

Stock code
5225

Eastech Holding Limited
(Formerly known as
Eastern Technologies Holding Limited)

2017 Annual Report

Notice to Readers

This English version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

Annual Report is available at Taiwan Stock Exchange Market Observation Post System: <http://mops.twse.com.tw>

Company website: <http://www.eastech.com>

Address and telephone number of the headquarter, principal place of business, subsidiaries and branch offices:

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Tel. : (852) 2797 0268

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Overseas stock exchange on which securities are traded: Not applicable

Company website: <http://www.eastech.com>

LIST OF DIRECTORS

Chairman

Name : Liou Jenq Lin
Nationality : Taiwan
Major : Master of Electronic Engineering and MBA from University of Southern California, U.S.
Qualifications : IBM Senior Engineer Advisor, U.S.
Xerox Senior Engineer Advisor, U.S.

Directors

Name : Pai Chin Chang
Nationality : Taiwan
Major : Executive Master of Business Administration from Hong Long International Business College
Qualifications : President of Eastech Holding Limited (Formerly known as Eastern Technologies Holding Limited)

Name : Chang Tung I
Nationality : Taiwan
Major : MBA from California State University, U.S.
Qualifications : Vice Executive Director of Kuo-Bin Ceramic Ind. Co., Ltd.

Name : Kwok King Lam Keenan Ken
Representative of Eastech Electronics (Taiwan) Inc.
Nationality : Hong Kong
Major : Master of Finance and Management from University of Michigan, U.S.
Qualifications : Deputy Managing Director of Hifi Orient Thai Public Company Limited

Independent Directors

Name : Shiau Fung Shyung
Nationality : Taiwan
Major : PHD of Economics from Chinese Culture University
Qualifications : Master of Economics from Yale University, U.S.
Master of Agricultural Economics from National Chung Hsing University
Dean of College of Commerce of Tamkang University
Vice Council for Economic Construction Committee, Executive Yuan, R.O.C. (Taiwan)

Name : Chang Shan Juh
Nationality : Taiwan
Major : Master of Electronic Engineering from University of Southern California, U.S.
Qualifications : Head of Human Resources Department of Tatung Company
Lecturer of Faculty of Electronic Engineering and Human Resources Officer of Tatung University

Name : Chen Ko Hung
Nationality : Taiwan
Major : MBA of National Chengchi University (NCCU)
Qualifications : Bachelor of Accounting, NCCU
Senior Manager of Finance Department of Para Light Electronics Co., Ltd.
Senior Manager of Finance Department of UniLite Corporation
Senior Manager of Finance Department of Princeton Technology Corporation

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1. LETTER TO SHAREHOLDERS

Dear Shareholders

The Company underwent a transformation in 2017 with its focus shifted to wireless and Wi-Fi smart audio field and integration of technologies with speakers and electronic, which laid a solid foundation for mapping out the blueprints for the Company's future operation. Given its attempt and expectation on becoming a professional acoustic-dominated IoT manufacturer, the Company has targeted at the development of premium audio products, focusing on attracting potential and strategic customers and orders at the expense of short-term profit and traditional orders. Looking back on 2017, with the transformation and exploration of new markets, despite the worse performance in net operating profit due to the significant decline in market share of traditional branded customers, the Company still adheres to its designated industrial layout and long-term development plan to overcome difficulties in the pursuit of long-term success.

1.1 Operating Performance in 2017

(a) Consolidated financial performance

Unit: NT\$'000

Item \ Year	2017	2016	Increase (Decrease)	Change (%)
Net Sales	7,694,273	6,469,043	1,225,230	18.9
Gross Profit	857,091	1,005,744	(148,653)	(14.8)
Net Operating Profit	1,390	106,224	(104,834)	(98.7)
Profit before tax	164,708	193,306	(28,598)	(14.8)
Profit after tax	124,944	133,932	(8,988)	(6.7)

(b) Budget Implementation: The Company did not prepare any financial budget for 2017.

(c) Profitability Analysis

Item		2017	2016
Financial Structure (%)	Debt to asset ratio	67.3	65.4
	Long-term capital to property, plant and equipment	204.6	165.3
Liquidity (%)	Current ratio	113.7	108.7
	Quick ratio	86.7	85.5
Profitability (%)	Return on assets	3.4	3.5
	Return on equity	8.4	8.6
	Net profit ratio	1.6	2.1
	Basic earnings per share (\$)	2.05	2.22

(d) Research and Development Status

1. In 2017, 6 new patents were approved, 6 patents are under review.
2. In 2017, research and development expenses was NT\$281,860,000, an increase of NT\$8,452,000 from NT\$273,408,000 in 2016, accounting for 3.66% of net sales.

The core businesses of the Company focus on acoustics, audio IoT, audio systems and transducers in the mass consumer market as well as the application of professional and car speakers. The Company also makes use of modern equipment and its own patents to provide world-class technologies for research and development (R&D), manufacturing and testing. It has actively devoted effort in conducting technological R&D in digitalization, online music, voice-activated smart speaker and wireless application segments and integrated the market trend into technology. After years of training, the Company has a comprehensive and integrated R&D team with clear job allocation and capacity, equipped with acoustic, electronic, structural device and software/hardware capabilities and it has built up development foundation for digitalization and wireless broadcasting. Therefore, it can swiftly commence design and development process upon receipt of clients' OEM/ODM projects. The Company has set up R&D centers in Taiwan, Singapore, Shenzhen and Huiyang to attract more professional talents.

1.2 Business Plans for 2018

(a) Business Objectives

1. "Stable growth, structural adjustment". The Company's development direction has turned to attaining equilibrium in price and quantity from pursuing revenue growth in early years, so as to upgrade and transform itself into a professional acoustic-dominated IoT manufacturer from an OEM manufacturer specializing in the production of speaker systems. There is no shortcut without intermittent in on the road to transformation.
2. The consumption pattern of audio products in recent years has changed tremendously. Customers are pursuing personalized and intelligent new products, which brings significant impacts on the traditional audio product market. The Company has adjusted its operating policies and strategies and adopted several measures in its business, development and manufacturing so as to cope for the changing market. As the traditional consumer electronics (CE) branded customers accounted for a smaller proportion in the market, the high-end and emerging branded customers the Company fought for in the past years will become revenue drivers in 2018.
3. China's political and economic strengths have become ever stronger now. BAT (Baidu, Alibaba and Tencent) are in keen competition with FAANG to timely attract China branded customers and adapt to the global branded customers' needs by strengthening domestic sales in China. This is considered as the only way of exploring new markets.

(b) Sales Forecast and its Basis

Over the years, the Company has made its sales forecast for the next year based on the market forecast of new models developed and existing models of our branded customers. In view of the customers' development in 2018, the Company estimates that the total sales in 2018 will increase slightly compared to 2017.

(c) Important Production and Sales Policies

1. Marketing Policy

In response to the product change and severe competition in the market, the Company will adopt the following policies in 2018:

- (1) Strengthen the sales team with global footprint in US, Europe, Asia and Japan, actively explore new markets, new industries and new application with the branded customers. A horizontal sales team and global marketing landscape will enhance competitive strengths of integrated and mixed products (mix and match analog and digital technologies) (electronic

and passive integrated design), which can reflect professional experience and design of branded customers, embed a valued-added supply chain in our strategies, maintain strategic partnership with our existing customers and actively explore luxury brand customers with an aim of setting the second source as our entry point of business expansion.

- (2) The Company will keep abreast of market trends in developing new technologies and new products, and new applications, and offering one-stop services with the flexible business models (from OEM, ODM to JDM) to our customers.
- (3) With the internationalization of Chinese brands, the Company aims at exploring IT giants and potential branded customers in China (such as Tencent, Alibaba, Baidu, Xiaomi, Jingdong, etc.).
- (4) Step in the supply chain of car speakers and premium audio speakers, which have high entry barrier, and actively engaged in the supply chain of car speakers in China after market and the original standardized equipment market.
- (5) The Company will increase JDM/OEM/ODM business for smart audio products with the main stream audio brands so as to achieve the optimal production scale for reducing manufacturing costs.
- (6) The Company will invest more resources in Japan, Europe and America regions in order to expand the business share and product portfolio.
- (7) While the Company is taking the leader for manufacturing the wide range of Sound Bar in the global supplier chain, the Company remains optimistic that the IoT (Internet of Things) and voice control enabled products will become future trends and mainstream. While further strengthening the Sound Bar's business leadership position, the Company will allow customers to recognize and focus on the organizational changes in the Company's R&D team that correspond to new technologies and new applications. It is also expected that future business growth will come from IoT and voice control related business.
- (8) Transducer will be sold separately or on customized base as an electroacoustic component. Scan-Speak, the Danish-designed but China-made transducer will be shared to our peers and customers, which will induce Halo Effect in speaker systems and whole audio system, create new product elements and activate the brand value of Scan-Speak transducer.
- (9) Our earphones business unit will collaborate with branded customers to launch new products in relevant fields including decoding earphones, small DAC module, Bluetooth® wireless earphones and smart earphones (similar to products like AirPods®) and other relevant wearable devices.

2. Production Policy

Facing a shortage of labour in the PRC, the Company will address the issue actively and adopt the following policies:

- (1) To enhance productivity so as to reduce the increment in labour cost and to cope with the issue of labour shortage, the proportion of automated production lines will continue to increase in 2018 for collaborative operation of people vs. automation.
- (2) We will assess the possibility of external procurement or outsourcing for those low added-value departments that rely on intensified labour force and search the possibility of subcontracting the sub-assembly extracted from lines.

- (3) Strengthen SRM (Supplying Relationship Management) for well collaborative scheduling with suppliers so as to optimize inventory management.
- (4) Strengthening procurement and engineering capacity, simplifying supply chain, reducing cost and improving the quality of components and parts, as well as working out more feasible EC (Engineering Change) for cost down of materials.
- (5) Early involvement in terms of new product development and profitable RFQ (Request For Quotation), that is to secure more manufacturability and control of material cost at early design stage through PE/IE and sourcing working together with Product Development Centre (PDC) and Business Unit BU.

3. Research and Development Policy

Product research and development is the growth driver for the Company. The main focuses of research and development in 2018 are as follows:

- (1) Development of High resolution earphones and Bluetooth® with Active Noise cancellation earphones
- (2) Development of wireless speaker systems (Bluetooth® Speakers & Wi-Fi Speakers) and Multi-room capability systems.
- (3) Development of voice-enabled products (Amazon Alexa and Google GVA)
- (4) Developing standard Amazon Alexa and Google GVA modules so as to offer turn-key solution
- (5) Development of Dolby Atmos System; continue offering most update Dolby Atmos's version for applications in Sound Bar
- (6) Partnerships with key technology providers so as to leverage on partnership's technology and solutions development, as early adopter's program and enhance competitiveness
- (7) Innovating the development on voice-enabled products; in the areas of IoT and AI in particular, gaining know-how on motion and facial recognition technologies for next-wave of products innovations.
- (8) Scaling-up on research and development technology on transducer with more collaboration works with Scan-Speak.
- (9) Building up research and development expertise in automotive transducers.

(d) Development Strategies

Adhering to the vision of offering the excellent sound to the world, the Company continues to make effort in becoming a world leading audio product OEM/ODM manufacturer. It provides one-stop design, manufacturing, processing and trading business from transducer speaker, speaker, wire, speaker systems to the audio host and full set of home theater systems. While the consumers' demand for quality, function and price is increasingly higher, and the product demand on miniaturization, personalization, networking and intelligence is growing. With the explosive growth of smart audio, the Company's business and development will focus on the growth of this type of product.

Currently, we are integrating technological and innovation talents in acoustic, electronic, structuring, IoT and wireless transmission to establish a complete and efficient development team for acoustic products. For production, we will continuously expand fully automated production to ensure stability in cost and quality which will be extended to consumer electronic products beyond car speakers. The Company will continually leverage on economy of scales to control cost and expenses strictly. For global sales, the global sales team will provide EMS/OEM/ODM, etc services and solutions to clients in accordance with client's regions.

We will continue to establish human-oriented incentive mechanism to enable employees in every position to give full play to their strength and talent and share with them the fruits of the Company's development.

(e) The Impact of the External Competitive Environment, Regulatory Environment and Macroeconomic Conditions

1. External Competitive Environment:

- (1) Among the customer base of EASTECH, the market share of Japanese brands and European brands was continually declined in 2017 which no longer lead the market. Also, the Korean brands customers were impacted by the shrinking market environment in Middle and South America and depreciation of currencies in Latin America, resulting in a decline in sales order volume were increasing.
- (2) In recent years, major IT companies have engaged in cross-border competition, including the Amazon Echo series and SONOS, as well as Apple's AirPods®. As the IT industry has benefitted from the miniaturization and digitalization of electro-acoustic products in mass production scale and geographical advantages for OEM brands customers, it is more difficult for our Company to receive orders.
- (3) The rise of supply chain in Mainland China together with the unfair competition arising from subsidies from local government has resulted in price war in facing with severe competition. The Company can only differentiate itself against the price war.
- (4) Personal audio/video entertaining model has been prevailing, which causes a decline in demand of traditional speakers and home theater speaker systems, and thus a hard hit on the revenue and gross margin of the Company's major traditional products. Smart audio (such as Amazon's Echo), mainly focuses on music playing, entertainment and functions of smart home, cannot shake the position of traditional speaker. In the third quarter of 2017, the Company released the first batch of smart AI speakers for the emerging Chinese brand and it accelerated the layout in the field of smart audio.
- (5) The high-standard low-cost pattern is the consumption trend in audio/video products and the price of products is gradually decreasing. The extent of drop in sales value is greater than the extent of fall in sales quantity. But it drives a new wave of demand triggered from the drop of selling price.
- (6) The traditional audio/video consumer and electronics audio brand customers were impacted from other brands across different industries to seize the market (such as Apple, Xiaomi, etc.)

2. Regulatory Environment:

- (1) The Company operates in compliance with local laws and regulations. In recent years, Mainland China actively encourages industrial upgrade and promotes environmental protection, energy conservation and reduction of waste emission. Various preferential policies and incentives are implemented in this regard and the Company has actively sought to benefit

from them. Our two local factories HYE A and HYDM have obtained the preferential treatment as hi-tech enterprises. In 2017, we successfully obtained the incentive of RMB1.1 million from the local technological authority of the place in which our factory is located whereby the Company improves its operations and enjoys additional benefit at the same time.

- (2) Furthermore, in order to enter the car speaker industry, the Company actively obtained the TS16949 certification (equivalent to ISO9001 and special requirements for the car industry) which will be the cornerstone for the certification of our car products in the future. However, we need to make investment first before having the harvest. Whenever the sales and production of auto products have not achieved the economies of scale and gone through the learning curve, the operations will remain still for a while. It is expected that we will have improvement in 2018 onwards.
- (3) The operating cost of the Company is rising due to the rise in wage costs and shortage of labour and technical talents, as well as the implementation of labor contract law in China. In additions, the force of monitoring the balance of foreign exchange and customs matters is increasing; it levels up the tax expenses and increases the unpredictable operating costs.
- (4) The compliance with the environmental regulations in China and strict control over wastage gas and wastewater discharge and the requirement of using environmental friendly materials for production has unavoidably increased the material costs and operating expenses.

3. Macroeconomic Conditions

The Company faces severe challenges such as

- (1) In early December 2017, the U.S. has passed President Trump's tax cut plan, which benefits both upper and lower classes of the U.S. and will drive the growth of the country's overall consumption and stimulate a worldwide tax cut campaign. Despite that consumption being restrained by the rate hike and the shrinking, consumption growth will still be boosted.
- (2) The global capital flew back into the U.S. and Renminbi is exposed to devaluation pressure in the mid-term.
- (3) Less in quantity but more diversified with shorter product cycle. Consumer preferences are fast changing and product technology and functions are being upgraded.
- (4) Excessive production capacity for traditional products and intense competition of new products from peers.

Nevertheless, the Company will continue to uphold our principle of seeking changes while maintaining stability, and leverage on the leadership of our experienced management team, the unyielding spirit of "no recession, but only not doing good enough" and solid business foundation established to overcome any difficulties and changes in the market and industry at present and in the future, and to strive for development of new businesses, technologies and customers to differentiate our products without coming into price war, which will result in better results and operational efficiency.

Chairman
Liou Jenq Lin

2. COMPANY PROFILE

2.1 Date of Incorporation: 1 February 2011

2.2 Description of the Company and the Group

(a) Description of the Company and the Group

Eastech Holding Limited (formerly known as Eastern Technologies Holding Limited) (hereinafter as the “Company”). As the principal subsidiaries of the Company are located in Hong Kong and Mainland China with over 30 years of history, the Company is restricted by registration limits of the abovementioned region and cannot be listed in Taiwan directly, therefore, the Company reorganized the upper-level investment structure of Eastern Asia Technology (HK) Limited, and set up the Company as the holding company in the Cayman Islands in February 2011, in order to comply with the regulations of Taiwan Stock Exchange in respect of primary listing application of foreign companies in Taiwan.

In order to seize the opportunity in developing high-end speakers, the Company acquired ScS, a renowned premium loudspeaker manufacturer in Denmark in April 2014 in preparation of entering into the industry of premium speakers and car speakers. Moreover, in view of the industry development trend of close ties between speaker systems and 3C electronic appliances, as well as to expand the scope of business of the Group, the Company acquired ETT, an AV electronics and audio OEM manufacturer, in January 2015, thus entered into the audio appliances industry which completes the strategic layout of our acoustics business, as well as becoming one of the few audio market players that holds both horizontal integrated designs and vertical manufacturing bases.

The business operations of the Company is principally engaged in manufacturing and sales of speaker systems and earphone products; design, manufacturing and sales of high-end/smart speakers and audio/video electronic home entertainment systems; research and development of system architecture/new product concepts/state-of-the-art products/sound and acoustics advance technology.

(b) Group Structure: please refer to page 113 of this annual report.

2.3 History of the Company and the Group

Date	Important Events
1971	Establishment of Eastern Asia Woods Industrial Corp., the former of EASTECH.
1972	Cooperated with Japanese to obtain their technology and support for the production of speaker boxes for sales to Japan.
1977	Became OEM of speakers who produced products for internationally renowned brands, and the product portfolio transformed from speaker boxes to speaker systems.
1983	Became a leader in speaker products. A design and R&D centre was set up to focus on improvement in product quality and R&D capability.
1986	Commenced direct export sales and taking up of orders from international brands.
1988	Eastern Asia Technology (HK) Limited (“EAH”) was set up to engage in the trading, manufacturing and investment of speaker systems.
1989	Production plant was relocated to Malaysia and Huizhou and Shenzhen, China.
1990	Vertical integration was carried out to extend its production to speaker units.
1991	Resources were integrated and EAH was acting as operating hub. Group Engineering Centre (GEC) was set up to provide technical support to production and sales

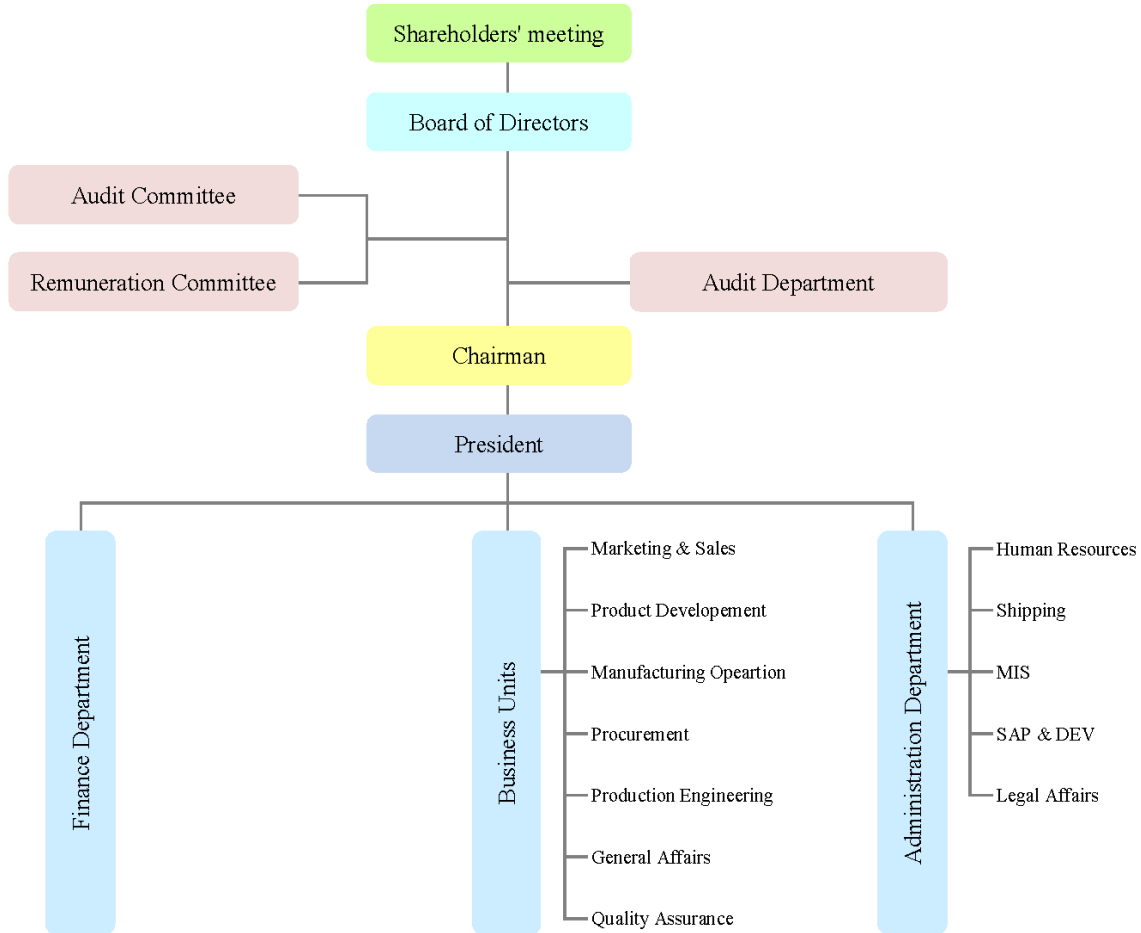
Date	Important Events
	department.
1995	HYEA was set up to principally engage in the production of speakers and parts. HYHY was established to specialize in the manufacturing of speaker units.
1996	First phase of Huiyang plant completed, in which speaker unit assembly department was set up and part of the production capacity in Malaysia was transferred thereto.
1997	Plastic department was set up and successfully developed stereo system and Dolby virtual surround sound system for home theater.
1998	Production of speaker systems in Shenzhen was transferred to Huiyang plant, enabling Huiyang plant to become one of the few plants in the world which can conduct one-stop production of speaker systems.
2002	ERP (SAP) system was introduced to enhance management efficiency. HYDM was established to principally produce various speaker products.
2003	HYEA and HYHY were awarded “Best Financial Report of Foreign-Invested Company” by the Ministry of Finance of Huiyang City, Guang Dong Province. Participated in an exhibition of consumer electronic appliance in Las Vegas in January and was honored “Innovative Design and Engineering” award for its speaker systems for flat panel home theater, flat speaker systems for Notebook and plat speaker systems.
2008	Earphones department was set up and HYDM commenced production of earphones products.
2011	The Company was incorporated in Cayman Islands. Reorganization of the structure of the Group completed. Audit Committee and Remuneration Committee were set up.
2012	The Company was formally listed on Taiwan Stock Exchange on 5 November 2012. The Company conducted capital increase by cash through issue of 6,750 thousand ordinary shares with carrying amount of NT\$10 per share, totaling NT\$67,500 thousand. The paid-in share capital after the capital increase was NT\$607,500 thousand.
2013	Hui Yang Eastern Asia Electronics Co., Ltd. and Huiyang Dongmei Audio Products Co., Ltd were approved and recognized as “New and High Technological Enterprises”. Shenzhen MaliMaliBox Trading Corporation Limited was established to engage in the earphones retailing business.
2014	Establish Premium Sound Group and acquire Denmark-renowned high-end loudspeaker developer and manufacturer – ScS, which provide faster access to high-end speaker systems including car speakers market.
2015	In January, acquired ETT, an audio/video electronics OEM manufacturer, entering into the area of audio/video electronic and audio equipment OEM manufacturing. In June, increased capital by issuing 252 thousand shares (employee restricted shares), the issued capital was increased to NT\$610,020 thousand as a result. In September, the installation of a car speaker production line was completed and we began to introduce ISO/TS16949 certification. In October, the Company implemented treasury shares for the first time. In November, car speakers were officially shipped, signifying the Company’s entering a new business area.
2016	In August, the zero defect supply chain quality management standard ISO/TS16949 certification has been obtained for car speakers.
2017	In January, increased capital by issuing 500 thousand shares (employee restricted shares) of NT\$10 each, totaling NT\$615,020 thousand. In June, for the consistency of trademark reputation and company name, the English name

Date	Important Events
	<p>of the Company was changed to “Eastech Holding Limited”.</p> <p>In October, Eastech Electronics (SG) Pte. Ltd. was established to engaged in the research and development of system architecture/ new product concepts/state-of-the-art products/sound and acoustics advance technology.</p> <p>In December, increased capital by issuing 500 thousand shares (employee restricted shares), the issued capital was increased to NT\$619,860 thousand as a result.</p>

3. CORPORATE GOVERNANCE

3.1 Organization

(a) Organization Chart



(b) Responsibilities of Each Department

Department	Main Responsibilities
Board of Directors	Accountable to the shareholders; execute resolutions; determine operation plans and investment proposals based on the scope of authorization granted by the shareholders.
Chairman	Formulate strategic operation instructions and objectives and appoint managers for the execution of the instructions and objectives.
Audit Committee	Monitor preparation of financial report and internal control on behalf of the Board to ensure the reliability of the financial report and the legal compliance of all activities.
Remuneration Committee	Monitor payroll of all operating teams and the appropriateness of staff remuneration on behalf of the Board to enable independence between ownership and operating concession.
Audit Department	Perform auditing tasks on a regular or irregular basis pursuant to the internal control system, prepare audit report and provide ways of improvement.

Department	Main Responsibilities
President	Execute resolutions of the Board and manage all company affairs.
Business Units	Proposals and execution of sales, manufacturing, procurement and development for electronics speaker systems and earphones products.
Finance Department	Manage fund allocation, financial control and accounting, stock affairs, investment and public relations.
Human Resources Department	Manage human resources, legal affairs and computer information.

3.2 Directors, Supervisors, Presidents, Vice Presidents, Senior Managers and Heads of Departments and Branch Offices

(a) Details of Directors and Supervisors

1. Directors (there is no supervisors in the Company)

13 April 2018

Title	Nationality	Name	Gender	Date of appointment	Term	Date of first appointment	Shareholdings at appointment		Current Shareholdings		Current Shareholdings of spouse, minor children		Shares held in other's name		Major Qualification	Current positions in the Company and other companies	Other officers, directors or supervisors who are spouse or second-degree relatives		
							No. of Shares	Ratio %	No. of Shares	Ratio %	No. of Shares	Ratio %	No. of Shares	Ratio %			Title	Name	Relationship
Chairman	Taiwan	Liou Jenq Lin	Male	8 June 2017	3 years	24 March 2011	1,500,400	2.42	1,500,400	2.42	-	-	-	-	Master of Electronic Engineering and MBA from University of Southern California, U.S. IBM Senior Engineer Advisor, U.S. Xerox Senior Engineer Advisor, U.S.	Other companies: (Note 1)	-	-	-
Director	Taiwan	Pai Chin Chang	Male	8 June 2017	3 years	24 March 2011	335,000	0.54	348,000	0.56	-	-	-	-	Executive Master of Business Administration from Hong Long International Business College	President of the Company Director of Hui Yang Eastern Asia Electronics Co., Ltd. Director of Huiyang Dongmei Audio Products Co., Ltd.	-	-	-
Director	Taiwan	Chang Tung I	Male	8 June 2017	3 years	15 December 2011	50,000	0.08	44,000	0.07	-	-	-	-	MBA from California State University, U.S. Vice Executive Director of Kuo-Bin Ceramic Ind. Co., Ltd.	Director of Eastech Electronics (Hui Yang) Co., Ltd. Director of Eastech Electronics (Taiwan) Inc. Director of Scan-Speak A/S	-	-	-

Title	Nationality	Name	Gender	Date of appointment	Term	Date of first appointment	Shareholdings at appointment		Current Shareholdings		Current Shareholdings of spouse, minor children		Shares held in other's name		Major Qualification	Current positions in the Company and other companies	Other officers, directors or supervisors who are spouse or second-degree relatives		
							No. of Shares	Ratio %	No. of Shares	Ratio %	No. of Shares	Ratio %	No. of Shares	Ratio %			Title	Name	Relationship
Director	Taiwan	Eastech Electronics (Taiwan) Inc. (Kwok King Lam Keenan Ken is appointed to perform director's duties)	-	8 June 2017	3 years	30 April 2014	453,000	0.73	453,000	0.73	-	-	-	-	N/A	The Company: Nil Other companies: Nil	-	-	-
	Hong Kong	Kwok King Lam Keenan Ken	Male	-	-	-	1,512,000	2.44	1,512,000	2.44	-	-	-	-	Master of Finance and Management from University of Michigan, U.S.	The Company: Nil Other companies: (Note 2)	-	-	-
Independent Director	Taiwan	Shiau Fung Shyung (Note 3)	Male	8 June 2017	3 years	12 August 2011	-	-	-	-	-	-	-	-	PHD of Economics from Chinese Culture University Master of Economics from Yale University, U.S. Master of Agricultural Economics from National Chung Hsing University Dean of College of Commerce of Tamkang University Vice Council for Economic Construction Committee, Executive Yuan, R.O.C. (Taiwan)	The Company: Nil Professor of Tamkang University Other companies: (Note 3)	-	-	-

Title	Nationality	Name	Gender	Date of appointment	Term	Date of first appointment	Shareholdings at appointment		Current Shareholdings		Current Shareholdings of spouse, minor children		Shares held in other's name		Major Qualification	Current positions in the Company and other companies	Other officers, directors or supervisors who are spouse or second-degree relatives		
							No. of Shares	Ratio %	No. of Shares	Ratio %	No. of Shares	Ratio %	No. of Shares	Ratio %			Title	Name	Relationship
Independent Director	Taiwan	Chang Shan Juh	Male	8 June 2017	3 years	24 March 2011	-	-	-	-	-	-	-	-	Master of Electronic Engineering from University of Southern California, U.S. Head of Human Resources Department of Tatung Company Lecturer of Faculty of Electronic Engineering and Human Resources Officer of Tatung University	The Company: Nil Human Resources Officer of Tatung University	-	-	-
Independent Director	Taiwan	Chen Ko Hung	Male	8 June 2017	3 years	24 March 2011	-	-	-	-	-	-	-	-	MBA of National Chengchi University (NCCU) Bachelor of Accounting, NCCU Senior Manager of Finance Department of Para Light Electronics Co., Ltd. Senior Manager of Finance Department of UniLite Corporation Senior Manager of Finance Department of Princeton Technology Corporation	The Company: Nil Chief Financial Officer of Ampire Co., Ltd. Director of Chiplus Semiconductor Corp.	-	-	-

Note 1: Director of Eastech Electronics (Taiwan) Inc., Eastech Electronics (HK) Limited, Eastech Electronics Technology (Hui Yang) Co., Ltd., Eastern Asia Technology (HK) Limited, Hymnario-EAW (Huiyang) Co., Ltd., Hui Yang Eastern Asia Electronics Co., Ltd., Huiyang Dongmei Audio Products Co., Ltd., Scan-Speak A/S, Shenzhen MaliMaliBox Trading Corporation Limited.

Note 2: Director of KWF (Thailand) Limited, Life Orient Co., Ltd., AE Technology Co., Ltd., Praise & Grace (HK) Ltd., Tyon Industrial International Ltd., Everstrong Properties Limited, Angkor Capital Limited, Loopin Company Limited, Popup Solution Company Limited, Getlinks Investment Holding Company Limited, ShopSnap Company Limited, etc. and Deputy Managing Director of Hifi Orient Thai Public Company Limited.

Note 3: Independent director of Wayi International Digital Entertainment Co., Compass Systems Corp., and CMC Magnetics Corporation, and Supervisor of Zhong Hua Cheng Co., Ltd.

(b) Details of President, Vice Presidents, Senior Managers and Head of Departments and Branch Offices

13 April 2018

Title	Nationality	Name	Gender	Date of appointment	Shareholdings at appointment		Shareholdings of spouse, minor children		Shares held in other's name		Major Qualification	Current positions in the Company and other companies	Other officers, directors or supervisors who are spouse or second-degree relatives		
					No. of Shares	Ratio %	No. of Shares	Ratio %	No. of Shares	Ratio %			Title	Name	Relationship
President	Taiwan	Pai Chin Chang	Male	24 March 2011 (Note 1)	348,000	0.56	-	-	-	-	Executive Master of Business Administration from Hong Long International Business College President of the Company	Director of Hui Yang Eastern Asia Electronics Co., Ltd. Director of Huiyang Dongmei Audio Products Co., Ltd.	-	-	-
Vice President	Taiwan	Chu Ming Chung	Male	1 December 1999 (Note 2)	-	-	-	-	-	-	Master of Management from Komazawa University, Japan Vice President of Eastern Asia Technology (HK) Limited	Director of Hymnario-EAW (Huiyang) Co., Ltd. Director of Shenzhen MaliMaliBox Trading Corporation Limited.	-	-	-
Vice President	Taiwan	Chih Tai An	Male	1 September 2017 (Note 3)	-	-	-	-	-	-	Master of Transportation and Communication Management Science from National Cheng Kung University ("NCKU") Vice President of Eastern Asia Technology (HK) Limited	-	-	-	
Vice President	Taiwan	Chang Po Chao	Male	1 December 2011	51,000	0.08	-	-	-	-	Degree of International Trading from National Chengchi University Vice President, Public Relations and Spokesman of the Company	-	-	-	
Chief Financial Officer	Hong Kong	Lam Pui Man	Female	24 March 2011 (Note 1)	8,000	0.01	-	-	-	-	Master of Finance from Chinese University of Hong Kong BBS from The Hong Kong University of Science and Technology Fellow member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants Senior Manager of Finance Department of EATL Group CPA Audit Accountants of Arthur Andersen Chief Financial Officer of the Company	Supervisor of Eastech Electronics (Taiwan) Inc. Director of Eastech Electronics (HK) Limited	-	-	-
Chief Audit Officer	Hong Kong	Tang Kai Tak	Male	24 March 2011 (Note 1)	4,000	0.006	-	-	-	-	Master of Applied Finance from Macquarie University, Australia Fellow member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants Audit Officer of Schick International Ltd and Wing Lung Bank Chief Audit Officer of EATL Group Chief Audit Officer of the Company	-	-	-	

Note 1: The Company ("EASTECH") was incorporated on 1 February 2011. The above staff originally worked in EATL Group, and was re-designated to serve EASTECH on 24 March 2011.

Note 2: Joined Eastern Asia Technology (HK) Limited on 1 December 1999.

Note 3: Joined Eastern Asia Technology (HK) Limited on 1 September 2017.

- (c) Remunerations of Directors, Supervisors, Presidents and Vice Presidents
 1. Remunerations paid to Directors, Supervisors, Presidents and Vice Presidents for the latest year
 (1) Remunerations of Directors (including independent executive directors)

Unit: NTS'000

Title	Name	Remuneration of Directors						Percentage of aggregate of A, B, C and D to net profit after tax (%)		Remunerations of Concurrent Employments						Percentage of aggregate of A, B, C, D, E, F and G to net profit after tax (%)		Any remunerations from companies other than subsidiaries for investment business				
		Salary (A)	Post-employment Pension (B)		Directors Remuneration (C)		Fee incurred for duty performance (D)			Salary, Bonus and Special bonus (E)		Post-employment Pension (F)		Staff Remunerations (G)								
								All companies contained in the financial statements The Company	All companies contained in the financial statements The Company							All companies contained in the financial statements The Company	All companies contained in the financial statements The Company		All companies contained in the financial statements The Company	All companies contained in the financial statements The Company	The Company	All companies contained in the financial statements
Chairman	Liou Jenq Lin																					
Director	Pai Chin Chang																					
Director	Chang Tung I																					
Director	Kwok King Lam Keenan Ken	-	-	-	-	3,401 (Note 1)	3,401 (Note 1)	198	198	2.88	2.88	-	20,589	-	239	-	-	1,754 (Note 2)	-	2.88	20.95	-
Independent Director	Chang Shan Juh																					
Independent Director	Chen Ko Hung																					
Independent Director	Shiau Fung Shyung																					

Note 1: In accordance with the Company Articles of Association, the individual and total amounts of 2017 remuneration for directors were approved by the Remuneration Committee and the Board on 23 February 2018.

Note 2: In accordance with the Company Articles of Association, the individual and total amount of remuneration for staff for 2017 was approved by the Remuneration Committee and the Board on 23 February 2018.

(2) Remunerations of Presidents and Vice Presidents

Unit: NTS'000

Title	Name	Salary (A)		Post-employment pensions (B)		Bonus and Special Bonus (C)		Staff Remunerations (D) (Note 1)				Percentage of aggregate of A, B, C and D to net profit after tax (%)		Any Remunerations from companies other than subsidiaries for investment business
		The Company	All companies contained in the financial statements	The Company	All companies contained in the financial statements	The Company	All companies contained in the financial statements	The Company		All companies contained in the financial statements		The Company	All companies contained in the financial statements	
								By Cash	By Shares	By Cash	By Shares			
Chairman (Management)	Liou Jenq Lin													
President	Pai Chin Chang													
Vice President	Chu Ming Chung	-	21,672	-	400	-	3,154	-	-	3,096	-	-	22.67	-
Vice President	Chih Tai An (Note 2)													
Vice President	Chang Po Chao													

Note 1: In accordance with the Company Articles of Association, the individual and total amount of remuneration for staff for 2017 was approved by the Remuneration Committee and the Board on 23 February 2018.

Note 2: Joined Eastern Asia Technology (HK) Limited on 1 September 2017.

Remuneration Ranking

Ranking of Remunerations Payable to each Directors, Presidents and Vice Presidents	Name of Presidents and Vice Presidents	
	The Company	All companies contained in the financial statements
Below 2,000,000	-	Chih Tai An
2,000,000 (inclusive) ~ 5,000,000 (not inclusive)	-	Chang Po Chao
5,000,000 (inclusive) ~ 10,000,000 (not inclusive)	-	Liou Jenq Lin Pai Chin Chang Chu Ming Chung
10,000,000 (inclusive) ~ 15,000,000 (not inclusive)	-	-
15,000,000 (inclusive) ~ 30,000,000 (not inclusive)	-	-
30,000,000 (inclusive) ~ 50,000,000 (not inclusive)	-	-
50,000,000 (inclusive) ~ 100,000,000 (not inclusive)	-	-
Above 100,000,000	-	-
Total	0 person	5 persons

(3) Name of Managers who have been awarded staff remuneration and the distribution of staff remuneration.

Unit: NTS'000

	Title	Name	By Shares	By Cash	Total	Percentage of total amount to net profit after tax (%)
Managers	President	Pai Chin Chang	-	3,096	3,096	2.48
	Vice President	Chu Ming Chung				
	Vice President	Chih Tai An (Note 2)				
	Vice President	Chang Po Chao				
	Chief Financial Officer	Lam Pui Man				
	Chief Audit Officer	Tang Kai Tak				

Note 1: In accordance with the Company Articles of Association, the individual and total amount of remuneration for staff for 2017 was approved by the Remuneration Committee and the Board on 23 February 2018.

Note 2: Joined Eastern Asia Technology (HK) Limited on 1 September 2017.

2. Analysis on the percentage of total or individual remunerations of directors, supervisors, chairman, presidents and vice presidents of the Company and all companies contained in the financial statements for the latest two years to net profit after tax, and descriptions on the remuneration policies, standards and packages and the way of determination of remunerations and its relationship with operating results.

(1) Percentage of total remunerations of directors, chairman, presidents and vice presidents of the Company and all companies contained in the financial statements for the latest two years to net profit after tax.

Unit: NT\$'000

Item	2016				2017			
	The Company		All companies contained in the financial statements		The Company		All companies contained in the financial statements	
	Amount	Net Profit After Tax (%)	Amount	Net Profit After Tax (%)	Amount	Net Profit After Tax (%)	Amount	Net Profit After Tax (%)
Directors (Directors' Remuneration)	4,067	3.04	4,067	3.04	3,599	2.88	3,599	2.88
Chairman, President and Vice Presidents	1,262	0.94	32,448	24.23	-	-	28,322	22.67

(2) Descriptions on the remuneration policies, standards and packages and the way of determination of remunerations and its relationship with operating results.

A. Remuneration of Directors is determined according to Rule 117 of the Company's Articles of Association, which is calculated based on the deduction of less than 2% of the profit before income tax distributed to the employees and directors for the current year and reasonable emoluments will be given with reference to the operating results of the Company and their contribution to the Company.

B. Remuneration of the Chairman, General Manager and Deputy General Manager shall be paid according to the scope of their duties and responsibilities for their positions and their contribution to the Company's operation. Determination of the remuneration shall be based on the overall operating performance, future industrial operating risks and development trend of the Company and reasonable emoluments will be given with reference to individual performance and contribution to the Company.

3.3 Movements of Shareholdings and Pledge thereof held by Directors, Managers and Shareholders (whose shareholdings representing over 10% of total Shares) for the year as at the date of issue of Annual Report:

(a) Movement of transfer and pledge of shareholdings of directors, supervisors, managers and substantial shareholders.

Unit: Shares

Title	Name	2017		As at 13 April 2018	
		Increase (Decrease) in number of shares held	Increase (Decrease) in number of shares pledge	Increase (Decrease) in number of shares held	Increase (Decrease) in number of shares pledge
Chairman	Liou Jenq Lin	-	-	-	-
Director and President	Pai Chin Chang	13,000	-	-	-
Director	Chang Tung I	(26,000)	-	-	-
Director	Eastech Electronics (Taiwan) Inc.	-	-	-	-
Legal Director Representative of Eastech Electronics (Taiwan) Inc.	Kwok King Lam Keenan Ken	-	-	-	-
Independent Director	Shiau Fung Shyung	-	-	-	-
Independent Director	Chang Shan Juh	-	-	-	-
Independent Director	Chen Ko Hung	-	-	-	-

Unit: Shares

Title	Name	2017		As at 13 April 2018	
		Increase (Decrease) in number of shares held	Increase (Decrease) in number of shares pledge	Increase (Decrease) in number of shares held	Increase (Decrease) in number of shares pledge
Vice President	Chu Ming Chung	(33,000)	-	-	-
Vice President	Chih Tai An (Note)	-	-	-	-
Vice President	Chang Po Chao	(3,000)	-	-	-
Chief Financial Officer	Lam Pui Man	-	-	-	-
Chief Audit Officer	Tang Kai Tak	-	-	-	-
Shareholder	Above Vantage Limited	-	-	-	-

Note: Joined Eastern Asia Technology (HK) Limited on 1 September 2017.

- (b) Details of transfer of shareholdings of directors, supervisors, managers and substantial shareholders:
Not applicable

3.4 Details of Shareholdings of Top Ten Substantial Shareholders, their relationship as related parties under FAS 6 or as spouse or second degree relatives

13 April 2018; Unit: Shares

Name	Shares held		Shares held by spouse, minor children		Aggregate shares held in the name of other parties		Name and relationship of Top Ten substantial shareholders who are related to each other or are spouse, second degree relatives		Remark
	No. of Shares	Ratio %	No. of Shares	Ratio %	No. of Shares	Ratio %	Name	Relationship	
Above Vantage Limited	27,935,600	45.08	-	-	-	-	-	-	-
Investment clients' accounts for New Advantage Holdings Ltd.	6,000,000	9.68	-	-	-	-	-	-	-
Wu Shu-Jhen	1,628,000	2.63	-	-	-	-	-	-	-
Kwok King Lam Keenan Ken	1,512,000	2.44	-	-	-	-	-	-	-
Liou Jenq Lin	1,500,400	2.42	-	-	-	-	-	-	-
Representative of AVY Precision Technology Inc.: Dong Zun Ren	890,000	1.44	-	-	-	-	-	-	-
Eastech Holding Limited overseas	789,000	1.27	-	-	-	-	-	-	-

13 April 2018; Unit: Shares

Name	Shares held		Shares held by spouse, minor children		Aggregate shares held in the name of other parties		Name and relationship of Top Ten substantial shareholders who are related to each other or are spouse, second degree relatives		Remark
	No. of Shares	Ratio %	No. of Shares	Ratio %	No. of Shares	Ratio %	Name	Relationship	
foreign-national employees collective									
Jiang Ji-Ru	626,000	1.01	-	-	-	-	-	-	-
Investment clients' accounts for Soaring Elite Ltd.	519,000	0.84	-	-	-	-	-	-	-
Wang Ding-Qian	500,000	0.81	-	-	-	-	-	-	-

4. CAPITAL OVERVIEW

4.1 Capital and Shares

(a) Sources of Funds

1. Sources of funds of the Company

13 April 2018; Unit: Shares; Unit: NT\$'000

Month / Year	Issue Price	Authorised Share Capital		Paid-in Share Capital		Remark		
		No. of Shares	Amount	No. of Shares	Amount	Source of Funds	Paid by assets other than cash	Others
February 2011	10	80,000	800,000	100	1,000	Set up of share capital	-	-
March 2011	10	80,000	800,000	53,900	539,000	Issue of new shares	Note 1	-
November 2012	60	80,000	800,000	6,750	67,500	Increase of funds by cash	-	Note 2
June 2015	-	80,000	800,000	252	61,002	Issuance of New Restricted Employee Shares	-	Note 3
December 2016	-	80,000	800,000	500	5,000	Issuance of New Restricted Employee Shares	-	Note 4
December 2017	-	80,000	800,000	500	5,000	Issuance of New Restricted Employee Shares	-	Note 5

Note 1: To comply with the listing requirements of Taiwan, the Company was incorporated in Cayman Islands in February 2011. Pursuant to the resolutions passed at the general meeting held on 30 March 2011, additional issue of 53,900,000 new shares to DJR, a substantial shareholder of the Company and an acquisition of 100% equity of EAH from EATL at a consideration of HK\$293,887,883 was resolved and thus reorganization of the shareholding structure of the Group was completed. After the reorganization, the Company directly held 100% equity interests in EAH, and indirectly held 100% equity interests in HYE, HYDM and HYHY.

Note 2: Approved by the Letter 1010032948 and 1010038983 issued by Financial Supervisory Commission on 31 July 2012 and 4 September 2012.

Note 3: Approved by the Letter 1030024812 issued by Financial Supervisory Commission on 1 July 2014.

Note 4: Approved by the Letter 1050024865 issued by Financial Supervisory Commission on 29 June 2016.

Note 5: Approved by the Letter 1060027567 issued by Financial Supervisory Commission on 25 July 2017.

13 April 2018; Unit: Shares

Type of Shares	Authorised Share Capital			Remark
	Issued Shares (Note)	Unissued Shares	Total	
Ordinary Shares	Listed Shares 61,967,000	18,033,000	80,000,000	-

Note: Including Restricted Shares not yet circulated to the public amounted to 974,000 shares.

2. Relevant details to be disclosed under the reporting system: Not applicable

(b) Structure of Shareholdings

13 April 2018

Structure Amount	Government Authority	Financial Institute	Other Legal Entity	Individual	Foreign Entity and Individual	China Entity and Individual	Total
No. of person	-	-	21	2,228	18	1	2,268
No. of Shares held	-	-	3,575,000	21,128,823	37,021,177	242,000	61,967,000
Shareholding Ratio	-	-	5.77	34.10	59.74	0.39	100.00

(c) Shareholding Dispersal

1. Ordinary Shares

13 April 2018; Unit: Shares

Ranking of Shareholdings		No. of Shareholders	No. of Shares held	Shareholdings Ratio (%)
1	to 999	126	9,178	0.01
1,000	to 5,000	1,587	3,380,633	5.46
5,001	to 10,000	237	1,890,115	3.05
10,001	to 15,000	83	1,088,000	1.76
15,001	to 20,000	56	1,052,000	1.70
20,001	to 30,000	56	1,454,043	2.35
30,001	to 50,000	47	1,828,254	2.95
50,001	to 100,000	39	2,946,777	4.76
100,001	to 200,000	13	1,775,000	2.86
200,001	to 400,000	12	3,729,000	6.02
400,001	to 600,000	4	1,933,000	3.12
600,001	to 800,000	2	1,415,000	2.28
800,001	to 1,000,000	1	890,000	1.44
Above 1,000,001		5	38,576,000	62.25
Total		2,268	61,967,000	100.00

2. Preferred Shares: Nil

(d) List of Substantial Shareholders:

Names, number of shares held and shareholdings ratio of shareholders holdings more than 5% of shareholdings or top ten shareholders in terms of shareholdings held.

13 April 2018; Unit: Shares

Name of Major Shareholders	Shares	No. of Shares held	Shareholding Ratio (%)
Above Vantage Limited		27,935,600	45.08
Investment clients' account for New Advantage Holdings Ltd.		6,000,000	9.68
Wu Shu-Jhen		1,628,000	2.63
Kwok King Lam Keenan Ken		1,512,000	2.44
Liou Jenq Lin		1,500,400	2.42
AVY Precision Technology Inc.		890,000	1.44
Eastech Holding Limited overseas foreign-national employees collective		789,000	1.27
Jiang Ji-Ru		626,000	1.01
Investment clients' accounts for Soaring Elite Ltd.		519,000	0.84
Wang Ding-Qian		500,000	0.81

(e) Market price, Equity, Earnings, Dividends per share and the relevant information.

Unit: NT\$'000

Item		Year	2016	2017	As at 31 March 2018
Market price per share	Highest		51.90	35.20	29.30
	Lowest		31.00	25.00	25.20
	Average		37.68	30.46	27.96
Equity per share (Note 1, 2)	Before distribution		24.25	25.20	24.76
	After distribution		23.12	(Note 7)	-
Earnings (loss) per share (Note 1, 2)	Weighted average shares		60,270 thousand shares	60,807 thousand shares	61,226 thousand shares
	Earnings (loss) per share		2.22	2.05	(1.27)
Dividend per share	Cash dividend (Note 2, 3)		1.11	0.70	-
	Stock Dividend Distribution	Retained Shares Distribution	-	-	-
		Capital Reserve Shares Distribution	-	-	-
	Accumulated unpaid dividend		-	-	-
Analysis on Return on Investment	Price-Earnings Ratio (Note 4)		16.97	14.86	-
	Price-Sales Ratio (Note 5)		33.94	(Note 7)	-
	Cash Dividend Yield (Note 6)		2.95%	(Note 7)	-

- Note 1: The equity and earnings per share for 2016 and 2017 were calculated based on the audited consolidated financial statements. The net assets and earnings per share as at 31 March 2018 were calculated based on the reviewed consolidated financial statements.
- Note 2: The calculations of net assets, earnings and dividend per share for 2016 and 2017 are based on the weighted average shares of 60,270 thousand shares and 60,807 thousand shares. Up to 31 March 2018, the calculation of net loss per share is based on the weighted average shares of 61,226 thousand shares.
- Note 3: The above information is according to the profits distribution proposed in the Annual General Meeting in the following year.
- Note 4: Price-Earnings Ratio = average closing price per share for the year / earnings per share.
- Note 5: Price-Sales Ratio = average closing price per share for the year / cash dividend per share.
- Note 6: Cash Dividend Yield = cash dividend per share / average closing price per share for the year.
- Note 7: 2017 dividend distribution proposal is still pending approval by shareholders at general meeting.

(f) Dividend Policies and its Implementation

1. Dividend Policies

Pursuant to the resolution passed by the shareholders at the general meeting on 8 June 2017, the Articles of Association of the Company was amended as follows:

If the Company has earnings for the current period after the close of a fiscal year, it shall set aside 1% to 15% of such earnings as staff remuneration, and set aside no more than 2% of such earnings as directors' remuneration. If the Company has accumulated losses, it shall first set aside the losses and distribute the staff remuneration and directors' remuneration from the remaining earnings as set forth in the preceding paragraph. The distribution of the staff remuneration can be made in cash or stock to the staff of this Company and its subsidiaries in accordance with the laws. The distribution of the staff remuneration and directors' remuneration shall be approved by majority of the directors at the Board attended by at least two third directors.

The Company may distribute earnings according to the distribution plan proposed by the Board and approved by an Ordinary Resolution, unless provided otherwise in the Articles. The Board shall set aside out of the earnings of the Company for each financial year in the following orders:

- (1) payment of tax for the relevant financial year;
- (2) an offset of its losses in previous years that have not been previously offset; and
- (3) special capital reserve, if it is required in accordance with the Applicable Listing Rules or as required by the competent authorities.

Subject to the aforesaid, if there are any remaining earnings for each fiscal year (the “Remaining Earnings”), such Remaining Earnings plus all accumulative and undistributed profits from previous years shall be the distributable profits of the Company. The business of the Company is in a mature industry, and the Board may consider factors of financial conditions, business and operation, etc. of the Company, to propose distribute plan relating to dividends/bonus distribution after the shareholders’ approval. The dividends/bonus distribution to the Shareholders under this clause shall not be less than 30% of the Remaining Earnings, and the cash dividend shall not be less than 50% of the total dividends/bonus distribution and the remaining distribution may be in stock dividends.

2. Status of the Proposed (Confirmed) dividend distribution is as follows:

The Company’s 2017 dividend distribution plan has been approved by the Board on 23 February 2018, cash dividend payable to distribute at NT\$0.70 per share.

(g) Impact to Business Performance and EPS resulting from Stock Dividend Distribution: Not applicable.

(h) Staff and Directors’ Remuneration

1. The percentage or range of remuneration for staff and directors as set out in the Articles of Association:

In accordance with Article 117 of the Articles of Association of the Company

Where the Company has profits for the year, it should appropriate 1%~15% as remuneration for staff and not more than 2% as remuneration for directors. However, if the Company has accumulated losses, such amount should be retained to cover the losses first. Staff remuneration may be made in cash or stock and may be given to staff of affiliated companies in accordance with laws. The distribution of staff and directors’ remuneration should be approved by majority vote of directors present at a Board meeting attended by over two thirds of directors.

2. The accounting treatment in respect of any difference between actual distribution amount and the estimated amount of staff and directors’ remuneration and calculation basis of bonus shares.

The estimated staff remuneration and remuneration of directors for the period was determined based on the requirements of the Articles of Association and was approved by the Board on 23 February 2018. There was no difference on the actual amount paid.

3. The distribution of remuneration as approved by the Board:

(1) The amounts of remuneration for staff and directors in cash or stock. In case there is difference between them and the estimated amount for the year of recognition, the amount, cause and handling of the difference should be disclosed.

On 23 February 2018, the Board approved the proposal to distribute staff and directors’ remuneration of NT\$3,486 thousand and NT\$3,401 thousand respectively, which will all be made in cash.

(2) The amount of staff remuneration made in stock and as a percentage of the net profit after tax of the individual or separate financial statement for the current period and aggregated total of staff remuneration: Nil

4. Reporting of the situation and result of remuneration distribution at general meeting: The Company expects to hold a general meeting on 11 June 2018 to report the situation and result of remuneration distribution.

5. The actual distribution of staff and directors' remuneration for the previous year (including number of shares and amount distributed and share price). In case there is difference between them and the staff and directors' remuneration recognised, specify the amount, cause and handling of the difference:

Under the 2016 dividend distribution plan of the Company, in accordance with the Articles of Association, cash dividend of NT\$68,267 thousand (NT\$1.11 per share) was distributed to shareholders, remuneration of approximately NT\$11,869 thousand was distributed to staff and NT\$3,929 thousand was distributed to directors. Such distribution was approved by resolution at the general meeting held on 8 June 2017. There is no difference between them and the distribution amounts proposed by the Board.

5. OPERATIONAL HIGHLIGHTS

5.1 Business Activities

(a) Scope

1. Principal Business

The Company is principally engaged in the design, manufacturing and sales of high-end/smart speakers, speaker systems, audio/video electronic home entertainment systems and earphones; research and development of system architecture/new product concepts/state-of-the-art products and sound and acoustic advance technology.

2. Key Products and Proportion to Turnover

Unit: NT\$'000

Item	Year	2016		2017	
		Amount	%	Amount	%
Speakers and Audio products with Electronics		3,423,002	52.91	4,841,885	62.93
Traditional Speakers		1,176,913	18.19	1,036,078	13.47
Wireless Speakers		272,996	4.22	283,905	3.69
Premium Speakers		278,867	4.31	220,315	2.86
Earphones		598,850	9.26	601,295	7.81
Others (Note)		718,415	1.11	710,795	9.24
Total		6,469,043	100.00	7,694,273	100.00

Note: Others include CKD (speaker units, speaker components, plastic parts, semi products) and molds.

3. Existing Products (Services) of the Company

Speakers and Audio products with Electronics	DVD HTiB, Sound Bars, Multimedia Speaker, Premium Speaker, Wired Music Center, DVD Music Center
Traditional Speakers	HTiB, Music Center Speaker
Wireless Speakers	Voice User Interface AI Audio Systems, Audio Wireless Transmission (including Bluetooth [®] , AirPlay & Wi-Fi etc.) on Speaker Systems, Light Speaker, Wireless Multi-room System for home environment.
Premium Speakers	Premium Speakers Driver, Car Speaker
Earphones	Stereo canal earphones, headsets, earphones for mobile phones, stereo in-ear earphones, and Bluetooth [®] wireless earphones

4. New products developed

1. Speakers and Audio Products with Electronics:

Dolby Atmos GenII Sound Bars, Sound Bars with Alexa.

2. Traditional Speakers:

Speaker systems with Electronics, Double suspensions Speakers and Double magnets high efficiency Speakers, Level II (Designed in Denmark) transducers range.

3. Wireless Speakers

Voice User Interface AI Audio Systems, IPX7(water proof) Bluetooth® Speakers, Dolby Audio Portable Speakers, Multi-room Wi-Fi Speakers。

4. Premium Speakers

Audio Video Receiver and High Power Speaker Box

5. Earphones:

Wireless stereo earphones, Digital high resolution Active Noise cancellation stereo earphones, High resolution stereo earphones, Bluetooth® with Active Noise cancellation earphones, High resolution speaker units, IPX4 sport type Bluetooth® earphones, Patented Coaxial speaker unit earphones, Patented radiator earphones, Patented 3-way speaker unit headphones, High resolution headphones, gaming headphone, Bluetooth® earphones, development of touch Bluetooth® earphones with noise cancellation technology of Digital Signal Processor and Clear Voice Capture, Voice enabled earphones.

(b) Industry Overview

1. Current Industry Status and Development

The Company is a holding company incorporated in Cayman Islands in February 2011. Its operating subsidiaries are principally engaged in the research and development, manufacturing and sales of speaker systems, earphones and audio/video electronics. Its products are mainly applied in electronic consumer products like home theatre, home audio sets, computer and digital audio players, mobile phones, etc. and are classified as the industry of audio/video electronics product manufacturing according to the industrial product classification of Ministry of Economic Affairs, Taiwan.

(1) Speaker Systems and Audio/Video Systems

With more than 70 years of history, the speaker industry is also known as electro-acoustic industry, and a speaker is a convertor which converts electric signals to audio signals, representing a key component in the output end of an audio/video electronic product. All wonderful sounds of human beings are converted which has extensive applications such as home theatre, multimedia computer, car audio, etc. Set out below is the description of the key products of the Company: home audio/video systems, premium speakers systems, audio/video systems and earphones:

A. Home Audio/Video Systems

Home audio/video systems, being a key product of the Company, is an inevitable component in the sound output end of home audio/video type of product. The development of which is described as follows:

Since slim case is a definite trend for LED TV and Smart TV and the speakers in traditional TV cannot perform multi-channel surround sound due to structural limitation, external high quality sound system is naturally the best partner for HDTV and accessories. Therefore, the market demand for sound bards of home theater is growing rapidly.

B. Premium Speaker Systems

The unremitting pursuit of perfect sound by top customers in the market and the general rise in living standard are driving the demand for high quality speakers. Premium speakers have become a must for transforming public and private premises into high-end environments. Major car manufacturers also see premium speakers as a differentiating feature for high-end cars.

C. Audio/Video Systems

According to surveys, the product R&D and marketing strategy of audios and home theater still focus on innovation, hi-tech and design. Through featuring digital network, resource sharing and diversified entertainment, audios and home theater have entered a new era of “enjoying audio”.

In recent years, with thriving development of personal smart networking devices and streaming music, wireless audio system focusing on personalization and miniaturization has been the main stream of audio market. Product design not only needs to consider the demand for functionality, but also needs to take into account visual aesthetics of home and lifestyle. It needs to uphold the environmental protection concept of natural ecosystem and naturalistic aesthetics by using natural materials and elements. Various colors shall be available for choice, which makes personal audio system not only an aural delight, but also integrates into existing living environment to be a symbol of lifestyle. It will be a new trend for audio market.

D. Voice User Interface AI Audio Systems

Voice recognition will be the primary interactive interface for IoT devices, smart home devices, autonomous driving, robotics and AI service applications in future. As much more information is accumulated using virtual personal assistants (VPA), IoT and other similar devices will become smarter. AI, Deep Learning and Machine Learning require a huge ecosystem to provide and accumulate mass data while wireless speakers play an important role. We believe that the potential market for VPA-enabled wireless speakers will expand in large scale in the coming years, and that smart audio will take the form of a centralized voice input device in a seamlessly connected environment which facilitates the management of voice commands and control of all home automation devices. The growth of home acoustics products will be mainly driven by wireless audio. Voice control has become the largest point-of-purchase over the past 15 years and will experience leapfrog growth in the coming years.

(2) Earphones

Being an inevitable component in output end of mobile audio/video players, earphones, the key product of the Company, is comprised of four parts: head band holder, ear piece, cable and plug and speaker (left and right audio units). Over the recent years, with the rapid development of tablets and smart phones, earphones as one of the portable auxiliary equipment is becoming main concern of consumers and the demand for the design and quality of which is getting higher. Earphones can be classified as four kinds, circumaural, in-ear, supra-aural and canal, based on its design and functions.

2. Development Trend and Competition of Products

(1) Development Trend of Products

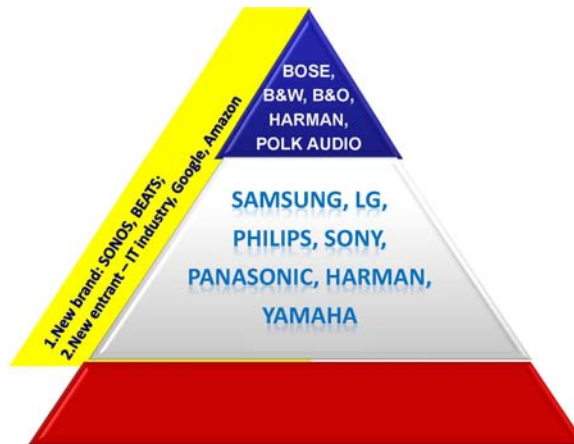
Speaker Systems and Audio/Video Systems

Over the latest few decades, the industry reached breakthrough in terms of use of materials and prototyping technology and the development was relatively slow. For the recent years, the rapid evolvement of digitalization and networking, and the popularity of portable electronic consumer products namely LED TV, DVD Blu-ray player, notebook, tablet computer, MP3 music player and smart phones have drastically changed the demand of consumer for audio of video entertainment. To cater for the consumers' demand for audio/video experience, the whole speaker industry is under considerable transformation. Different kinds of speaker systems are unveiled in line with the transformation of the downstream electronic consumer products. As such, the life cycle of product is diminished, the technologies of speaker products and electronic digital system integrate, and the industry is developing towards multi-functions, wireless, chic style and miniature in size.

In the past, audio products have been supplied by Driver and Loader. Recently, however, it has been gradually shifted to the mode of supply by wireless transmission or by download. The size of main-unit is greatly reduced. This trend has enabled the shift to product unification of main unit and speakers from the separation installation of main unit and speakers. The size of sound products are reduced but the popularity among customers is greatly enhanced. The smart speakers with voice as an interface and with connection with the Cloud become household intelligent assistant. This type of product will grow at a high speed.

As for the OEM industry in which the Company engages, Amazon's Echo is a dark horse, which redefines speaker and pose great threat. However, it also represents an opportunity in contrast. With the success of Echo, speaker has become a component of smart home settings. There are several rooms in a house. Each room needs different speaker, depending on the functionality of speaker, preference of the owner and the environment. In living room, quality stereo speaker may be preferred; in bathroom, moisture and water proof speaker may be the best choice; in balcony and kitchen, which are usually noisy, it may need a loud speaker...Echo cannot satisfy all these special needs, in which are the proficiency of traditional speaker manufacturers. Given that smart speaker with voice control function has been preliminarily accepted by the market, it represents a commercial opportunity for the Company to engage in non-traditional OEM business, though there is increasing number of non-traditional OEM competitors from IT industry.





Earphones

In the development of the earphones business, intelligent earphones will be a focus in the future. Digitalized transmission of the earphones enables more and bigger data to be transmitted to the earphones and transmits them faster and with less distortion, enhancing the function and sound quality of playback. Furthermore, personal biological information may be transmitted back to the mobile phone which greatly widens the functions of earphones.

As for AirPods[®], smart earphones produced by Apple Inc., it targets at the rigid demand of wireless earphones with smart added-value. What the surprise of Apple caused may start from these smart earphones, which have far-reaching influence. According to a study in China Industrial Information Website, the global headphone market is growing steadily and the market landscape is changing. Excluding those offered together with mobile phones as gift, the sales of headphone will reach 460 million units by 2023, with an average compound annual growth rate of 3.9%. With steady growth of global headphone shipment, the headphone industry is gradually upgrading, in particular, the wired headphone is replaced with wireless headphone, the proportion of Bluetooth[®] headphone increases and the headset becomes smarter. According to statistics of NPD, Bluetooth[®] headphone accounted for 17% in the U.S. in terms of units but sales growth reached 54% in 2016, surpassing the sales value of wired headsets for the first time. At the end of the same year, Apple launched AirPods, the Bluetooth[®] wireless smart headphone, which further accelerated the development progress of headphones. According to statistics, the market size of smart headphones led by AirPods will reach USD 16 billion by 2020 and maintain a high growth rate. Although the market share of Bluetooth[®] wireless headphones is still relatively small at the initial stage, with the development of signal transmission technology, the portability of wireless headphones, the hole-free and wireless charging technology of iPhones, the market of Bluetooth[®] wireless headphones will grow rapidly in future, and it is pretty sure that Bluetooth[®] wireless headphone will become the main force driving the growth of the headphone market.

(2) Competition

Speaker Systems and Audio/Video Electronics Systems

Even since its invention, the principle of speaker has no significant change. It is structurally comprised of three sections: vibration system, magnetic loop and main body. Over long-term history, the speaker manufacturing industry has reached mature development stage. There is complete supporting system for raw materials and it is a labour intensive industry. Product

competitiveness depends on the manufacturing technology and cost. Overall, it is not difficult to enter into the industry and thus there are numerous vendors and many small plants. A relatively significant investment has to be injected to plants, machineries and equipment, capital injection is therefore a barrier of entrance for small vendor. New players have less advantage in terms of production technology, research and development, which also hinders their entrance into the market. Competition of the industry has two opposite extremes. While large-scaled vendors have mature technology and expanded equipment to easily reach scale of economy, the small vendors or new players are hard to keep abreast of their development. Besides, the OEM order taking nature of the industry results to intense price competition and vendors need to obtain higher margin by cost control, product differentiation and value adding. Under such vigorous competition, “the bigger one gets bigger” becomes a development norm of the industry. Only big vendors with high management efficiency and continuous new innovations can standstill amid intense competition and strengthen its position as long-term supplier in the market.

By virtue of our capabilities in cost control, product differentiation and creation of higher value in the traditional speakers industry, the Company has become the world’s leading speaker systems and audio/video electronics systems OEM and ODM manufacturers with the customers who are the top five brands in the industry, outpacing other industry players.

Earphones

The demand for earphones has been growing following the popularity of smartphone and functional innovations. Such huge opportunities also attract massive competition. As the earphones division of the Company is of middle size, facing the competition of large competitors, the Company maintains good relationship with existing clients through flexible and customized services, and secures the growth of business and client orders with extensive R&D in earphones technologies.

(c) Technology, Research and Development (“R&D”)

1. R&D Personnel and their Qualification

Unit: No. of individuals

Item		Year		
		2016	2017	As at 31 March 2018
Education Background Distribution	Doctoral	-	-	-
	Postgraduate	2	4	3
	Degree/Professional	160	168	164
	Senior High School	55	50	51
	Lower than Senior High School	48	45	48

2. R&D expenses and its percentage to net turnover for the latest two years and as of the recent quarter.

Unit: NT\$'000; %

Year	2016	2017
R&D Expenses (A)	273,408	281,860
Net Revenues (B)	6,469,043	7,694,273
The Proportion of R&D Expenses %=(A)/(B)	4.23	3.66

(d) Long Term Development Strategies and Plans

1. R&D Strategies and Plans

Developing light in size, portable speaker is a market trend for young consumers group, while design of speaker driver needs to be improved by using new materials or amending structure in order to enhance audio quality. And make use of the technology of the world-class transducer brand SCAN-SPEAK from its subsidiary in Denmark, research and development of high-quality low-cost transducer so as to introduce a high-priced low-cost competitive advantage for the Group.

Besides, the system functions must be innovative. In addition to basic Bluetooth® wireless connection, the function key should no longer operate by touch screen function, therefore, it is planned to develop non-traditional way to operate function keys like acoustic control or motion sensor, so as to enhance trendy style of the speaker.

Audio unit forms part of home entertainment systems, its outlook must fit well with the overall furnishing and style of users' decoration. Therefore, we will allocate resources on breakthroughs of sound box materials, so as to satisfy users with refreshing and harmonized designs.

In respect to the earphones products, the Company will actively promote the possession of more than 30 patents and cooperate with our clients so as to achieve win-win situations for maximizing the profits.

2. Production Strategies and Plans

A. Establishing long-term partnership with customers by providing reliable quality products so that they can focus on market development.

B. Transforming from high labour-intensive production to low labour intensive production and from physical labour to intelligent labour by using automatic equipment and through product transformation.

C. Strengthening the R&D centres in Shenzhen, Taiwan and Huiyang so as to support the engineering development capabilities of the plants.

3. Operational and Financial Strategies and Plans

A. Promoting the idea of internationalization and strengthening the management capability, while at the same time recruiting different talents, so as to reach excellent standards in terms of R&D, production, marketing, sales and operation management.

B. Reinforcing risk control to realize the operation vision of stability, high efficiency and adequate flexibility.

C. Upholding its target of delivering exquisite audio experience to global consumers, continuing to pay effort on technology improvement and cost effectiveness, in order to provide products and services with maximum market value to branded customers. While expanding the traditional OEM speaker and earphones markets, it actively develops the markets of high-end speaker systems, car speaker systems and electronics speaker systems.

5.2 Market and Sales Overview

Market Analysis

1. Regions of Major Product Sales (Service Provision)

Unit: NT\$'000

Year \ Regions	2016		2017	
	Amount	Ratio (%)	Amount	Ratio (%)
China (Note)	3,266,108	50.49	4,052,622	52.67
Hong Kong	1,471,984	22.75	1,324,989	17.22
Japan	610,597	9.44	560,757	7.29
Brazil	26,686	0.41	27,791	0.36
Others	1,096,668	16.91	1,728,114	22.46
Total	6,469,043	100.00	7,694,273	100.00

Note: Including indirect export

2. Competition Niche

(1) Maintaining Friendly Cooperation Relationship with the World's Branded Enterprises

EASTECH participates in the early development of customers with its outstanding and professional design, from design, development to manufacturing. It has obtained recognition from the world's branded enterprises like European Company P, Japanese Company S, Korean Companies L and Company S. Apart from the long-term relationship, the excellent customer services and product quality help EASTECH enhance the relationship with clients from purchase and sale to partnership in new product R&D. With strong relationship over the decades with the branded enterprises, the Company possesses competitive advantage in exploring new clients and competitors are hard to replace the market position of the Company. Currently, the world's top five audio brands have all become strategic partner of EASTECH.

(2) Strong R&D Capability

In the recent years, the Company actively participates in the R&D of different fields such as digitalization, network music, new broadcasting method and wireless application so as to cope with the market trend and technology. After many years of development, the Company's R&D department has a team with clear duty allocation and strong capability in the R&D of acoustic, electronic, structural devices and software/hardware, and has built up development foundation for digitalization and wireless broadcasting. Thus, it can swiftly commence design and development upon receipt of the clients' OEM/ODM proposals. The Company set up research and development centres in Taiwan, Shenzhen and Huiyang to attract more professionals.

(3) Scale of Economy

Being a large enterprise specializing in the production of speaker systems, the Company has its own R&D, design and production capability, thereby it is able to maintain long-term and stable cooperation relationship with branded enterprises and meet their demand. The Company also enjoys scale of economy in terms of raw material procurement and product manufacturing, and can effectively control cost and maintain profitability amid soaring raw material prices.

(4) Development of Product Line in Conformity with Market Trend

Development of International new high technologies like micro-electronic technology, digital compressing, compiling and decoding technology, large storage technology and computers, especially digital compressing technology, are becoming mature and standardized, and applied in large-sized circuits, thereby considerably boosting digitalization of electronic consumer products. Digitalization technology can be widely used in various fields, and with the popularity of network, combining the technology with electronic consumer products, computers, communication devices is a definite trend. Therefore, stereo products are becoming digitalized, multi-functional, networking, intelligent and light in size. To cope with this trend, the Company has the R&D capability of electronic system-integrated speaker systems and will continue to inject resources and explore new product lines so as to keep abreast of music digitalization and networking trend. Beside, in light of the growing concern of environmental protection, the Company has also complied with the environmental protection policies announced by EU and US to produce environmental friendly products, enabling the Company to become green partners with international enterprises.

5.3 Number of Employees for the latest two years and as at the date of issue of Annual Report

Unit: individual; %

		Year		
		2016	2017	As at 31 March 2018
No. of individual				
No. of employees	Management (Note)	30	49	43
	Production	1,796	1,505	2,118
	General	1,385	1,484	1,269
	Total	3,211	3,038	3,430
Average age		34.48	36.23	39.85
Average years of service		5.91	6.53	5.65
Academic Qualification (%)	Doctoral	0.00	0.00	0.00
	Master	0.31	0.82	0.70
	Degree/Professional	12.64	9.71	8.45
	Senior High School	20.18	20.51	17.46
	Below Senior High School	66.86	68.96	73.38

Note: Manager represents officers of senior level or above.

5.4 Environmental Protection Expenditure

Description for the latest two years and as of the issue date of this annual report, losses suffered due to pollution (including compensation), total amount of fines, and the future responsive measures (including improvement measures) and possible expenditure (including estimated amount of fines and compensations that may incurred before implementing responsive measures, in case the amount cannot be reasonably estimated, explanation of the reason): Nil

5.5 Labour Relationship

Employees' benefits, continuous academic development, trainings, pension system and their implementation, and any agreement between employer and employee and measures to safeguard employees' rights:

Employee benefit, learning, training, retiring systems and their implementation, and labour agreements and employee interest protection measures.

(1) Employees' Benefits

Human resources are the most valuable asset of the Company. In order to create a comfortable working environment to ensure concentration of work of the employees, the Company provides benefits according the requirements of local labour law and set up labour union which is responsible for the planning and execution of the benefits and facilitates positive development of the human resources of the Company. Currently, the benefits provided by the Company are as follows:

- A. The Company implements employee benefit initiatives regularly and maintains employee insurance in accordance with local laws.
- B. Human-oriented promotion and transfer policies as well as effective bonus incentive scheme.
- C. Recreational activities are held.
- D. School fee subsidies for children of factory employees studying in the Xiu De Chinese – Anglo Kindergarten.
- E. Factory canteen provides nutritious and hygienic food for employees.

(2) Continuous Academic Development and Training

Talents are the key to maintain core competitiveness of the Company, and continuous academic development and trainings can help to inspire one's potential, enrich knowledge, lead to effective utilization of human resources, thereby improving the Company's operating results on the whole and achieving the goals of the Company. There are two ways in this regards:

A. Orientation Training:

Orientation programme will be provided to new employees before reporting duty, which includes basic knowledge like brief introduction to the Company and the organization, employees' discipline, regulations of the Company, etc.

Introduction is made by personnel department to new employees on the first day of their reporting for duty, which includes employee regulations and benefits. Pre-employment training aims to help new employees to know the working environment and prepare them for their job.

B. On-the-job Training:

The Company will formulate an open programme for the next year by the end of each year, which includes internal and external trainings. For internal trainings, the Company may appoint internal lecturers or external professionals to teach the relevant knowledge; while for the external trainings, the Company will appoint professional institutes like management consultancy company to design the training programme.

(3) Pension System and its Execution:

For the subsidiary in Taiwan, it has formulated the employee retirement programs according to "Labour Standards Act" and set up Pension Reserve Monitoring Committee by the local regulations. The subsidiary is required to allocate monthly allocation of reserves for labour retirement and deposit them at the special account of the Bank of Taiwan under the title of the Committee. The Committee is responsible for managing and utilizing the reserve for retirement.

With effective from 1 July 2005, pursuant to the implementation of “Labour Standards Act” in Taiwan (hereinafter referred to as “new system”), the years of services after selecting the new system for existing staff or newly employed staff will be shifted to defined contribution plan. The Company will contribute a statutory percentage of payroll costs as the retirement fund on monthly basis and deposit them to Personal Employee Retirement Fund Account. The employees may select to contribute 0~6% of their monthly payroll costs to their Personal Employee Retirement Fund Account. When the employees meet the statutory retirement age, they can apply to get monthly pension or one-time pension with the government.

The Group maintains a Mandatory Provident Fund Scheme (the “MPF Scheme”), according to the Mandatory Provident Fund Schemes Ordinance for its employees of the subsidiaries in Hong Kong. MPF is an employment-based retirement protection system, the Company and the employees are each required to make regular mandatory contributions with a specified percentage of payroll costs to the Personal Employee Retirement Fund Account. Employees are free to make voluntary contributions in addition to mandatory contributions.

To comply with the pension scheme requirements in the PRC, subsidiaries of the Group in PRC are required to contribute a specified percentage of payroll costs to the retirement plans operated by the relevant local authorities of the PRC.

(4) Agreement between employer and employee and measures to safeguard employees’ rights:

In addition to complying with relevant laws and regulations, the Company has prepared the “Employee Handbook” to govern the right and interest of the employee and the Company. Contravening issues or matters will be discussed in meeting convened by department heads. Employees may express their opinion directly through the suggestion box or other proper channels.

6. FINANCIAL INFORMATION

6.1 The Most Recent Five-Year Financial Summary

(a) Condensed Balance Sheets and Statements of Comprehensive Income

1. Condensed Balance Sheets

Unit: NTD'000

Item	Year	Financial Information of the Latest Five Years					As at 31 March 2018
		2013	2014	2015	2016	2017	
Current Assets		2,165,173	2,398,124	3,280,555	2,841,601	3,437,400	3,356,605
Property, plant and equipment		507,811	563,432	1,205,589	976,413	814,687	799,091
Intangible Assets		13,713	237,093	204,873	211,279	248,618	266,619
Other Assets		17,516	18,194	204,205	198,687	189,769	207,769
Total Assets		2,704,213	3,216,843	4,895,222	4,227,980	4,690,474	4,630,084
Current Liabilities	Before distribution	578,444	972,760	2,613,568	2,431,373	2,955,466	2,983,421
	After distribution	882,194	1,276,510	2,917,318	2,614,379	3,023,733	2,983,421
Non-current Liabilities		8,381	96,708	309,355	151,920	134,692	2,983,421
Total Liabilities	Before distribution	586,825	1,069,468	2,922,923	2,583,293	3,090,158	3,114,432
	After distribution	890,575	1,373,218	3,226,673	2,766,299	3,158,425	3,114,432
Equity Attributable to Parent Company		1,813,638	1,843,625	1,668,549	1,461,681	1,532,049	1,515,652
Share Capital		607,500	607,500	610,020	615,020	619,860	619,670
Capital Reserve		729,815	729,815	744,831	756,922	766,834	766,426
Retained Earnings	Before distribution	684,768	642,019	568,647	379,009	305,043	176,652
	After distribution	381,018	338,269	264,897	196,093	236,776	176,652
Other Equity		95,305	168,041	89,472	(65,683)	(50,750)	(6,425)
Treasury Shares		-	-	(40,671)	(40,671)	(40,671)	(40,671)
Non-controlling Interests		-	-	-	-	-	-
Total Equity	Before distribution	2,117,388	2,147,375	1,972,299	1,644,687	1,600,316	1,515,652
	After distribution	1,813,638	1,843,625	1,668,549	1,461,681	1,532,049	1,515,652

Source: Audited consolidated financial statements from 2013 to 2017 and reviewed consolidated financial statements for the period ended 31 March 2018.

2. Condensed Statements of Comprehensive Income

Unit: NTD'000

Item \ Year	Financial Information of the Latest Five Years					2018 Q1
	2013	2014	2015	2016	2017	
Sales	5,219,379	5,685,347	8,166,474	6,469,043	7,694,273	1,783,255
Gross Profit	790,929	902,509	1,232,812	1,005,744	857,091	151,682
Operating Profit and Loss (Note 2)	361,559	295,368	212,014	106,224	1,390	(42,696)
Non-operating Income and Expense	16,094	22,191	88,965	87,082	163,318	(25,503)
Net Profit (Loss) Before Tax	377,653	317,559	300,979	193,306	164,708	(68,199)
Continuing Operations Net Profit (Loss) for the period	328,876	264,652	255,274	133,932	124,944	(77,682)
Loss from Discontinued Operations	-	-	-	-	-	-
Net Profit (Loss) for the period	328,876	264,652	255,274	133,932	124,944	(77,682)
Other Comprehensive Profit and Loss (Net Amount After Tax) for the period	81,896	69,085	(90,421)	(163,142)	5,107	41,387
Total Consolidated Profit and Loss for the period	410,772	333,737	164,853	(29,210)	130,051	(36,295)
Net Profit and Loss Attributable to Owners of the Parent Company	328,876	264,652	255,274	133,932	124,944	(77,682)
Net Profit Attributable to non-controlling interests	-	-	-	-	-	-
Total Comprehensive Profit and Loss Attributable to Owners of the Parent Company	410,772	333,737	164,853	(29,210)	130,051	(36,295)
Total Comprehensive Profit and Loss Attributable to non-controlling interests	-	-	-	-	-	-
Earnings per share (Note 1)	5.41	4.36	4.23	2.22	2.05	(1.27)

Source: Audited consolidated financial statements from 2013 to 2017 and reviewed consolidated financial statements for the period ended 31 March 2018.

Note 1: Earnings per share for the year 2013 and 2014 were based on the weighted average shares of the Company of 60,750 thousand; earnings per share for year 2015 were based on the weighted average shares of the Company of 60,393 thousand; earnings per share for year 2016 were based on the weighted average shares of the Company of 60,270 thousand;

earnings per share for year 2017 were based on the weighted average shares of the Company of 60,807 thousand and the earnings per share for the first quarter of 2018 were based on the weighted average shares of the Company of 61,226 thousand.

Note 2: Operating (loss) profit was measured based on gross operating profit – marketing expenses – general and administrative expenses.

3. Simplified Balance Sheet – Taiwan Financial Reporting Standards: Not applicable

4. Simplified Profit and Loss Statement – Taiwan Financial Reporting Standards: Not applicable

(b) Any significant event that may affect the consistency and comparability of the said condensed financial statements, such as change of accounting policies, mergers or cease of operation, and resulting effect to the financial statements for the year: Nil

(c) Name of the certified public accountants and their opinion for the latest five years

1. Name of the certified public accountants and their opinion for the latest five years

Year	Certified Public Accountants	Accounting firm	Opinion
2013	Shih, Chin-Chuan, Lai, Kwan-Chung	Deloitte & Touche	Modified but unqualified
2014	Shih, Chin-Chuan, Lai, Kwan-Chung	Deloitte & Touche	Modified but unqualified
2015	Shih, Chin-Chuan, Lai, Kwan-Chung	Deloitte & Touche	Modified but unqualified
2016	Lai, Kwan-Chung Liu, Shu-Lin	Deloitte & Touche	Unqualified opinion with emphasis-of-matter paragraph
2017	Lai, Kwan-Chung Liu, Shu-Lin	Deloitte & Touche	Unqualified opinion with emphasis-of-matter paragraph

2. If there was any change of auditor for the latest five years, the Company, the former and successive auditors shall state the reason for the same: Not applicable

6.2 The Most Recent Five-Year Financial Analysis

1. Five-Year Financial Analysis – International Financial Reporting Standards

Analysis Item		Financial Information of the Latest Five Years					As at 31 March 2018
		2013	2014	2015	2016	2017	
Financial Structure (%)	Debt ratio	32.93	42.69	65.91	65.43	67.34	67.27
	Ratio of long term capital to property, plant and equipment	357.15	344.38	164.06	165.26	204.59	206.07
Solvency (%)	Liquidity rate	245.43	187.87	112.45	108.69	113.68	112.51
	Quick ratio	208.08	151.21	87.84	85.48	86.71	79.39
	Interest protection multiples	47,207.63	97.96	12.55	7.63	6.75	(7.38)
Operating Capability	Turnover of receivables (times)	5.52	5.56	6.08	4.92	5.46	4.38
	Average cash collection days	66	66	60	74	66	83
	Inventory turnover (times)	14.57	14.65	14.23	9.42	11.25	8.63
	Turnover of payables (times)	6.12	5.56	5.76	4.15	4.75	4.09
	Average sales days	25	25	26	39	32	42
	Turnover of property, plant and equipment (times)	10.28	10.09	6.77	6.63	9.44	8.93
	Total assets turnover (times)	1.93	1.77	1.67	1.53	1.64	1.54
Profitability	Return on equity (%)	12.11	9.02	6.85	3.49	3.36	(6.05)
	Percentage to equity (%)	18.68	14.47	14.54	8.56	8.35	(20.39)
	Net income before tax to paid-in capital (%)	62.17	52.27	49.34	31.43	26.57	(44.02)
	Net income to sales (%)	6.30	4.65	3.13	2.07	1.62	(4.36)
	Earnings per share (NT\$) (Note 2)	5.41	4.36	4.23	2.22	2.05	(1.27)
Cash Flow	Cash flow rate (%)	62.31	19.50	22.48	24.51	(7.74)	(5.34)
	Rate of cash and cash equivalent (%)	91.33	83.38	90.04	118.24	108.89	Note 1
	Cash investment rate (%)	9.57	(2.00)	12.20	17.76	(11.13)	(5.79)
Leverage	Operating leverage	1.19	1.33	2.06	3.16	161.58	(0.27)
	Financial leverage	1.00	1.01	1.14	1.38	(0.05)	0.84

Analysis of the 20% change in certain financial ratios in the past two years:

- As the net equity by the end of 2017 was higher than that of 2016 and the depreciation charge for properties, plant and equipment was higher than the acquisition cost, properties, plant and equipment for 2017, the properties, plant and equipment by the end of 2017 were lower than that of 2016. Given the above factors, the long-term capital to properties, plant and equipment ratio increased to 204.59% in 2017.
- Because of the significant increase of sales revenue for 2017 as compared with last year and the decrease of properties, plant and equipment by the end of 2017 as compared with that of 2016 as mentioned in 1 above, turnover of properties, plant and equipment increased to 9.44 (times).
- Impacted by the decrease in gross profit margin as a result of the product mix and increase in raw materials costs, gross profit decreased significantly. Such decrease was larger than the decrease in total expenses and increase in non-operating income, resulting in a decrease in

consolidated net profit as compared with 2016 and a decrease in net profit margin to 1.62%.

4. As the operating profit for 2017 was lower than last year significantly, actual operating cash flow decreased. In addition, as the sales revenue for the fourth quarter of 2017 was higher than the same period in last year, accounts receivable and notes receivable and inventory increased significantly as compared with the end of last year and such increase was higher than the increase in accounts payable which resulted in a decrease in actual operating cash flow and the fact that both cash flow rate and cash reinvestment rate turned negative.
5. Impacted by the decrease in gross profit margin as a result of the product mix and increase in raw materials costs, gross profit decreased significantly. The operating gain decreased significantly as compared with the same period of last year, which resulted in an increase in operating leverage to 161.58. In addition, as the interest expense was higher than operating profit, financial leverage turned negative.

Note 1: In 2018, net cash flow was only recorded in the first quarter. Thus, rate of cash and cash equivalent was not calculated.

Note 2: Earnings per share for the year 2013 and 2014 were based on the weighted average shares of the Company of 60,750 thousand; earnings per share for year 2015 were based on the weighted average shares of the Company of 60,393 thousand; earnings per share for year 2016 were based on the weighted average shares of the Company of 60,270 thousand; earnings per share for year 2017 were based on the weighted average shares of the Company of 60,807 thousand and earnings per share for the first quarter of 2018 were based on the weighted average shares of the Company of 61,226 thousand.

Note 3: Financial Analysis Formula

1. Financial Structure

- (1) Debt ratio = total liabilities / total assets.
- (2) Ratio of long term capital to property, plant and equipment = (total equity + non-current liabilities) / property, plant and equipment, net.

2. Solvency

- (1) Liquidity ratio = current assets / current liabilities.
- (2) Quick ratio = (current assets – inventories – prepayment) / current liabilities.
- (3) Interest protection multiple = net profit before income tax and interests / interest paid for the period.

3. Operating Capability

- (1) Receivables (including trade receivables and bill receivables arising from operation) turnover = net sales / balance of average receivables (including trade receivables and bill receivables arising from operation) for each period.
- (2) Average cash collection day = 365 / receivables turnover.
- (3) Inventory turnover = cost of sales / average inventory.
- (4) Payables (including trade payables and bill payable arising from operation) turnover = cost of sales / average payables (including trade payables and bill payables arising from operation) for each period.
- (5) Average inventory turnover day = 365 / inventory turnover.
- (6) Turnover of property, plant and equipment = net sales / average equity of property, plant and equipment.
- (7) Total assets turnover = net sales / average total assets.

4. Profitability

- (1) Return on asset = [profit or loss after tax + interest expenses x (1- tax rate)] / average total assets.
- (2) Return on equity = profit or loss after tax / average total equity.

- (3) Net income to sales = profit or loss after tax / net sales.
- (4) Earnings per share = (profit or loss attributable to owners of the parent company – special dividend) / weighted average number of shares issued.

5. Cash Flow

- (1) Cash flow rate = net cash flow from operating activities / current liabilities.
- (2) Ratio of cash and cash equivalent = net cash flow generating from operating activities for the latest five years / (capital expenditure + increase in inventory + cash dividend) for the latest five years.
- (3) Cash investment ratio = (net cash inflow from operating activities – cash dividend) / (gross value of property, plant and equipment + long term investment + other non-current assets + working capital).

6. Leverage

- (1) Operating leverage = (net operating income – movement on operating cost and expenses) / operating profit.
- (2) Financial leverage = operating profit / (operating profit – interest expenses).

Note 4: The following shall be considered in assessing the equation for earnings per share (EPS) as aforementioned:

- 1. Weighted average quantity of shares is on the basis of common stock, not the outstanding shares as of the end of the year.
- 2. The quantity of new shares for raising new capital or treasury stock trade shall be included in the weighted average quantity of shares during their effective term.
- 3. Where the shares may be issued through the capitalization of retained earnings or capital surplus, make adjustment in proportion to the quantity of shares issued in calculating the semi-annual or annual EPS of the year. The period for the release of such new shares may be omitted.
- 4. If the preferred stock is non-convertible cumulative preferred stocks, dividend for the year (issued or not) shall be subtracted from net profit after tax or added to net loss after tax. If the preferred stock is not cumulative, dividend thereon shall be subtracted from net profit after tax if net profit after tax is earned, or no adjustment is required if loss arises.

Note 5: Consider the followings in conducting cash flow analysis:

- 1. Net cash flow from operating activities refers to net cash inflow from operating activities as stated in the Statement of Cash Flow.
- 2. Capital expenditure refers to the cash outflow to annual capital investments.
- 3. The increase in inventory is included only when the balance at the ending is more than that at beginning. If the inventory decreases at the end of the year, it shall be calculated as “zero”.
- 4. Cash Dividends includes the dividends in cash paid to holders of common shares and preferred shares.
- 5. Gross property, plant and equipment refer to total property, plant and equipment before subtracting by accumulated depreciation.

Note 6: The issuer shall distinguish the operating costs and operating expenses as fixed and floating ones by nature. If any estimation or judgement is involved, please note the reasonability and consistency.

Note 7: In the case of shares issued by the Company with no par value or a par value other than NT\$10 per share, said calculation about the percentage to the paid-in-capital shall be replaced by the equity attributable to the parent company identified in the balance sheet.

2. Five-Year Financial Analysis – Taiwan Financial Reporting Standards: Not applicable

6.3 Consolidated Financial Statements for the years ended 31 December 2017 and 2016, and Independent Auditors’ Report: Please refer to pages 44 to 108

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Eastech Holding Limited (Formerly known as Eastern Technologies Holding Limited)

Opinion

We have audited the accompanying consolidated financial statements of Eastech Holding Limited, formerly known as Eastern Technologies Holding Limited ("Eastech") and subsidiaries (collectively, the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC).

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As stated in Note 26(a) to the consolidated financial statements, as of December 31, 2017, Eastern Asia Technology (HK) Limited ("EAH"), a subsidiary of Eastech, has receivables, net of allowance, amounted to HK\$8,654 thousand (equivalent to approximately NT\$32,992 thousand) that is related to litigations. And the outcome of it is dependent on the Courts' judgements. The recoverability of any potential awards by the Courts is also subject to the availability of assets by the defendants to the litigations. EAH has assessed that no further allowance is required to be made of the receivables.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. 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.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2017 are stated as follows:

Revenue Recognition

The Group is the original equipment and design (OEM/ODM) manufacturer of speaker systems, and AV electronics products. Major customers are internationally renowned audio-visual brand enterprises and not related to each other.

Based on the importance of revenue, it is presumed there is a significant risk in revenue recognition because of the pressure from management for achieving the planned results. The main risk is whether revenue occurs. Please refer to Note 4 to the consolidated financial statements for the accounting policy about revenue.

Our key audit procedures performed in respect of the above area included the following:

1. The Group is an OEM/ODM manufacturer, its business model is according to the orders of the brand customers for stock preparation and production. Our focus is whether the sales have actually been supported by the valid orders from international brand enterprises.
2. The tests for internal control include: Whether the sales orders have been supported by a corresponding orders from international brand enterprises, whether the sales orders are approved by the appropriate supervisor, delivery orders are approved by the unit manager and signed by the customer. And check cash receipt is consistent with sale customers. When the cash receipt is not related to the sale customers, we will perform further procedures to understand and investigate the transaction.
3. Perform the following analytical procedures:

Analysis for revenue of major customers in the current year compared to prior year.
Analysis for revenue of major products in the current year compared to prior year.
4. We performed testing over major customer contracts by reviewing the terms and conditions of sale, agreeing the accounting treatment and revenue recognition applied; and assessing if IAS 18 is complied with.

Impairment on Intangible Assets (Including Goodwill)

According to the accounting standards, management is required to carry out an annual impairment test which incorporates judgements based on assumptions about future profitability for the related businesses against which appropriate long-term growth rates and discount rates must be applied.

We focus on this risk because it involves a lot of judgements which includes forecasting the future results of the business by estimating future cash flows, profit margins and inflation rates and determining the discount rates for the calculations. No impairment loss has been recognized in current year after the assessment by management.

In addition to considering the need for any impairment loss, we focused on these disclosures because they form a valuable communication and enable the users of the financial statements to understand the basis for management of whether or not an impairment was needed. Please refer to Notes 4 and 14 to the consolidated financial statement for related accounting policy and relevant disclosure information.

Our key audit procedures performed in respect of the above area included the following:

1. We tested the design and implementation of management's key controls around testing the assessment of the recoverability of goodwill and other intangible assets.
2. As part of this process, we obtained copies of the valuation models used to determine the recoverable amount of each cash generating unit and tested the arithmetical accuracy of the models.
3. We challenged the assumptions underpinning the models, including the discount rates used, long-term growth rates and cash flow forecasts. This was achieved through assessment of the reasonableness of forecast future cash flows by comparison to historical performance and future outlook; and discussions with management.
4. We performed further sensitivity analysis taking into account the historical forecasting accuracy of the Group recognizing its recent performance. We evaluated the appropriateness and year-on-year consistency of underlying assumptions applied.
5. We considered the related disclosures to the financial statements by checking if they complied with the requirements of IFRSs.

Capitalization of Expenditure under Development Stage

With the continuous development of technology, audio and video electronics products continue to weed through the old to bring forth the new. Electronic engineering research and development team needs to spend more cost to improve materials, devices, new products substantially. In addition, the production lines also need to have different configurations in order to match with the different electronic circuit design.

Consider the development expenditure is to cope with the order needs of the international brand enterprises, the management has capitalized certain expenditure under development stage (in accordance with certain conditions met) in order to reflect the financial status of the Group objectively and meet the matching principle of income and expenses. In this way, it will make successful development cost (recorded under intangible assets) closer to its actual value. And it will be amortized gradually over the future production and delivery.

We focus on this risk because certain specific conditions under IFRSs should be met for capitalization of development costs. And it must have appropriate internal control systems and effective implementation to ensure the reality and reasonableness of the development expenditure capitalized. Please refer to Notes 4 and 14 to the consolidated financial statement for related accounting policy and relevant disclosure information.

Our key audit procedures performed in respect of the above area included the following:

1. Considering the Group is an OEM/ODM manufacturer. The value chain activities include product design and development in addition to manufacturing. The focus of the capitalization is whether it has future economic benefits.

2. Discuss with the management and understand the expenditure at the development stage and assess whether the conditions of IAS 38 intangible assets are met.
3. Testing for internal controls includes sampling development list whether future orders support those new models (future economic benefits assessment).
4. Whether the capitalization of development expenditures ceases immediately when it is formally produced and whether the amortization period of intangible assets is consistent with the production and sales plan of the Group.

Impairment on Accounts Receivable

Accounts receivable accounted for significant balance of the Group's balance sheet, which is a significant asset.

The Group's major customers are internationally renowned audio-visual brand enterprises. The related accounts receivable are more concentrated, and the credit period of these international brands are longer. In addition, we are particularly concerned about this risk because the recoverability and impairment of accounts receivable involve management's judgements. Please refer to Notes 4 and 8 to the consolidated financial statement for related accounting policy and relevant disclosure information.

Our key audit procedures performed in respect of the above area included the following:

1. We tested the operating effectiveness of controls on the approval of credit limits for customers and monthly detailed review of the receivables ledger.
2. We evaluated the doubtful debt provision for accounts receivable by testing the aging of amounts due at the balance sheet date to understand and quantify the potential risk in overdue balances.
3. For amounts that were past due and not yet recovered we reviewed the customer's historic payment record and financial status to assess whether the overall doubtful debt accounts receivable provision is sufficient. In addition, we also tested by vouching cash receipts after the year end date to consider whether an additional provision is required.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRS, IAS, IFRIC, and SIC, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditors' 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 auditors' 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 the 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, we are required to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' 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 for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' 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.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 23, 2018

Notice to Readers

For the convenience of readers, the accountants' audit report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' audit report and consolidated financial statements shall prevail. Also, as stated in Note 30 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

EASTECH HOLDING LIMITED AND SUBSIDIARIES
(Formerly Known as Eastern Technologies Holding Limited)

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands)

ASSETS	2017		2016		LIABILITIES AND EQUITY	2017		2016	
	HK\$	NT\$	HK\$	NT\$		HK\$	NT\$	HK\$	NT\$
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Note 6)	\$ 193,004	\$ 735,808	\$ 225,018	\$ 936,412	Short-term bank borrowings (Note 16)	\$ 258,219	\$ 984,434	\$ 214,246	\$ 891,585
Financial assets at fair value through profit or loss (Note 7)	51	194	40	166	Notes and accounts payable (Note 17)	433,656	1,653,270	294,686	1,226,336
Notes and accounts receivable, net (Notes 8 and 24)	440,917	1,680,952	272,062	1,132,186	Other payables to related parties (Note 23)	-	-	8,920	37,120
Inventories (Notes 10 and 24)	167,256	637,647	119,877	498,868	Current tax liabilities (Notes 4 and 21)	3,675	14,011	6,252	26,018
Assets held for sale (Note 11)	-	-	387	1,611	Other payables (Note 17)	97,581	372,018	103,941	432,550
Restricted assets (Notes 4 and 24)	1,315	5,013	1,397	5,814	Finance lease payables	-	-	185	770
Income tax refund recoverable	4,419	16,847	3,726	15,506					
Other receivables and prepayments (Note 9)	94,290	359,471	59,965	249,544	Total current liabilities	<u>793,131</u>	<u>3,023,733</u>	<u>628,230</u>	<u>2,614,379</u>
Prepayments for land lease - current (Note 15)	385	1,468	359	1,494	NON-CURRENT LIABILITIES				
Total current assets	<u>901,637</u>	<u>3,437,400</u>	<u>682,831</u>	<u>2,841,601</u>	Long-term bank borrowings (Note 16)	4,210	16,050	6,820	28,381
NON-CURRENT ASSETS					Deferred tax liabilities (Notes 4 and 21)	28,854	110,003	27,621	114,945
Property, plant and equipment (Notes 12 and 24)	213,694	814,687	234,630	976,413	Net defined benefit liabilities - non-current (Notes 4 and 18)	<u>2,266</u>	<u>8,639</u>	<u>2,065</u>	<u>8,594</u>
Financial assets measured at cost (Note 13)	29,029	110,670	27,045	112,548	Total non-current liabilities	<u>35,330</u>	<u>134,692</u>	<u>36,506</u>	<u>151,920</u>
Intangible assets (Notes 14 and 24)	65,213	248,618	50,770	211,279	Total liabilities	<u>828,461</u>	<u>3,158,425</u>	<u>664,736</u>	<u>2,766,299</u>
Prepayments for land lease - non-current (Note 15)	17,893	68,215	17,580	73,159	EQUITY (Note 19)				
Deferred tax assets (Notes 4 and 21)	2,855	10,884	3,119	12,980	Share capital - common stock	163,891	619,860	162,632	615,020
Total non-current assets	<u>328,684</u>	<u>1,253,074</u>	<u>333,144</u>	<u>1,386,379</u>	Capital surplus	202,979	766,834	200,400	756,922
TOTAL	\$ 1,230,321	\$ 4,690,474	\$ 1,015,975	\$ 4,227,980	Treasury shares	(9,929)	(40,671)	(9,929)	(40,671)
					Exchange differences on translating foreign operations	(21,289)	(69,570)	(56,697)	(80,307)
					Employee unearned benefit	(7,799)	(30,955)	(6,093)	(24,787)
					Retained earnings				
					Legal reserve	12,143	49,775	9,669	39,411
					Unappropriated earnings	<u>61,864</u>	<u>236,776</u>	<u>51,257</u>	<u>196,093</u>
					Total equity	<u>401,860</u>	<u>1,532,049</u>	<u>351,239</u>	<u>1,461,681</u>
					TOTAL	\$ 1,230,321	\$ 4,690,474	\$ 1,015,975	\$ 4,227,980

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated February 23, 2018)

EASTECH HOLDING LIMITED AND SUBSIDIARIES
(Formerly Known as Eastern Technologies Holding Limited)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands)

	2017		2016	
	HK\$	NT\$	HK\$	NT\$
NET-REVENUE (Notes 4 and 20)	\$ 1,979,285	\$ 7,694,273	\$ 1,555,769	\$ 6,469,043
COST OF REVENUE (Notes 10 and 20)	<u>1,758,806</u>	<u>6,837,182</u>	<u>1,313,893</u>	<u>5,463,299</u>
GROSS PROFIT	<u>220,479</u>	<u>857,091</u>	<u>241,876</u>	<u>1,005,744</u>
OPERATING EXPENSES				
Selling and distribution	40,955	159,208	33,535	139,442
General and administrative	<u>179,088</u>	<u>696,493</u>	<u>182,835</u>	<u>760,078</u>
Total operating expenses	<u>220,043</u>	<u>855,701</u>	<u>216,370</u>	<u>899,520</u>
PROFIT FROM OPERATIONS	<u>436</u>	<u>1,390</u>	<u>25,506</u>	<u>106,224</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 20)	62,596	243,336	20,186	83,935
Foreign exchange (loss) gain, net	(10,709)	(41,630)	8,826	36,699
Finance costs (Note 20)	(7,370)	(28,650)	(7,015)	(29,169)
Other losses (Note 20)	<u>(2,505)</u>	<u>(9,738)</u>	<u>(1,054)</u>	<u>(4,383)</u>
Total non-operating income and expense	<u>42,012</u>	<u>163,318</u>	<u>20,943</u>	<u>87,082</u>
PROFIT BEFORE INCOME TAX	42,448	164,708	46,449	193,306
INCOME TAX (Notes 4 and 21)	<u>(10,229)</u>	<u>(39,764)</u>	<u>(14,279)</u>	<u>(59,374)</u>
NET PROFIT	<u>32,219</u>	<u>124,944</u>	<u>32,170</u>	<u>133,932</u>
OTHER COMPREHENSIVE INCOME (NET OF INCOME TAX)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(1,448)	(5,630)	(600)	(2,497)
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	<u>35,408</u>	<u>10,737</u>	<u>(29,924)</u>	<u>(160,645)</u>
	<u>33,960</u>	<u>5,107</u>	<u>(30,524)</u>	<u>(163,142)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 66,179</u>	<u>\$ 130,051</u>	<u>\$ 1,646</u>	<u>\$ (29,210)</u>

(Continued)

EASTECH HOLDING LIMITED AND SUBSIDIARIES
(Formerly Known as Eastern Technologies Holding Limited)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands)

	2017		2016	
	HK\$	NT\$	HK\$	NT\$
EARNINGS PER SHARE (Note 22)				
Basic earnings per share - after income tax	<u>\$0.53</u>	<u>\$2.05</u>	<u>\$0.53</u>	<u>\$2.22</u>
WEIGHTED AVERAGE NUMBER OF SHARES	<u>60,807 thousand shares</u>		<u>60,270 thousand shares</u>	

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated February 23, 2018)

(Concluded)

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of Hong Kong Dollars)

	Share Capital - Common Stock	Capital Surplus	Treasury Shares	Exchange Differences on Translating Foreign Operations	Employee Unearned Benefit	Retained Earnings		Total Equity
						Legal Reserve	Unappropriated Earnings	
BALANCE AT JANUARY 1, 2016	\$ 161,418	\$ 197,472	\$ (9,929)	\$ (26,773)	\$ (3,275)	\$ 5,526	\$ 67,506	\$ 391,945
Appropriation of 2015 earnings								
Cash dividends	-	-	-	-	-	-	(43,676)	(43,676)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	325	-	-	-	-	-	325
Legal reserve of subsidiaries	-	-	-	-	-	4,143	(4,143)	-
Issuance of restricted shares for employees	1,214	2,603	-	-	(3,817)	-	-	-
Restricted shares plan for employees	-	-	-	-	999	-	-	999
Net profit for the year ended December 31, 2016	-	-	-	-	-	-	32,170	32,170
Other comprehensive loss (net of income tax) for the year ended December 31, 2016	-	-	-	(29,924)	-	-	(600)	(30,524)
BALANCE AT DECEMBER 31, 2016	162,632	200,400	(9,929)	(56,697)	(6,093)	9,669	51,257	351,239
Appropriation of 2016 earnings								
Cash dividends	-	-	-	-	-	-	(17,690)	(17,690)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	131	-	-	-	-	-	131
Legal reserve of subsidiaries	-	-	-	-	-	2,474	(2,474)	-
Issuance of restricted shares for employees	1,298	2,531	-	-	(3,829)	-	-	-
Retirement of restricted shares for employees	(39)	(83)	-	-	122	-	-	-
Restricted shares plan for employees	-	-	-	-	2,001	-	-	2,001
Net profit for the year ended December 31, 2017	-	-	-	-	-	-	32,219	32,219
Other comprehensive income (loss) (net of income tax) for the year ended December 31, 2017	-	-	-	35,408	-	-	(1,448)	33,960
BALANCE AT DECEMBER 31, 2017	<u>\$ 163,891</u>	<u>\$ 202,979</u>	<u>\$ (9,929)</u>	<u>\$ (21,289)</u>	<u>\$ (7,799)</u>	<u>\$ 12,143</u>	<u>\$ 61,864</u>	<u>\$ 401,860</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated February 23, 2018)

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

	Share Capital - Common Stock	Capital Surplus	Treasury Shares	Exchange Differences on Translating Foreign Operations	Employee Unearned Benefit	Retained Earnings		Total Equity
						Legal Reserve	Unappropriated Earnings	
BALANCE AT JANUARY 1, 2016	\$ 610,020	\$ 744,831	\$ (40,671)	\$ 80,338	\$ (13,044)	\$ 22,178	\$ 264,897	\$ 1,668,549
Appropriation of 2015 earnings								
Cash dividends	-	-	-	-	-	-	(183,006)	(183,006)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	1,366	-	-	-	-	-	1,366
Legal reserve of subsidiaries	-	-	-	-	-	17,233	(17,233)	-
Issuance of restricted shares for employees	5,000	10,725	-	-	(15,725)	-	-	-
Restricted shares plan for employees	-	-	-	-	3,982	-	-	3,982
Net profit for the year ended December 31, 2016	-	-	-	-	-	-	133,932	133,932
Other comprehensive loss (net of income tax) for the year ended December 31, 2016	-	-	-	(160,645)	-	-	(2,497)	(163,142)
BALANCE AT DECEMBER 31, 2016	615,020	756,922	(40,671)	(80,307)	(24,787)	39,411	196,093	1,461,681
Appropriation of 2016 earnings								
Cash dividends	-	-	-	-	-	-	(68,267)	(68,267)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	505	-	-	-	-	-	505
Legal reserve of subsidiaries	-	-	-	-	-	10,364	(10,364)	-
Issuance of restricted shares for employees	5,000	9,750	-	-	(14,750)	-	-	-
Retirement of restricted shares for employees	(160)	(343)	-	-	503	-	-	-
Restricted shares plan for employees	-	-	-	-	8,079	-	-	8,079
Net profit for the year ended December 31, 2017	-	-	-	-	-	-	124,944	124,944
Other comprehensive income (loss) (net of income tax) for the year ended December 31, 2017	-	-	-	10,737	-	-	(5,630)	5,107
BALANCE AT DECEMBER 31, 2017	<u>\$ 619,860</u>	<u>\$ 766,834</u>	<u>\$ (40,671)</u>	<u>\$ (69,570)</u>	<u>\$ (30,955)</u>	<u>\$ 49,775</u>	<u>\$ 236,776</u>	<u>\$ 1,532,049</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated February 23, 2018)

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands)

	2017		2016	
	HK\$	NT\$	HK\$	NT\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before income tax	\$ 42,448	\$ 164,708	\$ 46,449	\$ 193,306
Adjustments for:				
Amortization - other intangible assets	6,949	27,014	3,414	14,196
Amortization - prepayment for land lease	544	2,115	546	2,270
(Reversal) provision of impairment loss on bad debt	(404)	(1,571)	1,297	5,393
Allowance for inventories provision and inventories write-off	7,116	27,663	7,961	33,103
Depreciation expenses	49,925	194,078	51,284	213,244
Loss on disposal of property, plant and equipment	1,867	7,258	1,022	4,250
Gain on disposal of financial assets at fair value through profit or loss	-	-	(3,624)	(15,069)
Gain on disposal of assets held for sale	(41,634)	(161,848)	-	-
Loss of write-off other intangible assets	1,040	4,043	-	-
Impairment loss of financial assets measured at cost	132	513	-	-
Interest expense	7,370	28,650	7,015	29,169
Interest income	(1,170)	(4,548)	(607)	(2,524)
Dividend income	(2,868)	(11,149)	(1,609)	(6,690)
Gain on reversal of investment payable	(3,652)	(14,197)	-	-
Employees expenses - restricted shares	2,001	8,079	999	3,982
Gain on fair value changes of financial instruments	(12)	(47)	(17)	(71)
Operating cash flows before working capital changes	69,652	270,761	114,130	474,559
Changes in operating assets and liabilities				
Notes and accounts receivable	(168,451)	(654,836)	77,039	320,336
Other receivable and prepayments	(34,325)	(133,435)	9,245	38,442
Inventories	(54,496)	(211,848)	9,837	40,903
Notes and accounts payable and other payables	140,205	545,033	(40,751)	(169,447)
Accounts payable from related parties	-	-	1,014	4,217
Net defined benefit liabilities	201	781	222	923
Cash (used in) generated from operations	(47,214)	(183,544)	170,736	709,933
Interest paid	(7,370)	(28,650)	(7,015)	(29,169)
Interest received	1,170	4,548	607	2,524
Dividend received	2,868	11,149	1,609	6,690
Income tax paid	(9,680)	(37,630)	(11,817)	(49,136)
Net cash (used in) generated from operating activities	(60,226)	(234,127)	154,120	640,842
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease in investment payable	(14,671)	(57,032)	(11,718)	(48,725)
Payments for acquiring property, plant and equipment	(23,290)	(90,538)	(16,512)	(68,659)

(Continued)

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands)

	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Decrease in restricted assets	\$ 82	\$ 319	\$ 1,864	\$ 7,751
Proceeds from disposal of property, plant and equipment	253	984	742	3,085
Proceeds from disposal of financial assets at fair value through profit or loss	-	-	9,359	38,916
Proceeds from disposal of assets held for sale	46,391	180,340	-	-
Increase in other intangible assets	<u>(13,017)</u>	<u>(50,602)</u>	<u>(8,621)</u>	<u>(35,847)</u>
Net cash used in investing activities	<u>(4,252)</u>	<u>(16,529)</u>	<u>(24,886)</u>	<u>(103,479)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in bank borrowings	1,026,791	3,991,548	808,822	3,363,163
Repayments of bank borrowings	(990,155)	(3,849,129)	(846,403)	(3,519,428)
Payment under capital lease contract	(200)	(778)	(238)	(990)
Cash dividend	(17,690)	(68,267)	(43,676)	(183,006)
Cash dividend received from treasury shares	<u>131</u>	<u>505</u>	<u>325</u>	<u>1,366</u>
Net cash generated from (used in) financing activities	<u>18,877</u>	<u>73,879</u>	<u>(81,170)</u>	<u>(338,895)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>13,587</u>	<u>(23,827)</u>	<u>(26,111)</u>	<u>(126,524)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(32,014)	(200,604)	21,953	71,944
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>225,018</u>	<u>936,412</u>	<u>203,065</u>	<u>864,468</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 193,004</u>	<u>\$ 735,808</u>	<u>\$ 225,018</u>	<u>\$ 936,412</u>
CASH AND CASH EQUIVALENTS AS FOLLOWS:				
Cash and bank deposits	\$ 194,319	\$ 740,821	\$ 226,415	\$ 942,226
Pledge deposits	<u>(1,315)</u>	<u>(5,013)</u>	<u>(1,397)</u>	<u>(5,814)</u>
Cash and cash equivalents	<u>\$ 193,004</u>	<u>\$ 735,808</u>	<u>\$ 225,018</u>	<u>\$ 936,412</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated February 23, 2018)

(Concluded)

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of Hong Kong Dollars and New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Eastech Holding Limited (formerly known as Eastern Technologies Holding Limited) (the “Company”) was an investment holding company incorporated in Cayman Islands on February 1, 2011.

The Company is set up to acquire Eastern Asia Technology (HK) Limited (the “EAH”) and its subsidiaries (the “EAH Group”) and to list on the Taiwan Stock Exchange. EAH Group was originally a subsidiary under Eastern Asia Technology Limited (the “EATL”, a company formerly listed on Singapore Stock Exchange and delisted in February 2011) and was principally engaged in the production and sales of speaker systems and earphones. Through reorganization, the Company acquired 100% interests in EAH Group from EATL with a consideration determined based on the carrying amount of EAH Group as at March 31, 2011. After the acquisition, the Company (as EAH Group) applied primary listing on the Taiwan Stock Exchange, and the shares of the Company commenced trading on the Taiwan Stock Exchange from November 5, 2012.

For the integration between the speaker systems and 3C electronic appliances and sales expansion, EAH acquired 99.98% interests in Eastech Electronics (Taiwan) Inc. (“ETT”) and its subsidiaries (“ETT Group”) from Luster Green Limited in January 2015. The principal activities of ETT Group are to design, production and sales of smart speakers and audio/video (“AV”) electronics home entertainment systems.

The Group’s principal places of operation are located in Hong Kong and Huizhou, Guangdong Province, China.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on February 23, 2018.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

a. Standards and interpretations effective for the year

The Group has adopted all new, revised or amended standards or interpretations effective after fiscal year beginning on January 1, 2017, the Group believes that the adoption new, revised or amended standards or interpretations will not have a significant effect on the consolidated financial statements for the year ended December 31, 2017.

b. Standards and interpretation issued but not yet effective

The Group has not early adopted the following standards and interpretations that are issued and amended but not yet effective.

New IFRSs	Effective Date Announced by IASB
Annual Improvements to IFRSs 2014-2016 Cycle	Note
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
Amendments to IFRS 7 and IFRS 9 “Mandatory Effective Date and Transition Disclosures”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

Note: The amendment to IFRS 12 is applied prospectively to clarification of the scope of the Standard that occur in annual periods beginning on or after January 1, 2017; the remaining amendments are applied retrospectively for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

IFRS 9 “Financial Instruments” and Related Amendments

Classification, measurement and impairment of financial assets

All recognized financial assets currently in the scope of IAS 39, “Financial Instruments: Recognition and Measurement,” will be subsequently measured at either the amortized cost or the fair value. The classification and measurement requirements in IFRS 9 are stated as follows:

For the debt instruments invested by the Group, if the contractual cash flows that are solely for payments of principal and interest on the principal amount outstanding, the classification and measurement requirements are stated as follows:

- 1) If the objective of the Group's business model is to hold the financial asset to collect the contractual cash flows, such assets are measured at the amortized cost. Interest revenue should be recognized in profit or loss by using the effective interest method, continuously assessed for impairment and the impairment loss should be recognized in profit and loss.
- 2) If the objective of the Group's business model is to hold the financial asset both to collect the contractual cash flows and to sell the financial assets, such assets are measured at fair value through other comprehensive income and are continuously assessed for impairment. Interest revenue should be recognized in profit or loss by using the effective interest method. Gain or loss on a financial asset measured at fair value through other comprehensive income should be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When such financial asset is derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

The other financial assets which do not meet the aforementioned criteria should be measured at the fair value through profit or loss. However, the Group may irrevocably designate an investment in equity instruments that is not held for trading as measured at fair value through other comprehensive income. All relevant gains and losses shall be recognized in other comprehensive income. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

IFRS 9 adds a new expected loss impairment model to measure the impairment of financial assets. A loss allowance for expected credit losses should be recognized on financial assets measured at amortized cost and financial assets mandatorily measured at fair value through other comprehensive income. If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group should measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition and is not deemed to be a low credit risk, the Group should measure the loss allowance for that financial instrument at an amount equal to the lifetime expected credit losses. The Group should always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

For the financial assets with credit losses at initial recognition, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Group has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to debt instrument investments and financial guarantee contracts, the Group will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Group analyzed the facts and circumstances of its financial assets as of December 31, 2017 that exist at end of the period and performed an assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9, unlisted shares measured at cost will be measured at fair value instead.

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect

of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017		Reclassify		Adjustments Arising from Initial Application		Adjusted Carrying Amount as of January 1, 2018	
	HK\$	NT\$	HK\$	NT\$	HK\$	NT\$	HK\$	NT\$
<i>Impact on assets, liabilities and equity</i>								
Financial assets at fair value through profit or loss - current	\$ -	\$ -	\$ 17,373	\$ 66,232	\$ 4,528	\$ 17,264	\$ 21,901	\$ 83,496
Financial assets at fair value through other comprehensive income - non-current	-	-	11,656	44,438	-	-	11,656	44,438
Financial assets measured at cost - non-current	29,029	110,670	(29,029)	(110,670)	-	-	-	-

IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for both the principal and interest portion of the lease liability are classified within financing activities.

When IFRS 16 becomes effective, the Group may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

Apart from the aforementioned impact, as of the consolidated financial statements report date, the Group is continually assessing the possible impact on the Group’s financial position and financial performance upon initial adoption of above standards and interpretations, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) and Rule No. 10200546801 issued by the Financial Supervisory Commission (the “FSC”). Moreover, the IFRSs applicable to these consolidated financial statements have no difference with the IFRS, IAS, interpretations as well as related guidance translated by Accounting Research and Development Foundation (ARDF) endorsed by the FSC with the effective dates (collectively, “Taiwan-IFRSs”).

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value. Historical cost is usually determined by the fair value of consideration paid upon obtaining of assets.

Classification of Current and Non-current Assets and Liabilities

Current assets include cash and cash equivalents, and assets held primarily for the purpose of trading or assets expected to be realized within 1 year after the reporting period; property, plant and equipment, goodwill and other assets that are not classified as current are classified as non-current. Current liabilities include liabilities held primarily for the purpose of trading, and liabilities due to be settled within 1 year after the reporting period, liabilities that are not classified as current are classified as non-current.

Basis of Consolidation

a. Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and investee companies as to 50% being held or controlled by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

b. Currency of the consolidated financial statements

The consolidated financial statements have been presented in the functional currency of the Company - i.e. HKD. Relevant NTD amounts are presented by translating from HKD according to the IAS 21. The assets and liabilities items are translated using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

c. Pursuant to the above basis of preparation of the consolidated financial statements, the detail information of the subsidiaries was as follows:

Name of Investor	Name of Investee	Main Business	Percentage of Ownership Interest		Descriptions
			2017	2016	
The Company	Eastern Asia Technology (HK) Limited ("EAH")	Sales of speaker systems and earphones	100.00	100.00	The Company acquired EAH 100% ownership interest on March 31, 2011 and thereby obtained 100% controlling power over EAH and its subsidiaries.
EAH	Hymnario-EAW (Huiyang) Co., Ltd. ("HYHY")	Production and sales of speaker systems	100.00	100.00	"
	Hui Yang Eastern Asia Electronics Co., Ltd. (the "HYEA")	Production, assembly and sales of speaker systems and accessories	100.00	100.00	"
EAH	Huiyang Dongmei Audio Products Co., Ltd. (the "HYDM")	Production and sales of earphones	100.00	100.00	"
EAH	Shenzhen MaliMaliBox Trading Corporation Limited ("SZMM")	Import and export trading of audio and earphones products and accessories	100.00	100.00	SZMM was established by EAH on November 13, 2013.
EAH	Scan - Speak A/S ("ScS")	Research, production and sales of high-end speakers	100.00	100.00	EAH acquired ScS 100% ownership interest on April 1, 2014.
EAH	Eastech Electronics (Taiwan) Inc. ("ETT")	Design and sales of smart speaker and AV electronics home entertainment system	99.98	99.98	As mentioned in Note 1, EAH acquired ETT 99.98% ownership interest in January 2015, and thereby acquired its 100% owned subsidiaries, ETH and ETHY.

(Continued)

Name of Investor	Name of Investee	Main Business	Percentage of Ownership Interest		Descriptions
			December 31		
			2017	2016	
ETT	Eastech Electronics (HK) Limited ("ETH")	Sales of smart speaker and AV electronics home entertainment system	100.00	100.00	"
ETH	Eastech Electronics (Hui Yang) Co., Ltd. ("ETHY")	Production and sales of smart speaker and AV electronics home entertainment system	100.00	100.00	"
ETH	Eastech Electronics (SG) Pte. Ltd. ("ETS")	System architecture/New product concepts/State-of-the-art products/Sound and acoustics advance technology	100.00	-	ETS was established by ETH in October 2017

(Concluded)

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

Revenue from the sales of goods is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

Property, Plant and Equipment

Land and buildings held for used in production or supply of goods or services, or for administrative purposes, are carried in consolidated balance sheet at cost less accumulated depreciation and accumulated impairment. Major upgrade and improvement are accounted as capital expense, while repair and maintenance are accounted as expenses for the period.

Properties in the course of construction for production, supply or administrative purposes are measured at cost, less any recognized impairment loss.

Machinery and office equipment are measured by cost less accumulated depreciation and accumulated impairment.

Depreciation of these assets (excluded freehold land and properties in the course of construction) is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of the year, with the effect of any changes in estimates accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Non-current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell. Recognition of depreciation of those assets would cease.

Prepayments for Land Lease

If the lease land held for operation, the cost of payment is recorded as prepayments for land lease and it will be amortized over term of lease by using the straight-line method.

Goodwill

Goodwill arising from the acquisition of the company by the means to obtain the date of acquisition cost over the identifiable assets of the Group's subsidiaries recognized, liabilities and contingent liabilities in the net fair value. Goodwill is initially recognized as cost of assets and cost less any accumulated impairment losses to measure. When the acquired company is disposed, its goodwill should be derecognized and recognized in profit or loss for the period.

Intangible Assets

a. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of the year, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

b. Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- 2) The intention to complete the intangible asset and use or sell it;

- 3) The ability to use or sell the intangible asset;
- 4) How the intangible asset will generate probable future economic benefits;
- 5) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- 6) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

c. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

d. Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

Impairment of Assets

There is material impairment loss incurred if the recoverable amount of the asset (mainly property, plant and equipment and goodwill) is estimated to be less than its carrying amount, an impairment loss is recognized immediately in profit or loss. If the recoverable amount of the asset (excluding goodwill) increases subsequently, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

When conducting impairment test, goodwill should be allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the business combination. Unless there is indication of impairment of the cash generating unit to which goodwill is belong, each cash generating unit shall be tested for impairment annually by comparing the carrying amount (including goodwill) to its recoverable amount. In case the recoverable amount is less than its carrying amount, the impairment loss shall first be allocated to goodwill of the cash generating unit to reduce its carrying amount. Afterwards, the remaining impairment loss shall be allocated to each asset under the cash generating unit based on the share of proportion of the carrying amount. The recognized impairment loss of goodwill will not be reversed.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

b. The Group as lessee

Assets held under finance lease are initially recognized as assets of the Company at the fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement Benefits

Except for partial employees of ETT adopt defined benefit retirement benefit plans, the rest of employees of ETT and employees in Hong Kong and Mainland China adopt defined contribution retirement benefit plans.

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions. Defined benefit costs (including service cost, net interest and remeasurement) recognized under the defined benefit retirement benefit plans are determined by using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit asset are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit asset represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

The Group maintains a Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme, according to the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Pursuant to the MPF Scheme, the contribution will be vested to the employees upon provision of services by the employees and when they are eligible to the benefits, and the cost incurred will be charged as expense.

To comply with the pension scheme requirements in the PRC, subsidiaries of the Group in PRC are required to contribute a specified percentage of payroll costs to the retirement plans operated by the relevant local authorities of the PRC.

Share-based Payment Arrangements - Restricted Shares for Employees

The fair value of share-based payment (equity settled) that will eventually vested and expected share is estimated at the grant date. The fair value is then expensed on a straight-line basis over the vesting period based on the Company's estimate of equity instruments that will eventually vest, with a corresponding adjustment to other equity - employee unearned benefit. The fair value is recognized as an expense in full at the grant date when the share options are fully vested in grant date.

When restricted shares for employees are issued, other equity - unearned employee benefits is recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - restricted shares for employees.

Taxation

Income tax expense represents the sum of the current income tax and deferred tax.

a. Current income tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current income tax assets and liabilities on a net basis.

c. Current and deferred tax for the year

Current and deferred tax are recognized as an expenses or income in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. For items not recognized in profit and loss, its income tax will not be recognized in profit and loss.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial Instruments

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

a. Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period. Income or expense is recognized on an effective interest basis for debt instruments other than those financial instruments at fair value through profit or loss.

b. Financial assets

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets at fair value through profit or loss) are added to the carrying amount of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in profit or loss. The financial assets are classified into “financial assets at fair value through profit or loss” and “loans and receivables” based on the nature and purpose of the financial assets at the time of initial recognition.

c. Derivative financial instruments

The Group enters into forward foreign exchange contract principally for the purpose of minimizing any risk that may arise from currency rate fluctuation and generating gains from currency exchange.

Derivative financial instruments are recognized at fair value upon inception of contract, and subsequently be measured at fair value as at balance sheet date. Difference between the carrying amount and the fair value is recognized in profit and loss.

If the maturity of derivative financial instruments is more than 12 months, or it is expected that the instrument will not be realized or settled within 12 months, the derivative financial instruments will be classified as non-current assets or liabilities, otherwise, it will be classified as current assets or liabilities.

d. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Apart from short-term receivables that are minimally affected by interest, loans and receivables (including cash and cash equivalents, trade debtors, other receivables, restricted assets and long-term receivables) are carried at amortized cost using the effective interest method, less any identified impairment loss.

e. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For financial assets, objective evidence of impairment could include:

- 1) Significant financial difficulty of the issuer or counterparty; or
- 2) Default or delinquency in interest or principal payments; or
- 3) It becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The carrying amounts of financial assets are reduced by impairment directly except for trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

f. Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the assets expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

g. Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recognized at the proceeds received, net of direct issue costs. The financial liabilities are classified into “financial liabilities at fair value through profit or loss” and “other financial liabilities.”

Other financial liabilities (including trade payables and other payables) are initially measured at fair value, net of transaction costs.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Borrowings are initially recognized at fair value less transaction costs. In subsequent periods, borrowings are measured at amortized cost using the effective interest method. Any difference between the actual proceeds less transaction costs and the settlement or redemption of borrowings is recognized over the term of the borrowings according to the Group’s accounting policy for borrowing costs.

The fair value of financial liabilities denominated in foreign currency and classified as “financial liabilities at fair value through profit and loss” are determined in foreign currency and is translated at the currency rate prevailing at the end of the reporting period. Any exchange difference is recognized as part of the fair value gain or loss. For foreign currency denominated financial liabilities measured at amortized costs, its exchange difference is determined based on the amortized cost and the currency rate at the end of the reporting period. Exchange difference is recognized at profit and loss.

h. Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Group’s obligations is discharged, cancelled or they expire.

Foreign Currencies

The individual financial statements of each company comprising the Group are measured and presented on the currency prevailing in the primary economic environment where its operations located. For the purpose of the consolidated financial statement, the operating results and financial status of companies comprising the Group shall be translated from functional currency to the presentation currency of the consolidated financial statement - Hong Kong dollars (“HKD”).

In the initial recognition of foreign currency transactions, the foreign currency amount shall be translated into the functional currency at the exchange rate between the functional currency and the foreign currency prevailing at the date of transaction. Any exchange difference arising from the actual settlement of foreign currency-denominated assets and liabilities shall be carried at profit and loss for the year.

Subsequently at the end of each reporting period, foreign currency denominated item shall be translated at the closing exchange rate. Foreign currency denominated non-monetary items shall be measured at historical cost and translated at the exchange rate prevailing on the date of transaction.

Gain or loss from foreign currency exchange shall be carried at the profit and loss for the year.

For the purposes of presenting the consolidated financial statements, if the functional currency and the presentation currency (HKD) of subsidiaries are different, the assets and liabilities of which are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Their income and expenses are translated at the average exchange rates for the year, the resulting exchange difference is recognized in other comprehensive income and accumulated in equity. Goodwill arising from acquisition of foreign operations and fair value adjustments to the carrying amount of assets and liabilities resulting from the acquisition of foreign operations are considered as assets and liabilities of such foreign operations, and exchanged based on the closing rate at each balance sheet date, with the exchange difference recognized under other comprehensive income.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management of the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities with uncertainty. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by the management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is changed.

The following are the assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period:

a. Allowance for accounts receivable and other receivables

The Group constantly reviews the recoverability of accounts receivable based on the aging analysis of the accounts receivable and other receivables, credit assessment, past collection history and environmental conditions. If the financial conditions of the Group's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Details of the allowances please refer to Notes 8 and 9.

b. Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is calculated by using weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The Group constantly reviews its inventories to identify slow moving and obsolete merchandise. It will also make provision for impairment loss by considering their physical conditions and market conditions. It involves management's judgment for the estimation on the net realizable value and slow-moving inventories. Please refer to Note 10 for details about the carrying amount of inventories.

c. Depreciation of property, plant and equipment

Depreciation of the property, plant and equipment is provided after deducting any residual value from cost or revalued amount over the estimated useful years by using straight line basis. Estimated useful years represent estimation of management on the number of years that the Group intends to generate economic benefits from the use of the Group's property, plant and equipment. Residual value means the amount expected to be realized upon retirement or disposal of the property, plant and equipment, net of any cost of disposal, at the end of the useful year. Useful year and residual are subject to the different estimated utilization rate of assets and the development of new technologies. Please refer to Note 12 for details about the carrying amount of the property, plant and equipment.

d. Impairment of goodwill

When determining whether there is any impairment loss on goodwill, estimation shall be made on the recoverable amount of the cash generating unit to which goodwill has been allocated. To calculate the recoverable amount, the management needs to estimate the future cash flow expected to arise from the cash generating unit and its appropriate discount rate. Details of the carrying amount of goodwill at the end of reporting period, with no impairment loss recognized during 2017 and 2016 are set out in Note 14.

e. Amortization of other intangible assets

Amortization of intangible assets of the Group (excluding goodwill) is the cost recognized on straight line basis throughout its estimated useful life. Estimated useful life is the term estimated by the management of which the Group intends to use the intangible assets to generate economic benefits. Difference in expected frequency of use of the assets and development of new technologies would affect the economic useful life of assets. For the carrying amount of intangible assets, please refer to Note 14.

f. Income tax

The Group operates in different jurisdictions, and thus it is subject to different tax laws enacted in different regions. When estimating income tax, the Group will consider if it is eligible for the preferential taxation treatment. If there is any difference between the actual tax charged by the taxation authority with the originally estimated tax, the current income tax expenses and the related deferred income tax assets or liabilities shall be adjusted accordingly. Disclosures on income tax are set out in Note 21.

6. CASH AND CASH EQUIVALENTS

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Cash on hand	\$ 224	\$ 854	\$ 278	\$ 1,157
Cash at bank	188,600	719,018	202,478	842,612
Fixed deposits	<u>5,495</u>	<u>20,949</u>	<u>23,659</u>	<u>98,457</u>
	194,319	740,821	226,415	942,226
Less: Pledged deposits	<u>(1,315)</u>	<u>(5,013)</u>	<u>(1,397)</u>	<u>(5,814)</u>
	<u>\$ 193,004</u>	<u>\$ 735,808</u>	<u>\$ 225,018</u>	<u>\$ 936,412</u>

Cash equivalents comprise term deposits within 3 months, which are highly liquid and are readily convertible into cash with low risk of changes in value. Pledged deposits are pledged to secure the loan facilities granted by bank to the Group (please refer to Note 24), and is recognized under restricted assets.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Non-derivative financial assets				
Foreign-listed stocks	\$ 51	\$ 194	\$ 40	\$ 166

8. NOTES AND ACCOUNTS RECEIVABLE

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Notes receivable	\$ 11,906	\$ 45,390	\$ -	\$ -
Accounts receivable	429,011	1,635,562	273,359	1,137,583
Less: Allowance for impairment loss	-	-	(1,297)	(5,397)
	<u>\$ 440,917</u>	<u>\$ 1,680,952</u>	<u>\$ 272,062</u>	<u>\$ 1,132,186</u>

For the year ended December 31, 2017, the Group's average sales credit term is 67 days (74 days in 2016). No interest was charged on any outstanding trade receivables due over the credit term. Allowance for impairment loss were recognized based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The aging analysis of receivables was as follows:

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Neither overdue nor impaired	\$ 433,252	\$ 1,651,730	\$ 253,245	\$ 1,053,879
Overdue but not impaired (a)	7,665	29,222	18,817	78,307
Impaired after overall assessment receivables (b)	-	-	1,297	5,397
Less: Allowance for impairment loss	-	-	(1,297)	(5,397)
Notes and accounts receivable, net	<u>\$ 440,917</u>	<u>\$ 1,680,952</u>	<u>\$ 272,062</u>	<u>\$ 1,132,186</u>

a. The aging of receivables that were overdue but not impaired as follows:

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
0-90 days	\$ 7,317	\$ 27,895	\$ 18,810	\$ 78,278
91-180 days	<u>348</u>	<u>1,327</u>	<u>7</u>	<u>29</u>
	<u>\$ 7,665</u>	<u>\$ 29,222</u>	<u>\$ 18,817</u>	<u>\$ 78,307</u>

The above aging schedule has been analysed based on the overdue date. After management assessment, no additional impairment provision is required. The Group did not receive any pledge over the relevant receivables.

- b. The movements of the allowance for doubtful trade receivables were as follows:

Unit: H.K. Dollars

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	\$ -	\$ -	\$ -
Provision	<u>1,297</u>	<u>-</u>	<u>1,297</u>
Balance at December 31, 2016	1,297	-	1,297
Written off	(893)	-	(893)
Recovered	<u>(404)</u>	<u>-</u>	<u>(404)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Unit: N.T. Dollars

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	\$ -	\$ -	\$ -
Provision	5,393	-	5,393
Effect of exchange rate changes	<u>4</u>	<u>-</u>	<u>4</u>
Balance at December 31, 2016	5,397	-	5,397
Written off	(3,471)	-	(3,471)
Recovered	(1,571)	-	(1,571)
Effect of exchange rate changes	<u>(355)</u>	<u>-</u>	<u>(355)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

- c. The credit quality of receivables neither overdue nor impaired was as follows:

Considering the recoverability of accounts receivable, the Group takes into account the historical record of individual client. Since the major clients are internationally renowned enterprises and are unrelated to each other, therefore, credit risk of receivables is considered low.

- d. The details of the accounts receivables pledged (with recourse) for obtaining bank facilities please refer to Notes 24 and 27(g).

9. OTHER RECEIVABLES AND PREPAYMENTS

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Other receivables	\$ 43,171	\$ 164,585	\$ 41,847	\$ 174,146
Allowance for impairment loss	<u>(13,962)</u>	<u>(53,229)</u>	<u>(13,962)</u>	<u>(58,103)</u>
Other receivables, net	29,209	111,356	27,885	116,043
Prepayments for purchases	12,575	47,941	3,969	16,517
Prepayments	5,173	19,722	4,996	20,791
Prepayments for purchases equipment and mold	2,648	10,095	1,776	7,391
Value-added tax recoverable and refundable	29,173	111,219	17,478	72,735
Guarantee deposits	<u>15,512</u>	<u>59,138</u>	<u>3,861</u>	<u>16,067</u>
	<u>\$ 94,290</u>	<u>\$ 359,471</u>	<u>\$ 59,965</u>	<u>\$ 249,544</u>

Other receivables of the Group mainly consist of the followings:

- a. Other receivables relating to litigations (including guarantee deposits) as described in Note 26(a) were as follows:

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Other receivables (including security deposits)	\$ 23,682	\$ 90,285	\$ 23,675	\$ 98,523
Less: Allowance for impairment loss	<u>(13,962)</u>	<u>(53,229)</u>	<u>(13,962)</u>	<u>(58,103)</u>
	<u>\$ 9,720</u>	<u>\$ 37,056</u>	<u>\$ 9,713</u>	<u>\$ 40,420</u>

- b. As of December 31, 2017 and 2016, the amounts of temporary payments as described in Note 17(b) were HK\$11,643 thousand and HK\$9,951 thousand (equivalent to approximately NT\$44,388 thousand and NT\$41,411 thousand).

10. INVENTORIES

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Raw materials	\$ 90,094	\$ 343,474	\$ 58,727	\$ 244,392
Work-in-process	47,768	182,111	30,111	125,307
Finished goods	23,620	90,049	26,614	110,754
Goods in transit	<u>5,774</u>	<u>22,013</u>	<u>4,425</u>	<u>18,415</u>
	<u>\$ 167,256</u>	<u>\$ 637,647</u>	<u>\$ 119,877</u>	<u>\$ 498,868</u>

The cost of inventories recognized as cost of goods sold in the years ended December 31, 2017 and 2016 was HK\$1,758,806 thousand and HK\$1,313,893 thousand (equivalent to approximately NT\$6,837,182 thousand and NT\$5,463,299 thousand), respectively, which included HK\$7,116 thousand and HK\$7,961 thousand (equivalent to approximately NT\$27,663 thousand and NT\$33,103 thousand), allowance for inventories provision and inventories write-off, respectively.

11. ASSETS HELD FOR SALE

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Land and buildings held for sale	\$ -	\$ -	\$ 387	\$ 1,611

The Group was expected to dispose the land and buildings, used as the Group's office premises in Hong Kong and staff quarters, within one year. In 2017, the disposal plans had been approved by the boards of directors, the above-mentioned assets, which were originally recorded as property, plant and equipment, were reclassified to the assets held for sale at the book value, amount to HK\$4,342 thousand (equivalent to approximately NT\$16,880 thousand).

For the year ended December 31, 2017, the gain on disposal of some of the assets held for sale was HK\$41,634 thousand (equivalent to approximately NT\$161,848 thousand), which was recorded as other income.

12. PROPERTY, PLANT AND EQUIPMENT

a. Details of property, plant and equipment were as follows:

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Cost	\$ 488,917	\$ 1,863,947	\$ 466,402	\$ 1,940,933
Accumulated depreciation and impairment	<u>(275,223)</u>	<u>(1,049,260)</u>	<u>(231,772)</u>	<u>(964,520)</u>
Book value	<u>\$ 213,694</u>	<u>\$ 814,687</u>	<u>\$ 234,630</u>	<u>\$ 976,413</u>
Land and buildings	\$ 45,066	\$ 171,809	\$ 57,984	\$ 241,301
Machineries and office equipment	167,106	637,075	175,319	729,590
Construction in progress	<u>1,522</u>	<u>5,803</u>	<u>1,327</u>	<u>5,522</u>
Book value	<u>\$ 213,694</u>	<u>\$ 814,687</u>	<u>\$ 234,630</u>	<u>\$ 976,413</u>

b. The movements of property, plant and equipment are as follows:

	Land and Buildings		Machinery Equipment and Office Equipment		Construction in Progress		Total	
	HK\$	NT\$	HK\$	NT\$	HK\$	NT\$	HK\$	NT\$
Cost								
Balance at January 1, 2016	\$ 134,148	\$ 571,081	\$ 361,346	\$ 1,538,286	\$ 1,165	\$ 4,960	\$ 496,659	\$ 2,114,327
Additions	320	1,330	13,606	56,576	2,586	10,753	16,512	68,659
Disposals	(1,335)	(5,551)	(11,751)	(48,862)	(286)	(1,189)	(13,372)	(55,602)
Reclassification	(1,122)	(4,665)	2,095	8,711	(2,095)	(8,711)	(1,122)	(4,665)
Effect of exchange rate changes	(7,982)	(46,048)	(24,250)	(135,447)	(43)	(291)	(32,275)	(181,786)
Balance at December 31, 2016	124,029	516,147	341,046	1,419,264	1,327	5,522	466,402	1,940,933
Additions	47	183	19,836	77,110	3,407	13,245	23,290	90,538
Disposals	-	-	(27,039)	(105,112)	(161)	(626)	(27,200)	(105,738)
Reclassification	(7,118)	(27,671)	1,085	4,218	(3,202)	(12,447)	(9,235)	(35,900)
Effect of exchange rate changes	11,291	277	24,218	(26,272)	151	109	35,660	(25,886)
Balance at December 31, 2017	<u>\$ 178,249</u>	<u>\$ 488,936</u>	<u>\$ 359,146</u>	<u>\$ 1,369,208</u>	<u>\$ 1,522</u>	<u>\$ 5,803</u>	<u>\$ 488,917</u>	<u>\$ 1,863,947</u>
Accumulated depreciation and impairment								
Balance at January 1, 2016	\$ 61,864	\$ 263,361	\$ 151,600	\$ 645,377	\$ -	\$ -	\$ 213,464	\$ 908,738
Depreciation	11,621	48,321	39,663	164,923	-	-	51,284	213,244
Disposals	(1,335)	(5,551)	(10,273)	(42,716)	-	-	(11,608)	(48,267)
Reclassification	(718)	(2,986)	-	-	-	-	(718)	(2,986)
Effect of exchange rate changes	(5,387)	(28,299)	(15,263)	(77,910)	-	-	(20,650)	(106,209)
Balance at December 31, 2016	66,045	274,846	165,727	689,674	-	-	231,772	964,520
Depreciation	11,554	44,915	38,371	149,163	-	-	49,925	194,078
Disposals	-	-	(25,080)	(97,496)	-	-	(25,080)	(97,496)
Reclassification	(2,776)	(10,791)	-	-	-	-	(2,776)	(10,791)
Effect of exchange rate changes	8,360	8,157	13,022	(9,208)	-	-	21,382	(1,051)
Balance at December 31, 2017	<u>\$ 83,183</u>	<u>\$ 317,127</u>	<u>\$ 192,040</u>	<u>\$ 732,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 275,223</u>	<u>\$ 1,049,260</u>

The management assessed that there was no impairment loss indicator for the years ended December 31, 2017 and 2016.

c. The depreciation of property, plant and equipment is calculated on a straight-line basis at the following useful lives:

Land and buildings	Buildings in Mainland China were 20 years, buildings in Hong Kong and Taiwan were 40 years; lands in Hong Kong were depreciated according to the lease period (43 to 50 years), and building improvements were depreciated by 2 to 10 years.
Machinery equipment	5 years or 10 years
Office equipment	1 year to 10 years

d. Details of the land and buildings held by the Group as of December 31, 2017 and 2016 were as follows:

December 31, 2017

Company Name	Location	Description	Tenure/Unexpired Term
HYEA	Xixi Village, Dongfong Administrative Area, Xinyu Town, Huiyang, Guangdong, PRC.	3 factory buildings and 2 dormitories built on a 287,077 sq. ft. land (land use right is recognized under prepayments for land lease).	Lease for term of 50 years from December 14, 1995 to December 13, 2045.

(Continued)

Company Name	Location	Description	Tenure/Unexpired Term
ETT	13F.-4, No. 99, Nankan Rd., Sec. 1, Luzhu Dist., Taoyuan City 338, Taiwan (R.O.C.)	A 177.67 level ground office (13.13 level ground land).	Acquired land and building on July 1, 1999.
ETHY	Xixi Village, Dongfong Administrative Area, Xinyu Town, Huiyang, Guangdong, PRC.	6 factory buildings and 2 dormitories built on a 365,976 sq. ft. land (land use right is recognized under prepayments for land lease)	Lease for a term of 50 years from December 6, 2000 to December 6, 2050.
ETHY	Xixi Village, Dongfong Administrative Area, Xinyu Town, Huiyang, Guangdong, PRC.	1 factory buildings and 2 dormitories built on a 134,947 sq. ft. land (land use right is recognized under prepayments for land lease)	Lease for a term of 50 years from June 19, 2002 to June 19, 2052.

(Concluded)

December 31, 2016

Company Name	Location	Description	Tenure/Unexpired Term
EAH	Room 1703, 17/F Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	A 1,627 sq. ft. office	Lease for a term of 46 years from April 4, 2001 to June 30, 2047.
EAH	Room 1704, 17/F Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	A 1,452 sq. ft. office	Lease for a term of 47 years from March 13, 2000 to June 30, 2047.
EAH	Room 1705, 17/F Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	A 2,171 sq. ft. office	Lease for a term of 43 years from June 30, 2004 to June 30, 2047.
EAH	Room 1706, 17/F Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	A 1,452 sq. ft. office	Lease for a term of 50 years from April 1, 1997 to June 30, 2047.
EAH	Room 1707, 17/F Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	A 1,627 sq. ft. office	Lease for a term of 50 years from April 1, 1997 to June 30, 2047.
HYEA	Xixi Village, Dongfong Administrative Area, Xinyu Town, Huiyang, Guangdong, PRC	3 factory buildings and 2 dormitories built on a 287,077 sq. ft. land (land use right is recognized under prepayments for land lease)	Lease for term of 50 years from December 14, 1995 to December 13, 2045.

(Continued)

Company Name	Location	Description	Tenure/Unexpired Term
ETT	13F.-4, No. 99, Sec. 1, Nankan Rd., Luzhu Dist., Taoyuan City 338, Taiwan (R.O.C.)	A177.67 level ground office (13.13 level ground land)	Acquired land and building from July 1, 1999.
ETHY	Xixi Village, Dongfong Administrative Area, Xinyu Town, Huiyang, Guangdong, PRC	6 factory buildings and 2 dormitories built on a 365,976 sq. ft. land (land use right is recognized under prepayments for land lease)	Lease for a term of 50 years from December 6, 2000 to December 6, 2050.
ETHY	Xixi Village, Dongfong Administrative Area, Xinyu Town, Huiyang, Guangdong, PRC	1 factory buildings and 2 dormitories built on a 134,947 sq. ft. land (land use right is recognized under prepayments for land lease)	Lease for a term of 50 years from June 19, 2002 to June 19, 2052.

(Concluded)

Land use right in respect of lands at the PRC and Hong Kong were obtained by way of lease as they could not be directly acquired subject to restrictions of laws.

- e. The amounts of property, plant and equipment pledged for security for borrowings by the Group refer to Note 24.

13. FINANCIAL ASSETS MEASURED AT COST

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Outlaw Audio Inc.	\$ -	\$ -	\$ 132	\$ 548
Audio Design Experts Inc.	11,656	44,438	10,998	45,768
HT Precision Technologies, Inc.	<u>17,373</u>	<u>66,232</u>	<u>15,915</u>	<u>66,232</u>
	<u>\$ 29,029</u>	<u>\$ 110,670</u>	<u>\$ 27,045</u>	<u>\$ 112,548</u>

Since the fair values of the Group's investments in non-publicly traded shares, convertible debts and warrants cannot be reliably measured, the investments are measured at the cost less any impairment.

14. INTANGIBLE ASSETS

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Goodwill	\$ 29,683	\$ 113,163	\$ 26,391	\$ 109,826
Technical knowledge (including capitalised development costs)	29,080	110,865	17,974	74,799
Customer relationship	<u>6,450</u>	<u>24,590</u>	<u>6,405</u>	<u>26,654</u>
	<u>\$ 65,213</u>	<u>\$ 248,618</u>	<u>\$ 50,770</u>	<u>\$ 211,279</u>

a. Details of goodwill were as follows:

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Related to ScS	\$ 26,363	\$ 100,506	\$ 23,302	\$ 96,971
Related to HYDM	<u>3,320</u>	<u>12,657</u>	<u>3,089</u>	<u>12,855</u>
	<u>\$ 29,683</u>	<u>\$ 113,163</u>	<u>\$ 26,391</u>	<u>\$ 109,826</u>

The above goodwill represents the excess of the cost of acquisition over the net fair value of the identifiable assets from HYDM's acquisition of earphones production line from Shenzhen Dahua Electronics Co., Ltd. in 2006 and EAH's acquisition of a subsidiary - ScS in 2014.

The recoverable amount of this cash-generating unit was determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10% per annum for the years ended December 31, 2017 and 2016.

Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the financial budget period. The cash flows beyond that five-year period have been extrapolated using a steady 0% per annum growth rate. Management believed that any reasonably possible change in the key assumptions on which recoverable amount was based would not cause the aggregate carrying amount of the cash-generating unit to exceed its aggregate recoverable amount.

The key assumptions used in the value in use calculations for the leisure goods cash-generating units were as follows:

- 1) Expected sales growth rate: The suppose values assigned to the assumption reflect past experience, which is consistent with management's plans for focusing operations in these markets.
- 2) Net operating profit margin: The suppose values are reflected for expected operating profit margin based on past experience.
- 3) Depreciation and amortization: The suppose values are estimated from equipment capex during budget period and equipment's useful life based on past experience.

There is no impairment of goodwill at December 31, 2017 and 2016.

The movements of goodwill were as follows:

	2017		2016	
	HK\$	NT\$	HK\$	NT\$
<u>Cost</u>				
Balance at January 1	\$ 26,391	\$ 109,826	\$ 27,274	\$ 116,108
Effect of exchange rate changes	<u>3,292</u>	<u>3,337</u>	<u>(883)</u>	<u>(6,282)</u>
Balance at December 31	<u>\$ 29,683</u>	<u>\$ 113,163</u>	<u>\$ 26,391</u>	<u>\$ 109,826</u>

- b. The movements of other intangible assets (technical knowledge and customer relationships) were as follows:

	2017		2016	
	HK\$	NT\$	HK\$	NT\$
<u>Cost</u>				
Balance at January 1	\$ 24,379	\$ 101,453	\$ 20,851	\$ 88,765
Additions	13,017	50,602	8,621	35,847
Amortization	(6,949)	(27,014)	(3,414)	(14,196)
Reclassification from property, plant and equipment	2,117	8,230	-	-
Write-off	(1,040)	(4,043)	-	-
Effect of exchange rate changes	<u>4,006</u>	<u>6,227</u>	<u>(1,679)</u>	<u>(8,963)</u>
Balance at December 31	<u>\$ 35,530</u>	<u>\$ 135,455</u>	<u>\$ 24,379</u>	<u>\$ 101,453</u>

- c. Intangible assets with limited useful life were amortized on a straight-line basis at the following useful lives:

Technical acknowledge (including capitalised development costs)	2-15 years
Customer relationship	9 years

15. PREPAYMENTS FOR LAND LEASE

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Prepayments for land lease - current	\$ 385	\$ 1,468	\$ 359	\$ 1,494
Prepayments for land lease - non-current	<u>17,893</u>	<u>68,215</u>	<u>17,580</u>	<u>73,159</u>
	<u>\$ 18,278</u>	<u>\$ 69,683</u>	<u>\$ 17,939</u>	<u>\$ 74,653</u>

Prepayment of land lease represent land use rights obtained by paying lease fees to local government of the Mainland China. The land is used for factory and employee dormitories. The details of the lease tenure refer to Note 12(d).

16. BANK BORROWINGS

a. Short-term bank borrowings:

	December 31					
	2017			2016		
	Interest Rate	HK\$	NT\$	Interest Rate	HK\$	NT\$
Factoring	4.16%-6.25%	\$ 2,367	\$ 9,024	4.21%-5.49%	\$ 2,358	\$ 9,813
Bank borrowings	1.58%-4.63%	228,498	871,126	1.50%-4.63%	123,475	513,841
Commercial paper	1.8%	7,869	30,000	1.80%-1.92%	7,209	30,000
Other bank loans	-	-	-	2.54%-3.11%	29,316	121,999
Long-term borrowings due within 1 year	2.1%-4.63%	<u>19,485</u>	<u>74,284</u>	1.56%-4.63%	<u>51,888</u>	<u>215,932</u>
		<u>\$ 258,219</u>	<u>\$ 984,434</u>		<u>\$ 214,246</u>	<u>\$ 891,585</u>

The above amounts represent revolving facility (for operating capital demand) of bank loan, commercial paper and current portion of long-term bank borrowings.

Although other bank loans' term is over 1 year, considering the loans contain repayment on demand clause, which gives the lenders the right to demand repayment as any time at their discretion, other bank loans are reclassified under current liabilities.

Unexpired commercial paper as following:

December 31, 2017

Guarantee/Acceptance Agency	Face Value (NT\$)	Book Value (NT\$)	Interest Rate	The Name of the Collateral	Book Value of the Collateral
International Bills Finance Corp.	\$ 30,000	\$ 30,000	1.8%	-	\$ -

December 31, 2016

Guarantee/Acceptance Agency	Face Value (NT\$)	Book Value (NT\$)	Interest Rate	The Name of the Collateral	Book Value of the Collateral
International Bills Finance Corp.	\$ 30,000	\$ 30,000	1.8%-1.92%	-	\$ -

The commercial paper issued by the Group are all short-term (about 1 to 3 months) promissory notes. Due to the short-term period, the interest expenses are not significant. Therefore, the difference between nominal amount and cash received is recognizes interest expense directly at the issuance of commercial paper.

b. Long-term bank borrowings:

	December 31					
	2017			2016		
	Interest Rate	HK	NT\$	Interest Rate	HK\$	NT\$
Long-term bank borrowings	2.1%-4.63%	\$ 23,695	\$ 90,334	1.56%-4.63%	\$ 58,708	\$ 244,313
Less: Long-term bank borrowings due within 1 year		<u>(19,485)</u>	<u>(74,284)</u>		<u>(51,888)</u>	<u>(215,932)</u>
		<u>\$ 4,210</u>	<u>\$ 16,050</u>		<u>\$ 6,820</u>	<u>\$ 28,381</u>

For acquiring plants and equipment and long-term operating capital demand, the Group draws down the borrowings from banks. The repayments of the bank borrowings are due quarterly.

The maturity dates for long-term bank borrowings were as follows:

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Due within 2 to 5 years	<u>\$ 4,210</u>	<u>\$ 16,050</u>	<u>\$ 6,820</u>	<u>\$ 28,381</u>

c. The detail of the Group's pledged assets for obtaining bank facilities please refer to Note 24.

17. NOTES AND ACCOUNTS PAYABLE AND OTHER PAYABLES

a. Notes and accounts payable were mainly due to the suppliers. The Group's payment terms were 60 or 90 days. No interest will be incurred in notes and accounts payable. The Group has financial risk management policies to ensure settlement of all payables within payment term.

b. Details of other payables were as follows:

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Accrued salaries	\$ 40,163	\$ 153,117	\$ 37,502	\$ 156,064
Temporary receivables (Note 1)	20,184	76,949	17,633	73,380
ScS investment payable - current (Note 2)	-	-	8,814	36,679
Other payable	<u>37,234</u>	<u>141,952</u>	<u>39,992</u>	<u>166,427</u>
	<u>\$ 97,581</u>	<u>\$ 372,018</u>	<u>\$ 103,941</u>	<u>\$ 432,550</u>

Note 1: Temporary receivables are mainly sample fee, test fee, safety certification fee, etc. received in advance. Since the Group produces customized audio-visual electronic products for individual customer demand, related costs associated with the customized audio-visual electronic products, payment on behalf and installment prepayments based on agreements negotiated by both parties, are recorded in temporary payments (please refer to Note 9) and temporary receivables, respectively. After completion of the project (customer confirmed), the Group will reverse the aforementioned temporary payments and temporary receivables at the same time and the differences are recorded as income.

Note 2: The Group acquired ScS during 2014 and is expected to pay the remaining 30% acquisition considerations by installments after 2015. The installments are interest-free and 10% of the acquisition consideration each, with payment dates on March 31, 2015, March 31, 2016 and March 31, 2017, respectively. Since ScS's operating performance did not meet the threshold agreed by both parties, the final payment is smaller than the original estimate after discussion. Therefore, the Group recognized a gain on reversal of investment payable, totaling HK\$3,652 (equivalent to approximately NT\$14,197), which was recorded as other income.

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

ETT adopts a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiary in PRC, Hong Kong and Denmark are members of a state-managed retirement benefit plan operated by the government of PRC, Hong Kong and Denmark. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

In accordance with the Labor Standard Law, ETT adopts a defined benefit plan which is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. ETT contributes amounts equal to 4% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name.

Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Present value of defined benefit obligation	\$ 9,987	\$ 38,074	\$ 7,392	\$ 30,762
Fair value of plan assets	<u>(7,721)</u>	<u>(29,435)</u>	<u>(5,327)</u>	<u>(22,168)</u>
Net defined benefit liability	<u>\$ 2,266</u>	<u>\$ 8,639</u>	<u>\$ 2,065</u>	<u>\$ 8,594</u>

The movements of net defined benefit liability were as follows:

Unit: N.T. Dollars

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2016	<u>\$ 37,486</u>	<u>\$ (29,640)</u>	<u>\$ 7,846</u>
Current service cost	500	-	500
Net interest expense (income)	<u>469</u>	<u>(371)</u>	<u>98</u>
Recognized in profit or loss	<u>969</u>	<u>(371)</u>	<u>598</u>
	<u>38,455</u>	<u>(30,011)</u>	<u>8,444</u>
Re-measurement			
Return on plan assets (excluding amounts included in net interest)	-	163	163
Actuarial loss - changes in demographic assumptions	1,847	-	1,847
Actuarial loss - changes in financial assumptions	955	-	955
Actuarial loss - experience adjustments	<u>41</u>	<u>-</u>	<u>41</u>
Recognized in other comprehensive income	<u>2,843</u>	<u>163</u>	<u>3,006</u>
Contributions from the employer	<u>(1,756)</u>	<u>(1,100)</u>	<u>(2,856)</u>
Benefits paid	<u>(8,780)</u>	<u>8,780</u>	<u>-</u>
Balance at December 31, 2016	<u>30,762</u>	<u>(22,168)</u>	<u>8,594</u>
Current service cost	192	-	192
Net interest expense (income)	<u>269</u>	<u>(205)</u>	<u>64</u>
Recognized in profit or loss	<u>461</u>	<u>(205)</u>	<u>256</u>
	<u>31,223</u>	<u>(22,373)</u>	<u>8,850</u>
Re-measurement			
Return on plan assets (excluding amounts included in net interest)	-	(70)	(70)
Actuarial loss - changes in demographic assumptions	982	-	982
Actuarial loss - changes in financial assumptions	(870)	-	(870)
Actuarial loss - experience adjustments	<u>6,739</u>	<u>-</u>	<u>6,739</u>
Recognized in other comprehensive income	<u>6,851</u>	<u>(70)</u>	<u>6,781</u>
Contributions from the employer	<u>-</u>	<u>(6,992)</u>	<u>(6,992)</u>
Balance at December 31, 2017	<u>\$ 38,074</u>	<u>\$ (29,435)</u>	<u>\$ 8,639</u>

Note: Since only ETT (Taiwan company) has retirement benefit plans, the above movement is stated in New Taiwan dollars.

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2017	2016
Discount rate	1.125%	0.875%
Expected rate of salary increase	2.750%	2.750%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would change as follows:

	<u>December 31</u>	
	2017	2016
Discount rate		
0.25% increase	<u>\$ (867)</u>	<u>\$ (759)</u>
0.25% decrease	<u>\$ 896</u>	<u>\$ 786</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 865</u>	<u>\$ 756</u>
0.25% decrease	<u>\$ (842)</u>	<u>\$ (734)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 6,562</u>	<u>\$ 2,466</u>
The average duration of the defined benefit obligation	9.2 years	10 years

19. EQUITY

a. Share capital

The initial setup capital of the Company is NT\$1,000 thousand (registered capital is denominated in NTD). After several capital increments, the ordinary share capital of the Company as of December 31, 2017 and 2016 were NT\$619,860 thousand and NT\$615,020 thousand (equivalent to approximately HK\$163,891 and HK\$162,632 thousand), respectively, divided into 61,986 thousand shares and 61,502 thousand shares, each with a nominal amount of NT\$10 per share. All of the shares are ordinary shares, each carrying the rights to vote and receive dividend.

The movements of the shares issued and outstanding were as follows:

	(In Thousands of Shares)	
	December 31	
	2017	2016
Numbers, beginning of year	61,502	61,002
Issuance of restricted shares (Note)	500	500
Write-off of restricted shares	<u>(16)</u>	<u>-</u>
Numbers, end of year	<u>61,986</u>	<u>61,502</u>

Note: The Company's board of directors meeting held on November 8, 2017 and December 12, 2016, respectively, resolved to issue restricted shares (see detail in Note 19(e)) to the Group's specific employees. The restricted shares issued record dates were November 20, 2017 and December 20, 2016, respectively, and exercise price per share both was NT\$0.

b. Treasury shares

Purpose of Buy-back	Shares Held by a Subsidiary (In Thousands of Shares)
Shares transferred to employees	300
Shares held by subsidiaries	<u>453</u>
Number of shares as of December 31, 2017 and 2016	<u>753</u>

The Company's shares held by its subsidiary for the purpose of short-term investment at the end of the reporting periods were as follows:

December 31, 2017

Subsidiary	Number of Shares Held (In Thousands of Shares)	Carrying Amount	Market Price
ETT	453	HK\$5,966 thousand (equivalent to approximately NT\$24,018 thousand)	HK\$3,493 thousand (equivalent to approximately NT\$13,318 thousand)

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote. The shares held by a subsidiary are treated as treasury shares which retain shareholders' rights, except the rights to participate in new share issuance and to vote.

c. Capital surplus

Capital surplus arising from issuance of common shares may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital limited to 10% of the Company's capital annually. As of December 31, 2017 and 2016, the capital surplus of the Company were NT\$766,834 thousand and NT\$756,922 thousand (equivalent to approximately HK\$202,979 thousand and HK\$200,400 thousand). The details were as follows:

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>				
Arising from issuance of common share	\$ 193,698	\$ 729,815	\$ 193,698	\$ 729,815
Cash dividend received from treasury stock	1,028	4,136	897	3,631
<u>May not be used for any purpose</u>				
Arising from employee restricted shares	<u>8,253</u>	<u>32,883</u>	<u>5,805</u>	<u>23,476</u>
	<u>\$ 202,979</u>	<u>\$ 766,834</u>	<u>\$ 200,400</u>	<u>\$ 756,922</u>

d. Retained earnings and dividend policy

Under the dividend policy as set forth in the Company Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining net profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. The remaining net profit in a fiscal year could be distributed by the Company, subject to the following requirements:

The dividends/bonus distribution to the shareholders under this clause shall not be less than 30% of the remaining net profit for the period, and the cash dividend shall not be less than 50% of the total dividends/bonus distribution and the remaining distribution may be in shares dividends. For information about the accrual basis of the employees' and directors' remuneration and the actual appropriations, please refer to Note 20(c) for details.

The appropriations of earnings for 2016 and 2015 were approved in the shareholders' meeting on June 8, 2017 and May 11, 2016, respectively. Details of the dividend per share of the earnings appropriations for 2016 and 2015 of the Company were as follows:

	2016
Ordinary share dividend - cash	NT\$1.11 per share, totaling NT\$68,267 thousand
	2015
Ordinary share dividend - cash	NT\$3 per share totaling NT\$183,006 thousand

The appropriation of earnings for 2017 had been proposed by the Company's board of directors on February 2018. The appropriation and dividends per share were as follows:

2017

Ordinary share dividend - cash NT\$0.7 per share, totaling NT\$43,377 thousand

The appropriation of earnings for 2017 are subject to the resolution of the shareholders' meeting to be held on June 11, 2018.

Exchange differences on translating foreign operations

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Company's presentation currency (i.e. Hong Kong dollars) were recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. When all or a part of the foreign operations are disposed, exchange differences previously accumulated in the foreign currency translation reserve were reclassified to profit or loss on the disposal of the foreign operation.

In addition, according to the requirements of the regulatory authority, the consolidated financial statements of the Company shall present amounts in New Taiwan dollars which are translated from Hong Kong dollars to New Taiwan dollars.

Legal reserve

The old articles of the Company stipulated that 10% of the consolidated net profit of shall be allocated to the legal reserve. However, according to the Articles of the Company revised in June 2013, the Company is not required to allocate 10% of the legal reserve. Legal reserve is used to offset loss.

Subsidiaries in China shall appropriate reserve fund (recognized under legal reserves) and provide employees' award and benefit fund (recognized under liabilities items) from the profit after tax in accordance to Section 58 of the "Rules for the Implementation of the Law of the People's Republic of China on Foreign-funded Enterprises", subject to a proportion of no less than 10% of the profit after tax. No appropriation shall be made when the accumulated amount reaches 50% of the registered capital. The provision in respect of employees' award and benefit fund shall be determined by the Company upon passing of directors' resolution, however, it has not yet been approved as at December 31, 2017.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals ETT's paid-in capital. Legal reserve may be used to offset deficit. If ETT has no deficit and the legal reserve has exceeded 25% of ETT's paid-in capital, the excess may be transferred to capital or distributed in cash.

- e. Share-based payment arrangements - restricted shares plan for employees

Information on restricted shares plan for employees was as below:

Approved Date	Grant Shares (Thousand)	Grant Date	Issued Date	Issued Shares (Thousand)	Issued Price	Fair Value
2015/05/12	252	2015/06/02	2015/06/02	252	\$ -	NT\$60.60 (equivalent to approximately HK\$15.22)
2016/05/11	500	2016/12/20	2016/12/20	500	-	NT\$31.45 (equivalent to approximately HK\$7.63)
2017/06/08	500	2017/11/20	2017/11/20	500	-	NT\$29.5 (equivalent to approximately HK\$7.66)

Note: Restricted shares will be issued one time or multiple times, based on the actual need after the Company reported to competent authority and the regulation and put into effect.

To meet the vesting conditions, an employee has to meet performance and other conditions over the vesting period, as follows:

- 1) Remain employed by the Company within one year after the grant date; and performance rating of “A” - 25% of restricted shares will be vested;
- 2) Remain employed by the Company within two years after the grant date; and performance rating of “A” - 25% of restricted shares will be vested;
- 3) Remain employed by the Company within three years after grant date; and performance rating of “A” - 25% of restricted shares will be vested.
- 4) Remain employed by the Company within four years after the grant date; and performance rating of “A” - 25% of restricted shares will be vested;

In addition to the vesting conditions, the limitations are as follows:

- 1) Employees, except for inheritance, should not sell, transfer, pledge, donate or dispose of the shares in any other way.
- 2) The shares should be held in trust.
- 3) Except for the above two restrictions, other rights of restricted shares plan for employees, including but not limited to, dividends, share options of cash capital and voting rights of shareholders, etc. are the same as the Group’s issued ordinary shares.
- 4) When employees do not reach the vesting conditions of restricted shares plan for employees, the Company will retrieve and cancel the shares.

Information on restricted shares plan for employees was as follows:

	<u>Number of Shares (In Thousands)</u>	
	For the Years Ended	
	December 31	
	2017	2016
Balance at the beginning of the period	689	252
Granted	500	500
Vested	(184)	(63)
Forfeited	<u>(16)</u>	<u>-</u>
Balance at the end of the period	<u>989</u>	<u>689</u>

20. CONSOLIDATED NET PROFIT

In addition to the disclosures made in other notes, the consolidated net profit shall include:

a. Net Revenue

	For the Years Ended December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Traditional Speakers	\$ 266,522	\$ 1,036,078	\$ 283,041	\$ 1,176,913
Speakers and Audio Products with Electronics	1,245,533	4,841,885	823,213	3,423,002
Wireless Speakers	73,032	283,905	65,654	272,996
Earphones	154,678	601,295	144,020	598,850
Premium Speakers	56,674	220,315	67,066	278,867
Others	<u>182,846</u>	<u>710,795</u>	<u>172,775</u>	<u>718,415</u>
	<u>\$ 1,979,285</u>	<u>\$ 7,694,273</u>	<u>\$ 1,555,769</u>	<u>\$ 6,469,043</u>

b. Depreciation and amortization expenses

	For the Years Ended December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Depreciation of property, plant and equipment	\$ 49,925	\$ 194,078	\$ 51,284	\$ 213,244
Amortization of other intangible assets	6,949	27,014	3,414	14,196
Amortization of prepayments for lease	<u>544</u>	<u>2,115</u>	<u>546</u>	<u>2,270</u>
	<u>\$ 57,418</u>	<u>\$ 223,207</u>	<u>\$ 55,244</u>	<u>\$ 229,710</u>

c. Remuneration of directors and key management and employee benefits expenses

	For the Years Ended December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Remuneration of directors and key management				
Short-term benefits	\$ 34,193	\$ 132,922	\$ 30,742	\$ 127,828
Post-employment benefits	850	3,304	704	2,927
Share-based payments	1,128	4,524	729	2,903
Employee benefits				
Short-term benefits	352,203	1,369,154	316,782	1,317,211
Post-employment benefits	17,827	69,301	16,741	69,611
Share-based payments	<u>873</u>	<u>3,555</u>	<u>270</u>	<u>1,079</u>
	<u>\$ 407,074</u>	<u>\$ 1,582,760</u>	<u>\$ 365,968</u>	<u>\$ 1,521,559</u>

Under the Company's Article of Incorporation, the Company should distribute employees' remuneration at the rates no less than 1% and no higher than 15% and remuneration of directors and supervisors at the rates no higher than 2%, respectively, of net profit before income tax, employees' and director's remuneration.

The Company accrued employees' and directors' remuneration based on the aforementioned article, which amounted to HK\$896 thousand (equivalent to approximately NT\$3,486 thousand) and HK\$875 thousand (equivalent to approximately NT\$3,401 thousand) for the year ended December 31, 2017.

The Company accrued employees' and directors' remuneration based on the aforementioned article, which amounted to HK\$2,855 thousand (equivalent to approximately NT\$11,869 thousand) and HK\$945 thousand (equivalent to approximately NT\$3,929 thousand) for the year ended December 31, 2016.

If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in accounting estimate.

The appropriations of employees' and directors' remuneration for 2017 and 2016 having been resolved by the board of directors on February 23, 2018 and February 20, 2017, respectively, were as below:

	2017
Directors' remuneration - cash	HK\$875 thousand (equivalent to approximately NT\$3,401 thousand)
Employees' remuneration - cash	HK\$896 thousand (equivalent to approximately NT\$3,486 thousand)
	2016
Directors' remuneration - cash	HK\$945 thousand (equivalent to approximately NT\$3,929 thousand)
Employees' remuneration - cash	HK\$2,855 thousand (equivalent to approximately NT\$11,869 thousand)

There was no significant difference between the actual amounts of employees' and directors' remuneration paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

Information on the employees' remuneration and remuneration of directors and supervisors resolved by the Company's board of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

d. Other income

	For the Years Ended December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Project service revenue	\$ 3,322	\$ 12,914	\$ 3,711	\$ 15,431
Interest income	1,170	4,548	607	2,524
Rent revenue	287	1,116	275	1,143
Dividend income	2,868	11,149	1,609	6,690
Scrap income	1,051	4,086	3,586	14,911
Gains on disposal of property, plant and equipment	7	27	30	125
Gain on disposal of assets held for sale	41,634	161,848	-	-
Net gain on financial instruments at fair value through profit or loss	12	47	3,641	15,140
Others	<u>12,245</u>	<u>47,601</u>	<u>6,727</u>	<u>27,971</u>
	<u>\$ 62,596</u>	<u>\$ 243,336</u>	<u>\$ 20,186</u>	<u>\$ 83,935</u>

e. Other losses

	For the Years Ended December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Losses on scrap and disposal of property, plant and equipment	\$ 1,874	\$ 7,285	\$ 1,052	\$ 4,375
Others	<u>631</u>	<u>2,453</u>	<u>2</u>	<u>8</u>
	<u>\$ 2,505</u>	<u>\$ 9,738</u>	<u>\$ 1,054</u>	<u>\$ 4,383</u>

f. Finance costs

	For the Years Ended December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Interest expense arising from bank borrowings	<u>\$ 7,370</u>	<u>\$ 28,650</u>	<u>\$ 7,015</u>	<u>\$ 29,169</u>

21. INCOME TAXES

a. Income tax expense recognized in profit or loss

	For the Years Ended December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Current tax				
In respect of the current year	\$ 7,529	\$ 29,268	\$ 12,390	\$ 51,519
Adjustments for prior years	(597)	(2,322)	1,716	7,136
Deferred tax				
In respect of the current year	<u>3,297</u>	<u>12,818</u>	<u>173</u>	<u>719</u>
Income tax expenses recognized in profit or loss	<u>\$ 10,229</u>	<u>\$ 39,764</u>	<u>\$ 14,279</u>	<u>\$ 59,374</u>

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Years Ended December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Profit before tax	<u>\$ 42,448</u>	<u>\$ 164,708</u>	<u>\$ 46,449</u>	<u>\$ 193,306</u>
Income tax expense calculated at the statutory rate (16.5%)	\$ 7,004	\$ 27,227	\$ 7,664	\$ 31,868
Tax-exempt income and non-deductible expenses in determining taxable income	6,206	24,126	5,438	22,611
Income tax adjustment for prior years	(597)	(2,322)	1,716	7,136
Effect on deferred tax assets unrecognized in prior years	(4,344)	(16,887)	(3,075)	(12,786)
Effect of different tax rate of foreign operations in other jurisdictions	<u>1,960</u>	<u>7,620</u>	<u>2,536</u>	<u>10,545</u>
Income tax expense recognized in profit or loss	<u>\$ 10,229</u>	<u>\$ 39,764</u>	<u>\$ 14,279</u>	<u>\$ 59,374</u>

The Company was incorporated in accordance with the International Business Companies Order issued by the government of the Cayman Islands and is exempted from income tax charged by the government of the Cayman Islands.

The EAH and ETH of the Group according to Hong Kong tax regulation, the local tax rate for Hong Kong subsidiaries is 16.5%. Different period and interim period income tax allocation shall be estimated in accordance with IFRSs.

Effective from January 1, 2008, subsidiaries in the PRC shall be subject to an applicable tax rate of 25% upon implementation of new Enterprise Income Tax Law. In addition, HYE A and HYDM obtained the innovation and high technology enterprise certificates issued by local tax authorities in July 2013. Therefore, HYE A and HYDM are subject to the applicable preferential income tax rate in the next three years. Their enterprise income tax rate has been reduced from 25% to 15%. HYE A and HYDM obtained the proof of review in February 2016. Therefore, HYE A and HYDM are still subject to the applicable preferential income tax rate from 2015 to 2017.

In accordance with Enterprise Income Tax Law of the PRC, effective on 2008 and taxation on the interpretations and implementation of some clauses in the arrangement between the Mainland of China and Hong Kong Special Administrative Region on the avoidance of double taxation. If a foreign enterprise with allocation of dividend to company in Hong Kong meets certain conditions the Department, 5% tax is levied on its earnings distribution.

The local tax rate for the subsidiary in Denmark is 22%. The local tax rate for the subsidiary in Taiwan is 17%.

b. Deferred tax assets

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Allowance of inventories provision	\$ 1,583	\$ 6,035	\$ 1,805	\$ 7,512
Defined benefit plan	746	2,844	449	1,866
Others	<u>526</u>	<u>2,005</u>	<u>865</u>	<u>3,602</u>
	<u>\$ 2,855</u>	<u>\$ 10,884</u>	<u>\$ 3,119</u>	<u>\$ 12,980</u>

The movements of deferred tax assets were as follows:

	Unit: H.K. Dollars				
	Tax Losses	Allowance of Inventories Provision	Defined Benefit Plan	Others	Total
Balance at January 1, 2016	\$ 678	\$ 719	\$ 326	\$ 889	\$ 2,612
Recognized in profit or loss	(678)	1,177	-	(52)	447
Recognized in other comprehensive income	-	-	123	-	123
Effect of exchange rate changes	<u>-</u>	<u>(91)</u>	<u>-</u>	<u>28</u>	<u>(63)</u>
Balance at December 31, 2016	-	1,805	449	865	3,119
Recognized in profit or loss	-	(345)	-	(454)	(799)
Recognized in other comprehensive income	-	-	297	-	297
Effect of exchange rate changes	<u>-</u>	<u>123</u>	<u>-</u>	<u>115</u>	<u>238</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 1,583</u>	<u>\$ 746</u>	<u>\$ 526</u>	<u>\$ 2,855</u>

Unit: N.T. Dollars

	Tax Losses	Allowance of Inventories Provision	Defined Benefit Plan	Others	Total
Balance at January 1, 2016	\$ 2,886	\$ 3,061	\$ 1,334	\$ 3,839	\$ 11,120
Recognized in profit or loss	(2,819)	4,894	-	(216)	1,859
Recognized in other comprehensive income	-	-	511	-	511
Effect of exchange rate changes	(67)	(443)	21	(21)	(510)
Balance at December 31, 2016	-	7,512	1,866	3,602	12,980
Recognized in profit or loss	-	(1,341)	-	(1,765)	(3,106)
Recognized in other comprehensive income	-	-	1,154	-	1,154
Effect of exchange rate changes	-	(136)	(176)	168	(144)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 6,035</u>	<u>\$ 2,844</u>	<u>\$ 2,005</u>	<u>\$ 10,884</u>

c. Deferred tax liabilities

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Temporary differences on other intangible assets	\$ 8,174	\$ 31,163	\$ 5,842	\$ 24,312
Temporary differences on inventory and depreciation of property, plant and equipment	7,323	27,918	7,533	31,348
Unappropriated earnings of subsidiaries	<u>13,357</u>	<u>50,922</u>	<u>14,246</u>	<u>59,285</u>
	<u>\$ 28,854</u>	<u>\$ 110,003</u>	<u>\$ 27,621</u>	<u>\$ 114,945</u>

The movements of deferred tax liabilities were as follows:

Unit: H.K. Dollars

	Temporary Differences on Other Intangible Assets	Temporary Differences on Inventory and Depreciation of Property, Plant and Equipment	Unappropriated Earnings of Subsidiaries	Total
Balance at January 1, 2016	\$ 4,862	\$ 8,987	\$ 13,391	\$ 27,240
Recognized in profit or loss	1,096	(1,342)	866	620
Effect of exchange rate changes	(116)	(112)	(11)	(239)
Balance at December 31, 2016	5,842	7,533	14,246	27,621
Recognized in profit or loss	1,686	(610)	1,422	2,498
Decrease	-	-	(2,311)	(2,311)
Effect of exchange rate changes	646	400	-	1,046
Balance at December 31, 2017	<u>\$ 8,174</u>	<u>\$ 7,323</u>	<u>\$ 13,357</u>	<u>\$ 28,854</u>

Unit: N.T. Dollars

	Temporary Differences on Other Intangible Assets	Temporary Differences on Inventory and Depreciation of Property, Plant and Equipment	Unappropriated Earnings of Subsidiaries	Total
Balance at January 1, 2016	\$ 20,698	\$ 38,258	\$ 57,007	\$ 115,963
Recognized in profit or loss	4,557	(5,582)	3,601	2,576
Effect of exchange rate changes	<u>(943)</u>	<u>(1,328)</u>	<u>(1,323)</u>	<u>(3,594)</u>
Balance at December 31, 2016	24,312	31,348	59,285	114,945
Recognized in profit or loss	6,554	(2,372)	5,528	9,710
Decrease	-	-	(8,984)	(2,803)
Effect of exchange rate changes	<u>297</u>	<u>(1,058)</u>	<u>(4,907)</u>	<u>(11,849)</u>
Balance at December 31, 2017	<u>\$ 31,163</u>	<u>\$ 27,918</u>	<u>\$ 50,922</u>	<u>\$ 110,003</u>

- d. Unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Loss carryforwards	<u>\$ 48,944</u>	<u>\$ 186,594</u>	<u>\$ 22,743</u>	<u>\$ 94,645</u>

- e. Income tax assessments

The Company and its subsidiaries are located in the Cayman Islands, PRC, Hong Kong and Denmark. The aforementioned tax authorities will not take the initiative to send a tax returns assessment to enterprises. When there are tax disputes, they issued a tax payment notice to enterprises and reserve the right to propose additional taxes. The tax authorities have assessed income tax returns of ETT up to 2015.

22. EARNINGS PER SHARE

	Amount (In Thousands)		Weighted Average Shares (In Thousands)	Earnings Per Share (Dollars)	
	HK\$	NT\$		HK\$	NT\$
For the year ended December 31, <u>2017</u>					
Basic earnings per share (Note) Net profit attributable to owner of the Company	<u>\$ 32,219</u>	<u>\$ 124,944</u>	<u>60,807</u>	<u>\$ 0.53</u>	<u>\$ 2.05</u>
For the year ended December 31, <u>2016</u>					
Basic earnings per share (Note) Net profit attributable to owner of the Company	<u>\$ 32,170</u>	<u>\$ 133,932</u>	<u>60,270</u>	<u>\$ 0.53</u>	<u>\$ 2.22</u>

Note: The restricted shares plan for employees is entitled to vote and to receive dividends after granted. In addition, if employees resign in the vested period, they are not required to return restricted shares and dividends. Therefore, the restricted shares are considered as the outstanding shares at the issuance date, and there is no dilutive effect on earnings per share.

23. RELATED-PARTY TRANSACTIONS

Balance transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Except disclosed in other notes, details of transactions between the Group and other related parties are disclosed below:

a. Payable to related parties

Related Party Categories	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Other payables				
Related company	\$ -	\$ -	\$ 8,920	\$ 37,120

Other payables include payable for acquiring ETT Group and the temporary payable for ETT Group's derivative financial instruments, the balance is paid in January 2017.

b. Remuneration of key management personnel

The remuneration of directors and key management was determined by the remuneration committee based on the performance of individuals and market trends. Please refer to Note 20(c) for details.

24. PLEDGED ASSETS

The following assets and treasury shares disclosed in Note 19 were provided as collateral for bank borrowings. Part of loan guarantees is provided by the Chairman of the Company.

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Other intangible assets	\$ 7,976	\$ 30,408	\$ 4,451	\$ 18,523
Accounts receivable with recourse	3,191	12,165	3,381	14,070
Machineries and office equipment	4,731	18,036	7,356	30,611
Inventories and other assets	16,243	61,925	14,073	58,565
Pledge deposits (recognized under restricted assets - current)	<u>1,315</u>	<u>5,013</u>	<u>1,397</u>	<u>5,814</u>
	<u>\$ 33,456</u>	<u>\$ 127,547</u>	<u>\$ 30,658</u>	<u>\$ 127,583</u>

25. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

a. Lease agreement

Operating leases involve leases of land, offices premises and other operating assets, except prepayments for land lease (refer to Note 15), that terms of leases are mainly from 1 to 50 years. For operating lease period with more than 5 years, the lease contracts stipulate that the rental should be increased by certain percentage for every 5 years. The Group does not have acquisition rights to the leased land at the termination of the lease.

b. Non-cancellable operating leases

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Within 1 year	\$ 9,370	\$ 35,722	\$ 7,462	\$ 31,053
More than 1 year and within 5 years	17,930	68,356	13,966	58,120
More than 5 years	<u>14,963</u>	<u>57,045</u>	<u>15,226</u>	<u>63,363</u>
	<u>\$ 42,263</u>	<u>\$ 161,123</u>	<u>\$ 36,654</u>	<u>\$ 152,536</u>

Rental expenses of the Group arising from operating leases for years ended December 31, 2017 and 2016 amounted to HK\$7,818 thousand and HK\$9,494 thousand (equivalent to approximately NT\$30,392 thousand and NT\$39,477 thousand), respectively.

26. COMMITMENTS AND CONTINGENT LIABILITIES

a. Litigation

In December 2005, EAH entered into an agreement with an independent third party to establish a company in Brazil, Eastern Asia Unicoba Electronics Da Amazonia Ltda. ("EAB"). In 2006, EAH invested approximately HK\$12,600 thousand in a 68% equity interest in EAB. Since 2007, the investment cost was reclassified as other receivable under current assets due to the withdrawal of EAH as a shareholder of EAB. EAH is involved in several legal matters in Brazil where it is the plaintiff as well as defendant. Regarding aforementioned lawsuit related to EAB please see below for further explanation:

1) The legal matters whereby EAH is the plaintiff are:

As of December 31, 2017 and 2016, the amounts sought for legal matters whereby EAH is the plaintiff are R\$12,400 thousand and R\$16,400 thousand (approximately NT\$111,800 thousand and NT\$162,100 thousand) (the amount has considered accrued interest from the date of the prosecution and local court's provision such as inflation index, etc.), respectively. Since EAH does not have any assets in Brazil, EAH must provide security deposits to the courts as possible court costs incurred in the litigation.

Since the outcome of litigation is dependent on the Courts' judgements, EAH has recognized related impairment of aforementioned other receivables based on current litigation progress.

As of December 31, 2017 and 2016, amounts recorded as other receivables (net of impairment loss) are both HK\$8,654 thousand (approximately NT\$32,992 thousand and NT\$36,013 thousand converted by the spot exchange rate of each balance sheet date), respectively.

Based on the assessment of the legal opinion obtained and the assessment of the financial background of the defendants as of December 31, 2017 and 2016, EAH considers that the impairment loss taken is reasonable and sufficient.

EAH is required to place bonds (also recorded as other receivables) with the Courts in Brazil to secure payment of court costs. As of December 31, 2017 and 2016, pledged deposit recorded as other receivables (net of impairment loss) are HK\$1,066 thousand and HK\$1,059 thousand (approximately NT\$4,064 thousand and NT\$4,407 thousand), respectively.

2) The legal matters whereby EAH is the defendant are:

The plaintiff sought partial dissolution of EAB with the withdrawal of EAH from EAB; and the assessment of assets and liabilities of the partners arising from the termination of the partnership. The plaintiff also sought an injunction to prevent or suspend the effects of the shareholders meeting held in November 2006. In June 2008, the judge ordered that an accounting expert examination takes place to verify the reimbursement of the amount equivalent to EAH's equity interest in EAB. As of July 16, 2012, the accounting expert examination report identified when EAH divestment of EAB, EAB's net equity is positive (R\$1,978 thousand, approximately NT\$17,836 thousand). Hence, EAH is not liable for any debt of EAB. In contrast, after consideration of interest and inflation factors, the court ruled that the plaintiff shall pay EAH R\$4,429 thousand (approximately NT\$39,937 thousand) within 90 days from the date of the judgment. Since the plaintiff has filed an appeal on September 4, 2012 and the recoverability of any potential awards by the courts is also subject to the availability of assets by the defendants to the litigations, EAH will recognize related income when actual recovery. At current stage, it has no material impact on the Group's financial position.

b. Financial guarantees within the Group refer to Table 2 of Note 29.

27. DISCLOSURE ON FINANCIAL INSTRUMENTS

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return through the optimization of the capital and debt structure balance. The Group's overall strategy remains unchanged in 2017.

The Group regularly review to the appropriate categories of capital structure. The Group manages based on the cost of capital and the risks associated with the various types of capital determine a reasonable proportion of the Group's capital structure.

As of December 31, 2017 and 2016, the cash and cash equivalents, restricted assets - current (pledged deposit) and bank borrowings were as follows:

	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Debt (bank borrowing)	\$ (262,429)	\$ (1,000,484)	\$ (221,066)	\$ (919,966)
Cash and cash equivalents (including pledged deposit)	<u>194,319</u>	<u>740,821</u>	<u>226,415</u>	<u>942,226</u>
Net (debt) cash	<u>\$ (68,110)</u>	<u>\$ (259,663)</u>	<u>\$ 5,349</u>	<u>\$ 22,260</u>
Equity	<u>\$ 401,860</u>	<u>\$ 1,532,049</u>	<u>\$ 351,239</u>	<u>\$ 1,461,681</u>
Debt-equity ratio	<u>17%</u>	<u>17%</u>	<u>NA</u>	<u>NA</u>

b. Fair value of financial instruments

The Group's financial instruments involve publicly traded stocks (refer to Note 7) which are recognized at fair value on a recurring basis, grouped into Levels 1 (are measured from quoted prices in active markets).

If a non-derivative instrument has short maturity, its future amount receivable and payable approximate its carrying amount, and its carrying amount provides a reasonable basis for estimation of fair value, then the fair value of which shall be estimated based on its carrying amount as shown in the balance sheet. Hence, the carrying amounts of the following financial instruments approximate their fair values:

Cash and cash in banks, notes and accounts receivable, other financial assets, notes and accounts payable, other payables to related parties, other payables, finance lease payables and bank borrowings.

c. Financial risk management objectives and policies

The Group's major financial instruments include cash and cash in bank, notes and accounts receivable, other financial assets, bank borrowings loans and financial liabilities, etc. Details of the aforementioned financial instruments have been disclosed in the consolidated financial statements.

Set out below are the risks related to the financial instruments, policies to mitigate the risks, how the management monitor the risks in order to adopt timely, appropriate and effective measures.

d. Financial risk information

Based on the internal report containing analysis of exposure of and amount involved in risks by financial units, the Group monitors and manages financial risks relating to the enterprise as a whole, the domestic and international financial market and the operations of the Group. These risks include market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk.

Financial units of the Group constantly report to the management. Management will then monitor the risks and execute policies according to its duties and responsibilities so as to mitigate exposure.

There is no change on the Group's type of exposure and its management and measurement thereof.

1) Market risk

The Group's financial instrument transaction is exposed to foreign exchange risk and interest rate risk (refer to 2 and 3 below).

2) Foreign exchange risk

The Group has foreign currency-denominated transactions that are exposed to the risk caused by fluctuation of exchange rates in the market. To monitor the risk, the responsible team of the Group reviews constantly the portion of assets and liabilities that are exposed to the risk and makes appropriate adjustment so as to control any risk arising from fluctuation of exchange rates.

Since the principal currency of the Group is the US dollar, thus the Group is exposed to risk of exchange rate fluctuation. Fortunately, the risk is mitigated as the majority of receivables and payables and bank borrowings are denominated in US dollar.

As of the reporting period, the carrying amounts of the significant foreign currency-denominated assets and liabilities that are expected to be exposed to exchange rates fluctuation were as follows:

Assets				
December 31				
2017		2016		
HK\$	NT\$	HK\$	NT\$	
USD	\$ 456,780	\$ 1,741,428	\$ 319,479	\$ 1,329,512
HKD	<u>391</u>	<u>1,491</u>	<u>624</u>	<u>2,597</u>
	<u>\$ 457,171</u>	<u>\$ 1,742,919</u>	<u>\$ 320,103</u>	<u>\$ 1,332,109</u>
Liabilities				
December 31				
2017		2016		
HK\$	NT\$	HK\$	NT\$	
USD	\$ 283,078	\$ 1,079,207	\$ 276,463	\$ 1,150,501
HKD	<u>65,720</u>	<u>250,551</u>	<u>51,303</u>	<u>213,497</u>
	<u>\$ 348,798</u>	<u>\$ 1,329,758</u>	<u>\$ 327,766</u>	<u>\$ 1,363,998</u>

The following table details the Company's sensitivity to a 5% increase and decrease in the foreign currency against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with currency strengthen 5% against the relevant currency. For a 5% weakening of currency against the relevant currency, there would be an equal and opposite impact on pre-tax profit would be negative.

	Currency USD Impact		Currency USD Impact	
	For the Year Ended		For the Year Ended	
	December 31, 2017		December 31, 2016	
	HK\$	NT\$	HK\$	NT\$
Profit or loss	<u>\$ 8,685</u>	<u>\$ 33,111</u>	<u>\$ 2,151</u>	<u>\$ 8,951</u>

	<u>Currency H.K. Dollars Impact</u>		<u>Currency H.K. Dollars Impact</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>HK\$</u>	<u>NT\$</u>	<u>HK\$</u>	<u>NT\$</u>
Profit or loss	\$ (3,266)	\$ (12,453)	\$ (2,534)	\$ (10,545)

The management considers that the sensitivity analysis is unrepresentative of the inherent foreign exchange rate risk as the year end exposure does not reflect the exposure during the period.

3) Interest rate risk

Management of interest rate risk

The Group is subject to interest rate risk arising from bank deposits and borrowings bearing floating interest rate. The current policy of the Group is to maintain borrowings bearing floating interest rate so as to mitigate risk arising from interest rate fluctuation. There is no financial instrument held for hedging purpose. Management of the Group reviews interest rate risk periodically and will implement measures when necessary to address significant interest rate risk for proper monitoring in light of any change in market interest rate.

Sensitivity analysis of interest rate

The following sensitivity analysis is prepared based on the exposure to interest rate of non-derivative instrument at the end of the reporting period.

0.5% increase or decrease has been used by the Group as a reasonable estimation of interest rate fluctuation when reporting to the management. With other variations remain unchanged, without taking into account capitalization of interests, if the interest rate increased 0.5%, the profit and loss of the Group for the years ended 2017 and 2016 would have been decreased by HK\$360 thousand and HK\$25 thousand (equivalent to approximately NT\$1,376 thousand NT\$106 thousand), respectively.

4) Credit risk

The Group is exposed to credit risk in the event of the counterparties' failure to perform their obligations under the contracts. The credit risk of the Group is assessed based on the contracts with positive fair values as at the end of the reporting period. Counterparties of the Group are creditworthy financial institutes and corporate entities, and the extent of credit risk that may arise from the counterparties and their creditworthiness are reviewed annually by a special team. Therefore, it is expected that the credit risk is insignificant.

The accounts receivables of the Group concentrate in certain clients who are mainly internationally renowned brands of media players and are not connected. Credit assessments on the financial status of the clients have been conducted. Therefore, it is expected that the credit risk from accounts receivables is minimal.

The maximum exposure of the Group to credit risk is the net amount of carrying amount less amount required to be offset and impairment loss required to be recognized under relevant rules (i.e. carrying amount of financial assets), without taking into account any security and other credit enhancement. The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

5) Liquidity risk

Appropriate management structure addressing liquidity risk is formulated by the management to monitor short, medium and long term financing and solvency. As such, the Group is not exposed to any liquidity risk attributable to failure to perform obligation under the contract due to inability to finance funds.

The table below analyzes the remaining unexpired maturity of non-derivative financial liabilities with fixed term of repayment based on the undiscounted cash flow of the financial liabilities on the earliest date that repayment shall be made on demand, and the interest and principal are included in the analysis. In respect of the interest cash flow payable at floating rates, the undiscounted interests are estimated based on yield curve as at the end of the reporting period. Maturities of contracts are estimated on the earliest date of repayment on demand. When the amount payable or receivable is not fixed, disclosure of such amount is determined based on the estimated interest rate derived from the yield curve on the balance sheet date.

Unit: H.K. Dollars

	December 31, 2017				
	Effective Interest Rate	On Demand or Within 1 Year	2 Years to 5 Years	More than 5 Years	Total
<u>Non-interest bearing liabilities</u>					
Notes and accounts payable	-	\$ 433,656	\$ -	\$ -	\$ 433,656
Other payables	-	97,581	-	-	97,581
<u>Interest bearing liabilities</u>					
Bank borrowings	2.88%	265,661	4,331	-	269,992

Unit: H.K. Dollars

	December 31, 2016				
	Effective Interest Rate	On Demand or Within 1 Year	2 Years to 5 Years	More than 5 Years	Total
<u>Non-interest bearing liabilities</u>					
Notes and accounts payable	-	\$ 294,686	\$ -	\$ -	\$ 294,686
Other payables to related parties	-	8,920	-	-	8,920
Other payables	-	103,941	-	-	103,941
<u>Interest bearing liabilities</u>					
Finance lease payables	-	185	-	-	185
Bank borrowings	2.39%	219,366	6,983	-	226,349

Unit: N.T. Dollars

	December 31, 2017				
	Effective Interest Rate	On Demand or Within 1 Year	2 Years to 5 Years	More than 5 Years	Total
<u>Non-interest bearing liabilities</u>					
Notes and accounts payable	-	\$ 1,653,270	\$ -	\$ -	\$ 1,653,270
Other payables	-	372,018	-	-	372,018
<u>Interest bearing liabilities</u>					
Bank borrowings	2.88%	1,012,806	16,512	-	1,029,318

	December 31, 2016				
	Effective Interest Rate	On Demand or Within 1 Year	2 Years to 5 Years	More than 5 Years	Total
<u>Non-interest bearing liabilities</u>					
Notes and accounts payable	-	\$ 1,226,336	\$ -	\$ -	\$ 1,226,336
Other payables to related parties	-	37,120	-	-	37,120
Other payables	-	432,550	-	-	432,550
<u>Interest bearing liabilities</u>					
Finance lease payables	-	770	-	-	770
Bank borrowings	2.39%	912,892	29,060	-	941,952

e. Financial facilities

Bank borrowings

	Liabilities			
	December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Secured borrowings				
Amount unused	\$ 250,530	\$ 955,121	\$ 412,512	\$ 1,716,668

f. Significant assets and liabilities denominated in foreign currencies

The following information was aggregated by the foreign currencies other than functional currencies of the Group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2017

Unit: Foreign Currencies (In Thousands)

	Foreign Currencies	Function Currencies	Exchange Rate (Note)	Carrying Amount (NT\$)
<u>Financial assets</u>				
Monetary items				
USD	\$ 51,114	HKD	29.745	\$ 1,520,390
USD	7,288	NTD	29.745	216,795
USD	58	RMB	29.745	1,727
USD	<u>85</u>	DKK	29.745	<u>2,516</u>
	<u>\$ 58,545</u>			<u>\$ 1,741,428</u>
<u>Financial liabilities</u>				
Monetary items				
USD	\$ 20,926	HKD	29.745	\$ 622,457
USD	14,806	RMB	29.745	440,416
USD	533	NTD	29.745	15,854
USD	<u>16</u>	DKK	29.745	<u>480</u>
	<u>\$ 36,281</u>			<u>\$ 1,079,207</u>
HKD	\$ 65,696	RMB	3.8124	\$ 250,463
HKD	<u>23</u>	RMB	3.8124	<u>88</u>
	<u>\$ 65,719</u>			<u>\$ 250,551</u>

December 31, 2016

Unit: Foreign Currencies (In Thousands)

	Foreign Currencies	Function Currencies	Exchange Rate (Note)	Carrying Amount (NT\$)
<u>Financial assets</u>				
Monetary items				
USD	\$ 30,819	HKD	32.235	\$ 993,459
USD	10,009	NTD	32.235	322,624
USD	245	RMB	32.235	7,886
USD	<u>172</u>	DKK	32.235	<u>5,543</u>
	<u>\$ 41,245</u>			<u>\$ 1,329,512</u>
<u>Financial liabilities</u>				
Monetary items				
USD	\$ 23,802	HKD	32.235	\$ 767,260
USD	9,573	RMB	32.235	308,592
USD	2,070	NTD	32.235	66,738
USD	<u>245</u>	DKK	32.235	<u>7,911</u>
	<u>\$ 35,690</u>			<u>\$ 1,150,501</u>
HKD	<u>\$ 51,302</u>	RMB	4.1615	<u>\$ 213,497</u>

Note: Exchange rates represent the closing exchange rate of foreign currency into New Taiwan dollars.

Information of foreign exchange gains and losses are as follow:

	For the Years Ended December 31			
	2017		2016	
	HK\$	NT\$	HK\$	NT\$
Realized foreign exchange (loss) gain	\$ (4,108)	\$ (15,969)	\$ 9,751	\$ 40,545
Unrealized foreign exchange loss	<u>(6,601)</u>	<u>(25,661)</u>	<u>(925)</u>	<u>(3,846)</u>
	<u>\$ (10,709)</u>	<u>\$ (41,630)</u>	<u>\$ 8,826</u>	<u>\$ 36,699</u>

It is impractical to disclose net foreign exchange gain (loss) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

g. Information of transferred financial assets

In 2017 and 2016, the Group entered into several trade receivable factoring agreements with the banks. According to the factoring agreement, the Group received certain percentage of trade receivable in cash from the bank in advance. If the trade receivables are collected at maturity, the bank has the right to request the Group to repay the unsettled difference. As the Group has not transferred the significant risks and rewards relating to these trade receivables, the Group continues to recognize the full carrying amount of the receivables and the factoring amount as secured bank borrowings.

As of December 31, 2017 and 2016, the carrying amount of the trade receivables that have been transferred but have not been derecognized and the related liability recognized please refer to Note 16 and Note 24, respectively.

28. SEGMENT INFORMATION

a. Operating segments

IFRS 8 requires that operating units shall be identified based on the internal report to the chief decision maker for periodical review for the purpose of resource allocation to each component of the Group and assessment of their performance. Since the Group is engaged in the processing of speaker systems, and AV electronics products (from acquisition of ETT Group's original business units), under the model that the Hong Kong or Taiwan outsources production orders to the subsidiaries in PRC, there is no other segment which has allocated resources or whose performance has been assessed other than processing of speaker systems, earphones and AV electronics products.

Since the Group's speaker systems, earphones and AV electronics sectors have been fully integrated and centrally managed and the financial management information provided to chief decision maker has also been changed to a single segment, the entire Group's resources to be allocated to and evaluates the overall performance, no longer distinguish from the speaker system, headphones and audio-visual electronic sector. As a result, the operating information to the chief decision maker for periodical review is measured in the same way as the financial statements, which is reported by a single segment. For the years ended December 31, 2017 and 2016, the revenue and operating results of the operating segment can be found in the consolidated income statement for the years from January 1 to December 31, 2017 and 2016. The product revenue will be divided into the following: Traditional Speakers, Speakers and Audio Products with Electronics, Wireless Speakers, Earphones, Premium Speakers, and other products (see Note 20).

b. Geographic information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	For the Years Ended December 31			
	2017		2016	
	Revenue from External Customers		Revenue from External Customers	
	HK\$	NT\$	HK\$	NT\$
China	\$ 1,042,502	\$ 4,052,622	\$ 785,481	\$ 3,266,108
Hong Kong	340,842	1,324,989	354,004	1,471,984
Japan	144,250	560,757	146,845	610,597
Brazil	7,149	27,791	6,418	26,686
Others	<u>444,542</u>	<u>1,728,114</u>	<u>263,021</u>	<u>1,093,668</u>
	<u>\$ 1,979,285</u>	<u>\$ 7,694,273</u>	<u>\$ 1,555,769</u>	<u>\$ 6,469,043</u>

	December 31			
	2017		2016	
	Non-current Assets		Non-current Assets	
	HK\$	NT\$	HK\$	NT\$
China	\$ 234,363	\$ 893,487	\$ 240,602	\$ 1,001,265
Hong Kong	5,908	22,524	11,393	47,412
Taiwan	4,640	17,689	5,156	21,457
Denmark	<u>51,889</u>	<u>197,820</u>	<u>45,829</u>	<u>190,717</u>
	<u>\$ 296,800</u>	<u>\$ 1,131,520</u>	<u>\$ 302,980</u>	<u>\$ 1,260,851</u>

c. Information of key customers

Customers representing more than 10% of the Group's total income as shown in the consolidated statements of comprehensive income are as follows:

	For the Years Ended December 31					
	2017			2016		
	HK\$	NT\$	%	HK\$	NT\$	%
Company A	\$ 367,004	\$ 1,426,691	19	\$ 380,682	\$ 1,582,914	24
Company B	516,502	2,007,850	26	280,496	1,166,330	18
Company C	204,943	796,695	10	204,204	849,101	13
Company D	232,467	903,692	12	41,621	173,064	3

7. REVIEW OF FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

7.1 Analysis of Financial Status

1. Main reason and impact of significant changes in assets, liabilities and shareholders' equity in the past two years.

Unit: NT\$'000; %

Item	Year	2016	2017	Increase / Decrease	
				Amount	%
Current Assets		2,841,601	3,437,400	595,799	20.97
Fixed Assets		976,413	814,687	(161,726)	(16.56)
Other Assets		409,966	438,387	28,421	6.93
Total Assets		4,227,980	4,690,474	462,494	10.94
Current Liabilities		2,614,379	3,023,733	409,354	15.66
Long-term Liabilities		36,975	24,689	(12,286)	(33.23)
Other Liabilities		114,945	110,003	(4,942)	(4.30)
Total Liabilities		2,766,299	3,158,425	392,126	14.18
Share Capital		615,020	619,860	4,840	0.79
Capital Reserve		756,922	766,834	9,912	1.31
Treasury Shares		(40,671)	(40,671)	-	-
Employee Unearned Benefit		(24,787)	(30,955)	(6,168)	24.88
Provision for increase in revaluation		-	-	-	N/A
Retained Earnings (including legal reserve)		235,504	286,551	51,047	21.68
Exchange difference on translation of foreign operations		(80,307)	(69,570)	10,737	(13.37)
Total Equity		1,461,681	1,532,049	70,368	4.81
Description of items with significant changes: (change in amount of more than 10% and the amount represents 1% of total assets for the year)					
1. Increase in current assets: Due to the increase in sales revenue for 2017 as compared with last year, accounts receivable and notes receivable and inventory increased by approximately NT\$640 million. In addition, due to the increase in domestic sales in China, relevant value-added tax recoverable and refundable increased as compared with the end of last year, and with the payment of refundable customs deposit in September 2017 required by China Customs, other receivables increased as compared with the end of last year. Due to our operational needs, cash and cash equivalent decreased by approximately NT\$200 million as compared with the end of last year. In view of the above, current assets					

increased as compared with the end of last year.

2. Decrease in fixed assets:

Mainly because of the net additions of property, plant and equipment of ~NT\$82 million, less ordinary depreciation of ~NT\$194 million, reclassification items of ~NT\$17 million and currency exchange differences of ~NT\$25 million.

3. Increase in total assets:

As the increase in current assets and other assets was higher than the decrease in fixed assets, total assets increased as compared with the end of last year.

4. Increase in current liabilities:

As the sales costs for 2017 were higher than last year, notes payable and accounts payable increased as compared with the end of last year, which resulted in an increase in current liabilities as compared with the end of last year.

5. Increase in total liabilities:

As the increase in current liabilities was higher than the decrease in long-term liabilities and other liabilities, total liabilities increased as compared with the end of last year.

6. Increase in retained earnings:

As the net profit after income tax for 2017 was higher than the cash dividend paid for the current year, retained earnings increased as compared with the end of last year.

2. Future plan addressing significant impacts: There is no significant impact on the financial condition and business of the Company.

7.2 Analysis of Operating Results

1. Main reason of significant changes in operating income, net operating profit and net profit before tax in the past two years

Unit: NT\$'000; %

Item \ Year	2016	2017	Increase / Decrease	
			Amount	%
Revenues	6,477,904	7,722,371	1,244,467	19.21
Less: Return of Goods and Discount	8,861	28,098	19,237	217.10
Net Revenues	6,469,043	7,694,273	1,225,230	18.94
Cost of Revenues	5,463,299	6,837,182	1,373,883	25.15
Gross Profit	1,005,744	857,091	(148,653)	(14.78)
Operating Expenses	899,520	855,701	(43,819)	(4.87)
Operating Profit	106,224	1,390	(104,834)	(98.69)
Non-operating Income and Gain	120,634	243,336	122,702	101.71
Non-operating Expenses and Loss	33,552	80,018	46,466	138.49
Profit Before Income Tax	193,306	164,708	(28,598)	(14.79)
Less: Income Tax	59,374	39,764	(19,610)	(33.03)
Profit After Income Tax	133,932	124,944	(8,988)	(6.71)
Description of items with significant changes: (change in amount of more than 10% and the amount represents 1% of total assets for the year)				
1. Increase in net operating income and operating cost: As the demand for orders from Korean customers increased in 2017, order taking volume from major customers requiring OEM services increased as compared with last year, which resulted in an increase in both operating income and costs.				
2. Decrease in gross profit: Because of the product mix and increase of raw materials cost, gross profit decreased as compared with last year.				
3. Decrease in net operating profit: Given the above reasons, operating profit decreased compared with last year due to the fact that decrease in operating profit was larger than the decrease in operating expenses.				
4. Increase in non-operating income and gain: As there was the disposal of staff quarters and Hong Kong office in 2017, net profit from the disposal amounted to approximately NT\$162 million, which resulted in an increase in non-operating income and gain.				

2. Forecasted sales and its basis; its possible future financial impact on the Company and response plan

The Company set annual shipment target based on forecasted demand from client, capacity planning and previous operating results. The Company will monitor changes in market demand and expand its market share accordingly to enhance profit. The future business of the Company should enjoy

sustaining growth and its financial position will be good.

7.3 Analysis of Cash Flow

(a) Movement Analysis of Cash Flow for the Latest Year

1. Movement Analysis of Cash Flow for the Latest Year

Unit: NT\$'000; %

Item \ Year	2016	2017	Increase (Decrease)	Percentage of Increase (Decrease) (%)
Operating activities	640,842	(234,127)	(874,969)	N/A
Investing activities	(103,479)	(16,529)	86,950	84.03
Financing activities	(338,895)	73,879	412,774	N/A
Analysis of changes:				
1. Operating activities:				
Mainly due to the significant decrease in operating profit in 2017 as compared with last year and increase in sales revenue, accounts receivable and notes receivable and inventory increased significantly from last year, and as such increase was higher than the increase in accounts payable, operating cash flow decreased as compared with last year.				
2. Investing activities:				
3. As there was cash inflow from the proceeds from the disposal of staff quarters and Hong Kong office in 2017, cash outflow from investing activities decreased as compared with last year Financing activities:				
As the cash dividend payout in 2017 was reduced by NT\$115 million and there was increase in net bank borrowings, net cash inflow was generated from financing activities.				

2. Improvement plan for lack of liquidity

The Company and its subsidiaries have close relationship with their bankers and established good financing and credit standing. Therefore, there is no threat of lacking liquidity or short of funds under reasonable liquidity requirement.

(b) Cash Liquidity for the Coming Year

The Company anticipates that with the carrying amount of cash in 2018 and by utilizing banking facilities, the overall cash requirement for capital expenditures and operation needs could be met. Our cash liquidity will be sufficient in the coming year.

7.4 Major Capital Expenditure in recent year and its impact to the financial position

In 2017, the Company purchased fixed assets of NT\$90,538 thousand which was regular capital expenditure, mainly for promoting equipment automation and the need of renewing existing production facilities. The purchase was financed by the Company's existing fund. It is expected that such capital investment will generate cash inflow in future periods and hence it will not cause significant impact to the financial position of the Company.

8. SPECIAL DISCLOSURE

EASTECH Group Chart as at 31 December 2017

