896</u>	<u>30,042</u>
Cash flows from discontinued operations:		
Cash flows from operating activities	\$ 321,226	184,499
Cash flows from investing activities	(161,102)	(194,508)
Cash flows from financing activities	38,022	(211,459)
Effect of foreign currency exchange translation	(26,190)	(6,419)
Net increase (decrease) in cash and cash in equivalents	<u>\$ 171,956</u>	<u>(227,887)</u>

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required to be disclosed by the Regulations for the Group:

(i) Loans to other parties:

No.	Name of lender	Name of borrower	Account name	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
												Item	Value		
1	PKSI	The Company	Other accounts receivable	781,263	781,263	781,263	-	Necessary to loan to other parties	-	Operating capital	-		-	920,598	920,598
2	Global TEK	GLOBAL TEK WUXI	Other accounts receivable	96,846	47,049	47,049	0%-2%	"	-	"	-		-	217,391	434,782
"	"	GT	Other accounts receivable	101,353	30,000	30,000	2.896%	"	-	"	-		-	217,391	434,782
"	"	GTS	Other accounts receivable	30,000	-	-	2.000%	"	-	"	-		-	217,391	434,782

Note 1: The Board of directors approved PKSI to extend loan to any individual of the parent company or subsidiaries having 100% voting share, with the loan amount and the total amount not exceeding its net worth in the latest financial statements.

Note 2: The loan amount and the total loan amount for the Company shall not exceed 10% and 20%, respectively, of its net worth in the latest financial statements. The Company lost control over Global TEK group in October 2016. The information on Global TEK group was disclosed as of September 30, 2016.

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(ii) Guarantees and endorsements for other parties:

No.	Name of guarantor	Counter-party of guarantee and endorsement	Relationship with the Company	Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
0	The Company	PCH2	The subsidiary of PHK1 and PTH2	3,299,917	390,432	338,930	20,917	-	3.08 %	8,799,779	Y	-	Y
1	PCH2	PCQ1	The same parent company	1,336,851	235,200	193,674	26,560	-	4.35 %	3,564,936	-	-	Y
"	"	PKS1	"	1,336,851	100,800	96,837	56,676	-	2.17 %	3,564,936	-	-	Y
2	Global TEK	GT	The same parent company	217,391	30,000	-	-	-	- %	543,478	Y	-	-
3	GT	Global TEK	The same parent company	50,761	50,000	-	-	-	- %	91,370	-	Y	-
"	"	Global TEK WUXI	"	50,761	50,400	47,049	27,445	-	46.34 %	91,370	-	-	Y

Note 1: The amount and the total amount of the guarantee to a company shall not exceed 30% and 80%, respectively, of its net worth in the latest financial statements.

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

Note 3: The amount and the total amount of the guarantee to a company shall not exceed 20% and 50%, respectively, of Global TEK's net worth in the latest financial statements. The Company lost control over Global TEK group in October, 2016. The information for Global TEK group ended on September 30, 2016.

Note 4: The amount and the total amount of the guarantee to a company shall not exceed 50% and 90%, respectively, of GT's net worth in the latest financial statements. The Company lost control over Global TEK group in October 2016. The information on Global TEK group was disclosed as of September 30, 2016.

Note 5: The above counter-parties of guarantee and endorsement are subsidiaries included in the consolidated financial statements.

(iii) Securities held as of December 31, 2016 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares/Units (thousands)	Percentage of ownership (%)	
The Company	Shares:									
	Green Rich Technology Co., Ltd.	-	Available-for-sale financial asset-non-current	359	4,000	3.59	4,000	1,680	3.59	
	WK Technology Fund IV LTD.	-	"	512	3,820	0.38	3,820	640	0.38	
	Changing Information Technology Inc.	-	"	179	2,802	1.66	2,802	179	1.72	
	Formosoft International Inc.	-	"	53	646	0.76	646	53	1.07	
	Syntronix Corp.	-	"	6	749	0.02	749	6	0.02	
	Ricavision International Inc.	-	"	917	-	2.04	-	917	2.04	
	Nien Made Enterprise Co., Ltd.	-	"	1,764	586,404	0.60	586,404	2,605	1.00	
	Global TEK	-	"	5,510	<u>275,500</u> <u>873,921</u>	10.00	275,500	16,530	30.00	
Primax Tech.	Shares:									
	Echo. Bahn.	-	Available-for-sale financial asset-non-current	400	-	11.90	-	400	11.90	
	WK Global Investment III Ltd.	-	"	630	<u>13,880</u> <u>13,880</u>	1.32	13,880	700	1.32	

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the Company's issued capital:

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares (thousands)	Amount	Shares (thousands)	Amount	Shares (thousands)	Price	Cost	Gain (loss) on disposal	Shares (thousands)	Amount
The Company	Shares:													
	Global TEK	Available-for-sale financial assets	Related parties	Other related parties	16,530	555,091	-	-	11,020	549,347	384,562	248,004 (note 1)	5,510	275,500
PCH2	Financial instruments of floating income and capital guaranteed	Held-for-trading financial assets	Initial offerings	None	-	-	-	7,308,498	-	7,315,451	7,308,498	6,953 (note 1)	-	-
PCH2	Money market fund of RMB	"	"	"	-	-	-	667,960	-	667,774	666,565	(186) (note 1)	-	-
PCQ1	Money market fund of RMB	"	"	"	-	-	-	559,312	-	558,388	557,754	(924) (note 1)	-	-
Premium Huizhou	Money market fund of RMB	"	"	"	-	-	-	534,061	-	527,401	526,428	(6,660) (note 1)	-	-

Note 1: Gains of disposal include valuation and exchange differences on translation.

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

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Primax Cayman	Subsidiary	Purchase	429,806	1 %	60 days	Price agreed by both side	The same as general purchasing	(49,873)	-%	
"	Primax HK	The subsidiary of Primax Cayman	Purchase	16,357,886	39 %	"	"	"	-	-%	
"	PCH2	The subsidiary of Primax HK	Purchase	18,234,471	45 %	"	"	"	(6,971,192)	(69)%	
"	PKS1	The subsidiary of Primax HK	Purchase	1,012,723	2 %	"	"	"	(409,294)	(4)%	
"	PCQ1	The subsidiary of Primax HK	Purchase	5,189,828	13 %	"	"	"	(1,922,281)	(19)%	

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Polaris	The subsidiary of Primax Tech	(Sale)	(3,804,963)	(8) %	90 days	"	The same as general selling	226,050	3%	
"	TYM HK	The subsidiary of TWEL	(Sale)	(400,149)	(1) %	60 days	"	"	165,384	2%	
"	Tymphony Dongguan	The subsidiary of TYM HK	(Sale)	(239,956)	(1) %	"	"	"	-	-%	
Primax Cayman	The Company	Parent	(Sale)	(429,806)	(100) %	"	"	"	49,873	100%	
Primax HK	The Company	Parent	(Sale)	(16,357,886)	(100) %	"	"	"	-	-%	
"	PCH2	Subsidiary	Purchase	16,272,682	100 %	30 days	"	The same as general purchasing	(305,434)	(100)%	
PCH2	Primax HK	Parent	(Sale)	(16,272,682)	(36) %	"	"	The same as general selling	305,434	3%	
"	The Company	The parent of Primax Cayman	(Sale)	(18,234,471)	(40) %	60 days	"	"	6,971,192	65%	
PKS1	The Company	The parent of Primax Cayman	(Sale)	(1,012,723)	(100) %	"	"	"	409,294	34%	
PCQ1	The Company	The parent of Primax Cayman	(Sale)	(5,189,828)	(88) %	"	"	"	1,922,281	89%	
Polaris	The Company	The parent of Primax Tech	Purchase	3,804,963	99 %	90 days	"	The same as general purchasing	(226,050)	(24)%	
TYM HK	Premium Hui Zhou	Subsidiary	Purchase	3,825,446	49 %	60 days	"	"	(986,123)	(40)%	
"	The Company	The parent of Diamond	Purchase	400,149	5 %	"	"	"	(165,384)	(7)%	
"	Tymphony Dongguan	Subsidiary	Purchase	3,871,980	48 %	"	"	"	(1,191,888)	(49)%	
Premium Hui Zhou	TYM HK	Parent	(Sale)	(3,825,446)	(94) %	"	"	The same as general selling	986,123	98%	
Tymphony Dongguan	The Company	Parent	Purchase	239,956	6 %	"	"	The same as general purchasing	-	-%	
"	TYM HK	Parent	(Sale)	(3,871,980)	(100) %	"	"	The same as general selling	1,191,888	99%	
Global TEK	Global TEK XI'AN	The subsidiary of GTS	Purchase	122,441	32 %	"	"	The same as general purchasing	(35,080)	(27)%	
GT	Global TEK WUXI	The subsidiary of GTS and WUXI Global TEK	Purchase	393,728	63 %	90 days	"	"	(236,385)	(42)%	
Global TEK XI'AN	Global TEK	The parent of GTF-HK	(Sale)	(122,441)	(71) %	"	"	The same as general selling	35,080	58%	
Global TEK WUXI	GT	The subsidiary of Global TEK	(Sale)	(393,728)	(37) %	"	"	"	236,385	40%	

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

Note 2: The Company has lost control over Global TEK in October 2016. The information on Global TEK group was disclosed as of September 30, 2016.

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

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the Company's issued capital:

Name of company	Counter-party	Nature of relationship	Ending balance (note 2)	Turnover rate	Overdue		Amounts received in subsequent period (note 1)	Allowance for bad debts
					Amount	Action taken		
The Company	Polaris	The Subsidiary of Primax Tech	226,050	12.72	-		226,050	-
"	TYM HK	The Subsidiary of TWEL	165,384	0.43	-		86,141	-
PCH2	Primax HK	Parent	305,434	3.11	-		1,316	-
"	The Company	The Parent of Primax Cayman	6,971,192	5.23	-		6,550,647	-
PKS1	The Company	The Parent of Primax Cayman	1,190,557	1.36	781,263	Reclassify to Long-term payable, and enhance the control of receivables	241,863	-
PCQ1	The Company	The Parent of Primax Cayman	1,922,281	3.92	-		1,241,674	-
Premium Hui Zhou	TYM HK	Parent	986,123	4.37	-		600,391	-
Tymphony Dongguan	TYM HK	Parent	1,191,888	6.50	-		426,604	-
Global TEK WUXI	GT	The Subsidiary of Global TEK	236,385	2.41	-		19,726	-

Note 1: Amounts collected as of March 7, 2017.

Note 2: The Company has lost control over Global TEK in October 2016. The information on Global TEK group was disclosed as of September 30, 2016.

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

(ix) Trading in derivative instruments: Please refer to notes 6(b).

(x) Business relationships and significant intercompany transactions:

No	Name of company	Name of counter-party	Nature of relationship (Note 2)	Account name	Intercompany transactions, 2016		Percentage of consolidated total operating revenues or total assets
					Amount	Trading terms	
0	The Company	PCH2	The subsidiary of Primax HK	Purchase	18,234,471	Price agreed by both side	28.35 %
"	"	"	"	Accounts Payable	6,971,192	60 days	18.78 %
"	"	Primax Cayman	Subsidiary	Purchase	429,806	Price agreed by both side	0.67 %
"	"	Primax HK	The subsidiary of Primax Cayman	Purchase	16,357,886	Price agreed by both side	25.43 %
"	"	PKS1	The subsidiary of Primax HK	Purchase	1,012,723	Price agreed by both side	1.57 %
"	"	"	"	Accounts Payable	409,294	60 days	1.10 %
"	"	PCQ1	"	Purchase	5,189,828	Price agreed by both side	8.07 %
"	"	"	"	Accounts Payable	1,922,281	60 days	5.18 %
"	"	Polaris	The subsidiary of Primax Tech	Sale	3,804,963	Price agreed by both side	5.91 %
"	"	"	"	Accounts Receivable	226,050	90 days	0.61 %

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No	Name of company	Name of counter-party	Nature of relationship (Note 2)	Account name	Intercompany transactions, 2016		Percentage of consolidated total operating revenues or total assets
					Amount	Trading terms	
0	The Company	TYM HK	The subsidiary of TWEL	Sale	400,149	Price agreed by both side	0.62 %
"	"	"	"	Accounts Receivable	165,384	60 days	0.45 %
"	"	Tymphony Dongguan	The subsidiary of TYM HK	Sale	239,956	Price agreed by both side	0.37 %
1	Primax HK	PCH2	Subsidiary	Purchase	16,272,682	Price agreed by both side	25.30 %
"	"	"	"	Accounts Payable	305,434	30 days	0.82 %
2	TYM HK	Premium Hui Zhou	Subsidiary	Purchase	3,825,446	Price agreed by both side	5.95 %
"	"	"	"	Accounts Payable	986,123	60 days	2.66 %
"	"	Tymphony Dongguan	Subsidiary	Purchase	3,871,980	Price agreed by both side	6.02 %
"	"	"	"	Accounts Payable	1,191,888	60 days	3.21 %
3	Global TEK	Global XI'AN	The subsidiary of GTS	Purchase	122,441	Price agreed by both side	0.19 %
4	GT	Global WUXI	The subsidiary of GTS and WUXI	Purchase	393,728	Price agreed by both side	0.61 %
"	"	"	"	Accounts Payable	236,385	90 days	0.64 %

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

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

Note 3: The Company has lost control over Global TEK in October 2016. The information on Global TEK group was disclosed as of September 30, 2016.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2016 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2016			Highest balance during the year		Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2016	December 31, 2015	Shares (thousands)	Percentage of ownership	Carrying value	Shares (thousands)	Percentage of ownership			
The Company	Primax Cayman	Cayman Islands	Holding company	2,540,588	2,540,588	8,147,636	100.00	4,336,069	8,147,636	100.00	211,690	251,896	
"	Primax Tech.	Cayman Islands	Holding company	897,421	897,421	285,067	100.00	1,922,225	285,067	100.00	(24,669)	11,354	
"	Destiny BVI	Virgin Island	Holding company	30,939	30,939	1,050	100.00	26,320	1,050	100.00	(3,452)	(3,452)	
"	Destiny Japan	Japan	Market development and customer service	7,032	7,032	0.50	100.00	16,146	0.5	100.00	242	242	
"	Primax Korea	Korea	Market development and customer service	-	9,101	-	-	-	67	100.00	-	-	(note 3)
"	Diamond	Cayman Islands	Holding company	2,517,298	2,517,298	84,050	100.00	3,007,259	84,050	100.00	144,863	145,891	

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Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2016			Highest balance during the year		Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2016	December 31, 2015	Shares (thousands)	Percentage of ownership	Carrying value	Shares (thousands)	Percentage of ownership			
The Company	Global TEK	Taiwan	Manufacture and sale of sophisticated machinery components, automotive parts, industrial automation parts, communication parts, and aerospace components	-	545,490		-	-	16,530	30.00	79,912	18,569	(note 4)
"	Gratus Tech.	USA	Market development and customer service	9,330	9,330	300	100.00	9,875	300	100.00	75	75	
	Total			6,002,608	6,557,199			9,317,894			408,661	424,575	
Primax Cayman	Primax HK	Hong Kong	Sale of multi-function printers and computer peripheral devices	2,375,164	2,375,164	602,817	100.00	4,433,962	602,817	100.00	213,540	213,540	
Primax Tech.	Polaris	USA	Sale of multi-function printers and computer peripheral devices	52,680	52,680	1,600	100.00	394,322	1,600	100.00	11,071	11,071	
Diamond	TWEL	Cayman Islands	Holding company	2,515,800	2,515,800	38,501	70.00	2,904,380	38,501	70.00	349,720	166,285	
TWEL	TYM HK	Hong Kong	Holding company and sale of audio accessories, amplifiers and their components	76,280 (note 1)	76,280 (note 1)	144,395	100.00	1,540,112	144,395	100.00	337,425	337,425	
"	TYP	USA	Market development and customer service of amplifiers and their components	15 (note 1)	15 (note 1)	0.50	100.00	4,876	0.5	100.00	2,692	2,692	
TYM HK	TYML	USA	Sales of audio accessories, amplifiers and their components	6,628	6,628	200	100.00	(10,786)	200	100.00	3,436	4,674	
Global TEK	GT	Taiwan	Manufacture of sophisticated machinery components and automotive parts	-	166,000 (note 2)		-	-	16,000	100.00	(31,844)	(31,844)	(note 4)
"	GTF-S	Samoa Islands	Holding company	-	360,029 (note 2)		-	-	12,500	100.00	116,707	116,543	(note 4)
GT	GP	USA	Sale of automotive parts, industrial automation parts, communication parts and aerospace components	-	641 (note 2)		-	-	20	100.00	(110)	(110)	(note 4)
GTF-S	GTS	Samoa Islands	Holding company	-	330,650 (note 2)		-	-	9,200	100.00	94,849	94,849	(note 4)
"	GTF-HK	Hong Kong	Holding company	-	123,916 (note 2)		-	-	26,200	100.00	22,001	22,001	(note 4)

Note 1: The amount is the initial investment costs from the original stockholders prior to the acquisition of the Company through Diamond.
Note 2: The amount is the initial investment costs from the original stockholders prior to the acquisition of the Company through Global TEK.
Note 3: The liquidation of Primax Korea was completed in March 2016.
Note 4: The Company has lost control over Global TEK in October 2016.
Note 5: Related transactions have been eliminated during the preparation of the consolidated financial statements.

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

(c) Information on investments in mainland China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2016	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
PCH2	Manufacture of multifunctional peripherals, computer mice, mobile phone accessories, consumer electronics products, and shredders	2,075,044	Indirect investment through Primax Cayman and Primax Tech.	1,817,427 (note 2)	-	-	1,773,902 (note 2)	(103,572)	100%	(103,572)	4,456,136	-
Destiny Beijing	Research and development of computer peripheral devices and software	41,105	Indirect investment through Destiny BVI.	34,719 (note 2)	-	-	33,893 (note 2)	(3,452)	100%	(3,452)	26,316	-
PKS1	Manufacture of computer, peripherals and keyboards	908,593	Indirect investment through Primax Cayman	727,452 (note 2)	-	-	710,138 (note 2)	69,114	100%	69,114	920,591	-
PCQ1	Manufacture of computer, peripherals and keyboards	583,149	Indirect investment through Primax Cayman	661,320 (note 2)	-	-	645,580 (note 2)	246,273	100%	246,273	915,196	-
Premium Hui Zhou	Research and development, design, and sale of audio accessories, amplifiers and their components	146,303 (note 3)	Indirect investment through Diamond	2,777,544	-	-	2,711,436	125,942	70%	88,159	410,738	-
Tymphony Dongguan	Research and development, design, and sale of audio accessories, amplifiers and their components	16,140	Indirect investment through Diamond	16,533	-	-	16,140	35,972	70%	25,180	33,904	-
TYDC	"	93,064	"	-	-	-	-	-	70%	-	65,144	-
WUXI Global TEK	Manufacture of sophisticated machinery components	-	Indirect investment through Global TEK	102,306 (note 4)	-	102,306	-	24,478	30%	7,343	-	-
Global TEK XTAN	Manufacture of industrial automation parts, communication parts and aerospace components	-	Indirect investment through Global TEK	21,245 (note 4)	-	21,245	-	7,238	30%	2,171	-	-
Global TEK WUXI	Manufacture of sophisticated machinery components and automotive parts	-	Indirect investment through Global TEK	286,467 (note 4)	-	286,467	-	124,651	30%	37,395	-	-

Note 1: The above information on the exchange rate is as follows: HKD:TWD \$4.1623; USD:TWD 32.279; CNY:TWD 4.6532.
Note 2: The difference between the accumulated out flow of investments and paid-in capital was derived from the currency exchange on translation, capital increase from retained earning and working capital.
Note 3: The amount is the initial investment costs from the original stockholders prior to the acquisition of the Company through Diamond.
Note 4: The amount is the initial investment costs from the original stockholders prior to the acquisition of the Company through Global TEK.
Note 5: The Company has lost control over Global TEK in October 2016.
Note 6: Related transactions have been eliminated during the preparation of the consolidated financial statements.

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PRIMAX ELECTRONICS LTD. AND ITS SUBSIDIARIES
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(ii) Limitation on investment in Mainland China:

Name of Company	Accumulated Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
The Company	5,980,672	6,797,921	None (Note)

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

The above investment income (losses) in mainland China, except for PCH 2, Destiny Beijing, PKS 1, and PCQ 1, which were based on financial statements audited by the Company's auditors, others were based on the audited results of other auditors.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions" and "Business relationships and significant intercompany transactions."

(14) Segment information:

(a) General information

The Group's reported segments are the divisions for computer peripherals and non-computer peripherals. The division for computer peripherals specializes in the manufacture and sale of computer mice, keyboards, track pads, etc. The division for non-computer peripherals specializes in the manufacture and sale of digital camera modules, mobile phone accessories, multi-function printers, scanners, shredders, amplifiers, speakers, audio systems, automotive parts, industrial automation parts, aerospace components, etc.

The Group's reported segments consist of strategic business units which provide essentially different products and services. These units have to be separately managed as a result of the different technology and marketing strategies. Most of the business units were acquired, and the original management teams are still operating.

(b) Reportable segments' profit or loss, segment assets, segment liabilities, and their measurement and reconciliation

Income tax and extraordinary profits and losses are not allocated to the Group's reportable segments, and the amounts for the reported segments are identical with those in the report used by the chief operating decision maker.

The Group assessed the performance of the segments based on the segments' income before income taxes (excluding extraordinary profit and loss), and the accounting policies of the operating segments are the same as those described in note 4. Sales and transfers between segments are deemed to be transactions with third parties and are measured by using the market price.

(Continued)

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

For the years ended December 31, 2016 and 2015, the Group's segment financial information was as follows:

	2016		
	Computer Peripherals	Non-computer Peripherals	Total
Revenue			
External revenue	\$ 25,730,665	40,525,423	66,256,088
Intra-group revenue	-	-	-
Elimination from discontinued operations	-	(1,926,626)	(1,926,626)
Total segment revenue	<u>\$ 25,730,665</u>	<u>38,598,797</u>	<u>64,329,462</u>
Profit from segments reported	\$ 1,541,299	1,328,378	2,869,677
Elimination from discontinued operations	-	(105,225)	(105,225)
Total profit	<u>\$ 1,541,299</u>	<u>1,223,153</u>	<u>2,764,452</u>

	2015 (restated)		
	Computer Peripherals	Non-computer Peripherals	Total
Revenue			
External revenue	\$ 30,586,105	35,003,188	65,589,293
Intra-group revenue	-	-	-
Elimination from discontinued operations	-	(2,051,106)	(2,051,106)
Total segment revenue	<u>\$ 30,586,105</u>	<u>32,952,082</u>	<u>63,538,187</u>
Profit from segments reported	\$ 1,691,877	781,076	2,472,953
Elimination from discontinued operations	-	(55,051)	(55,051)
Total profit	<u>\$ 1,691,877</u>	<u>726,025</u>	<u>2,417,902</u>

(c) Geographic information

In presenting information on the basis of geography, revenue is based on the geographical location of customers, and non-current assets are based on the geographical location of the assets. Details were as follows:

<u>Geographic Information</u>	2016	2015 (restated)
Revenues from external customers:		
China	\$ 35,009,994	38,259,055
Americas	14,221,870	11,216,040
Other	15,097,598	14,063,092
Total	<u>\$ 64,329,462</u>	<u>63,538,187</u>

(Continued)

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

	December 31, 2016	December 31, 2015
Non-current assets:		
China	\$ 4,701,807	5,825,906
Taiwan	371,047	1,624,591
Other	<u>2,722,283</u>	<u>2,806,056</u>
Total	<u>\$ 7,795,137</u>	<u>10,256,553</u>

(d) Major customer information

The information on major customers that accounted for more than 10% of revenue in the consolidated statements of comprehensive income in 2016 and 2015 is as follows:

	2016		2015	
	Net sales	Percentage of net sales	Net sales	Percentage of net sales
Company A	<u>\$ 9,524,714</u>	<u>15 %</u>	<u>13,605,216</u>	<u>21 %</u>

5. The 2016 Proprietary financial statements and notes had been audited by the CPAs.



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Independent Auditors' Report

To the Board of Directors of PRIMAX ELECTRONICS LTD.:

Opinion

We have audited the financial statements of PRIMAX ELECTRONICS LTD. ("the Company"), which comprise the balance sheets as of December 31, 2016 and 2015, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Other Matter

We did not audit the financial statements of certain investees accounted for under the equity method. Those financial statements were audited by other auditors, and our opinion, insofar as it relates to the amounts included for those investments, is based solely on the reports of the other auditors. The Company's investment in these companies constituting 4% of the total assets, as of December 31, 2016 and 2015. The related share of profit of associates accounted for using the equity method amounted constituting 11% and 9% of the profit before tax, for the years ended December 31, 2016 and 2015, respectively.

Key Audit Matters

Key audit matters are those matters that, in our professional judgments, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In our professional judgments, key audit matters to be communicated in the independent auditors' report are listed below:

1. Evaluation of inventories

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

Description of key audit matter:

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

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the policies of evaluating the inventories of the Company; inspecting whether existing inventory policies are applied; examine the accuracy of the aging of inventories by sampling and analyse the changes of the aging of inventories; inspecting the reasonability for allowance provided on inventory valuation in the past and compare it to the current year to ensure that the measurements and assumptions are reasonable; sampling the inventories sold in subsequent period to assess whether the allowance for inventories are reasonable.

2. Investments accounted for using equity method

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

Description of key audit matter:

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

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

How the matter was addressed in our audit:

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

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

3. Disposal of subsidiaries

Please refer to Note 4(h) "Investments in subsidiaries", Note 6(c) "Available-for-sale financial assets-noncurrent of the financial statements", and Note 6(f) "Investments accounted for using equity method" of the consolidated financial statements.

Description of key audit matter:

The Company sold parts of its shares in its subsidiary, Global TEK Fabrication Co., Ltd. and lost control over the subsidiary on October 3, 2016. This is a non-recurring transaction to the Company, wherein the trading parties are its related parties. Therefore, the disposal of subsidiaries is one of the key audit matters for our audit.

How the matter was addressed in our audit:

The principal audit procedures on the disposal of its subsidiary included: assessing whether the transactions complies with the Regulations Governing the Acquisition and Disposal of Assets by Public Companies and the Regulations of Internal Control System of PRIMAX ELECTRONICS LTD.; reading the contracts to fully understand the trading parties involved, prices, and other agreements; inspecting the external materials of cash proceeds and amendment of shares register; obtaining the audit report from other auditors on the date the Company lost its control over the subsidiary to be the base to recognize its profit (loss) using equity method accordingly; and evaluating the completeness of disclosure in the financial reports.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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





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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investments in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are YUNG-HUA HUANG and CHI-LUNG YU.

KPMG

Taipei, Taiwan (Republic of China)
March 7, 2017



Notes to Readers

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

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

(English Translation of Financial Statements and Report Originally Issued in Chinese)
PRIMAX ELECTRONICS LTD.Balance Sheets
December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Assets				
Current assets:				
1100 Cash and cash equivalents (note 6(a))	\$ 4,751,198	18	2,267,560	8
1110 Current financial assets at fair value through profit or loss (note 6(b))	141,317	1	79,052	-
1170 Accounts receivable, net (note 6(d))	7,339,708	27	9,321,764	34
1180 Accounts receivable from related parties, net (notes 6(d) and 7)	513,446	2	2,052,505	8
1200 Other receivables, net (notes 6(d) and 7)	1,050,923	4	28,841	-
1310 Inventories (note 6(e))	2,293,419	8	2,551,571	9
1470 Other current assets	33,532	-	28,453	-
	<u>16,123,543</u>	<u>60</u>	<u>16,329,746</u>	<u>59</u>
Non-current assets:				
1523 Available-for-sale financial assets-non-current (note 6(c))	873,921	3	567,897	2
1550 Investments accounted for using equity method (note 6(f))	9,317,894	35	10,088,961	37
1600 Property, plant and equipment (note 6(g))	68,785	-	65,554	-
1760 Investment property (note 6(h))	255,149	1	258,709	1
1780 Intangible assets (note 6(i))	22,966	-	29,514	-
1840 Deferred tax assets (note 6(n))	348,269	1	293,519	1
1990 Other non-current assets	73,776	-	62,016	-
	<u>10,960,760</u>	<u>40</u>	<u>11,366,170</u>	<u>41</u>
Total assets	<u>\$ 27,084,303</u>	<u>100</u>	<u>\$ 27,695,916</u>	<u>100</u>
Liabilities and Equity				
Current liabilities:				
Short-term borrowings (note 6(j))	\$ -	-	1,120,518	4
Notes and accounts payable	783,593	3	264	-
Accounts payable to related parties (note 7)	9,352,640	35	11,340,202	41
Current financial liabilities at fair value through profit or loss (note 6(b))	150,430	1	52,765	-
Other payables (note 7)	2,331,760	8	1,583,478	6
Salary payable (note 6(p))	359,279	1	411,680	1
Other current liabilities	219,856	1	147,176	1
Long-term borrowings, current portion (note 6(k))	382,222	1	548,889	2
	<u>13,579,780</u>	<u>50</u>	<u>15,204,972</u>	<u>55</u>
Non-Current liabilities:				
Long-term accounts payable to related parties (note 7)	781,263	3	-	-
Long-term borrowings (note 6(k))	218,889	1	767,778	3
Long-term deferred revenue (note 6(g))	1,159,073	4	1,018,732	3
Other non-current liabilities (notes 6(m) and (n))	345,574	1	274,053	1
	<u>2,504,799</u>	<u>9</u>	<u>2,060,563</u>	<u>7</u>
Total liabilities	<u>16,084,579</u>	<u>59</u>	<u>17,265,535</u>	<u>62</u>
Ordinary shares (note 6(o))	4,421,343	16	4,411,877	16
Capital collected in advance (note 6(o))	3,024	-	15,174	-
Capital surplus (note 6(o))	791,466	3	777,368	3
Legal reserve (note 6(o))	788,634	3	611,322	2
Special reserve (note 6(o))	97,300	-	97,300	-
Unappropriated retained earnings (note 6(o))	4,779,419	18	3,951,934	15
Other equity interest	118,538	1	565,406	2
	<u>10,999,724</u>	<u>41</u>	<u>10,430,381</u>	<u>38</u>
Total equity	<u>\$ 27,084,303</u>	<u>100</u>	<u>\$ 27,695,916</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
PRIMAX ELECTRONICS LTD.
Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
4000 Operating revenue (notes 6(r) and 7)	\$ 45,739,783	100	51,638,181	100
5000 Operating costs (notes 6(e), (m), (o), (p), (s), 7 and 12)	<u>42,106,442</u>	<u>92</u>	<u>48,703,633</u>	<u>94</u>
Gross profit	<u>3,633,341</u>	<u>8</u>	<u>2,934,548</u>	<u>6</u>
Operating expenses (notes 6(m), (o), (p), (s), 7 and 12):				
6100 Selling expenses	670,475	2	610,013	1
6200 Administrative expenses	442,145	1	414,570	1
6300 Research and development expenses	<u>970,860</u>	<u>2</u>	<u>983,295</u>	<u>2</u>
Total operating expenses	<u>2,083,480</u>	<u>5</u>	<u>2,007,878</u>	<u>4</u>
Net operating income	<u>1,549,861</u>	<u>3</u>	<u>926,670</u>	<u>2</u>
Non-operating income and expenses:				
7010 Other income (notes 6(t) and 7)	33,468	-	22,053	-
7020 Other gains and losses (notes 6(c), (u) and 7)	371,406	1	283,488	-
7070 Share of profit of subsidiaries accounted for using equity method	424,575	1	755,092	1
7050 Finance costs	<u>(31,786)</u>	<u>-</u>	<u>(53,380)</u>	<u>-</u>
Total non-operating income and expenses	<u>797,663</u>	<u>2</u>	<u>1,007,253</u>	<u>1</u>
Profit from operations before tax	<u>2,347,524</u>	<u>5</u>	<u>1,933,923</u>	<u>3</u>
7950 Less: Income tax expense (note 6 (n))	<u>413,454</u>	<u>1</u>	<u>160,801</u>	<u>-</u>
Profit	<u>1,934,070</u>	<u>4</u>	<u>1,773,122</u>	<u>3</u>
8300 Other comprehensive income (loss):				
8310 Items that may not be reclassified subsequently to profit or loss:				
8311 Actuarial gains (losses) on defined benefit plans	<u>(1,340)</u>	<u>-</u>	<u>(8,100)</u>	<u>-</u>
	<u>(1,340)</u>	<u>-</u>	<u>(8,100)</u>	<u>-</u>
8360 Items that may be reclassified subsequently to profit or loss:				
8361 Exchange differences on translation of foreign operation's financial statements	(610,956)	(1)	(71,337)	-
8362 Unrealised gains on available-for-sale financial assets (notes 6(c) and (v))	<u>110,706</u>	<u>-</u>	<u>294,053</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss	<u>(500,250)</u>	<u>(1)</u>	<u>222,716</u>	<u>-</u>
8300 Other comprehensive income after tax	<u>(501,590)</u>	<u>(1)</u>	<u>214,616</u>	<u>-</u>
Comprehensive income	<u>\$ 1,432,480</u>	<u>3</u>	<u>\$ 1,987,738</u>	<u>3</u>
Earnings per share (note 6(q))				
9710 Basic earnings per share (NT dollars)	<u>\$ 4.40</u>		<u>4.06</u>	
9810 Diluted earnings per share (NT dollars)	<u>\$ 4.36</u>		<u>4.01</u>	

See accompanying notes to financial statements.

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

PRIMAX ELECTRONICS LTD.

Statements of Changes in Equity

For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	Share capital	Retained earnings				Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Unearned employee compensation	Total equity
	Ordinary shares	Capital collected in advance	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings			
Balance at January 1, 2015	\$ 4,346,578	38,903	673,543	456,853	97,300	3,132,488	707	(18,241)	9,150,513
Profit	-	-	-	-	-	1,773,122	-	-	1,773,122
Other comprehensive income	-	-	-	-	-	(8,100)	-	-	214,616
Appropriation and distribution of retained earnings:	-	-	-	-	-	1,765,022	294,053	-	1,987,738
Legal reserve	-	-	-	154,469	-	(154,469)	-	-	-
Cash dividends on ordinary share	-	-	-	-	-	(791,107)	-	-	(791,107)
Issuance of restricted employee stock	30,000	-	91,693	-	-	-	-	(121,693)	-
Retirement of restricted employee stock	(2,800)	-	(10,258)	-	-	-	-	13,058	-
Amortization expense of restricted employee stock	-	-	-	-	-	-	-	46,477	46,477
Compensation cost of share-based payment	-	-	4,087	-	-	-	-	-	4,087
Exercise of employee stock option	-	32,673	-	-	-	-	-	-	32,673
Issuance of ordinary shares for employee stock options and abandonment	38,099	(56,402)	18,303	-	-	-	-	-	-
Balance at December 31, 2015	4,411,877	15,174	777,368	611,322	97,300	3,951,934	294,760	(80,399)	10,430,381
Profit	-	-	-	-	-	1,934,070	-	-	1,934,070
Other comprehensive income	-	-	-	-	-	(1,340)	-	-	(501,590)
Appropriation and distribution of retained earnings:	-	-	-	-	-	1,932,730	110,706	-	1,432,480
Legal reserve	-	-	-	177,312	-	(177,312)	-	-	-
Cash dividends on ordinary share	-	-	-	-	-	(927,933)	-	-	(927,933)
Retirement of restricted employee stock	(3,850)	-	(6,350)	-	-	-	-	10,200	-
Amortization expense of restricted employee stock	-	-	-	-	-	-	-	43,182	43,182
Compensation cost of share-based payment	-	-	2,517	-	-	-	-	-	2,517
Exercise of employee stock option	-	19,097	-	-	-	-	-	-	19,097
Issuance of ordinary shares for employee stock option and abandonment	13,316	(31,247)	17,931	-	-	-	-	-	-
Balance at December 31, 2016	\$ 4,421,343	3,024	791,466	788,634	97,300	4,779,419	405,466	(27,017)	10,999,724

Note1 : For the years ended December 31, 2016 and 2015, the Directors' remuneration amounted to 36,803 and 31,907, and the employee remuneration amounted to 74,000 and 78,269, respectively. The amounts were deducted from the statements of comprehensive income in 2016 and 2015, respectively.

See accompanying notes to financial statements.

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

Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from (used in) operating activities:		
Profit before tax	\$ 2,347,524	1,933,923
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	41,765	36,999
Losses related to inventories	32,516	175,361
Amortization of long-term deferred revenue	(336,211)	(121,262)
Provision (reversal of provision) for bad debt expense and sales returns and discounts	43,345	(4,603)
Interest expense	31,383	53,380
Interest income	(11,599)	(13,235)
Compensation cost of share-based payment	43,182	49,041
Share of profit of subsidiaries accounted for using equity method	(424,575)	(755,092)
Gain on disposal of subsidiaries	(248,006)	-
Loss from disposal of property, plan and equipment	474	269
Gain on disposal of available-for-sale financial assets	(140,969)	-
Impairment losses on financial assets	-	939
Total adjustments to reconcile profit (loss)	(968,695)	(578,203)
Changes in operating assets and liabilities:		
Accounts receivable, including related parties	3,477,770	(2,686,191)
Other receivables	(1,022,082)	(19,177)
Inventories	225,636	(1,268,443)
Other current assets	(5,079)	(4,688)
Deferred tax assets	(54,750)	(229,498)
Other operating assets	(62,265)	(58,729)
Changes in operating assets	2,559,230	(4,266,726)
Notes and accounts payable, including related parties	(422,970)	3,306,055
Salary payable	(52,401)	23,768
Other payables	569,820	679,328
Other current liabilities	72,680	86,321
Other operating liabilities	132,613	51,366
Changes in operating liabilities	299,742	4,146,838
Total changes in operating assets and liabilities	2,858,972	(119,888)
Total adjustments	1,890,277	(698,091)
Cash inflow generated from operations	4,237,801	1,235,832
Interest received	11,599	13,235
Interest paid	(31,315)	(53,265)
Income taxes paid	(234,992)	(159,152)
Net cash flows from operating activities	3,983,093	1,036,650
Cash flows from (used in) investing activities:		
Proceeds from disposal and settle of share of subsidiaries using equity method	559,498	-
Acquisition of share of subsidiaries using equity method	-	(808,020)
Proceeds from capital reduction of available-for-sale financial assets	1,280	1,600
Proceeds from disposal of available-for-sale financial assets	220,270	-
Acquisition of property, plant and equipment	(23,062)	(23,292)
Acquisition of long-term deferred revenue	476,552	1,076,851
Acquisition of unamortized expense	(23,710)	(9,862)
Decrease in refundable deposits	(441)	(684)
Other investing activities	91	(35)
Net cash flows from investing activities	1,210,478	236,558
Cash flows from (used in) financing activities:		
Decrease in short-term borrowings	(1,120,518)	(1,028,282)
Repayment of long-term borrowings	(715,556)	(183,333)
Increase (decrease) in guarantee deposits	34,977	(37,478)
Cash dividends	(927,933)	(791,107)
Exercise of employee stock options	19,097	32,673
Net cash flows used in financing activities	(2,709,933)	(2,007,527)
Net increase (decrease) in cash and cash equivalents	2,483,638	(734,319)
Cash and cash equivalents at beginning of period	2,267,560	3,001,879
Cash and cash equivalents at end of period	\$ 4,751,198	2,267,560

See accompanying notes to financial statements.

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

Notes to the Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

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

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

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

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

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

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

The financial statements were authorized for issuance by the board of directors on March 7, 2017.

(3) New standards, amendments and interpretations adopted:

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the FSC but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

- (b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC is listed below. As of the date the Company's financial statements were issued, except for IFRS 9 and IFRS 15, which should be applied starting January 1, 2018, the FSC has yet to announce the effective dates of the other IFRSs.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts"	January 1, 2018

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Annual Improvements to IFRSs 2014 - 2016 Cycle :	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
IAS 40 "Transfers of Investment Property"	January 1, 2018

Those standards that possibly impact the Company's financial statements are listed below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.
January 29, 2016	Amendments to IAS 7 "Disclosure Initiative"	The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.
June 20, 2016	Amendments to IFRS 2 "Clarifications of Classification and Measurement of Share based Payment Transactions"	The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: • the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; • share-based payment transactions with a net settlement feature for withholding tax obligations; and • a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
December 8, 2016	IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	IFRIC 22 clarifies the transaction date used to determine the exchange rate. The transaction date is the date on which the Company initially recognizes the prepayment or deferred income arising from the advance consideration.

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

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

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

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

(ii) Functional and presentation currency

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

(c) Foreign currencies

(i) Foreign currency transactions

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

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

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

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

(ii) Foreign operations

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

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

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

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

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

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

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

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(e) Cash and cash equivalents

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

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

(f) Financial instruments

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

(i) Financial assets

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

1) Available-for-sale financial assets

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

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

2) Loans and receivables

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

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

3) Impairment of financial assets

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

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

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

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

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

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

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

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

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

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

4) Derecognition of financial assets

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

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

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

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

2) Other financial liabilities

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

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

(iii) Derivative financial instruments

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

(g) Inventories

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

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

(h) Investments in subsidiaries

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

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(i) Investment property

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

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

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

(j) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent cost

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

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(iv) Depreciation

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

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

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

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

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

(k) Lease

(i) Lessor

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

(ii) Lessee

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

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

(l) Intangible assets

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

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

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

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

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

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

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

(m) Impairment of non-financial assets

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

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

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

(n) Revenue

(i) Goods sold

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

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

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(ii) Services

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

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

(iii) Short-term employee benefits

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

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

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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 are recognized except for the following exceptions:

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

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

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

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

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

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

(r) Earnings per share

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

(s) Operating segments

Please refer to the Company's consolidated financial statements for the years ended December 31, 2016 and 2015, for further details.

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

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

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

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

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

(a) Valuation of inventories

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

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

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

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

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

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

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

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

(6) Explanation of significant accounts:

- (a) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	\$ 543	625
Checking accounts and demand deposits	931,183	1,075,455
Time deposits	3,819,472	1,191,480
	<u>\$ 4,751,198</u>	<u>2,267,560</u>

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

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

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

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

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss – current:		
Forward exchange contracts	\$ 141,317	79,052
Foreign exchange swap contracts	-	-
	<u>\$ 141,317</u>	<u>79,052</u>
Financial liabilities at fair value through profit or loss – current:		
Forward exchange contracts	\$ (72,909)	(52,765)
Foreign exchange swap contracts	(77,521)	-
	<u>\$ (150,430)</u>	<u>(52,765)</u>

- (ii) The Company held the following derivative financial instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2016 and 2015:

December 31, 2016				
Derivative financial instruments	Nominal amount	Maturity date	Predetermined rate	
Forward exchange contracts – buy USD / sell TWD	USD 252,000	January 5, 2017~ March 27, 2017	31.157~32.015	
Forward exchange contracts – buy TWD/sell USD	USD 189,500	January 5, 2017~ March 27, 2017	31.765~32.290	
Forward exchange contracts – swap in TWD/swap out USD	USD 81,000	January 5, 2017~ January 19, 2017	31.245~31.920	

December 31, 2015				
Derivative financial instruments	Nominal amount	Maturity date	Predetermined rate	
Forward exchange contracts – buy USD / sell TWD	USD 205,000	January 7, 2016~ February 26, 2016	32.754~32.892	
Forward exchange contracts – buy CNY / sell USD	USD 40,000	January 19, 2016	6.6380	
Forward exchange contracts – buy TWD/sell USD	USD 205,000	January 7, 2016~ February 26, 2016	32.802~33.010	

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PRIMAX ELECTRONICS LTD.
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- (iii) Please refer to note 6(w) for the liquidity risk of the Company's financial instruments.
- (iv) The Company did not provide any of the aforementioned financial assets at fair value through profit or loss – current as collateral.
- (c) Available-for-sale financial assets – non-current

	December 31, 2016	December 31, 2015
Stocks listed in domestic markets	\$ 586,404	551,600
Stocks unlisted in domestic markets	287,517	16,297
	<u>\$ 873,921</u>	<u>567,897</u>

- (i) WK Technology Fund IV Ltd. refunded \$1,600 and \$1,280 to the Company due to capital reduction in July, 2015 and April, 2016, respectively.
- (ii) Titan 1 Venture Capital Co., Ltd. and Neosonica Technologies Inc. were closed and finished the liquidation process in August and March 2015, respectively. The Company received \$175 due to the liquidation and recorded it as other gains and losses.
- (iii) The impairment loss was \$939 for the years ended December 31, 2015 and was recognized as other gains and losses.
- (iv) The Company held 30% shares of Global TEK Fabrication Co., Ltd's shares and sold 20% of them at \$50 per share on October 3, 2016. The total proceeds of \$549,347 were received. The Company recorded the total gain of \$248,004 under other gains or losses, including the amount of \$83,219 from the remaining shares measured at fair value due to losing its control over Global TEK Fabrication Co., Ltd. The Company reclassified the carrying amounts of the remaining shares to available-for-sale financial asset—non-current. Please refer to the Company's consolidated financial statements for further information on losing control of subsidiaries.
- (v) In the second quarter of 2016, the Company sold 841 thousand shares of Nien Made Enterprise Co., Ltd. for \$220,270. The gain on disposal which was recognized as other gains and losses, amounted to \$140,969, deducting the cost of \$79,301.
- (vi) The unrealized gains were \$111,105 and \$294,900 for the years ended December 31, 2016 and 2015, respectively, and were recognized as unrealized gains on available-for-sale financial assets.
- (vii) The Company did not provide any of the aforementioned available-for-sale financial assets as collateral.

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

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

	December 31, 2016	December 31, 2015
Accounts receivable	\$ 7,437,179	9,376,338
Accounts receivable – related parties	513,446	2,052,505
Other receivables	1,050,923	28,841
Less: allowance for doubtful accounts	(76,977)	(19,647)
allowance for sales returns and discounts	(20,494)	(34,927)
Total	<u>\$ 8,904,077</u>	<u>11,403,110</u>

- (i) The Company did not provide any of the aforementioned accounts receivable and other receivables (including related parties) as collateral.
- (ii) Please refer to note 6(w) for the movements in the allowance for doubtful accounts and the credit risk and currency risk for the years ended December 31, 2016 and 2015.
- (iii) The Company entered into agreements with banks to sell its accounts receivable without recourse. According to the agreements, within the limit of its credit facilities, the Company does not need to guarantee the capability of its customers to pay for reasons other than commercial disputes when transferring its accounts receivable. The Company receives partial advances upon sales of accounts receivable and pays interest calculated based on the interest rates agreed for the period through the collection of the accounts receivable. The remaining amounts are received upon the collection of the accounts receivable, and are recorded as other receivables. In addition, the Company shall pay handling charges based on a fixed rate. As of December 31, 2016 and 2015, the details of transferred accounts receivable which conformed to the criteria for derecognition were as follows:

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

December 31, 2015							
Buyer	Amount sold NT\$	Credit facilities US\$ (expressed in thousand)	Cash received in advance NT\$	Interest rate	Guarantee (promissory note) expressed in thousands	Amount derecognized NT\$	Amount not received NT\$
Mega International Commercial Bank	\$ -	25,000	-		US 7,000	-	-
HSBC Bank	-	64,400	-		US 58,000	-	-
Bank of Taiwan	-	26,000	-		NT 725,400	-	-
	<u>\$ -</u>	<u>115,400</u>	<u>-</u>			<u>-</u>	<u>-</u>

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

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

(e) Inventories

	December 31, 2016	December 31, 2015
Raw materials	\$ 102,684	1,188
Finished goods and merchandise	2,190,735	2,550,383
	<u>\$ 2,293,419</u>	<u>2,551,571</u>

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

For the years ended December 31, 2016 and 2015, the Company recognized the following items as cost of goods sold:

	2016	2015
Gains (losses) on inventory valuation	\$ (10,601)	9,500
Loss on disposal of inventories	(19,737)	(184,276)
Losses on physical inventories, net	(2,178)	(585)
	<u>\$ (32,516)</u>	<u>(175,361)</u>

(f) Investments accounted for using equity method

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

	December 31, 2016	December 31, 2015
Subsidiaries	<u>\$ 9,317,894</u>	<u>10,088,961</u>

(i) Please refer to the Company's consolidated financial statements for the years ended December 31, 2016, for details of subsidiaries.

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

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(g) Property, plant and equipment

The cost, and depreciation of the property, plant and equipment of the Company for the years ended December 31, 2016 and 2015, were as follows:

	Land	Buildings and additional equipment	Machinery and equipment	Other equipment	Testing equipment	Total
Cost or deemed cost:						
Balance on January 1, 2016	\$ 22,879	141,789	67,355	44,743	204	276,970
Additions	-	-	10,148	4,580	8,334	23,062
Disposals	-	-	(8,759)	(3,059)	-	(11,818)
Reclassifications	-	-	2,770	-	(3,892)	(1,122)
Balance on December 31, 2016	<u>\$ 22,879</u>	<u>141,789</u>	<u>71,514</u>	<u>46,264</u>	<u>4,646</u>	<u>287,092</u>
Balance on January 1, 2015	\$ 22,879	141,789	49,896	44,152	889	259,605
Additions	-	-	15,268	2,756	5,268	23,292
Disposals	-	-	(513)	(2,469)	-	(2,982)
Reclassifications	-	-	2,704	304	(5,953)	(2,945)
Balance on December 31, 2015	<u>\$ 22,879</u>	<u>141,789</u>	<u>67,355</u>	<u>44,743</u>	<u>204</u>	<u>276,970</u>
Depreciation:						
Balance on January 1, 2016	\$ -	131,577	44,394	35,445	-	211,416
Depreciation	-	358	12,712	4,995	-	18,065
Disposals	-	-	(8,590)	(2,584)	-	(11,174)
Balance on December 31, 2016	<u>\$ -</u>	<u>131,935</u>	<u>48,516</u>	<u>37,856</u>	<u>-</u>	<u>218,307</u>
Balance on January 1, 2015	\$ -	131,218	34,829	32,271	-	198,318
Depreciation	-	359	10,078	5,374	-	15,811
Disposals	-	-	(513)	(2,200)	-	(2,713)
Balance on December 31, 2015	<u>\$ -</u>	<u>131,577</u>	<u>44,394</u>	<u>35,445</u>	<u>-</u>	<u>211,416</u>
Carrying amounts:						
Balance on December 31, 2016	<u>\$ 22,879</u>	<u>9,854</u>	<u>22,998</u>	<u>8,408</u>	<u>4,646</u>	<u>68,785</u>
Balance on December 31, 2015	<u>\$ 22,879</u>	<u>10,212</u>	<u>22,961</u>	<u>9,298</u>	<u>204</u>	<u>65,554</u>
Balance on January 1, 2015	<u>\$ 22,879</u>	<u>10,571</u>	<u>15,067</u>	<u>11,881</u>	<u>889</u>	<u>61,287</u>

(i) The unamortized deferred revenue of equipment subsidy amounted to \$1,159,073 and \$1,018,732 for the years ended December 31, 2016 and 2015, respectively.

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

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PRIMAX ELECTRONICS LTD.
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(h) Investment property

	Land	Buildings and other equipment	Total
Cost or deemed cost:			
Balance on January 1, 2016	\$ 162,012	172,167	334,179
Additions	-	-	-
Balance on December 31, 2016	<u>\$ 162,012</u>	<u>172,167</u>	<u>334,179</u>
Balance on January 1, 2015	\$ 162,012	172,167	334,179
Additions	-	-	-
Balance on December 31, 2015	<u>\$ 162,012</u>	<u>172,167</u>	<u>334,179</u>
Depreciation and impairment losses:			
Balance on January 1, 2016	\$ 33,941	41,529	75,470
Depreciation	-	3,560	3,560
Balance on December 31, 2016	<u>\$ 33,941</u>	<u>45,089</u>	<u>79,030</u>
Balance on January 1, 2015	\$ 33,941	37,969	71,910
Depreciation	-	3,560	3,560
Balance on December 31, 2015	<u>\$ 33,941</u>	<u>41,529</u>	<u>75,470</u>
Carrying amounts:			
Balance on December 31, 2016	<u>\$ 128,071</u>	<u>127,078</u>	<u>255,149</u>
Balance on December 31, 2015	<u>\$ 128,071</u>	<u>130,638</u>	<u>258,709</u>
Balance on January 1, 2015	<u>\$ 128,071</u>	<u>134,198</u>	<u>262,269</u>
Fair value:			
Balance on December 31, 2016		<u>\$ 629,690</u>	
Balance on December 31, 2015		<u>\$ 592,092</u>	
Balance on January 1, 2015		<u>\$ 561,338</u>	

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

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Notes to Financial Statements

(i) Intangible assets

The cost and amortization of the intangible assets of the Company for the years ended December 31, 2016 and 2015, were as follows:

	Trademarks	Patents	Copyrights	Total
Cost:				
Balance at January 1, 2016	\$ 25,584	64,271	30,832	120,687
Acquisition	-	-	-	-
Balance at December 31, 2016	<u>\$ 25,584</u>	<u>64,271</u>	<u>30,832</u>	<u>120,687</u>
Balance at January 1, 2015	\$ 25,584	64,271	30,832	120,687
Acquisition	-	-	-	-
Balance at December 31, 2015	<u>\$ 25,584</u>	<u>64,271</u>	<u>30,832</u>	<u>120,687</u>
Amortization:				
Balance at January 1, 2016	\$ 15,990	62,337	12,846	91,173
Amortization	2,558	1,934	2,056	6,548
Balance at December 31, 2016	<u>\$ 18,548</u>	<u>64,271</u>	<u>14,902</u>	<u>97,721</u>
Balance at January 1, 2015	\$ 13,431	58,468	10,791	82,690
Amortization	2,559	3,869	2,055	8,483
Balance at December 31, 2015	<u>\$ 15,990</u>	<u>62,337</u>	<u>12,846</u>	<u>91,173</u>
Carrying amount:				
Balance at December 31, 2016	<u>\$ 7,036</u>	<u>-</u>	<u>15,930</u>	<u>22,966</u>
Balance at December 31, 2015	<u>\$ 9,594</u>	<u>1,934</u>	<u>17,986</u>	<u>29,514</u>
Balance at January 1, 2015	<u>\$ 12,153</u>	<u>5,803</u>	<u>20,041</u>	<u>37,997</u>

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

(j) Short-term borrowings

The details were as follows:

	December 31, 2016	December 31, 2015
Unsecured bank loans	<u>\$ -</u>	<u>1,120,518</u>
Unused credit lines	<u>\$ 10,044,220</u>	<u>6,960,042</u>
Annual interest rates	<u>0.93%~1.27%</u>	<u>0.85%~1.38%</u>

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(k) Long-term borrowings

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

December 31, 2015				
	Currency	Annual interest rate	Maturity year	Amount
Unsecured bank loans	TWD	0.95%~1.56%	2017~2020	\$ 1,316,667
Less: current portion				(548,889)
Total				<u>\$ 767,778</u>
Unused credit lines				<u>\$ 150,000</u>

(i) Pursuant to the loan agreements with Industrial Bank of Taiwan, The Export-Import Bank of the ROC and CTBC Bank, the Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements. As of December 31, 2016, 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.

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

(l) Operating lease

(i) Lessee

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2016	December 31, 2015
Less than one year	\$ 90,708	90,708
Between one and five years	93,430	184,138
	<u>\$ 184,138</u>	<u>274,846</u>

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

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(ii) Lessor

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

	December 31, 2016	December 31, 2015
Less than one year	\$ 10,957	1,060
between two and five years	37,775	-
More than five years	84,857	-
	<u>\$ 133,589</u>	<u>1,060</u>

(m) Employee benefits

(i) Defined benefit plans

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

	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	\$ 160,593	160,913
Fair value of plan assets	96,865	97,683
Deficit in the plan	63,728	63,230
Asset ceiling	-	-
Net defined benefit liability	<u>\$ 63,728</u>	<u>63,230</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 retirement benefits based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

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

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$96,865 at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations for the Company for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Defined benefit obligation on January 1	\$ 160,913	162,598
Business combinations		
Benefits paid	(4,995)	(14,885)
Current service costs and interest cost	3,417	4,685
Remeasurement of net defined benefit liabilities	1,258	8,515
Defined benefit obligation on December 31	\$ 160,593	160,913

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Fair value of plan assets on January 1	\$ 97,683	104,919
Interest income	942	2,167
Remeasurement of net defined liabilities	(271)	603
Contributions paid	3,506	4,879
Benefits paid	(4,995)	(14,885)
Fair value of plan assets on December 31	\$ 96,865	97,683

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Current service costs	\$ 1,401	1,322
Net interest of net liabilities for defined benefit	1,074	1,196
Expenses	\$ 2,475	2,518

(Continued)

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

The Company's remeasurement of net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2016 and 2015, was as follows:

	2016	2015
Balance on January 1	\$ 2,892	(5,020)
Recognized during the period	1,529	7,912
Balance on December 31	\$ 4,421	2,892

6) Actuarial assumptions

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

	December 31, 2016	December 31, 2015
Discount rate	1.375 %	1.750 %
Future salary increase rate	3.250 %	3.250 %

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date was \$3,336. The weighted-average lifetime of the defined benefit plans is 12 years.

7) Sensitivity analysis

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

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

	Influences of defined benefit obligations	
	Increased 0.25%	Decreased 0.25%
December 31, 2016		
Discount rate	\$ (3,586)	3,708
Future salary increase rate	\$ 3,545	(3,447)
December 31, 2015		
Discount rate	\$ (3,835)	3,971
Future salary increase rate	\$ 3,811	(3,701)

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

There were no change in the method and assumptions used in the preparation of the sensitivity analysis for 2016 and 2015.

(ii) Defined contribution plans

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

The Company recognized pension costs under the defined contribution method amounting to \$41,230 and \$39,743 for the years ended December 31, 2016 and 2015, respectively, recorded as operating expenses and operating cost in the statement of comprehensive income.

(n) Income taxes

- (i) The components of income tax expenses for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Current tax expense	\$ 432,225	366,500
Deferred tax expense	(18,771)	(205,699)
Income tax expense	<u>\$ 413,454</u>	<u>160,801</u>

- (ii) The Company had no income tax recognized directly in equity or other comprehensive income for the years ended December 31, 2016 and 2015.

- (iii) Reconciliation of income tax expenses and profit before tax for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Profit before tax	\$ 2,347,524	1,933,923
Income tax calculated based on the Company's domestic tax rate	399,079	328,767
Overseas investment gains recognized under the equity method	(47,655)	(105,331)
Investment tax credits accrued	(41,196)	(83,224)
Prior year's income tax adjustment	7,106	157
10% surtax on unappropriated earnings	65,978	60,246
Gains on disposal of stocks	(50,023)	-
Others	80,165	(39,814)
Income taxes expense	<u>\$ 413,454</u>	<u>160,801</u>

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(iv) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

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

	December 31, 2016	December 31, 2015
Aggregate amount of temporary differences related to investments in subsidiaries	<u>\$ 422,133</u>	<u>475,399</u>

2) Unrecognized deferred tax assets

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

	December 31, 2016	December 31, 2015
Deductible temporary differences	<u>\$ 109,500</u>	<u>60,300</u>

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

3) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2016 and 2015, were as follows:

	Investment income recognized under the equity method (overseas)	Unrealized foreign exchange gains	Others	Total
Deferred tax liabilities:				
Balance on January 1, 2016	\$ 112,054	-	5,528	117,582
Recognized in profit or loss	24,523	-	11,456	35,979
Balance on December 31, 2016	<u>\$ 136,577</u>	<u>-</u>	<u>16,984</u>	<u>153,561</u>
Balance on January 1, 2015	\$ 89,222	3,500	1,061	93,783
Recognized in profit or loss	22,832	(3,500)	4,467	23,799
Balance on December 31, 2015	<u>\$ 112,054</u>	<u>-</u>	<u>5,528</u>	<u>117,582</u>

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	Bad debt in excess of tax limit	Unfunded pension fund contribution	Unrealized sales returns and allowances	Loss on inventory valuation	Deferred granted revenue	Unrealized exchange losses	Others	Total
Deferred tax assets:								
Balance on January 1, 2016	\$ 20,939	14,473	44,241	3,267	173,185	17,339	20,075	293,519
Recognized in profit or loss	4,515	(175)	13,374	1,303	23,857	(17,290)	29,166	54,750
Balance on December 31, 2016	<u>\$ 25,454</u>	<u>14,298</u>	<u>57,615</u>	<u>4,570</u>	<u>197,042</u>	<u>49</u>	<u>49,241</u>	<u>348,269</u>
Balance on January 1, 2015	\$ 11,521	14,875	29,977	4,382	-	-	3,266	64,021
Recognized in profit or loss	9,418	(402)	14,264	(1,115)	173,185	17,339	16,809	229,498
Balance on December 31, 2015	<u>\$ 20,939</u>	<u>14,473</u>	<u>44,241</u>	<u>3,267</u>	<u>173,185</u>	<u>17,339</u>	<u>20,075</u>	<u>293,519</u>

- (v) The Company's income tax returns have been examined by the tax authority through the years up to 2013. However, the Company disagreed with the examination of the income tax returns for 2008 and requested an administrative remedy. The tax effect of the administrative remedy has been recognized by the Company.
- (vi) Information related to the unappropriated earnings and tax deduction ratio is summarized below:

	December 31, 2016	December 31, 2015
Unappropriated earnings in 1998 and after	<u>\$ 4,779,419</u>	<u>3,951,934</u>
Balance of imputation credit account	<u>\$ 508,028</u>	<u>420,838</u>
	2016 (estimated)	2015 (actual)
Creditable ratio for earnings distribution to ROC residents stockholders	<u>19.06 %</u>	<u>13.69 %</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, 2016 and 2015, the nominal ordinary shares amounted to \$5,000,000. Face value of each share is \$10 (dollars), which means in total there were 500,000 thousand authorized ordinary shares, of which 442,134 and 441,188 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

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Reconciliation of shares outstanding for the years ended December 31, 2016 and 2015, was as follows:

	Ordinary shares	
(in thousands of shares)	2016	2015
Balance on January 1	441,188	434,658
Exercise of employee stock options	1,331	3,810
Issued for restricted stock	-	3,000
Redemption of restricted stock	(385)	(280)
Balance on December 31	<u>442,134</u>	<u>441,188</u>

(i) Ordinary shares

- The Company issued 1,331 thousand and 3,810 thousand new shares of ordinary shares for the exercise of employee stock options in 2016 and 2015, respectively. The related registration procedures were also completed.
- Employee stock options exercised without registration procedures were recorded as capital collected in advance. The exercise price and units as of December 31, 2016 and 2015, were as follows:

	December 31, 2016	
	Exercised shares (in thousands)	Exercise price
Exercise price per share: \$25.20	<u>120</u>	<u>\$ 3,024</u>
	December 31, 2015	
	Exercised shares (in thousands)	Exercise price
Exercise price per share: \$11.42	235	\$ 2,679
Exercise price per share: \$26.50	472	12,495
	<u>707</u>	<u>\$ 15,174</u>

(ii) Capital surplus

The balances of capital surplus as of December 31, 2016 and 2015, were as follows:

	December 31, 2016	December 31, 2015
Additional paid-in capital	\$ 508,583	447,630
Employee stock options	229,175	236,277
Restricted employee stock options	53,708	93,461
	<u>\$ 791,466</u>	<u>777,368</u>

(Continued)

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

(iii) Retained earnings

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

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

1) Legal reserve

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

2) Special reserve

By choosing to apply exemptions granted under IFRS 1 "First-time Adoption of International Financial Reporting Standards" during the Company's first-time adoption of the International Financial Reporting Standards endorsed by the FSC, retained earnings increased by \$97,300 by recognizing the cumulative translation adjustments (gains) on the adoption date as deemed cost. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, the increase in retained earnings due to the first-time adoption of IFRSs shall be reclassified as special reserve, and when the relevant asset is used, disposed of, or reclassified, this special reserve shall be reversed as distributable earnings proportionately. The carrying amount of special reserve amounted to \$97,300 on December 31, 2016.

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

3) Earnings distribution

On June 20, 2016, and June 29, 2015, the stockholders' meeting resolved the distribution of earnings for 2015 and 2014, respectively. The distribution was NT\$2.1 and 1.8 (dollars) per share, which amounted to \$927,933 thousand and \$791,107 thousand, respectively.

(p) Share-based payment

(i) Employee stock options and share-based payment

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

a) Exercise period:

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

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

b) Procedure for fulfilling obligation: Primax Holdings fulfills its obligation by issuing new ordinary shares.

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- 2) Based on the resolution approved in the board of directors' meeting of Primax Holdings held on December 31, 2007, Primax Holdings declared an incentive plan to grant the right to some employees of the Company to participate in the subscription of the non-voting ordinary shares of Primax Holdings. The transaction is a kind of equity-settled share-based payment agreement, and the equity instruments under this agreement were vested at the date of grant. Primax Holdings recognized the compensation cost by using the fair value method. The difference in value between the net value per share of Primax Holdings determined at the grant date and the exercise price per share was recognized as cost of long-term investment in the Company by Primax Holdings in 2007, and was recognized as compensation cost and capital surplus by the Company. Based on the resolution approved in the board of directors' meeting of Primax Holdings held in April 2008, Primax Holdings amended the share-based payment agreement mentioned above, and consequently, the non-voting ordinary shares were replaced by options to purchase them. The amendment had no impact on the accompanying financial statements.
- 3) In addition, Primax Holdings declared an incentive plan to grant stock options to employees of the Company in January, May and November 2008 to participate in the subscription of the non-voting ordinary shares of Primax Holdings. Some of the options are vested at the grant date; the others are vested from two years to five years after the grant date. Primax Holdings recognized the compensation cost by using the fair value method as cost of long-term investment in the Company, and the Company correspondingly recognized it as compensation cost and capital surplus.
- 4) Based on the resolution approved in the board of directors' meetings of Primax Holdings and the Company held in December 2008, the Company issued employee stock options in exchange for part of the unvested or unexercised employee stock options issued by Primax Holdings. Specifically, 2.94 units of employee stock options were issued by the Company in exchange for 1 unit of the employee stock options issued by Primax Holdings. Each unit of the Company's options could be converted into 1 common share of the Company. The exercise price of Primax Holdings' options is USD0.2 per unit; the exercise price of the Company's options is NT\$11.42 (dollars) per unit after the modification. Meanwhile, the Company granted a certain amount of retention bonus to employees at the modification date, and the Company shall pay the retention bonus when the Company's stock options are exercised. The other terms and conditions of the employee stock options are not changed. According to the modification, the Company decreased the capital surplus by \$118,089, and recognized a corresponding increase in retention bonus payable (recorded as accrued expense and other liabilities) on December 30, 2008. The incremental fair value of \$55,308 resulting from the modification will be recognized as compensation cost over the remainder of the vesting period.
- 5) In accordance with the revised employee stock option plan mentioned above, the Company issued 9,545,248 units of employee stock options in November 2009. Each unit could be converted into 1 ordinary share of the Company.

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- 6) In September 2011, the Company's board of directors resolved to issue employee stock options (Plan 3). The plan was approved by the SFB in October 2011, and the maximum number of options authorized to be granted was 5,000 units with each unit eligible to be converted into 1,000 ordinary shares of the Company when exercised. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries in which the Company owns, directly or indirectly, more than fifty percent (50%) of the subsidiary's voting rights. The Company actually issued 1,500 units and 3,500 units in November 2011 and October 2012, respectively, which were evaluated at fair value. In accordance with the employee stock option plan mentioned above, the Company recognized the investment and capital surplus amounting to \$2,517 and \$1,523 in 2016 and 2015, respectively.
- 7) As of December 31, 2016, outstanding employee stock options of the Company for equity-settled share-based payment were as follows:

	Plan 1 (note 1)	Plan 2 (note 2)	Plan 3 (note 3)	
			Issued in November 2011	Issued in October 2012
Modification and grant date	December 30, 2008/ November 12, 2009	December 30, 2008/ November 12, 2009	November 24, 2011	October 22, 2012
Exercise price	11.42	11.42	16.20	25.2
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.

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

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

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

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

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

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

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

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

(Continued)

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

	2016		2015	
	Weighted-average exercise price	Stock options (in thousands)	Weighted-average exercise price	Stock options (in thousands)
Outstanding at January 1	24.66	1,728	22.66	3,724
Granted during the year	-	-	-	-
Forfeited during the year	25.20	(25)	25.66	(169)
Exercised during the year	25.62	(746)	18.67	(1,750)
Expired during the year	-	-	27.70	(77)
Outstanding at December 31	22.16	<u>957</u>	24.66	<u>1,728</u>
Exercisable at December 31	22.16	<u>957</u>	24.66	<u>1,728</u>

As of December 31, 2016 and 2015, the information on the employee stock option plans outstanding was as follows:

	December 31, 2016	December 31, 2015
Employee stock option plan 1	-	-
Employee stock option plan 2	211	211
Employee stock option plan 3 - Issued in November 2011	-	-
Employee stock option plan 3 - Issued in October 2012	<u>746</u>	<u>1,517</u>
Outstanding at end of year	<u>957</u>	<u>1,728</u>
Weighted-average expected time remaining until expiration (years)	<u>0.82</u>	<u>1.82</u>

- (ii) Restricted stock

- 1) As of December 31, 2016, the outstanding restricted stock of the Company was as follows:

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

(Continued)

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

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

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

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

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

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

2) The related information on restricted stock of the Company for 2016 and 2015 was as follows:

(Thousand shares)	2016	2015
Outstanding at January 1	3,270	1,310
Granted during the year	-	3,000
Forfeited during the year	-	-
Vesting during the year	(1,214)	(660)
Expired during the year	(285)	(380)
Outstanding at December 31	<u>1,771</u>	<u>3,270</u>

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(iii) Expenses and liabilities attributable to share-based payment for 2016 and 2015 were as follows:

	2016	2015
Expenses attributable to employee stock options	\$ -	2,564
Restricted stock	43,182	46,477
Total	<u>\$ 43,182</u>	<u>49,041</u>
Salary payable:		
Current	<u>\$ 1,938</u>	<u>4,092</u>

(q) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the years ended December 31, 2016 and 2015, based on the profit and the weighted-average number of ordinary shares outstanding was as follows:

	2016	2015
Profit of the Company for the year	<u>\$ 1,934,070</u>	<u>1,773,122</u>
Weighted-average number of ordinary shares (thousand shares)	<u>439,169</u>	<u>436,372</u>
Basic earnings per share (NT dollars)	<u>\$ 4.40</u>	<u>4.06</u>
Weighted-average number of ordinary shares (thousand shares)		

	2016	2015
Ordinary shares at January 1	437,818	433,348
Exercise of employee stock options	760	2,818
Vesting of restricted stock	591	206
Ordinary shares at December 31	<u>439,169</u>	<u>436,372</u>

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the years ended December 31, 2016 and 2015, based on the profit and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares was as follows:

	2016	2015
Profit of the Company for the year	<u>\$ 1,934,070</u>	<u>1,773,122</u>
Weighted-average number of ordinary shares (diluted / thousand shares)	<u>443,212</u>	<u>441,810</u>
Diluted earnings per share (NT dollars)	<u>\$ 4.36</u>	<u>4.01</u>

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

	2016	2015
Weighted-average number of ordinary shares at December 31 (basic)	439,169	436,372
Effect of employee stock options	745	1,707
Effect of employee stock bonuses	2,174	2,769
Effect of restricted stock	1,124	962
Weighted-average number of ordinary shares at December 31 (diluted)	443,212	441,810

(r) Operating revenue

The details of operating revenue for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Goods sold	\$ 44,778,842	50,323,410
Services rendered	960,941	1,314,771
Total	\$ 45,739,783	51,638,181

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

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

Details of remuneration to employees and directors for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Employee remuneration	\$ 74,000	78,269
Directors' remuneration	36,803	31,907
	\$ 110,803	110,176

The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2016 and 2015. Any differences between the estimated amounts in the financial statements and the actual amounts approved by the Board of Directors, if any, shall be accounted for as a change in accounting estimate and recognized in the distribution year.

(Continued)

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

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

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

(t) Other income

The other income for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Interest revenue of cash in banks	\$ 11,599	13,235
Rent revenue	7,177	8,555
Cash dividend revenue	14,692	263
	\$ 33,468	22,053

(u) Other gains and losses

The details of other gains and losses for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Net gains (losses) on financial assets/liabilities measured at fair value through profit or loss	\$ (9,113)	26,287
Foreign currency exchange gains, net	160,646	263,893
Impairment loss on available-for-sale financial assets	-	(939)
Gain on sale of or liquidate of available-for-sale financial assets	140,969	175
Gain on disposal of subsidiaries	248,006	-
Compensation loss	(180,000)	-
Other	10,898	(5,928)
	\$ 371,406	283,488

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PRIMAX ELECTRONICS LTD.
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(v) Reclassification adjustments of components of other comprehensive income

The reclassification adjustment for other comprehensive income for the year ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Unrealized gains or losses of available-for-sale financial assets, net of tax:		
Net changes in fair value	\$ 251,675	294,053
Net changes in fair value reclassified to profit or loss	(140,969)	-
Net changes in fair value recognized in other comprehensive income	<u>\$ 110,706</u>	<u>294,053</u>

(w) Financial instruments

(i) Credit risk

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Past due 0-30 days	\$ 505,192	989,857
Past due 31-90 days	208,462	8,870
Past due 91-180 days	10,926	7,107
Past due 181-365 days	4,028	855
	<u>\$ 728,608</u>	<u>1,006,689</u>

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

The movements in the allowance for the year ended December 31, 2016 and 2015, were as follows:

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2016	\$ -	19,647	19,647
Impairment loss recognized	-	57,778	57,778
Amounts written off	-	-	-
Exchange differences on translation of foreign currency	-	(448)	(448)
Balance on December 31, 2016	<u>\$ -</u>	<u>76,977</u>	<u>76,977</u>

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PRIMAX ELECTRONICS LTD.
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	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2015	\$ -	19,430	19,430
Impairment loss recognized	-	-	-
Amounts written off	-	(625)	(625)
Exchange differences on translation of foreign currency	-	842	842
Balance on December 31, 2015	<u>\$ -</u>	<u>19,647</u>	<u>19,647</u>

(ii) 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, 2016							
Non-derivative financial liabilities:							
Notes and accounts payable	\$ 783,593	783,593	783,593	-	-	-	-
Accounts payable - related parties	9,352,640	9,352,640	9,352,640	-	-	-	-
Other payables	1,520,893	1,520,893	1,520,893	-	-	-	-
Long-term accounts payable to related parties	781,263	781,263	-	-	-	781,263	-
Long-term borrowings	601,111	609,653	277,546	110,096	137,431	84,580	-
Guarantee deposits	125,703	125,703	-	-	-	-	125,703
Derivative financial liabilities:	150,430	-	-	-	-	-	-
Outflow	-	2,766,941	2,766,941	-	-	-	-
Inflow	-	(2,615,359)	(2,615,359)	-	-	-	-
	<u>\$ 13,315,633</u>	<u>13,325,327</u>	<u>12,086,254</u>	<u>110,096</u>	<u>137,431</u>	<u>865,843</u>	<u>125,703</u>
December 31, 2015							
Non-derivative financial liabilities:							
Short-term borrowings	\$ 1,120,518	1,120,518	1,120,518	-	-	-	-
Notes and accounts payable	264	264	264	-	-	-	-
Accounts payable - related parties	11,340,202	11,340,202	11,340,202	-	-	-	-
Other payables	1,025,313	1,025,313	1,025,313	-	-	-	-
Long-term borrowings	1,316,667	1,342,525	282,503	280,977	555,552	223,493	-
Guarantee deposits	90,726	90,726	-	-	-	-	90,726
Derivative financial liabilities:	52,765	-	-	-	-	-	-
Outflow	-	52,765	52,765	-	-	-	-
Inflow	-	-	-	-	-	-	-
	<u>\$ 14,946,455</u>	<u>14,972,313</u>	<u>13,821,565</u>	<u>280,977</u>	<u>555,552</u>	<u>223,493</u>	<u>90,726</u>

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

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Notes to Financial Statements

(iii) Currency risk

1) Exposure to foreign currency risk

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

	December 31, 2016			December 31, 2015		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD:TWD	\$ 416,943	32.279	13,458,517	411,446	33.066	13,604,883
Financial liabilities						
Monetary items						
USD:TWD	376,297	32.279	12,146,505	392,674	33.066	12,984,166

2) Sensitivity analysis

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

A weakening (strengthening) of 5% of the TWD against the USD as of December 31, 2016 and 2015, would have increased or decreased the net profit after tax by \$54,449 and \$25,760, respectively. The analysis is performed on the same basis for both periods.

3) Exchange gains and losses on monetary items

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

	2016		2015	
	Exchange gains and losses	Average exchange rate	Exchange gains and losses	Average exchange rate
TWD	\$ 160,646	1	263,893	1

(iv) Interest rate analysis

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

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

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PRIMAX ELECTRONICS LTD.
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If the interest rate had increased or decreased by 0.25%, and assumed all other variables remain constant the net profit before tax would have increased or decreased by \$6,678 and decreased or increased by \$2,585 for the years ended December 31, 2016 and 2015, respectively. This is mainly due to bank savings and borrowings with variable interest rates.

(v) Other price risk

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

Securities' price on December 31	2016	2015
	Other comprehensive income after tax	Other comprehensive income after tax
10% rise	\$ 58,640	55,160
10% fall	\$ (58,640)	(55,160)

(vi) Fair value

1) Kinds of financial instruments and fair value

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

	Carrying amounts	December 31, 2016			
		Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss – current	\$ 141,317	-	-	141,317	141,317
Available-for-sale financial assets – non-current	\$ 873,921	586,404	-	287,517	873,921
Loans and receivables					
Cash and cash equivalents	\$ 4,751,198				
Notes and accounts receivable (including related parties)	7,853,154				
Other receivables	1,050,923				
Refundable deposits	26,209				
Total	\$ 13,681,484				
Financial liabilities at fair value through profit or loss – current	\$ 150,430	-	-	150,430	150,430

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

		December 31, 2016				
		Carrying amounts	Fair Value			
			Level 1	Level 2	Level 3	Total
Financial liabilities carried at amortized cost						
Borrowings	\$	601,111				
Notes and accounts payable (including related parties)		10,136,233				
Other payables		2,331,760				
Long-term accounts payable to related parties		781,263				
Salary payable		359,279				
Guarantee deposits		<u>125,703</u>				
Total		<u><u>\$ 14,335,349</u></u>				
		December 31, 2015				
		Carrying amounts	Fair Value			
			Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss – current						
	\$	<u>79,052</u>	<u>-</u>	<u>-</u>	<u>79,052</u>	<u>79,052</u>
Available-for-sale financial assets – non-current						
	\$	<u>567,897</u>	<u>551,600</u>	<u>-</u>	<u>16,297</u>	<u>567,897</u>
Loans and receivables						
Cash and cash equivalents	\$	2,267,560				
Notes and accounts receivable (including related parties)		11,374,269				
Other receivables		28,841				
Refundable deposits		<u>25,768</u>				
Total		<u><u>\$ 13,696,438</u></u>				
Financial liabilities at fair value through profit or loss – current						
	\$	<u>52,765</u>	<u>-</u>	<u>-</u>	<u>52,765</u>	<u>52,765</u>
Financial liabilities carried at amortized cost						
Borrowings	\$	2,437,185				
Notes and accounts payable (including related parties)		11,340,466				
Other payables		1,583,478				
Salary payable		411,680				
Guarantee deposits		<u>90,726</u>				
Total		<u><u>\$ 15,863,535</u></u>				

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2) Fair value valuation techniques for financial instruments measured at fair value

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

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

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

- The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value is estimated on the basis of the contract's spot exchange rate and swap point.
- Available-for-sale financial assets – non-current are investments in domestic or foreign non-listed stocks. The fair value is based on a valuation technique in the emerging market of stocks, the estimated fair value is adjusted for the lack of liquidity. When prices listed in the emerging market are unavailable, the fair value is estimated on the basis of unadjusted prior trade prices.

3) Transfers between Level 1 and 3

The fair value of shares of Nien Made Enterprise Co., Ltd. amounted to \$586,404 and \$551,600 as of December 31, 2016 and 2015, respectively. The shares of Nien Made Enterprise Co., Ltd. have been listed on the TWSE since December 2015 and have quoted prices. Thus, the fair value measurement transferred from Level 3 to Level 1 on December 31, 2015.

4) Reconciliation of Level 3 fair values

	2016			2015		
	Fair value through profit or loss	Available for sale	Total	Fair value through profit or loss	Available for sale	Total
Balance on January 1	\$ 26,287	16,297	42,584	(1,737)	275,536	273,799
Recognized in profit or loss	(9,113)	-	(9,113)	26,287	(939)	25,348
Recognized in other comprehensive income	-	(3,000)	(3,000)	-	294,900	294,900
Transfer out of Level 3	-	-	-	-	(551,600)	(551,600)
Acquisition / disposal	(26,287)	274,220	247,933	1,737	(1,600)	137
Balance on December 31	<u>\$ (9,113)</u>	<u>287,517</u>	<u>278,404</u>	<u>26,287</u>	<u>16,297</u>	<u>42,584</u>

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

The fair value measurements of the Company which are categorized within Level 3 are classified as financial assets and liabilities at fair value through profit or loss – derivative financial instruments and available-for-sale financial assets – equity securities. The quantitative information about significant unobservable inputs was as follows:

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

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

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

(x) Financial risk management

(i) Briefings

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

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

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

(ii) Structure of risk management

The 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.

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

(iii) Credit risk

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

1) Cash and cash equivalents

The Company had deposited \$4,634,282 (including restricted deposits) in DBS Bank and 7 other financial institutions, and \$1,909,353 (including restricted deposits) in CTBC Bank and 3 other financial institutions, representing 17% and 7% of total assets, as of December 31, 2016 and 2015, respectively. The Company believes that there is no significant credit risk from the above-mentioned financial institutions.

2) Accounts receivable

Sales to individual customers (including related parties) constituting over 10% of total revenue for the years ended December 31, 2016 and 2015, totaled 21% and 26%, respectively. As of December 31, 2016 and 2015, 7% and 15%, respectively, of the ending balance of accounts receivable (including related parties) was accounted for by those customers. In order to reduce credit risk, the Company assesses the financial status of the customers and the possibility of collection of receivables on a regular basis. The above-mentioned customers are profitable and have a good credit record, and the Company did not suffer any significant credit loss from those customers during the financial reporting period.

3) Derivative instruments

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

(iv) Liquidity risk

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

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PRIMAX ELECTRONICS LTD.
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The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Company had unused bank facilities of \$10,044,220 and \$7,110,042 as of December 31, 2016 and 2015, respectively.

(v) Market risk

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

1) Currency risk

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

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

2) Interest rate risk

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

3) Other market price risk

The Company is exposed to equity price risk due to the investments in listed equity securities. Those equity securities are strategic investments and is not held for trading.

(y) Capital management

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

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

The Company's debt ratio as of December 31, 2016 and 2015, was 59% and 62%, respectively.

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PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(7) Related-party transactions:

(a) The Company and its subsidiaries

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2016	December 31, 2015	
The Company	Primax Industries (Cayman Holding) Ltd. (Primax Cayman)	Holding company	100.00 %	100.00 %	
The Company	Primax Technology (Cayman Holding) Ltd. (Primax Tech.)	Holding company	100.00 %	100.00 %	
The Company	Destiny Technology Holding Co., Ltd. (Destiny BVI.)	Holding company	100.00 %	100.00 %	
The Company	Primax Destiny Co., Ltd. (Destiny Japan)	Market development and customer service	100.00 %	100.00 %	
The Company	Primax Electronics Korea Co., Ltd. (Primax Korea)	Market development and customer service	- %	100.00 %	Primax Korea was closed and finished the liquidation process in March 2016
The Company	Diamond (Cayman) Holdings Ltd. (Diamond)	Holding company	100.00 %	100.00 %	
The Company	Gratus Technology Corp. (Gratus Tech.)	Market development and customer service	100.00 %	100.00 %	
The Company	Global TEK Fabrication Co., Ltd. (Global TEK)	Manufacture and sale of sophisticated machinery components, automotive parts, industrial automation parts, communication parts and aerospace components	- %	30.00 %	(notes 2 & 3)
Primax Cayman	Primax Industries (Hong Kong) Ltd. (Primax HK)	Export and import trading	100.00 %	100.00 %	
Diamond	Tymphany Worldwide Enterprises Ltd. (TWEL)	Holding company	70.00 %	70.00 %	(note 1)
Global TEK	Global TEK Co., Ltd. (GT)	Manufacture of sophisticated machinery components and automotive parts	- %	100.00 %	(notes 2 & 3)
Global TEK	Global TEK Fabrication Co., Ltd. (Samoa) (GTF-S)	Holding company	- %	100.00 %	(notes 2 & 3)
Primax HK and Primax Tech.	Dongguan Primax Electronic & Telecommunication Products Ltd. (PCH2)	Manufacture of multifunctional peripherals, computer mice, mobile phone accessories, consumer electronics products, and shredders	100.00 %	100.00 %	
Primax HK	Primax Electronics (KS) Corp., Ltd. (PKS1)	Manufacture of computer, peripherals and keyboards	100.00 %	100.00 %	
Primax HK	Primax Electronics (Chongqing) Corp., Ltd. (PCQ1)	Manufacture of computer peripherals and keyboards	100.00 %	100.00 %	

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PRIMAX ELECTRONICS LTD.
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Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		Description
			December 31, 2016	December 31, 2015	
Primax Tech.	Polaris Electronics Inc. (Polaris)	Sale of multi-function printers and computer peripheral devices	100.00 %	100.00 %	
Destiny BVI.	Destiny Electronic Corp. (Destiny Beijing)	Research and development of computer peripheral devices and software	100.00 %	100.00 %	
TWEL	Tymphony HK Ltd. (TYM HK)	Sale of audio accessories, amplifiers and their components	100.00 %	100.00 % (note 1)	
TWEL	TYP Enterprises, Inc. (TYP)	Market development and customer service of amplifiers and their components	100.00 %	100.00 % (note 1)	
TYM HK	Premium Loudspeakers (Hui Zhou) Co., Ltd. (Premium Hui Zhou)	Manufacture, research and development, design, and sale of audio accessories, amplifiers and their components	100.00 %	100.00 % (note 1)	
TYM HK	TYMPHANY LOGISITCS, INC. (TYML)	Sale of audio accessories, amplifiers and their components	100.00 %	100.00 % TYML was incorporated in May 2015	
TYM HK	Dongguan Tymphony Acoustic Technology Co., Ltd. (Tymphony Dongguan)	Manufacture, research and development, design, and sale of audio accessories, amplifiers and their components	100.00 %	100.00 % Tymphony Dongguan was incorporated in September 2015	
Tymphony Dongguan	Dongguan Dongcheng Tymphony Acoustic Technology Co., Ltd. (TYDC)	Research and development, design, and sale of audio accessories, amplifiers and their components	100.00 %	- % TYDC was incorporated in October 2016	
GT	GP Tech, Inc. (GP)	Sale of automotive parts, industrial automation parts, communication parts and aerospace components	- %	100.00 % (notes 2 & 3)	
GTF-S	Global TEK Fabrication Co., Ltd. (HK) (GTF-HK)	Holding company	- %	100.00 % (notes 2 & 3)	
GTF-S	Global TEK Co., Ltd. (Samoa) (GTS)	Holding company	- %	100.00 % (notes 2 & 3)	
GTF-HK	WUXI GLOBAL TEK FABRICATION CO., LTD. (WUXI GLOBAL TEK)	Manufacture of sophisticated machinery components	- %	100.00 % (notes 2 & 3)	
GTS	GLOBAL TEK (XI' AN) CO., LTD. (GLOBAL TEK XI' AN)	Manufacture of industrial automation parts, communication parts and aerospace components	- %	100.00 % (notes 2 & 3)	
GTS and WUXI GLOBAL TEK	GLOBAL TEK CO. (WUXI), LTD. (GLOBAL TEK WUXI)	Manufacture of sophisticated machinery components and automotive parts	- %	100.00 % (notes 2 & 3)	

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Note 1: TWEL was incorporated in October 2013, acquiring all shares of TYM HK by issuing new ordinary shares. The Company acquired 70% of the shares of TWEL by cash through its subsidiary Diamond on January 10, 2014. Therefore, the Company indirectly acquired all shares of TWEL's subsidiaries, and included them in the consolidated financial statements from the same date.

Note 2: The Company acquired 30% of the shares of Global TEK by cash on January 5, 2015. Therefore, the Company indirectly acquired all shares of Global TEK's subsidiaries. The Company has control over its relevant activities by acquiring more than 50% of the board of directors' voting rights based on the resolution of its interim meeting of shareholders held on February 13, 2015. The Company included all Global TEK's subsidiaries in the consolidated financial statements from the same date. Before the Company has control, investments in subsidiaries are accounted for using the equity method.

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

(b) Parent company and ultimate controlling company

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

(c) Significant transactions with related-party

(i) Sales

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

	Sales		Accounts receivable – related parties	
	2016	2015	December 31, 2016	December 31, 2015
Subsidiaries	<u>\$ 4,445,229</u>	<u>6,264,761</u>	<u>513,446</u>	<u>2,052,505</u>

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

(ii) Purchases

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

	Purchases		Accounts payable – related parties	
	2016	2015	December 31, 2016	December 31, 2015
Subsidiaries	<u>\$ 41,258,401</u>	<u>49,233,250</u>	<u>9,352,640</u>	<u>11,340,202</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 or 90 days, respectively.

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

The Company's sales of products to subsidiaries' customers on behalf of its subsidiaries amounted to \$883,662 and \$1,209,503 for the years ended December 31, 2016 and 2015, respectively. Related sales and purchases were eliminated and recorded on a net basis.

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PRIMAX ELECTRONICS LTD.
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(iii) Purchase of service

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

	Purchase of service		Other payables	
	2016	2015	December 31, 2016	December 31, 2015
Subsidiaries	\$ 28,448	45,293	1,540	3,490

(iv) Receivable and payable on behalf of related parties

The other payables arising from receiving the equipment subsidy on behalf of subsidiaries amounted to \$9,828 and 60,958 for the years ended December 31, 2016 and 2015.

The other receivables arising from the materials purchased on behalf of the subsidiaries amounted to \$854,518 and 17,018 for the years ended December 31, 2016 and 2015.

(v) Property transaction- disposal of equity securities

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

Relationship	Account	2016				2015			
		Trading quantities	Trading targets	Proceeds from disposal (note)	Gains or losses from disposal	Trading quantities	Trading targets	Proceeds from disposal	Gains or losses from disposal
Other related parties	Investment using equity method	11,020 (thousand)	Shares	549,347	164,785	-	-	-	-

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

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

(vi) Guarantees and endorsements

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

	December 31, 2016	December 31, 2015
Purchasing of raw materials	\$ 338,930	384,227

(vii) Lease

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

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(d) Key management personnel compensation

	2016	2015
Short-term employee benefits	\$ 121,107	123,092
Post-employment benefits	1,129	721
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	17,088	15,124
	\$ 139,324	138,937

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

(8) Pledged assets:None

(9) Commitments and contingencies:

- (a) Please refer to notes 7 and 13 for guarantees and endorsements provided to subsidiaries.
- (b) The following are savings accounts provided by the Company to the banks in order for the bank to issue a guarantee letter to customs as guarantee deposits.

	December 31, 2016	December 31, 2015
Guarantee letters	\$ 6,000	-

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

	December 31, 2016	December 31, 2015
Sales of accounts receivable	\$ 2,805,777	2,874,690
Long-term borrowings	\$ 2,160,000	2,160,000

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

(10) Losses due to major disasters:None

(11) Subsequent events:None

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PRIMAX ELECTRONICS LTD.
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(12) Other:

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

By item	By function	2016			2015		
		Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefits							
Salaries		153,736	1,178,444	1,332,180	121,905	1,209,513	1,331,418
Labor and health insurance		6,883	68,929	75,812	6,190	66,821	73,011
Pension		3,699	40,006	43,705	3,415	38,846	42,261
Others		5,963	53,531	59,494	4,040	57,451	61,491
Depreciation		7	18,058	18,065	10	15,801	15,811
Amortization		-	20,140	20,140	-	17,628	17,628

The average number of the Company's employees for the years ended December 31, 2016 and 2015, was 783 and 752, respectively.

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required to be disclosed by the Regulations for the Company:

(i) Loans to other parties:

No.	Name of lender	Name of borrower	Account name	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
												Item	Value		
1	PKS1	The Company	Other accounts receivable	781,263	781,263	781,263	-	Necessary to loan to other parties	-	Operating capital	-		-	920,598	920,598
2	Global TEK	GLOBAL TEK WUXI	Other accounts receivable	96,846	47,049	47,049	0%-2%	"	-	"	-		-	217,391	434,782
"	"	GT	Other accounts receivable	101,353	30,000	30,000	2.896%	"	-	"	-		-	217,391	434,782
"	"	GTS	Other accounts receivable	30,000	-	-	2.000%	"	-	"	-		-	217,391	434,782

Note 1: The Board of directors approved PKS1 to extend loan to any individual of the parent company or subsidiaries having 100% voting share, with the loan amount and the total amount not exceeding its net worth in the latest financial statements.

Note 2: The loan amount and the total loan amount for the Company shall not exceed 10% and 20%, respectively, of its net worth in the latest financial statements. The Company lost control over Global TEK group in October 2016. The information on Global TEK group was disclosed as of September 30, 2016.

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(ii) Guarantees and endorsements for other parties:

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	The Company	PCH2	The subsidiary of PHK1 and PTH2	3,299,917	390,432	338,930	20,917	-	3.08 %	8,799,779	Y	-	Y
1	PCH2	PCQ1	The same parent company	1,336,851	235,200	193,674	26,560	-	4.35 %	3,564,936	-	-	Y
"	"	PKS1	"	1,336,851	100,800	96,837	56,676	-	2.17 %	3,564,936	-	-	Y
2	Global TEK	GT	The same parent company	217,391	30,000	-	-	-	- %	543,478	Y	-	-
3	GT	Global TEK	The same parent company	50,761	50,000	-	-	-	- %	91,370	-	Y	-
"	"	Global TEK WUXI	"	50,761	50,400	47,049	27,445	-	46.34 %	91,370	-	-	Y

Note 1: The amount and the total amount of the guarantee to a company shall not exceed 30% and 80%, respectively, of its net worth in the latest financial statements.

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

Note 3: The amount and the total amount of the guarantee to a company shall not exceed 20% and 50%, respectively, of Global TEK's net worth in the latest financial statements. The Company lost control over Global TEK group in October, 2016. The information for Global TEK group ended on September 30, 2016.

Note 4: The amount and the total amount of the guarantee to a company shall not exceed 50% and 90%, respectively, of GT's net worth in the latest financial statements. The Company lost control over Global TEK group in October 2016. The information on Global TEK group was disclosed as of September 30, 2016.

(iii) Securities held as of December 31, 2016 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Shares:							
	Green Rich Technology Co., Ltd.	-	Available-for-sale financial asset-non-current	359	4,000	3.59	4,000	
	WK Technology Fund IV LTD.	-	"	512	3,820	0.38	3,820	
	Changing Information Technology Inc.	-	"	179	2,802	1.66	2,802	
	Formosoft International Inc.	-	"	53	646	0.76	646	
	Syntronix Corp.	-	"	6	749	0.02	749	
	Ricavision International Inc.	-	"	917	-	2.04	-	
	Nien Made Enterprise Co., Ltd.	-	"	1,764	586,404	0.60	586,404	
	Global TEK	-	"	5,510	275,500	10.00	275,500	
					<u>873,921</u>			
Primax Tech.	Shares:							
	Echo. Bahn.	-	Available-for-sale financial asset-non-current	400	-	11.90	-	
	WK Global Investment III Ltd.	-	"	630	13,880	1.32	13,880	
					<u>13,880</u>			

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

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares (thousands)	Amount	Shares (thousands)	Amount	Shares (thousands)	Price	Cost	Gain (loss) on disposal	Shares (thousands)	Amount
The Company	Shares:													
	Global TEK	Available-for-sale financial assets	Related parties	Other related parties	16,530	555,091	-	-	11,020	549,347	384,562	248,004 (note 1)	5,510	275,500
PCH2	Financial instruments of floating income and capital guaranteed	Held-for-trading financial assets	Initial offerings	None	-	-	-	7,308,498	-	7,315,451	7,308,498	6,953 (note 1)	-	-
PCH2	Money market fund of RMB	"	"	"	-	-	-	667,960	-	667,774	666,565	(186) (note 1)	-	-
PCQ1	Money market fund of RMB	"	"	"	-	-	-	559,312	-	558,388	557,754	(924) (note 1)	-	-
Premium Huizhou	Money market fund of RMB	"	"	"	-	-	-	534,061	-	527,401	526,428	(6,660) (note 1)	-	-

Note 1: Gains of disposal include valuation and exchange differences on translation.

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

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Primax Cayman	Subsidiary	Purchase	429,806	1 %	60 days	Price agreed by both side	The same as general purchasing	(49,873)	-%	
"	Primax HK	The subsidiary of Primax Cayman	Purchase	16,357,886	39 %	"	"	"	-	-%	
"	PCH2	The subsidiary of Primax HK	Purchase	18,234,471	45 %	"	"	"	(6,971,192)	(69)%	
"	PKS1	The subsidiary of Primax HK	Purchase	1,012,723	2 %	"	"	"	(409,294)	(4)%	
"	PCQ1	The subsidiary of Primax HK	Purchase	5,189,828	13 %	"	"	"	(1,922,281)	(19)%	
"	Polaris	The subsidiary of Primax Tech	(Sale)	(3,804,963)	(8) %	90 days	"	The same as general selling	226,050	3%	
"	TYM HK	The subsidiary of TWEL	(Sale)	(400,149)	(1) %	60 days	"	"	165,384	2%	
"	Tymphony Dongguan	The subsidiary of TYM HK	(Sale)	(239,956)	(1) %	"	"	"	-	-%	

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Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
Primax Cayman	The Company	Parent	(Sale)	(429,806)	(100) %	"	"	"	49,873	100%	
Primax HK	The Company	Parent	(Sale)	(16,357,886)	(100) %	"	"	"	-	-%	
"	PCH2	Subsidiary	Purchase	16,272,682	100 %	30 days	"	The same as general purchasing	(305,434)	(100)%	
PCH2	Primax HK	Parent	(Sale)	(16,272,682)	(36) %	"	"	The same as general selling	305,434	3%	
"	The Company	The parent of Primax Cayman	(Sale)	(18,234,471)	(40) %	60 days	"	"	6,971,192	65%	
PKS1	The Company	The parent of Primax Cayman	(Sale)	(1,012,723)	(100) %	"	"	"	409,294	34%	
PCQ1	The Company	The parent of Primax Cayman	(Sale)	(5,189,828)	(88) %	"	"	"	1,922,281	89%	
Polaris	The Company	The parent of Primax Tech	Purchase	3,804,963	99 %	90 days	"	The same as general purchasing	(226,050)	(24)%	
TYM HK	Premium Hui Zhou	Subsidiary	Purchase	3,825,446	47 %	60 days	"	"	(986,123)	(40)%	
"	The Company	The parent of Diamond	Purchase	400,149	5 %	"	"	"	(165,384)	(7)%	
"	Tymphony Dongguan	Subsidiary	Purchase	3,871,980	48 %	"	"	"	(1,191,888)	(49)%	
Premium Hui Zhou	TYM HK	Parent	(Sale)	(3,825,446)	(94) %	"	"	The same as general selling	986,123	98%	
Tymphony Dongguan	The Company	Parent	Purchase	239,956	6 %	"	"	The same as general purchasing	-	-%	
"	TYM HK	Parent	(Sale)	(3,871,980)	(100) %	"	"	The same as general selling	1,191,888	99%	
Global TEK	Global TEK XTAN	The subsidiary of GTS	Purchase	122,441	32 %	"	"	The same as general purchasing	(35,080)	(27)%	
GT	Global TEK WUXI	The subsidiary of GTS and WUXI Global TEK	Purchase	393,728	63 %	90 days	"	"	(236,385)	(42)%	
Global TEK XTAN	Global TEK	The parent of GTF-HK	(Sale)	(122,441)	(71) %	"	"	The same as general selling	35,080	58%	
Global TEK WUXI	GT	The subsidiary of Global TEK	(Sale)	(393,728)	(37) %	"	"	"	236,385	40%	

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

Note 2: The Company has lost control over Global TEK in October, 2016. The information for Global TEK group are disclosed as of September 30, 2016.

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

Name of company	Counter-party	Nature of relationship	Ending balance (note 2)	Turnover rate	Overdue		Amounts received in subsequent period (note 1)	Allowance for bad debts
					Amount	Action taken		
The Company	Polaris	The Subsidiary of Primax Tech	226,050	12.72	-		226,050	-
"	TYM HK	The Subsidiary of TWEL	165,384	0.43	-		86,141	-
PCH2	Primax HK	Parent	305,434	3.11	-		1,316	-
"	The Company	The Parent of Primax Cayman	6,971,192	5.23	-		6,550,647	-
PKS1	The Company	The Parent of Primax Cayman	1,190,557	1.36	781,263	Reclassify to Long-term payable, and enhance the control of receivables	241,863	-
PCQ1	The Company	The Parent of Primax Cayman	1,922,281	3.92	-		1,241,674	-
Premium Hui Zhou	TYM HK	Parent	986,123	4.37	-		600,391	-
Tymphony Dongguan	TYM HK	Parent	1,191,888	6.50	-		426,604	-
Global TEK WUXI	GT	The Subsidiary of Global TEK	236,385	2.41	-		19,726	-

Note 1: Amounts collected as of March 7, 2017.

Note 2: The Company has lost control over Global TEK in October, 2016. The information for Global TEK group are disclosed as of September 30, 2016.

(ix) Trading in derivative instruments: Please refer to note 6(b) in the consolidated financial statements for the year ended December 31, 2016.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2016 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2016			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2016	December 31, 2015	Shares (thousands)	Percentage of ownership	Carrying value			
The Company	Primax Cayman	Cayman Islands	Holding company	2,540,588	2,540,588	8,147,636	100.00	4,336,069	211,690	251,896	
"	Primax Tech.	Cayman Islands	Holding company	897,421	897,421	285,067	100.00	1,922,225	(24,669)	11,354	
"	Destiny BVI.	Virgin Island	Holding company	30,939	30,939	1,050	100.00	26,320	(3,452)	(3,452)	
"	Destiny Japan	Japan	Market development and customer service	7,032	7,032	0.50	100.00	16,146	242	242	
"	Primax Korea	Korea	Market development and customer service	-	9,101	-	-	-	-	-	(note 3)
"	Diamond	Cayman Islands	Holding company	2,517,298	2,517,298	84,050	100.00	3,007,259	144,863	145,891	
"	Global TEK	Taiwan	Manufacture and sale of sophisticated machinery components, automotive parts, industrial automation parts, communication parts, and aerospace components	-	545,490	-	-	-	79,912	18,569	(note 4)
"	Gratus Tech.	USA	Market development and customer service	9,330	9,330	300	100.00	9,875	75	75	
Total				<u>6,002,608</u>	<u>6,557,199</u>			<u>9,317,894</u>	<u>408,661</u>	<u>424,575</u>	

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Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2016			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2016	December 31, 2015	Shares (thousands)	Percentage of ownership	Carrying value			
Primax Cayman	Primax HK	Hong Kong	Sale of multi-function printers and computer peripheral devices	2,375,164	2,375,164	602,817	100.00	4,433,962	213,540	213,540	
Primax Tech.	Polaris	USA	Sale of multi-function printers and computer peripheral devices	52,680	52,680	1,600	100.00	394,322	11,071	11,071	
Diamond	TWEL	Cayman Islands	Holding company	2,515,800	2,515,800	38,501	70.00	2,904,380	349,720	166,285	
TWEL	TYM HK	Hong Kong	Holding company and sale of audio accessories, amplifiers and their components	76,280 (note 1)	76,280 (note 1)	144,395	100.00	1,540,112	337,425	337,425	
"	TYP	USA	Market development and customer service of amplifiers and their components	15 (note 1)	15 (note 1)	0.50	100.00	4,876	2,692	2,692	
TYM HK	TYML	USA	Sales audio accessories, amplifiers and their components	6,628	6,628	200	100.00	(10,786)	3,436	4,674	
Global TEK	GT	Taiwan	Manufacture of sophisticated machinery components and automotive parts	-	166,000 (note 2)	-	-	-	(31,844)	(31,844)	(note 4)
"	GTF-S	Samoa Islands	Holding company	-	360,029 (note 2)	-	-	-	116,707	116,543	(note 4)
GT	GP	USA	Sale of automotive parts, industrial automation parts, communication parts and aerospace components	-	641 (note 2)	-	-	-	(110)	(110)	(note 4)
GTF-S	GTS	Samoa Islands	Holding company	-	330,650 (note 2)	-	-	-	94,849	94,849	(note 4)
"	GTF-HK	Hong Kong	Holding company	-	123,916 (note 2)	-	-	-	22,001	22,001	(note 4)

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

Note 2: The amount is the initial investment costs from the original stockholders prior to the acquisition of the Company through Global TEK.

Note 3: The liquidation of Primax Korea was completed in March 2016.

Note 4: The Company has lost control over Global TEK in October 2016.

(c) Information on investments in mainland China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2016	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
PCH2	Manufacture of multifunctional peripherals, computer mice, mobile phone accessories, consumer electronics products, and shredders	2,075,044	Indirect investment through Primax Cayman and Primax Tech.	1,817,427 (note 2)	-	-	1,773,902 (note 2)	(103,572)	100%	(103,572)	4,456,136	-
Destiny Beijing	Research and development of computer peripheral devices and software	41,105	Indirect investment through Destiny BVI.	34,719 (note 2)	-	-	33,893 (note 2)	(3,452)	100%	(3,452)	26,316	-
PKS1	Manufacture of computer, peripherals and keyboards	908,593	Indirect investment through Primax Cayman	727,452 (note 2)	-	-	710,138 (note 2)	69,114	100%	69,114	920,591	-

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Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2016	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
PCQ1	Manufacture of computer, peripherals and keyboards	583,149	Indirect investment through Primax Cayman	661,320 (note 2)	-	-	645,580 (note 2)	246,273	100%	246,273	915,196	-
Premium Hui Zhou	Research and development, design, and sale of audio accessories, amplifiers and their components	146,303 (note 3)	Indirect investment through Diamond	2,777,544	-	-	2,711,436	125,942	70%	88,159	410,738	-
Tymphony Dongguan	Research and development, design, and sale of audio accessories, amplifiers and their components	16,140	Indirect investment through Diamond	16,533	-	-	16,140	35,972	70%	25,180	33,904	-
TYDC	"	93,064	"	-	-	-	-	-	70%	-	65,144	-
WUXI Global TEK	Manufacture of sophisticated machinery components	-	Indirect investment through Global TEK	102,306 (note 4)	-	102,306	-	24,478	30%	7,343	-	-
Global TEK XI'AN	Manufacture of industrial automation parts, communication parts and aerospace components	-	Indirect investment through Global TEK	21,245 (note 4)	-	21,245	-	7,238	30%	2,171	-	-
Global TEK WUXI	Manufacture of sophisticated machinery components and automotive parts	-	Indirect investment through Global TEK	286,467 (note 4)	-	286,467	-	124,651	30%	37,395	-	-

Note 1: The above information on the exchange rate is as follows: HKD:TWD \$4.1623; USD:TWD 32.279; CNY:TWD 4.6532.
Note 2: The difference between the accumulated out flow of investments and paid in capital was derived from the currency exchange on translation, capital increase from retained earning and working capital.
Note 3: The amount is the initial investment costs from the original stockholders prior to the acquisition of the Company through Diamond.
Note 4: The amount is the initial investment costs from the original stockholders prior to the acquisition of the Company through Global TEK.
Note 5: The Company has lost control over Global TEK in October 2016.

(ii) Limitation on investment in Mainland China:

Name of Company	Accumulated Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
The Company	5,980,672	6,797,921	None (Note 1)

Note: The Company has received the Certificate issued by the Industrial Development Bureau, Ministry of Economic Affairs, allowing it to start the operating of its headquarters.
The above investment income (losses) in mainland China, except for PCH2, Destiny Beijing, PKS1, and PCQ1, which were based on financial statements audited by the Company's auditors, others were based on the audited results of other auditors.

(Continued)

PRIMAX ELECTRONICS LTD.
Notes to Financial Statements

(iii) Significant transactions:

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

(14) Segment information:

Please refer to the Company's consolidated financial statements for the years ended December 31, 2016 and 2015, for details.

PRIMAX ELECTRONICS LTD.
Statement of cash and cash equivalents
December 31, 2016
(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
Cash on hand		\$ 543
Checking accounts and demand deposits		931,183
Time deposits	USD118,327 thousand ; Exchange rate32.279	3,819,472
		<u><u>\$ 4,751,198</u></u>

Statement of accounts receivable

Item	Description	Amount
Accounts receivable:		
Corporation A	Operating revenue	\$ 567,098
Corporation S	"	509,727
Corporation P	"	477,199
Corporation T	"	439,073
Corporation Q	"	419,081
Other (individual amount not exceeding 5%)	"	5,025,001
Total		7,437,179
Less: Allowance for doubtful accounts		(76,977)
Allowance for sales returns and discounts		(20,494)
Net accounts receivable		<u><u>\$ 7,339,708</u></u>

PRIMAX ELECTRONICS LTD.
Statement of other receivables
December 31, 2016
(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
Other receivables — related parties	Payable on behalf of related parties	\$ 854,518
Other receivables — other	Remaining receivable due to sale of accounts receivable	141,551
Taxes receivables	Income and sales tax refund receivable	48,272
Other (individual amount not exceeding 5%)		6,582
Total		<u><u>\$ 1,050,923</u></u>

Statement of inventories

Item	Cost	Net realizable value
Finished goods and merchandises	\$ 2,228,739	2,424,891
Less: Provision for finished goods and merchandises	(38,004)	
Subtotal	2,190,735	
Raw material	102,736	98,207
Less: Provision for raw material	(52)	2,523,098
Subtotal	102,684	
Net amount	<u><u>\$ 2,293,419</u></u>	

PRIMAX ELECTRONICS LTD.

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

From January 1 to December 31, 2016

(Expressed in thousands of New Taiwan Dollars)

Name of investee	Beginning Balance		Additions		Disposal		Other adjustments (note)		Ending Balance		Pledged or guaranteed
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	
Green Rich Technology Co., Ltd.	1,680	\$ 7,000	-	-	-	-	(1,321)	(3,000)	359	4,000	None
WK Technology Fund IV Ltd.	640	5,100	-	-	-	-	(128)	(1,280)	512	3,820	"
Changing Information Technology Inc.	179	2,802	-	-	-	-	-	-	179	2,802	"
Formosoft International Inc.	53	646	-	-	-	-	-	-	53	646	"
Syntronix Corp.	6	749	-	-	-	-	-	-	6	749	"
Global TEK Co., Ltd.	-	-	-	-	-	-	5,510	275,500	5,510	275,500	"
Nien Made Enterprise Co., Ltd.	2,605	551,600	-	-	(841)	(79,301)	-	114,105	1,764	586,404	"
Ricavision International Inc.	917	-	-	-	-	-	-	-	917	-	"
		<u>\$ 567,897</u>		<u>-</u>		<u>(79,301)</u>		<u>385,325</u>		<u>873,921</u>	

Note: Other adjustments comprise capital reduction for covering accumulated deficits, capital reduction to refund, reclassification from using equity method, and unrealized gains or losses on available-for-sale financial assets.

PRIMAX ELECTRONICS LTD.

Statement of changes in investment accounted for using equity method

From January 1 to December 31, 2016

(Expressed in thousands of New Taiwan Dollars)

Name of investee	Beginning Balance		Additions		Disposal		Other adjustments		Ending Balance		Market value or book value	Pledged or guaranteed
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount (Note)	Percentage of holding shares	Amount		
Primax Industries (Cayman Holding) Ltd.	8,147,636	\$ 4,504,851	-	-	-	-	8,147,636	(168,782)	100.00 %	4,336,069	4,447,153	None
Primax Technology (Cayman Holding) Ltd.	285,067	2,057,568	-	-	-	-	285,067	(135,343)	100.00 %	1,922,225	1,955,366	"
Destiny Technology Holding Co., Ltd	1,050	32,943	-	-	-	-	1,050	(6,623)	100.00 %	26,320	26,320	"
Primax Destiny Co., Ltd.	0.5	15,746	-	-	-	-	0.5	400	100.00 %	16,146	16,146	"
Primax Electronics Korea Co.,Ltd	67	10,468	-	-	(67)	(10,149)	-	(319)	- %	-	-	"
Diamond (Cayman) Holdings Ltd.	84,050	2,902,254	-	-	-	-	84,050	105,005	100.00 %	3,007,259	3,007,259	"
Global TEK Co., Ltd.	16,530	555,091	-	-	(16,530)	(576,843)	-	21,752	- %	-	-	"
Gratus Technology Corp.	300	10,040	-	-	-	-	300	(165)	100.00 %	9,875	9,875	"
		<u>\$10,088,961</u>		<u>-</u>		<u>(586,992)</u>		<u>(184,075)</u>		<u>9,317,894</u>	<u>9,462,119</u>	

Note 1: Adjustments under equity method valuation.

PRIMAX ELECTRONICS LTD.
Statement of changes in property, plant and equipment
From January 1 to December 31, 2016
(Expressed in thousands of New Taiwan Dollars)

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

Statement of change in investment property

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

PRIMAX ELECTRONICS LTD.
Statement of other payables
December 31, 2016
(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
Expense payables	Payables for allowance for sales return and discount	\$ 681,917
	Taxes related to income and tariff	524,832
	Research and development expense for projects and inspection	413,887
	Employee and director remuneration	274,666
	Compensation payment	180,000
Others (note)	Accounts payable for maintenance and equipment, labor and health insurance and employee benefits	<u>256,458</u>
Total		<u><u>\$ 2,331,760</u></u>
Note : individual amount not exceeding 5%		

Statement of notes and accounts payable

Item	Description	Amount
Corporation 甲	Operating cost	\$ 652,922
Corporation 乙	"	86,961
Corporation 丙	"	41,655
Other (individual amount not exceeding 5%)		<u>2,055</u>
		<u><u>\$ 783,593</u></u>

PRIMAX ELECTRONICS LTD.

Statement of other current liabilities

December 31, 2016

(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
Sales revenue received in advance	Advance sales receipts — non-related parties	\$ 212,326
Other (note)		<u>7,530</u>
Total		<u><u>\$ 219,856</u></u>

Note : (individual amount not exceeding 5%)

Statement of other non-current liabilities

Item	Amount
Deferred tax liabilities — non-current	\$ 153,561
Guarantee deposits	125,703
Accrued pension liabilities	63,728
Other (note)	<u>2,582</u>
	<u><u>\$ 345,574</u></u>

Note : (individual amount not exceeding 5%)

PRIMAX ELECTRONICS LTD.

Statement of long-term borrowings

December 31, 2016

(Expressed in thousands of New Taiwan Dollars)

Creditor	Description	Amount	Term of contract	Interest rate	Pledged on guaranteed
Industrial Bank of Taiwan	Long-term borrowings	\$ 166,667	2014.1~2017.1	Note 1	None
CTBC Bank	"	240,000	2015.1~2018.1	Note 1	"
The Export-Import Bank of the Republic of China	"	194,444	2015.2~2020.2	Note 2	"
	Less: Current portion	<u>(382,222)</u>			
Total		<u><u>\$ 218,889</u></u>			

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

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

PRIMAX ELECTRONICS LTD.
Statement of operating revenue
From January 1 to December 31, 2016
(Expressed in thousands of New Taiwan Dollars)

Item	Quantity (in thousands)	Amount
Operating revenue:		
Computer peripherals	86,962	\$ 24,692,372
Non-Computer peripherals	209,586	<u>20,750,838</u>
		45,443,210
Less: Sales returns		(113,753)
Sales discounts		<u>(550,615)</u>
		44,778,842
Net service revenue		<u>960,941</u>
Net operating revenue		<u><u>\$ 45,739,783</u></u>

PRIMAX ELECTRONICS LTD.
Statement of operating costs
From January 1 to December 31, 2016
(Expressed in thousands of New Taiwan Dollars)

Item	Amount
Raw material On January 1, 2016	\$ 1,240
Add: Purchases	101,496
Less: Raw material on December 31, 2016	<u>(102,736)</u>
Raw material used	-
Manufacturing overhead	<u>184,676</u>
Manufacturing cost	184,676
Add: Finished goods and merchandises on January 1, 2016	2,577,786
Purchases from triangular trade	40,783,089
Less: Finished goods and merchandises on December 31, 2016	(2,228,739)
Losses on physical inventories	(2,178)
Loss on disposal of inventories	<u>(19,737)</u>
Cost of finished goods and merchandises	41,294,897
Service costs	779,029
Loss on inventory valuation, obsolescence and physical inventories	12,779
Loss on disposal of inventories	<u>19,737</u>
Operating costs	<u><u>\$ 42,106,442</u></u>



PRIMAX ELECTRONICS LTD.
Statement of selling, administrative, research and development expenses
From January 1 to December 31, 2016
(Expressed in thousands of New Taiwan Dollars)

Item	Selling expenses	Administrative expenses	Research and development expenses
Salaries	\$ 278,763	251,619	648,062
Rent expense	17,084	23,207	49,095
Travel allowance	37,934	12,717	59,100
Service expense	31,765	86,955	7,223
Storage fee	57,848	-	-
Bad debt expense	57,778	-	-
Freight expense	46,083	49	872
Other expense (note)	143,220	67,598	206,508
Total	\$ 670,475	442,145	970,860

Note : individual amount not exceeding 5%

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



致伸科技股份有限公司



董事長：梁立省

