Stock code: 5225

Eastech Holding Limited

(Formerly known as Eastern Technologies Holding Limited)

2018 Annual Report

Notice to Readers

For the convenience of readers, the annual report has 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 and Chinese versions or any difference in the interpretation of the two 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: https://eastech.com

Issued on 14 May 2019

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

Headquarter:

Name	:	Eastech Holding Limited (Formerly known as Eastern Technologies Holding Limited)
Address	:	The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands
Tel.	:	(886) 2 8911 3535

Subsidiaries:

Name	:	Eastern Asia Technology (HK) Limited
Address	:	Unit 906, 9/F, Nanyang Plaza, 57 Hong To Road, Kwun Tong, Kowloon, Hong Kong
Tel.	:	(852) 2797 0268
Name	:	Eastech (Huiyang) Co., Ltd.
Address	:	Dong Feng Administrative Region, Xin Xu Town, Hui Yang District, Hui Zhou City, Guang Dong Province, China
Tel.	:	(86) 752 333 9166
Name	:	Eastech Microacoustics (Huiyang) Co., Ltd.
Address	:	Dong Feng Administrative Region, Xin Xu Town, Hui Yang District, Hui Zhou City, Guang Dong Province, China
Tel.	:	(86) 752 333 9166
Name	:	Eastech Systems (Huiyang) Co., Ltd.
Address	:	Dong Feng Administrative Region, Xin Xu Town, Hui Yang District, Hui Zhou City, Guang Dong Province, China
Tel.	:	(86) 752 333 9166
Name	:	Shenzhen MaliMaliBox Trading Corporation Limited
Address	:	8F, International Science & Technology Building, No. 3007 Shennan Zhong Road, Futian District, Shenzhen, Guangdong 518033, China.
Tel.	:	(86) 755 2515 3550
Name	:	Scan-Speak A/S
Address	:	N.C. Madsensvej 1, 6920 Videbaek, Denmark
Tel.	:	(45) 6040 5200

Name : Eastech Electronics (Taiwan) Inc.
Address : 8/F.-1, No. 188, Baoqiao Road, Xindian District, New Taipei City, 23145, Taiwan R.O.C.
Tel. : (886) 2 2910 2626

Name : Eastech Electronics (HK) Limited
Address : Unit 906, 9/F, Nanyang Plaza, 57 Hong To Road, Kwun Tong, Kowloon, Hong Kong
Tel. : (852) 2797 0268

Name : Eastech Electronics (Huiyang) Co., Ltd.
Address : Dong Feng Administrative Region, Xin Xu Town, Hui Yang District, Hui Zhou City, Guang Dong Province, China
Tel. : (86) 752 333 8518

Name : Eastech Electronics (SG) Pte. Ltd.
Address : 1 Pemimpin Drive, #08-06, One Pemimpin, Singapore 576151.
Tel. : (65) 9853 0520

Name : Eastech (VN) Company Limited
Address : Lot B2-4, Cong Hoa Industrial Park, Chi Linh Town, Hai Duong Province, Vietnam.

Litigation and Non-Litigation Agent within ROC

Name : Chang Po Chao
Title : Vice President – Public Relations
Tel. : (886) 2 8911 3535
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Spokesperson

Name : Chang Po Chao
Title : Vice President – Public Relations
Tel. : (886) 2 8911 3535
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Acting Spokesperson

Name : Chang Tung I
Title : Director
Tel. : (886) 2 8911 3535
Email : ir@eastech.com

Share Registrar

Name	:	SinoPac Securities Corporation
Address	:	3F, No. 17, Bo-Ai Road, Taipei 100, Taiwan R.O.C.
Tel.	:	(886) 2 2381 6288
Website	:	http://www.sinotrade.com.tw/Stocktransfer

Auditors for the latest financial year

Name	:	Deloitte Touche Tohmatsu
Partners-in-Charge	:	Shih, Chin-Chuan & Liu, Shu-Lin
Address	:	20F, Taipei Nan Shan Plaza No. 100, Songren Road, Taiwan R.O.C.
Tel.	:	(886) 2 2725 9988
Website	:	https://www2.deloitte.com/tw/tc.html

Overseas stock exchange on which securities are traded: Not applicable

Company website: https://eastech.com

LIST OF DIRECTORS

Chairman

Name	:	Liou Jenq Lin
Nationality	:	Taiwan
Major Qualifications	:	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.

Directors

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

Name	:	Chang Tung I
Nationality	:	Taiwan
Major Qualifications	:	MBA from California State University, U.S. 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 Qualifications	:	Master of Finance and Management from University of Michigan, U.S. Deputy Managing Director of Hifi Orient Thai Public Company Limited

Independent Directors

Name	:	Shiau Fung Shyung
Nationality	:	Taiwan
Major Qualifications	:	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)

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

Eastech Holding Limited

CONTENTS

I. Letter to Shareholders

Dear Shareholders,

In 2018, benefited from the new products applied in the Internet of Things such as smart speakers, the overall profitability of the Company was satisfactory and returned to the profit growth track. This fully demonstrated the necessity of the transformation of the Company and represented the most powerful proof of the success of the transformation.

In the past few years, in view of the decline of the traditional audio market, the Company not only continued to make deployment in high-end speakers, car audio and other niche products, but also continued to transform to the acoustic applications in the Internet of Things. It actively developed Chinese IT giant and potential brand customers to seek a new wave of operational growth momentum. While continuing to transform and explore a new blue ocean, the Company will improve its physical well-being and strengthen its competitiveness in accordance with its operational strategy objectives.

I. 2018 Business Report

(I) Implementation Results of Business Plan

Unit: NTD'000

Year / Item	2018	2017	Increase (Decrease)	Changes (%)
Net Sales	9,213,755	7,694,273	1,519,482	19.7%
Gross Profit	1,181,675	857,091	324,584	37.9%
Net Operating Profit	289,580	1,390	288,190	20,733.1%
Profit before tax	329,834	164,708	165,126	100.3%
Profit after tax	247,707	124,944	122,763	98.3%

(II) Implementation of budget: No financial forecast has been prepared by the Company for 2018.

(III) Analysis on Financial Income and Expenditure and Profitability

Item		2018	2017
Financial structure (%)	Debt to asset ratio	66.3%	67.3%
	Long-term capital to fixed assets ratio	245.2%	204.6%
Solvency (%)	Current ratio	120.1%	113.7%
	Quick ratio	96.7%	86.7%
Profitability (%)	Return on assets	5.8%	3.4%
	Return on equity of shareholders	15.4%	8.4%
	Net profit ratio	2.7%	1.6%
	Earnings per share (NTD)	4.05	2.05

(IV) Research and development

1. In 2018, 5 new patents were approved and 5 patents were under review.
2. The research and development cost in 2018 was NTD294,942,000, representing an increase of NTD13,082,000 as compared to the research and development cost of NTD281,860,000 in 2017, accounting for approximately 3.2% of net income from operation.

The Company has engineering teams in the professional fields of acoustics, electronics, hardware, software and systems. It has the most advanced acoustic equipment for research and development in Huiyang, China and Videbæk, Denmark, which integrates and complements with research and development equipment for software and electronic in Shenzhen and Huiyang, China.

The Company's core business focuses on acoustics, audio IoT, audio systems and speaker units in the mass consumer market, as well as professional and automotive speaker applications, and utilizes modern equipment and proprietary patents to provide world-class research and development, manufacturing and testing technologies.

The Company actively invests in research and development technology in digitalization, network streaming, voice control intelligent speakers to wireless applications and other blocks, and fully combines market trends with technologies. After years of training, the Company's research and development unit has a research and development team with complete division of labors and business integration. It possesses acoustic research and development, electronic research and development, structural development, software/hardware and other engineering capabilities, and has development foundation for wireless communication technology. Therefore, it can quickly design and develop the OEM/ODM projects delivered by the customers. The Company has set up product research and development centers in Taiwan, Singapore, Shenzhen and Huiyang to attract more professional talents.

II. Business Plan for 2019

(I) Operating strategy

Intelligent AI

Audio products are designed for the innate auditory sense enjoyment of human beings. After the readjustment of the top five customers, the transformation has achieved initial success. Based on the existing traditional products and customers, we developed intelligent audio, wireless electronic and analogical digitization and transformed into an Internet of Things-based company with advantages in electroacoustics.

(II) Sales Forecast and its basis

The Company has used the new models developed by brand customers every year and the market forecasts of the clients of developed models as the basis for sales forecast for the following year. The Company estimates that the total sales volume in 2019 will increase slightly as compared to 2018, but the percentage sales of each customer will be more fragmented. For the Company, there will be no overconcentration of orders. In addition to the increase of the percentage of mainland customers and domestic sales in China, the headset division will receive new orders from European and American brand customers.

(III) Important Production and Sales Policies

1. Marketing Policy

In 2019, due to the impact of the US-China trade war, it has been prudently estimated that the revenue will increase slightly as compared to 2018. The Company will adopt the following policies:

(1) Strengthen our sales teams in key global markets such as the US, Europe, Asia, China, Japan and Korea, and work with brand customers to develop new markets, new industries and new applications. Flatten the sales team and global network, maintain strategic partnership with existing customers, and strengthen the depth and breadth of cooperation. Actively expand new high-end brand customers to seize the second source business opportunities, and enter into the top of the consumer pyramid by offering dream boutique products as a touchstone.

(2) With the Company's internal digitalization, together with the sales performance of existing X brand (mainland series), we are more prepared and confident to develop Chinese IT leading and potential local Chinese international brands.

(3) Enter the supply chain of high entrance barrier automobile speakers and high-end audio speakers, and actively enter the after-sales service for automobile speaker of Chinese international-level local car brand (AM) and the supply chain of the standard original parts market.

(4) Pay close attention to the market, follow the trend of developing new technologies, new products and new applications, to provide customers with one-stop shopping service from OEM, ODM to JDM and other flexible business models.

(5) The Company will fully increase the OEM/ODM/JDM business and various new applications for smart speakers and voice recognition control products to achieve optimal production scale and production efficiency.

(6) The Company will devote more resources in Japan, Europe and the Americas to expand its market share and product mix.

(7) Although the Company has achieved a leading position in the global Sound Bar full range supply chain system, we are still optimistic that the IoT (Internet of Things) and VAC (Virtual Audio Control) related products will become the future trend and mainstream. The leading position of the Sound Bar business will be strengthened further so as to enable customers recognize and focus on the organizational changes of the Company's research and development team in response to new technologies and new applications. It is expected that the future growth of the Company will come from the Internet of Things, wireless Bluetooth® and voice control related services.

(8) Transducer (single speaker) will be sold in the form of electroacoustic components separately/collectively or designed according to customers' specification. The brand name for the industry peers and customers is "PUNKTKILDE™", which means a single unit designed by Scan-Speak in Denmark but made in China, so as to meet the price range between high price and the middle price, and satisfy the search for much better sound quality of the single unit at a little higher price, and the dual requirements of brand customers for high value for money and product differentiation. It will also have spillover effect on the loudspeaker systems and the complete unit in existing production lines. Such addition to new product elements can raise the brand value and comprehensive benefits of the single unit of Scan-Speak.

(9) The headset department will cooperate with existing audio brand customers for new products and new orders such as wireless Bluetooth® headsets and ear wearable devices such as true wireless stereo (TWS) headset.

2. Production Policy

In the face of the uncertain outcome of the US-China trade war and the upgrade requirements for environmental, safety and health (ESH), the Company will give active response and adopt the following policies:

(1) It is expected that the Hai Duong Factory in northern Vietnam will complete construction and start mass production in Q4 of 2019 so as to establish our second overseas production base, and to prepare for the impact of the US-China trade war and actively serve as a backup base for optimizing product mix and multinational production allocation.

(2) For labor-intensive and low value-added sectors, priority will be given to the transfer to overseas production bases. The mainland factory has undergone organizational transformation through internal methods such as comparing benefits, division of labor and flattening organization.

(3) The entire plant will borrow the KPI performance appraisal system and the focus of the management will be on methodology, including production, quality, inventory and factory expenses, for comparison purpose among workshops and financial statement management and performance evaluation, so as to further explore the means for reduction of factory costs.

(4) Introduce the PLM (Product Lifecycle Management) system to streamline the lengthy material management process where man-made errors are easy to occur, control the ECN/ECO process to quickly respond to customer, design, and manufacturing changes, and to acquire the BOM quickly to meet specifications and costs, reduce product risk, enabling efficient project management on product mix, time schedule, budget, manpower, together with product-related information, to develop standardized project development models, so as to provide develop control procedures for products with high transparency, speed and consistency, which in turn accelerate the Time-to-Market of products.

(5) Strengthen the MES (Manufacturing Execution System) and SCM (Supply Chain Management) to collaborate with suppliers, so as to effectively manage plant operations.

(6) Strengthen procurement and engineering capabilities, streamline supply chains, reduce costs and improve the quality of components, and develop more viable engineering changes (EC) to reduce material costs.

(7) Effectively implement the CCC (Cash conversion cycle), reduce the ADS (Average Inventory of supply), reduce surplus materials, surplus inventory and doubtful debts, explore the key success factors, and adopt effective incentive measures such as rewards and punishments.

(8) Make full use of the Company’s advantages in the industry’s largest production scale of speaker units and wooden boxes, and uphold the core competitiveness of the Group.

3. Research and Development Policy

Product research and development is the driving force for the Company’s development. The Company’s 2019 research and development focus is as follows:

(1) Develop True Wireless Stereo (TWS), High Resolution (High-Res) and Bluetooth® Active Noise Cancellation (ANC) headsets and provide turn-key complete solutions or modules for software and hardware of the functions mentioned above.

(2) Develop wireless speaker system (Bluetooth 5.0 version speakers and Wi-Fi speakers) and multi-room function system.

(3) Develop differentiated Active-Echo-Cancellation (AEC) and high-quality voice control system products (Amazon Alexa and Google GVA).

(4) Develop Amazon Alexa and Google GVA modules embedded in Android TV Sound Bar to provide a turn-key solution for a variety of packages.

(5) Develop the Dolby Atmos System; continue to provide the latest Dolby Atmos version 1.6 for the Sound Bar application.

(6) Establish strategic partnerships with top providers of electroacoustic industry in terms of technology development (such as Dolby and DTS) to gain the leading position in introducing

products, increase competitiveness, and acquire business opportunity for contracting relevant products.

(7) Make innovation in the development of voice control products, especially in the field of Internet of Things and artificial intelligence, to gain expertise in the mobility and gesture and face recognition technologies for the next wave of product innovation.

(8) Expand the collaboration with Scan-Speak with the creation of sub-brand "PUNKTKILDE™" for speaker unit - designed in Denmark but made in China, to improve the differentiation advantages of the unit in high specification and price competitiveness, and improve both the quality and quantity of Eastech inside's unit in various product applications.

(9) Increase efforts in the research and development of automotive speakers.

(10) Search for cooperation or investment opportunities in advanced materials technology and process flow to increase the breadth and depth of product differentiation.

(11) Establish long-term goals in respect of environmental protection, energy saving and reduction in carbon emission, and recycling or natural decomposition of packaging materials, with suppliers and others. Although these effects are not related to process flow nor cost reduction, it can help to keep our commitment to CSR practices.

(IV) Future Development Strategy of the Company

1. Adhering to the Company's vision of "Let the world hear good voices", the Company continues to strive to become the world's leading manufacturing contractor for audio OEM/ODM. We provide one-stop service, one-stop shopping, design, manufacturing, processing and trading of various products, from speaker unit, speaker box, connecting cable, speaker system to audio host and complete home theater system. With the explosive growth of smart speakers and their new applications, the Company's business and development will focus on the growth of these products in the future.
2. At present, we continue to recruit and retain scientific and technological innovation talents in electroacoustic, electronic, organization, Internet of Things and wireless transmission, and establish a complete and efficient electroacoustic product development team. In terms of production, we will continue to increase efforts in fully automated production, to ensure cost and quality stability, extend our product mix to consumer electronics products other than automotive speakers; and continue to strictly control costs with economies of scale. In terms of global sales, the global sales team provides customized requirements and solutions from OEM, ODM and JDM to different customers in different regions.
3. The Company is actively committed to establishing a humanized incentive mechanism for nurturing and retaining talents, the integration of which will enable each employee to adapt to the Company's development and grow with the Company.

(V) Affected by the External Competitive Environment, Regulatory Environment and Overall Business Environment

1. The Company is affected by the external competitive environment:

(1) The market share of traditional audio-visual consumer electronic audio brand customers has been seized by other brands from other industries (such as Apple, Xiaomi, etc.) and experienced an overall recession. They not only lost the dominating position, but also experienced deterioration in market share and profit.

The Korean customers were also affected by the poor market performance in Central and South America and the depreciation of the Latin American currencies, resulting in higher order amount but lower gross profit due to higher costs. Mainland brand customers have become emerging forces for placing orders to the Company in the future.

(2) In recent years, several IT giants have crossed the border to join in competition, including the five largest IT contractors in Taiwan and TV contractors. Due to the miniaturization and electronicization of electroacoustic products, IT companies have been competing for market share with existing customers relationship and mass production scale, increasing the difficulty of companies in securing orders or making them sacrifice some gross profit to retain customers.

(3) The emergence of China’s red supply chain, supported by government subsidies, formed unfair competition and also caused low-cost bidding and unprofitable output in the industry. They rely on government subsidies and disregard of industrial order. However, as the mainland local peers are affected by the China-US trade war, they have slowed down the inappropriate competition behavior. It is expected that the adverse impact will decrease.

(4) The behavior pattern of personal self-owned audio and video has become the trend, resulting in the reduction in demand for traditional home speaker products and home theater audio system year by year, which has significant effect on the revenue and gross profit of Company’s main traditional products. The trend of smart speakers led by Amazon Echo mainly involves listening to music, entertainment and smart home functions, and cannot shake the role of traditional speakers. AI speakers was not only the biggest driver of the Company’s growth momentum in 2018, but will also be the main impetus of growth in 2019. This year marks an important year for companies to compete with a view to increasing the market penetration significantly.

(5) For the mainstream consumption of audio-visual products, tighter regulation and low price come first, and reflected in the trend of price decline, resulting in a significant drop in the value of production and sales. However, the declining price will trigger the desire for purchase, which will create new wave of demand.

2. The Company is affected by the regulatory environment:

(1) The Company operates in accordance with local laws and regulations. In recent years, mainland China has actively encouraged industrial upgrading and promoted environmental protection, energy conservation and waste reduction, and introduced various preferential policies and incentives. The Company actively strives to adapt to these policies and be qualified for the incentives. Two local factories, EAHY and EMHY, have obtained high-tech enterprises related concessions, and have successfully obtained incentive from the competent scientific and technological authority where the factories are located in 2018. In 2019, ETHY also plans to be qualified as high-tech enterprise.

(2) In addition, in order to expand the depth and breadth of the product line, the Company has entered the field of automotive speakers and has successfully obtained TS16949 (equivalent to ISO9001 with specific automotive industry requirements) certification for many years, and was granted qualification as the supplier of China's first-line local automobile brands in Q4 of 2018. It is expected that there will be significant growth since 2019.

(3) The rising wage costs and labor shortages in the mainland, coupled with the lack of quality and quantity of research and development and technical talents as well as the implementation of the Labor Contract Law, have led to an increase in the Company's personnel costs. Furthermore, the tightening in regulatory efforts in foreign exchange balance and write-off and customs tariffs, and the increase in related taxes and fees, has resulted in unexpected increase in operating costs other than our normal business operation.

(4) To comply with the environmental regulations in mainland China, strictly control the waste gas emission, waste water discharge, and use of environment-friendly materials will affect the material costs and operating expenses.

3. The Company is affected by the overall business environment:

The US-China trade war has been extended from tariffs to intellectual property, trade system and fair competition. The Company has to be aware of the adverse events in China such as black swan and gray rhinoceros incidents. In addition, there is no doubt that we will build our second production base outside China. It is not related to tariffs but a decision about pros and cons, and will be used as a countermeasure of the Company in future in the face of bizarre changes at home and abroad, to mention a few:

(1) In 2018, only the economic performance of the United States was satisfactory while that of other countries languished. The US economy and consumption power were amazing and driving its economic growth, so far no products of the Company was included in the items under dispute of the US-China trade war and tariff, but it is expected that the Company's products will be affected in 2019.

(2) China's political and economic environment has deteriorated, and it has been shrouded in the shadow of trade wars. Global funds have channeled back to the United States. The

Renminbi has been under pressure of depreciation in the short, medium and long term. Setting up a second production base outside China is the minimum threshold for taking up orders. The global cross-border network and a decentralized supply chain are to test the wisdom of rational allocation of production and sales.

(3) Less quantity and more variety, short product cycle, fast changing consumers' preferences, and quicker product technology and function becoming obsolete.

(4) Overcapacity of traditional products and intense cross-border competition form new applications.

The global political and economic situation mentioned above is about to come. There is no luck but to face them. The Company will continue to adhere to the principle of "change or being lagged behind". Based on the results of transformation and optimization in 2018, the responsibility will be more arduous and challenges will come from more directions. We will overcome the difficulties and changes in current and future markets and industries, strive to develop new applications, new technologies and new customers with potential, replace price competition with differentiation, and seek for better operational efficiency.

Liou Jenq Lin

Chairman

II. Company Profile

1. Date of incorporation: 1 February 2011

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 be compliant 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 Scan-Speak A/S, 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 hold both horizontal integrated designs and vertical manufacturing bases.

The Company is principally engaged in the 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.

In January 2019, the Company set up a subsidiary in Vietnam and established its secondary overseas production base as a backup base for optimizing product mix and multinational production allocation in preparation for the impact of the US-China trade war.

(b) **Group structure:** please refer to page 240 of this annual report.

(c) **Risk analysis:** please refer to pages 234 to 239 of this annual report.

3. History of the Company and the Group

Date	Important Events
1971	Establishment of Eastern Asia Woods Industrial Corp., the predecessor 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 department.
1995	EAHY was set up to principally engage in the production of speakers and parts. ESHY 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. EMHY was established to principally produce various speaker products.
2003	EAHY and ESHY were awarded "Best Financial Report of Foreign-Invested Company" by the Ministry of Finance of Huiyang City, Guang Dong Province.

Date	Important Events
	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 EMHY 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	EAHY and EMHY 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 of the Company was changed to “Eastech Holding Limited”.

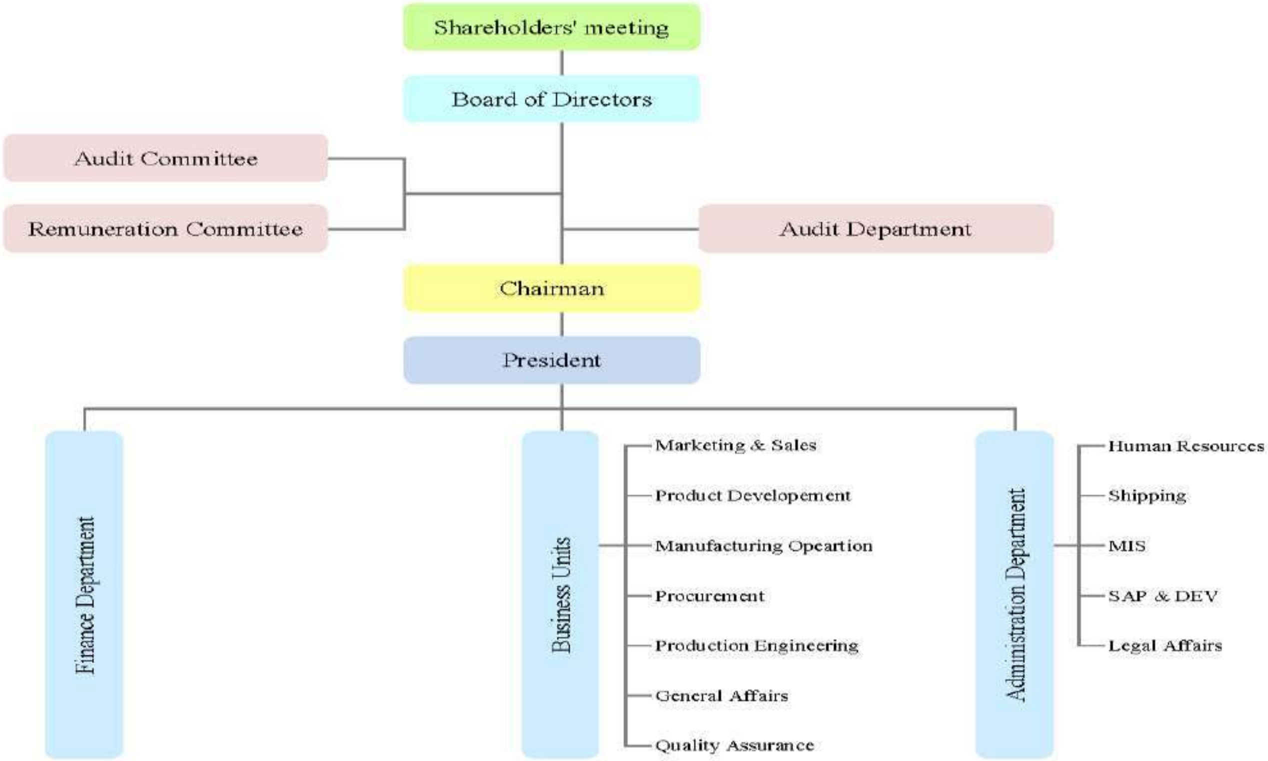
Date	Important Events
	In October, Eastech Electronics (SG) Pte. Ltd. was established to engage in the research and development of system architecture/ new product concepts/state-of-the-art products/sound and acoustics advance technology. In December, increased capital by issuing 500 thousand shares (employee restricted shares), the issued capital was increased to NT$619,860 thousand as a result.
2018	In October, the Company became a supplier of car speakers for a first-tier car manufacturer in mainland China. The Company became an OEM of smart speakers for a Chinese brand, which marked the milestone of the largest number of shipment quantity for a single product under one brand.
2019	In January, the Company set up a sub-subsidiary in Vietnam (Eastech (VN) Company Limited.) in Hải Dương Province, northern Vietnam, to engage in the production, assembly and sales of transducer speakers, Bluetooth speakers and earphones.

III. Corporate Governance

1. Organization

(a) Organization chart

31 December 2018



(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.

President	Execute resolutions of the Board and manage all company affairs.
Business Units	Propose and execute the sales, manufacturing, procurement and development for electronics speaker systems (such as smart speakers and Bluetooth speakers), earphones and loudspeakers 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.

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)

12 April 2019

Title	Nationality	Name	Gender	Date of appointment	Term	Date of first appointment	Shareholdings at appointment		Current shareholdings		Current shareholdings of spouse and 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	Shareholding %	No. of shares	Shareholding %	No. of shares	Shareholding %	No. of shares	Shareholding %			Title	Name	Relationship
Chairman	Taiwan	Liou Jenq Lin	Male	8 June 2017	3 years	24 March 2011	1,500,400	2.44	1,500,400	2.44	0	0	0	0	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)	Nil	Nil	Nil
Director	Taiwan	Pai Chin Chang	Male	8 June 2017	3 years	24 March 2011	335,000	0.54	325,000	0.53	0	0	0	0	Executive Master of Business Administration from Hong Kong International Business College	President of the Company	Nil	Nil	Nil
Director	Taiwan	Chang Tung I	Male	8 June 2017	3 years	15 December 2011	50,000	0.08	723,000	1.17	0	0	0	0	MBA from California State University, U.S. Vice Executive Director of Kuo-Bin Ceramic Ind. Co., Ltd.	Director of Eastech Electronics (Huiyang) Co., Ltd. Director of Eastech Electronics (Taiwan) Inc. Director of Scan-Speak A/S	Nil	Nil	Nil
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	0.74	453,000	0.74	0	0	0	0	N/A	The Company: Nil Director of HT Precision Technologies, Inc.	Nil	Nil	Nil
	Hong Kong	Kwok King Lam Keenan Ken	Male	-	-	-	1,512,000	2.46	1,512,000	2.46	0	0	0	0	Master of Finance and Management from University of Michigan, U.S.	The Company: Nil Other companies: (Note 2)	Nil	Nil	Nil
Independent Director	Taiwan	Shiau Fung Shyung (Note 3)	Male	8 June 2017	3 years	12 August 2011	0	0	0	0	0	0	0	0	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)	Nil	Nil	Nil

Independent Director	Taiwan	Chang Shan Juh	Male	8 June 2017	3 years	24 March 2011	0	0	0	0	0	0	0	0	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	Nil	Nil	Nil
Independent Director	Taiwan	Chen Ko Hung	Male	8 June 2017	3 years	24 March 2011	0	0	0	0	0	0	0	0	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.	Nil	Nil	Nil

Note 1: Director of Eastech Electronics (Taiwan) Inc., Eastech Electronics (HK) Limited, Eastech Electronics (Huiyang) Co., Ltd., Eastern Asia Technology (HK) Limited, Eastech Systems (Huiyang) Co., Ltd., Eastech (Huiyang) Co., Ltd., Eastech Microacoustics (Huiyang) Co., Ltd., Scan-Speak A/S, Shenzhen MaliMaliBox Trading Corporation Limited, Eastech Electronics (SG) Pte. Ltd., etc.

Note 2: Director of KWF (Thailand) Limited, Life Orient Co., Ltd., AE Technology Co., Ltd., Praise & Grace (HK) Limited, Tyon Industrial International Limited, Everstrong Properties Limited, Angkor Capital Limited, Loopin Company Limited, Popup Solution Company Limited, Getlinks Inc., ShopSnap Company Limited, Gyde Company Limited, Aera VC Limited, K-Ventures GL (Cayman) Limited, etc. and Deputy Managing Director of Hifi Orient Thai Public Company Limited.

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

2. Substantial shareholders of corporate director

(1) Substantial shareholders of corporate shareholder

31 March 2019

Name of corporate shareholder	Substantial shareholders of corporate shareholder
Eastech Electronics (Taiwan) Inc.	Eastern Asia Technology (HK) Limited (99.98%)
	Chen ○ Song (0.0053%)
	Li ○ Li (0.0034%)
	Peng ○ Zong (0.0024%)
	Cai ○ Xian (0.0018%)
	Wang ○ Yu (0.0014%)
	Cheng ○ Zhi (0.0009%)
	Lin ○ Qi (0.0007%)
	Lu ○ Bang (0.0007%)
	Fan ○ Hao (0.0004%)
	Cai ○ Qi (0.0003%)

(2) Substantial shareholders of corporate which substantial shareholder is corporate

31 March 2019

Corporate name	Substantial shareholders
Eastern Asia Technology (HK) Limited	Eastech Holding Limited (100%)

3. Directors, supervisors and their professional knowledge and independence:

Qualification / Name	Possesses over five years of work experience and the following professional qualifications			Meeting the independence requirements (Note)										Number of other public companies in which the person serves as an independent director
	Holding a post of lecturer or above in public and private colleges and universities in business, legal, finance, accounting or other fields necessary for the Company's business	Judges, prosecutors, lawyers, accountants or other specialized professional and technical staff passing national examinations with certificates which are required for the Company's business	Work experience in business, legal, finance, accounting or other fields necessary for the Company's business	1	2	3	4	5	6	7	8	9	10	
Liou Jenq Lin			✓				✓	✓		✓	✓	✓	✓	0
Pai Chin Chang			✓			✓	✓	✓		✓	✓	✓	✓	0
Chang Tung I			✓			✓	✓	✓		✓	✓	✓	✓	0
Kwok King Lam Keenan Ken			✓				✓	✓		✓	✓	✓		0

Chang Shan Juh	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chen Ko Hung			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Shiau Fung Shyung	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note: For director or supervisor who fulfils the following conditions, please tick the box under the respective condition codes.

(1) Not being an employee of the Company or its affiliates.

(2) Not being a director nor supervisor of the Company’s affiliates (except for independent directors of the Company’s parent company or subsidiaries in which the Company directly and indirectly holds more than 50% of the shares with voting rights).

(3) Each of the persons and his/her spouse/minor children, either in their own name or in other’s name, is not a natural person shareholder who holds more than one percent of the Company's total issued shares or is one of the top ten shareholders of the Company.

(4) Not being a spouse, a relative within two degrees of kinship or a lineal blood relative within three degrees of kinship of the persons listed in the preceding three clauses.

(5) Not being a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the total issued shares of the Company, or a director, supervisor or employee of the top five corporate shareholders.

(6) Not being a director, supervisor or manager of specific companies or institutions which have financial or business dealings with the Company, or a shareholder holding more than 5% of such companies or institutions.

(7) Not being a professional, business owner of sole proprietorship, partnership, company or institution, partner, director, supervisor or manager who provides business, legal, financial, accounting and other services or consulting for the Company or its affiliates, or their spouses, except the members of the remuneration committee who perform their duties in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

(8) There is no relationship of spouse or within two degrees of kinship with other directors.

(9) None of the events stipulated in Article 30 of the Company Law exists.

(10) No representative of the government or corporate is elected as provided in Article 27 of the Company Law.

(b) Details of president, vice presidents, senior managers and head of departments and branch offices

12 April 2019

Title	Nationality	Name	Gender	Date of appointment	Shareholdings		Shareholdings of spouse and minor children		Shares held in other's name		Major Qualification	Current positions in other companies	Managers who are spouse or second-degree relatives		
					No. of shares	Shareholding %	No. of shares	Shareholding %	No. of shares	Shareholding %			Title	Name	Relationship
President	Taiwan	Pai Chin Chang	Male	24 March 2011 (Note 1)	325,000	0.53%	0	0	0	0	Executive Master of Business Administration from Hong Kong International Business College President of Eastech Holding Limited	Nil	Nil	Nil	Nil
Vice President	Taiwan	Chu Ming Chung	Male	1 December 1999 (Note 2)	N/A	N/A	0	0	0	0	Master of Management from Komazawa University, Japan Vice President of Eastern Asia Technology (HK) Limited	Nil	Nil	Nil	Nil
Vice President	Taiwan	Chih Tai An	Male	1 September 2017 (Note 3)	3,000	0.00%	0	0	0	0	Master of Transportation and Communication Management Science from National Cheng Kung University ("NCKU") Vice President of Eastern Asia Technology (HK) Limited	Director of Eastech (Huiyang) Co., Ltd. Director of Eastech Microacoustics (Huiyang) Co., Ltd. Director of Eastech Systems (Huiyang) Co., Ltd.	Nil	Nil	Nil
Vice President	Taiwan	Chang Po Chao	Male	1 December 2011	52,000	0.08%	0	0	0	0	Bachelor's Degree of International Trading from National Chengchi University Vice President, Public Relations and Spokesman of Eastech Holding Limited	Nil	Nil	Nil	Nil
Chief Financial Officer	Hong Kong	Lam Pui Man	Female	24 March 2011 (Note 1)	8,000	0.01%	0	0	0	0	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 Eastech Holding Limited	Supervisor of Eastech Electronics (Taiwan) Inc. Director of Eastech Electronics (HK) Limited Director of Shenzhen MaliMaliBox Trading Corporation Limited.	Nil	Nil	Nil

Title	Nationality	Name	Gender	Date of appointment	Shareholdings		Shareholdings of spouse and minor children		Shares held in other's name		Major Qualification	Current positions in other companies	Managers who are spouse or second-degree relatives		
					No. of shares	Shareholding %	No. of shares	Shareholding %	No. of shares	Shareholding %			Title	Name	Relationship
Chief Audit Officer	Hong Kong	Tang Kai Tak	Male	24 March 2011 (Note 1)	4,000	0.01%	0	0	0	0	Master of Applied Finance from Macquarie University, Australia Fellow member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants Chief Audit Officer of EATL Group Audit Officer of Schick International Ltd and Wing Lung Bank Chief Audit Officer of Eastech Holding Limited	Nil	Nil	Nil	Nil

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: Resigned on 1 March 2019.
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 (2018)

(1) Remunerations of directors (including independent directors)

Unit: NT$'000

Title	Name	Remunerations of directors								Percentage of aggregate of A, B, C and D to net profit after tax		Remuneration 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 remuneration (G)						
																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	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	The Company	All companies contained in the financial statements	
Director	Pai Chin Chang	-	-	-	-	5,886 (Note 1)	5,886 (Note 1)	275	275	2.48%	2.48%	-	11,928	-	239	-	-	5,037 (Note 2)	-	2.48%	9.43%	Nil
Director	Chang Tung I																					
Director	Kwok King Lam Keenan Ken																					
Independent director	Chang Shan Juh																					
Independent director	Chen Ko Hung																					
Independent director	Shiau Fung Shyung																					
Chairman	Liou Jenq Lin	-	-	-	-	981 (Note 1)	981 (Note 1)	50	50	0.42%	0.42%	-	8,996	-	-	-	-	-	-	0.42%	4.05%	Nil

Note 1: In accordance with the Company's Articles of Association, the remuneration of directors for 2018 was approved by the Remuneration Committee and the Board on 22 February 2019.
Note 2: In accordance with the Company's Articles of Association, the remuneration of staff for 2018 was approved by the Remuneration Committee and the Board on 22 February 2019.

Remuneration ranking

Ranking of remuneration payable to each director of the Company	Name of directors			
	Aggregate of four items of remunerations (A+B+C+D)		Aggregate of seven items of remunerations (A+B+C+D+E+F+G)	
	The Company	All companies contained in the financial statements	The Company	All companies contained in the financial statements
Below NT$2,000,000	Liou Jenq Lin Pai Chin Chang Chang Tung I Kwok King Lam Keenan Ken Chang Shan Juh Chen Ko Hung Shiau Fung Shyung	Liou Jenq Lin Pai Chin Chang Chang Tung I Kwok King Lam Keenan Ken Chang Shan Juh Chen Ko Hung Shiau Fung Shyung	Liou Jenq Lin Pai Chin Chang Chang Tung I Kwok King Lam Keenan Ken Chang Shan Juh Chen Ko Hung Shiau Fung Shyung	Kwok King Lam Keenan Ken Chang Shan Juh Chen Ko Hung Shiau Fung Shyung
NT$2,000,000 (inclusive) - NT$5,000,000 (not inclusive)	Nil	Nil	Nil	Nil
NT$5,000,000 (inclusive) - NT$10,000,000 (not inclusive)	Nil	Nil	Nil	Liou Jenq Lin Chang Tung I
NT$10,000,000 (inclusive) - NT$15,000,000 (not inclusive)	Nil	Nil	Nil	Pai Chin Chang
NT$15,000,000 (inclusive) - NT$30,000,000 (not inclusive)	Nil	Nil	Nil	Nil
NT$30,000,000 (inclusive) - NT$50,000,000 (not inclusive)	Nil	Nil	Nil	Nil
NT$50,000,000 (inclusive) - NT$100,000,000 (not inclusive)	Nil	Nil	Nil	Nil
Above NT$100,000,000	Nil	Nil	Nil	Nil
Total	7 persons	7 persons	7 persons	7 persons

(2) Remunerations of supervisors: Not applicable as the Company does not have any supervisors.

(3) Remuneration of the chairman, president and vice presidents

Unit: NT$'000

Title	Name	Salary (A)		Post-employment pension (B)		Bonus and special bonus (C)		Employee remuneration amount (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 (administrative position)	Liou Jenq Lin	-	24,449	-	445	-	2,806	-	-	6,059	-	-	13.63%	Nil
President	Pai Chin Chang													
Vice president	Chu Ming Chung													
Vice president	Chih Tai An													
Vice president	Chang Po Chao													

Note 1: In accordance with the Company's Articles of Association, the remuneration of staff for 2018 was approved by the Remuneration Committee and the Board on 22 February 2019.

Remuneration ranking

Ranking of remuneration payable to the chairman, each president and vice president of the Company	Name of chairman, president and vice presidents	
	The Company	All companies contained in the financial statements
Below NT$2,000,000	Nil	Nil
NT$2,000,000 (inclusive) - NT$5,000,000 (not inclusive)	Nil	Chih Tai An, Chang Po Chao
NT$5,000,000 (inclusive) - NT$10,000,000 (not inclusive)	Nil	Liou Jenq Lin, Chu Ming Chung
NT$10,000,000 (inclusive) - NT$15,000,000 (not inclusive)	Nil	Pai Chin Chang
NT$15,000,000 (inclusive) - NT$30,000,000 (not inclusive)	Nil	Nil
NT$30,000,000 (inclusive) - NT$50,000,000 (not inclusive)	Nil	Nil
NT$50,000,000 (inclusive) - NT$100,000,000 (not inclusive)	Nil	Nil
Above NT$100,000,000	Nil	Nil
Total	0 person	5 persons

(4) Name of managers who have been awarded staff remuneration and the distribution of staff remuneration

Unit: NT$'000

	Title	Name	By shares	By cash	Total	Percentage of total amount to net profit after tax (%)
Managers	President	Pai Chin Chang	-	6,965	6,965	2.81%
	Vice president	Chu Ming Chung (Note 2)				
	Vice president	Chih Tai An (Note 3)				
	Vice president	Chang Po Chao				
	Chief financial officer	Lam Pui Man				
	Chief audit officer	Tang Kai Tak				

Note 1: In accordance with the Company's Articles of Association, the remuneration of staff for 2018 was approved by the Remuneration Committee and the Board on 22 February 2019.

Note 2: Resigned on 1 March 2019.

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

2. Analysis on the percentage of total remunerations of directors, supervisors, chairman, president 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 procedure of determination of remunerations and its relationship with operating results

(1)Percentage of total remunerations of directors, chairman, president and vice presidents of the Company and all companies contained in the financial statements to consolidated net profit

Unit: NT$'000

Year	2017				2018			
Item	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)	3,599	2.88%	3,599	2.88%	7,192	2.90%	7,192	2.90%
Chairman, president and vice presidents	-	0.00%	28,322	22.67%	-	0.00%	33,759	13.63%

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

① According to Article 117 of the Company's Articles of Association, remuneration of directors of the Company is determined with reference to the operating results of the Company and their contribution to the Company, subject to a limit of 2% of the profit before tax and remunerations of employees and directors for the year.

②Remuneration of the chairman, president and vice presidents shall be paid according to the scope of their duties and responsibilities for their positions and their contribution to the Company's operational objectives. Determination of the remuneration shall be based on the overall operating performance of the Company, future operating risks and development trend of the industry and individual performance and contribution to the Company's performance. The remuneration system will be reviewed from time to time depending on the actual operating conditions and relevant laws and regulations to seek a balance between the Company's sustainable operation and risk control.

3. Particulars of corporate governance

(1) Board of directors

1. During the latest year (2018) and as of the date of issue of annual report, 13 board meetings were held. The attendance of the directors is as follows:

Title	Name	Attendance in person	Attendance by proxy	Attendance rate in person (%)	Remarks
Chairman	Liou Jenq Lin	13	0	100	Elected on 8 June 2017
Director	Pai Chin Chang	13	0	100	
Director	Chang Tung I	13	0	100	
Director	Eastech Electronics (Taiwan) Inc. Representative: Kwok King Lam Keenan Ken	11	2	85	
Independent director	Shiau Fung Shyung	13	0	100	
Independent director	Chang Shan Juh	13	0	100	
Independent director	Chen Ko Hung	13	0	100	

2. Other disclosure:

(1) The date of board meeting, session, content of the proposal, the opinions of all independent directors and the Company's response to the opinions of independent directors shall be recorded if any of the following circumstances occurs:

① Matters stipulated in Article 14-3 of the Securities and Exchange Law

② In addition to the aforementioned matters, other board resolutions that have been objected to or qualified by independent directors with record or written statement:

Board meeting	Content of the proposal and follow-up action	Matters stipulated in Article 14-3 of the Securities and Exchange Law	Objections or reservation by independent directors
Fourth session Fifth meeting 23 February 2018	1. The Company's 2017 employee remuneration and directors' remuneration proposal	Yes	No
	Opinions of independent directors: nil.		
	The Company's response to the opinions of independent directors: nil.		
	Voting result: All attending directors and independent directors approved the resolution.		

<table>
<tr><th>Board meeting</th><th>Content of the proposal and follow-up action</th><th>Matters stipulated in Article 14-3 of the Securities and Exchange Law</th><th>Objections or reservation by independent directors</th></tr>
<tr><td rowspan="4">Fourth session
Sixth meeting
24 April 2018</td><td>1. Change of certified public accountant due to internal arrangement of Deloitte Touche Tohmatsu</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Opinions of independent directors: nil.</td></tr>
<tr><td colspan="3">The Company’s response to the opinions of independent directors: nil.</td></tr>
<tr><td colspan="3">Voting result: All attending directors and independent directors approved the resolution.</td></tr>
<tr><td rowspan="5">Fourth session
Ninth meeting
8 August 2018</td><td>1. Proposed endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company</td><td>Yes</td><td>No</td></tr>
<tr><td>2. Proposed endorsements and guarantees for Eastech Electronics (HK) Limited by the Company</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Opinions of independent directors: nil.</td></tr>
<tr><td colspan="3">The Company’s response to the opinions of independent directors: nil.</td></tr>
<tr><td colspan="3">Voting result: All attending directors and independent directors approved the resolution.</td></tr>
</table>

Board meeting	Content of the proposal and follow-up action	Matters stipulated in Article 14-3 of the Securities and Exchange Law	Objections or reservation by independent directors
Fourth session Tenth meeting 30 August 2018	1. Proposed issuance of employee stock option certificates by the Company	Yes	No
	2. Amendments to proposed endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	3. Amendments to proposed endorsements and guarantees for Eastech Electronics (HK) Limited by the Company	Yes	No
	Opinions of independent directors: nil.		
	The Company’s response to the opinions of independent directors: nil.		
	Voting result: All attending directors and independent directors approved the resolution.		
Fourth session Eleventh meeting 28 September 2018	1. Proposed issuance of employee stock option certificates for 2018 by the Company	Yes	No
	Opinions of independent directors: nil.		
	The Company’s response to the opinions of independent directors: nil.		
	Voting result: As Mr. Pai Chin Chang, a director, concurrently served as the president, and Mr. Chang Tung I, a director, concurrently served as a vice executive director of a subsidiary, they abstained from voting to avoid conflict of interests. The number of voters was only 5, and all the attending directors and independent directors approved the resolution.		

<table>
<tr><th>Board meeting</th><th>Content of the proposal and follow-up action</th><th>Matters stipulated in Article 14-3 of the Securities and Exchange Law</th><th>Objections or reservation by independent directors</th></tr>
<tr><td rowspan="4">Fourth session
Twelfth meeting
8 November 2018</td><td>1. Change of certified public accountant due to internal arrangement of Deloitte Touche Tohmatsu</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Opinions of independent directors: nil.</td></tr>
<tr><td colspan="3">The Company’s response to the opinions of independent directors: nil.</td></tr>
<tr><td colspan="3">Voting result: All attending directors and independent directors approved the resolution.</td></tr>
<tr><td rowspan="5">Fourth session
Thirteenth meeting
14 December 2018</td><td>1. Proposed investment in a new subsidiary in Vietnam</td><td>Yes</td><td>No</td></tr>
<tr><td>2. Proposed amendments to the "production cycle", "property, plant and equipment cycle", "sales and collection cycle", "purchase payment cycle", "salary cycle" and "List of approval and decision authority" and addition of "ETHY R&D Cycle” in the Company's internal control system</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Opinions of independent directors: nil.</td></tr>
<tr><td colspan="3">The Company’s response to the opinions of independent directors: nil.</td></tr>
<tr><td colspan="3">Voting result: All attending directors and independent directors approved the resolution.</td></tr>
</table>

Board meeting	Content of the proposal and follow-up action	Matters stipulated in Article 14-3 of the Securities and Exchange Law	Objections or reservation by independent directors
Fourth session Fourteenth meeting 22 February 2019	1.The Company's 2018 employee remuneration and directors' remuneration proposal	Yes	No
	Opinions of independent directors: nil		
	The Company's response to the opinions of independent directors: nil.		
	Voting result: All attending directors and independent directors approved the resolution.		
Fourth session First extraordinary meeting 6 March 2019	1. Proposal in relation to approval of the pre-sale forward foreign exchange operation in the total authorized amount not exceeding US$14 million	Yes	No
	Opinions of independent directors: nil.		
	The Company's response to the opinions of independent directors: nil.		
	Voting result: All attending directors and independent directors approved the resolution.		

<table>
<tr><th>Board meeting</th><th>Content of the proposal and follow-up action</th><th>Matters stipulated in Article 14-3 of the Securities and Exchange Law</th><th>Objections or reservation by independent directors</th></tr>
<tr><td rowspan="9">Fourth session
Fifteenth meeting
26 April 2019</td><td>1. Proposed amendments to the Procedures of Acquisition or Disposal of Assets of the Company</td><td>Yes</td><td>No</td></tr>
<tr><td>2. Proposed amendments to the Administrative Measures in relation to the Operation of Endorsements and Guarantees of the Company</td><td>Yes</td><td>No</td></tr>
<tr><td>3. Proposed amendments to the Practices of Loans to External Parties of the Company</td><td>Yes</td><td>No</td></tr>
<tr><td>4. Proposed endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company</td><td>Yes</td><td>No</td></tr>
<tr><td>5. Proposed endorsements and guarantees for Eastech Electronics (HK) Limited by the Company</td><td>Yes</td><td>No</td></tr>
<tr><td>6. Proposed endorsements and guarantees for Eastech (VN) Company Limited. by the Company</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Opinions of independent directors: nil.</td></tr>
<tr><td colspan="3">The Company’s response to the opinions of independent directors: nil.</td></tr>
<tr><td colspan="3">Voting result: All attending directors and independent directors approved the resolution.</td></tr>
</table>

Board meeting	Content of the proposal and follow-up action	Matters stipulated in Article 14-3 of the Securities and Exchange Law	Objections or reservation by independent directors
Fourth session	1. Proposed issuance of employee stock option certificates by the Company	Yes	No
Sixteenth meeting	Opinions of independent directors: nil		
9 May 2019	The Company's response to the opinions of independent directors: nil		
	Voting result: All attending directors and independent directors approved the resolution.		

(2) Details of abstention from voting by directors on proposals with conflict of interests (the name of directors, content of the proposal, reason for abstention and their participation in voting):

Name of directors: Pai Chin Chang, Chang Tung I

Content of the proposal:

On 28 September 2018, the board of directors approved the proposal for issuance of employee stock option certificates by the Company for 2018

Reason for abstention and their participation in voting:

As Mr. Pai Chin Chang, a director, concurrently served as the president, and Mr. Chang Tung I, a director, concurrently served as a vice executive director of a subsidiary, they abstained from voting to avoid conflict of interests.

(3) Objectives and performance assessment of the Board's function enhancement during the current year and the latest year:

The Company established the audit committee on 30 March 2011. In order to enhance information transparency, the auditors of the Company will regularly submit audit reports to independent directors. The Company also fulfilled the requirements of the competent authority and established the remuneration committee on 28 September 2011 accordingly. The audit committee and the remuneration committee are all composed of independent directors.

The Company's articles of association have revised the nomination system for director candidates for election.

The Company pays attention to the interests of investors and interested parties. Major board resolutions will be announced after each board meeting, and the information on further studies, attendance at board meetings and remuneration of directors and independent directors will be disclosed.

In order to cover the risks borne by the directors in execution of business, the Company procured the Director’s Liability Insurance for all directors every year, and reported the material information such as the insured amount, coverage and insurance premiums of the liability insurance to the board of directors. On 8 November 2018, the board of directors has reported the renewal of all directors' liability insurance.

(2) Audit committee

1. The Company established the audit committee on 30 March 2011. According to the organizational procedures of the audit committee of the Company, the committee consists of all independent directors, and is responsible for assisting the board of directors to supervise the Company’s performance in accounting, auditing and financial reporting processes and the quality and integrity in financial control.

   The matters considered by the audit committee mainly include:

   - Financial statements
   - Audit and accounting policies and procedures
   - Internal control system and related policies and procedures
   - Major assets or derivatives transactions
   - Loan, endorsement or guarantee of substantial amount
   - Offering or issuance of securities
   - Derivative financial products and cash investment
   - Compliance
   - Whether the managers and the directors have related party transactions and possible conflicts of interest
   - Qualification of the certified public accountant and independence assessment
   - Appointment, dismissal or remuneration of the certified public accountant
   - Appointment and dismissal of chief finance, accounting or internal audit officers
   - Performance of the audit committee’s duties
   - Review of financial reports

   The board of directors has issued the Company's 2018 business report, consolidated financial statements and dividend distribution proposals. The consolidated financial statements have been audited by Deloitte Touche Tohmatsu with an audit report. The abovementioned business report, consolidated financial statements and dividend distribution proposal have been reviewed by the audit committee and it is considered that there is no disagreement.

- Evaluate the effectiveness of the internal control system

  The audit committee evaluates the effectiveness of the Company's internal control system policies and procedures (including financial, operational, risk management, information security, outsourcing, compliance, etc.) and reviews the periodic reports of the Company's audit department, certified public accountant and management, including risk management and compliance. With reference to the Internal Control – Integrated Framework issued by The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013, the audit committee considered the Company's risk management and internal control systems to be effective. The Company has adopted the necessary control mechanisms to monitor and correct violations.

During the latest year (2018) and as of the date of issue of annual report, the audit committee of the Company held 11 meetings. The attendance of the members is as follows:

Title	Name	Attendance in person	Attendance by proxy	Attendance rate in person (%)	Remarks
Independent director	Chen Ko Hung	11	0	100	Elected on 8 June 2017
Independent director	Shiau Fung Shyung	11	0	100	
Independent director	Chang Shan Juh	11	0	100	

2. Other disclosure:

(1) The date of board meeting, session, content of the proposal, the resolution of the audit committee and the Company's response to the opinion of the audit committee shall be recorded if any of the following circumstances occurs:

① Matters stipulated in Article 14-5 of the Securities and Exchange Law:

② In addition to the aforementioned matters, other resolutions not approved by the audit committee but approved by more than two-thirds of all directors:

<table>
<tr><th>Board meeting</th><th>Content of the proposal and follow-up action</th><th>Matters stipulated in Article 14-5 of the Securities and Exchange Law</th><th>Resolution not approved by the audit committee but approved by more than two-thirds of all directors</th></tr>
<tr><td rowspan="5">Fourth session
Fifth meeting
23 February 2018</td><td>1. The Company's 2017 business report and consolidated financial statements</td><td>Yes</td><td>No</td></tr>
<tr><td>2. The Company's 2017 employee remuneration and directors' remuneration proposal</td><td>Yes</td><td>No</td></tr>
<tr><td>3. Proposed issue of the Management's Reports on Internal Control in accordance with Article 24 of the Guidelines for the Establishment of Regulations Governing Establishment of Internal Control Systems by Public Companies</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Resolution of the audit committee (23 February 2018):
Voting result of resolution no.1: All members of the audit committee approved the resolution.
Voting result of resolution no.2:
Revised the calculation of the respective percentage of employee remuneration and directors' remuneration for 2017, rounding to two decimals places. The proposal with the revised percentage was submitted to the fifth board meeting of the fourth session.
For 2017, the estimated remuneration of employees and directors was HK$896,000 (equivalent to NT$3,486,000) and HK$875,000 (equivalent to NT$3,401,000) respectively, which was estimated at 2.03% and 1.98% of the aforementioned pre-tax profit.
Voting result of resolution no.3:All members of the audit committee approved the resolution.</td></tr>
<tr><td colspan="3">The Company's response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.</td></tr>
</table>

<table>
<tr><th>Board meeting</th><th>Content of the proposal and follow-up action</th><th>Matters stipulated in Article 14-5 of the Securities and Exchange Law</th><th>Resolution not approved by the audit committee but approved by more than two-thirds of all directors</th></tr>
<tr><td rowspan="3">Fourth session
Sixth meeting
24 April 2018</td><td>1. Change of certified public accountant due to internal arrangement of Deloitte Touche Tohmatsu</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Resolution of the audit committee (24 April 2018): All members of the audit committee approved the resolution.</td></tr>
<tr><td colspan="3">The Company’s response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.</td></tr>
<tr><td rowspan="5">Fourth session
Ninth meeting
8 August 2018</td><td>1. The Company's consolidated financial statements for the first half of 2018</td><td>Yes</td><td>No</td></tr>
<tr><td>2. Proposed endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company</td><td>Yes</td><td>No</td></tr>
<tr><td>3. Proposed endorsements and guarantees for Eastech Electronics (HK) Limited by the Company</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Resolution of the audit committee (8 August 2018): All members of the audit committee approved the resolution</td></tr>
<tr><td colspan="3">The Company’s response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.</td></tr>
</table>

<table>
<tr><th>Board meeting</th><th>Content of the proposal and follow-up action</th><th>Matters stipulated in Article 14-5 of the Securities and Exchange Law</th><th>Resolution not approved by the audit committee but approved by more than two-thirds of all directors</th></tr>
<tr><td rowspan="5">Fourth session
Tenth meeting
30 August 2018</td><td>1. Proposed issuance of employee stock option certificates by the Company</td><td>Yes</td><td>No</td></tr>
<tr><td>2. Amendments to proposed endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company</td><td>Yes</td><td>No</td></tr>
<tr><td>3. Amendments to proposed endorsements and guarantees for Eastech Electronics (HK) Limited by the Company</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Resolution of the audit committee (30 August 2018):
Voting result of resolution no.1:
The remuneration committee suggested the Company to explain the hypothetical basis of the “expected dividend yield” in the fair value trial report after the meeting and report it at the next meeting. After all members of the audit committee agreed to the suggestion of the remuneration committee, the resolution was passed without other objections.
Voting result of resolution no. 2 and 3: All members of the audit committee approved the resolution.</td></tr>
<tr><td colspan="3">The Company’s response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.</td></tr>
<tr><td rowspan="3">Fourth session
Twelfth meeting
8 November 2018</td><td>1. Change of certified public accountant due to internal arrangement of Deloitte Touche Tohmatsu</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Resolution of the audit committee (8 November 2018): All members of the audit committee approved the resolution.</td></tr>
<tr><td colspan="3">The Company’s response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.</td></tr>
</table>

<table>
<tr><th>Board meeting</th><th>Content of the proposal and follow-up action</th><th>Matters stipulated in Article 14-5 of the Securities and Exchange Law</th><th>Resolution not approved by the audit committee but approved by more than two-thirds of all directors</th></tr>
<tr><td rowspan="4">Fourth session
Thirteenth meeting
14 December 2018</td><td>1. Proposed investment in a new subsidiary in Vietnam</td><td>Yes</td><td>No</td></tr>
<tr><td>2. Proposed amendments to the "production cycle", "property, plant and equipment cycle", "sales and collection cycle", "purchase payment cycle", "salary cycle" and "List of approval and decision authority" and addition of "ETHY R&D Cycle” in the Company's internal control system</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Resolution of the audit committee (14 December 2018): All members of the audit committee approved the resolution.</td></tr>
<tr><td colspan="3">The Company’s response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.</td></tr>
<tr><td rowspan="5">Fourth session
Fourteenth meeting
22 February 2019</td><td>1. The Company's 2018 business report and consolidated financial statements</td><td>Yes</td><td>No</td></tr>
<tr><td>2. The Company's 2018 employee remuneration and directors’ remuneration proposal</td><td>Yes</td><td>No</td></tr>
<tr><td>3. Proposed issue of the Management’s Reports on Internal Control in accordance with Article 24 of the Guidelines for the Establishment of Regulations Governing Establishment of Internal Control Systems by Public Companies</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Resolution of the audit committee (22 February 2019): All members of the audit committee approved the resolution.</td></tr>
<tr><td colspan="3">The Company’s response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.</td></tr>
</table>

<table>
<tr><th>Board meeting</th><th>Content of the proposal and follow-up action</th><th>Matters stipulated in Article 14-5 of the Securities and Exchange Law</th><th>Resolution not approved by the audit committee but approved by more than two-thirds of all directors</th></tr>
<tr><td rowspan="3">Fourth session
First extraordinary meeting
6 March 2019</td><td>1. Proposal in relation to approval of the pre-sale forward foreign exchange operation in the total authorized amount not exceeding US$14 million</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="3">Resolution of the audit committee (6 March 2019): All members of the audit committee had no objection and approved the resolution with a suggestion to the Company to submit an overall planning and evaluation report for foreign exchange hedging at the first board meeting of the year.</td></tr>
<tr><td colspan="3">The Company’s response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.</td></tr>
</table>

Board meeting	Content of the proposal and follow-up action	Matters stipulated in Article 14-5 of the Securities and Exchange Law	Resolution not approved by the audit committee but approved by more than two-thirds of all directors
Fourth session Fifteenth meeting 26 April 2019	1. Proposed amendments to the Procedures of Acquisition or Disposal of Assets of the Company	Yes	No
	2. Proposed amendments to the Administrative Measures in relation to the Operation of Endorsements and Guarantees of the Company	Yes	No
	3. Proposed amendments to the Practices of Loans to External Parties of the Company	Yes	No
	4. Proposed endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	5. Proposed endorsements and guarantees for Eastech Electronics (HK) Limited by the Company	Yes	No
	6. Proposed endorsements and guarantees for Eastech (VN) Company Limited. by the Company	Yes	No
	Resolution of the audit committee (26 April 2019): All members of the audit committee approved the resolution.		
	The Company’s response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.		
Fourth session Sixteenth meeting 9 May 2019	1. Proposed issuance of employee stock option certificates by the Company	Yes	No
	Resolution of the audit committee (9 May 2019): All members of the audit committee approved the resolution.		
	The Company’s response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.		

(2) Details of abstention from voting by independent directors on proposals with conflict of interests (the name of directors, content of the proposal, reason for abstention and their participation in voting): Nil.

(3) Communication between independent directors and internal audit officer and accountant (such as subject, mode and results of communication on the Company's financial and business conditions, etc.):

① Modes of communication between independent directors and internal audit officer and accountant

The internal audit officer of the Company regularly submits the audit report to the independent directors at the audit committee meeting, and communicates with the members on the results of the audit report and the implementation of the follow-up report.

The Company's certified public accountant regularly communicates with the audit committee and reports to the independent directors regarding the financial and overall operation and internal control of the Company and its domestic and overseas subsidiaries, and fully communicates whether there is any significant adjustment to the entry or whether the amendments to laws and regulations affect the account.

② Summary of communication between independent directors and internal audit officer

The major subjects of communication in 2018 are summarised as follows:

Date	Focus of communication	Communication results
23 February 2018 Audit committee/board of directors	1. Summary report on the internal audit implementation for 2017 2. The Management's Reports on Internal Control for 2017 3. 2017/10/28-2018/1/31 internal audit implementation report	No objection
9 May 2018 Audit committee/board of directors	2018/2/1 -2018/4/27 internal audit implementation report	No objection
8 August 2018 Audit committee/board of directors	2018/4/28 -2018/7/27 internal audit implementation report	No objection
8 November 2018 Audit committee/board of directors	2018/7/28 -2018/10/30 internal audit implementation report	No objection
14 December 2018 Audit committee/board of directors	The Company's 2019 audit plan	No objection

③ Summary of communication between independent directors and accountant

The major subjects of communication in 2018 are summarised as follows:

Date	Focus of communication	Communication results
23 February 2018 Audit committee	The certified public accountant attended the audit committee and explained to the audit committee that the description and preliminary assessment of possible impact of International Financial Reporting Standard 16 Leasing (“IFRS 16”, which will be applicable from the beginning of 2019) shall be completed by the first quarter of 2018.	The consolidated financial report for the first quarter was approved by the audit committee and submitted to the board of directors for approval on 9 May 2018; and was published and reported to the competent authority on 11 May 2018.
14 December 2018 Meeting	The certified public accountant communicated with the audit committee to explain the matters to be reviewed on the Company's 2018 consolidated financial report, including the audit committee's responsibilities, our audit plan and strategy, identification of the Group's significant risk, key audit matters (KAM), assessment of assumed going concern, and other matters related to the audit committee's communication, review schedule and other related matters.	The consolidated financial report for the year was approved by the audit committee and submitted to the board of directors for approval on 22 February 2019; and was published and reported to the competent authority on 22 February 2019.

(3) The Company's corporate governance implementation, its discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the underlying reasons

Assessment item	Implementation status			The discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the underlying reasons
	Yes	No	Description	
1. Does the company establish and disclose its code of practice for corporate governance in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies?	Yes		The Company has established the Code of Practice for Corporate Governance and disclosed it on the Company's website and the Market Observation Post.	No substantial discrepancy
2. Equity structure and shareholder rights (1) Has the Company set internal operating procedures to deal with shareholder proposals, queries, disputes and litigation matters, and does it implement these in accordance with its procedures?	Yes		(1) The Company has appointed SinoPac Securities Stock Transfer Agency Department, a professional stock agency, to handle the share transfer matters, and has a spokesperson, an agent spokesperson and an email address (ir@eastech.com) to properly handle related issues such as shareholder suggestions, queries, etc., and handle legal matters with assistance from the legal department.	No substantial discrepancy
(2) Does the Company have a list of de facto controllers of the Company and those who ultimately control the major shareholders of the Company?	Yes		(2) The Company reports the shareholding changes of its insiders (directors, managers and substantial shareholders holding more than 10% of the shares) to the Market Observation Post on a monthly basis according to law.	No substantial discrepancy
(3) How does the Company establish and implement its risk management mechanism and firewalls involving related entities?	Yes		(3) The Company has established the Procedures for Trading with Related Parties, Specific Companies and Group Companies, which clearly defines the business, operation and financial transactions with related entities, and has fulfilled risk control and firewall mechanisms.	No substantial discrepancy

(4) Has the Company set internal standards to prohibit insiders from using undisclosed information to trade securities on the market?	Yes		(4) The Company has established the Rule Governing the Prevention of Insider Trading, which prohibits insiders from using undisclosed information to trade securities on the market.	No substantial discrepancy
3. Composition and responsibilities of the board of directors (1) Does the board of directors set and implement a diversity policy?	Yes		(1) The Company has established the Code of Practice for Corporate Governance with a diversified approach. The Company's articles of association have stipulated a nomination system for election of directors to ensure the diversity and independence of its members. For the board diversity policy and its implementation, please refer to Note 1 on pages 55 to 56 of the annual report. 29% of our directors are employees of the Company, while 43% of our directors are independent directors. The three independent directors have eight years of experience serving as independent directors. One director is aged over 70, two aged 60-69, three aged 50-59, and one aged under 50. The nationality of six directors is the Republic of China, and the nationality of one director is Hong Kong. The Company has 7 directors. Mr. Liou Jenq Lin, a director with experience with the acoustic industry for decades, has founded and operated the existing acoustic enterprise till now. He is expertised at the development planning and setting direction for strategic future development of the Company. Mr. Pai Chin Chang, the President and a director, he is well versed in production management, quality management and technical aspects. Also, he is familiar with a wide variety of acoustic products. Mr. Chang Tung I, a director who has acted as CFO and he is expertised at financial planning and operating	No substantial discrepancy

			experience of listed companies. The directors constitute an experienced and a capable management team for the company. Mr. Kwok King Lam Keenan Ken, a Hong Kong-based director, though does not participate in the day-to-day management of the Group, he has been running business in Hong Kong and Thailand for many years. He has strong management ability and a diversified international view, which can provide different views to the Board. All three independents directors have field experience with government authorities and academic background. Mr. Shiau Fung Shyung, acted as Vice Council for Economic Construction Committee, Executive Yuan, R.O.C. (Taiwan) and obtained his Master of Economics from a foreign university and is the Dean and Honour Professor of College of Commerce of Tamkang University till now. Mr. Chen Ko Hung, a CFO of a listed company who is an experienced finance executive and he provides advance warning on financial aspects and professional advices to Audit Committee for the Company. Mr. Chang Shan Juh, is good at human resources management and has solid human resources experience in sizable listing group and university. Apart from acting as the Chairman of Remuneration Committee, he promoted the cooperation of research and development projects between the Company and university which brings win-win situation to both sides. The multi-complementation among 7 directors is beneficial to the Company's future development.	
(2) Has the Company voluntarily established other functional committees besides the	Yes		(2) The Company has established an audit committee and a remuneration committee. Other functional	No substantial discrepancy

remuneration committee and audit committee required by law?			committees will be established according to the actual needs of the Company.	
(3) Has the Company set performance assessment rules and methods for the board of directors and does it perform regular evaluation every year?	Yes		(3) The Company regularly tracks and records the attendance rate of directors, the number of hours of training required each year, the avoidance of conflict of interest, the communication with the Company's management and the audit of the Company's financial accounting report. However, the performance assessment rules and methods for the board of directors have not yet been formulated and will be formulated as needed in the future.	No substantial discrepancy
(4) Does the Company regularly evaluate the independence of the certified public accountant?	Yes		(4) The Company regularly reviews the independence of the certified public accountant every year, and submitted the results to the meeting of the audit committee and the board of directors on 9 May 2019 for consideration and approval. All directors approved that Shih Chin-Chuan and Liu Shu-Lin, accountants from Deloitte Touche Tohmatsu fulfilled the Company's independence and competence standards (please refer to pages 57 to 58 of the annual report) on the basis of the Evaluation Standards for the Independence of CPAs formulated by the Company and the Statement of Independence CPA issued by the accountants.	No substantial discrepancy
4. Does the TWSE/TPEx listed company have a dedicated unit/staff member in charge of the Company' corporate governance affairs (including but not limited to providing information required for director/supervisor's operations, convening board/shareholder meetings in compliance with the law, apply for/change company registry, and	Yes		As approved by the board of directors on 26 April 2019, the Company designated Mr. Chang Po Chao, the vice president, to concurrently serve as director of corporate governance, safeguarding shareholders' rights and strengthening the functions of the board of directors. Vice President Chang Po Chao has over 20 years of management experience in finance, stock affairs or meetings of listed companies. The main duties of corporate governance personnel are to	No substantial discrepancy

producing meeting minutes of board/shareholders' meetings)?			handle matters related to board meetings and shareholders' meetings according to law, to prepare minutes of board meetings and shareholders' meetings, to assist the directors in taking office and continuous learning and to provide the information and regulations required for the directors to perform their duties in order to assist the directors in complying with laws and regulations. The business development situation is as follows: 1. To assist independent directors and directors in general in performing their duties, providing the required information and arranging director training (1) To provide company information required by the directors, maintain effective communication between the directors and management. (2) To assist in arranging meetings for the accountants, independent directors and chief audit and accounting officers to communicate and to implement the internal audit and control system. For the minutes of the communication meetings, please refer to pages 44 to 45 of the annual report. (3) To assist independent directors and directors in general in taking at least 6 credits of refresher courses with reference to the Company's industry characteristics and the directors' background and experience. 2. To assist in the compliance of the board of directors and shareholders' meeting procedures and resolutions (1) To confirm whether the Company's shareholders' meeting or board of directors meets relevant regulations. (2) To assist and remind the directors of the	

			regulations that should be followed when performing duties or making a formal resolution of the board of directors. (3) After the meeting, it is responsible for reviewing the release of material information of significant board resolutions to ensure the legality and accuracy of material information to protect investors' equal opportunity in accessing trading information. 3. To formulate the agenda of the board of directors and notify the directors 7 days before the meeting to convene the meeting and provide the meeting materials, while prior reminder shall be given for proposals involving conflict of interest; and the minutes of the board meeting shall be completed within 20 days after the meeting.	
			4. To conduct the pre-registration of the date of the shareholders' meeting according to law, to prepare a notice of the meeting, the proceedings manual and the minutes within the statutory period, and to register after the amendment of the articles of association or the re-election of the directors. 5. Evaluate and procure appropriate director and manager liability insurance.	
5. Does the Company establish communication channels and dedicate section for stakeholders (including but not limited to shareholders, employees, clients and suppliers) on its website to properly respond to important issues of corporate social responsibility concerns?	Yes		The Company has set up sections for stakeholders on the Company's website (https://eastech.com), including employee section, customer section, investor section, section for partners (suppliers), etc., and sets up communication windows and mailboxes for each category of stakeholders to properly respond to material corporate social responsibility issues of concern to each category of stakeholders.	No substantial discrepancy
6. Has the Company appointed a professional agent for stock affairs for holding shareholders' meetings?	Yes		The Company appointed the Stock Transfer Agency Department of SinoPac Securities Corporation for handling the shareholders' meeting affairs.	No substantial discrepancy

7. Disclosure of information (1) Does the Company set up website to disclose financial operations and corporate governance information?	Yes		(1) The Company has set up a website in Chinese and English (website: https://eastech.com) and has successively updated information disclosure on financial business and corporate governance.	No substantial discrepancy
(2) Has the Company adopted other measures (such as English website, a designated person responsible for the collection and disclosure of information, implementation of the spokesman system, the legal entities announcements uploaded to website, etc.) to disclose information?	Yes		(2) The Company's Chinese and English websites disclose information about financial business and corporate governance. The Company designates personnel to be responsible for the collection and disclosure of corporate information; and the spokesperson will co-ordinate the external statements and other matters. The briefings and audio-visual materials of the Company's investor conference have been placed on the Market Observation Post and the Company's website available for shareholders and investors.	No substantial discrepancy
8. Does the Company have other important information for better understanding the Company's corporate governance system (including but not limited to interests and rights of employees, care for employees, investor relations, supplier relations, stakeholder rights, continuing education of directors and supervisors, execution of risk management policies and risk assessment standards, execution of customer policies, liability insurance for the Company's directors and supervisors)?	Yes		1. Interests and rights of employees: In addition to complying with relevant laws and regulations, the Company has also produced a Staff Handbook to regulate the rights and obligations between employees and the Company. If there is violation of the rules, the heads of various departments will hold a meeting to discuss. Employees can also directly express their opinions through the suggestion box and other proper channels. 2. Care for employees: Human resources are the Company's greatest asset. In order to provide employees with a comfortable and pleasant working environment, the following measures can help employees to make progress for the Company and promote the healthy development of the Company's human resources.	No substantial discrepancy

			(1) Staff welfare initiatives: The Company provides various regular welfare initiatives for its staff, procures insurance for employees according to local laws and regulations, provides a humane promotion system and transfer system, organises entertainment activities, subsidies the tuition for the children of factory workers attending Xiu De Chinese – Anglo Kindergarten, and provides nutritious and hygienic food in staff canteens. (2) Various staff education and training: On the day of registration, new recruits are briefed by the HR department on HR rules and welfare system and other issues. The content of pre-employment training focuses on helping new recruits to get familiar with the work environment and get used to the situation as soon as possible. Programmed education and training enable all employees to develop their skills at work. From time to time, the Company as a whole or each department participates in educational training courses organised by training institutions at home and abroad. (3) Retirement system: Implemented in accordance with the local labor law. 3. Investor relations: The Company holds a shareholders’ meeting every year, giving shareholders adequate opportunity and time to ask questions and submit proposals; investor conferences are held for two-way communication between investors and analysts and the Company's management team; the Company’s spokesperson is responsible for establishing a	

			two-way communication channel between the Company and investors. The Company also makes announcements on relevant information in accordance with the regulations of the competent authority to immediately provide information that may affect the decision of investors. 4. Supplier relations: Adhering to the principle of integrity, the Company focuses on the stability and quality of supplies from the suppliers. Procurement is prudently evaluated beforehand and handled in accordance with relevant operational regulations. Both parties perform their duties and obligations according to the contract. If third-party manufacturers encounter any technical obstacle, the Company also provides technical assistance for the manufacturer when necessary, and maintains a positive and stable partnership with suppliers. 5. Stakeholder rights: The Company sets up sections for stakeholders on the Company's website (https://eastech.com), including employee section, customer section, investor section, and section for partners (suppliers), etc., and sets up communication windows for each category of stakeholders to properly respond to issues of concern of stakeholders. 6. Continuing education of directors: All directors of the Company possess relevant professional knowledge and have taken training courses on securities law in compliance with regulations in order to enhance their professional skills and strengthen the implementation of corporate governance. Please see pages 77 to 78 for details of directors' training.	

			7. Execution of risk management policies and risk assessment standards: The Company has formulated various internal regulations according to law and established a risk management mechanism to timely identify, respond to, report and monitor major risks affecting current and future operations through regular and non-scheduled risk identification operations and raise employees' risk awareness to ensure sustainable operations of the Company. 8. The Company upholds the principle of integrity, attaches importance to customer rights, provides quality services, and establishes long-term cooperative relationships with customers. 9. Liability insurance for the Company's directors and supervisors In 2018, the Company has procured liability insurance for its directors and managers for an insurance period from 20 November 2018 to 20 November 2019. The insured amount, coverage and insurance rate were submitted to the meeting of audit committee and the board of directors on 8 November 2018, which was announced on the Market Observation Post.	
9. Please specify the measures adopted by the Company to improve the items listed in the corporate governance review result from Taiwan Stock Exchange's Corporate Governance Center and the improvement plans for items yet to be improved. (Those which are not related to companies under review are not required to fill in) Note 1: Board diversity and its implementation	Yes		The Company actively promotes its corporate governance performance, and has completed the following major improvement projects in 2018: 1. Enhance the disclosure of the operation of corporate governance department 2. Enhance the disclosure of working environment and personal safety implementation 3. Enhance the disclosure of issues of concern of stakeholders, communication channels and responses 4. Enhance the disclosure of integrity operation training	No substantial discrepancy

Core of diversity Name of director	Nationality	Operational judgment capabilities	Accounting and financial analysis skills	Management capabilities	Crisis management capabilities	Industrial knowledge	International market perspective	Leadership skills	Decision-making capacity	Legal
Liou Jenq Lin	Taiwan	V		V	V	V	V	V	V	V
Pai Chin Chang	Taiwan	V		V	V	V		V	V	V
Kwok King Lam Keenan Ken	Hong Kong	V	V	V	V	V	V	V	V	
Chang Tung I	Taiwan	V	V	V	V	V	V	V	V	V
Shiau Fung Shyung	Taiwan	V	V			V	V		V	V
Chang Shan Juh	Taiwan	V			V		V	V	V	V
Chen Ko Hung	Taiwan	V	V		V			V	V	V

Assessment of the independence of accountant

(1) The content of the assessment (as defined in Article 47 of the Certified Public Accountant Law and the Gazette No. 10 of the Code of Ethics for Professional Accountants):

Assessment item	Assessment result	Meeting the independence requirements
1. (1) On 3 October 2018, the Company received a letter from Deloitte Touche Tohmatsu, which stated that, due to internal arrangement, the certified public accountants will be changed from Cheng De-Chen and Liu Shu-Lin to Shih Chin-Chuan and Liu Shu-Lin from the fourth quarter of 2018.	Yes	Yes
(2) As of the latest certification, Shih Chin-Chuan and Liu Shu-Lin have not served as accountants for the same client for seven consecutive years.	Yes	Yes
2. No material financial interest with the client.	Yes	Yes
3. Avoid any inappropriate relationship with the client.	Yes	Yes
4. Accountants should ensure that their assistants are honest, impartial and independent.	Yes	Yes
5. Accountants shall not audit and attest the financial statements of the organization they served within the two years prior to the practice.	Yes	Yes
6. The name of accountant shall not be used for others.	Yes	Yes
7. No shareholding in the Company and its affiliates.	Yes	Yes
8. There is no money lending with the Company and its affiliates, except those under the normal business of the financial industry.	Yes	Yes
9. There is no relationship of co-investment or sharing of benefits with the Company and its affiliates.	Yes	Yes
10. No concurrent position held in the Company and its affiliates with a fixed salary.	Yes	Yes
11. Not involved in the management functions in making decisions of the Company and its affiliates.	Yes	Yes
12. No concurrent businesses that may cause him/her to lose independence.	Yes	Yes
13. Those who have relationship of spouse, immediate family members and in-laws or within two degrees of kinship with the Company's management shall not attest the financial statements.	Yes	Yes
14. No commissions related to business were received.	Yes	Yes
15. To date, there has been no disciplinary action or damage to the principle of independence.	Yes	Yes

(2) Work performance and plans

1. Completed the audit and attestation of the Company's 2018 consolidated financial statements on schedule.
2. Provided the Company with financial and tax consulting services from time to time.

(3) Assessment result

The two accountants, Shih Chin-Chuan and Liu Shu-Lin, are independent from the Company, and provided timely and appropriate financial and tax consulting and audit and attestation services for the Company.

Assessment of the independence of accountant

(1) The content of the assessment (as defined in Article 47 of the Certified Public Accountant Law and the Gazette No. 10 of the Code of Ethics for Professional Accountants):

Assessment item	Assessment result	Meeting the independence requirements
1. Accountant Cheng De-Chen conducted audit and attestation of financial statements from the first quarter of 2018 and has not served as accountants for the same client for the same client for seven consecutive years.	Yes	Yes
2. No material financial interest with the client.	Yes	Yes
3. Avoid any inappropriate relationship with the client.	Yes	Yes
4. Accountants should ensure that their assistants are honest, impartial and independent.	Yes	Yes
5. Accountants shall not audit and attest the financial statements of the organization they served within the two years prior to the practice.	Yes	Yes
6. The name of accountant shall not be used for others.	Yes	Yes
7. No shareholding in the Company and its affiliates.	Yes	Yes
8. There is no money lending with the Company and its affiliates, except those under the normal business with the financial industry.	Yes	Yes
9. There is no relationship of co-investment or sharing of benefits with the Company and its affiliates.	Yes	Yes
10. No concurrent position held in the Company and its affiliates with a fixed salary.	Yes	Yes
11. Not involved in the management functions in making decisions of the Company and its affiliates.	Yes	Yes
12. No concurrent businesses that may cause him/her to lose independence.	Yes	Yes
13. Those who have relationship of spouse, immediate family members and in-laws or within two degrees of kinship with the Company's management shall not attest the financial statements.	Yes	Yes
14. No commissions related to business were received.	Yes	Yes
15. To date, there has been no disciplinary action or damage to the principle of independence.	Yes	Yes

(2) Work performance and plans

1. Completed the audit and attestation of the Company's consolidated financial statements for the first three quarters of 2018 on schedule.
2. Provided the Company with financial and tax consulting services from time to time.

(3) Assessment result

Accountant Zheng De-Zhen is independent from the Company, and provided timely and appropriate financial and tax consulting and audit and attestation services for the Company.

(4) Composition, responsibilities and operation of the remuneration committee (if established by the Company)

1. Information on the members of the remuneration committee

Position (Note 1)	Qualification / Name	Possesses over five years of work experience and the following professional qualifications			Meeting the independence requirements (Note 2)								Number of other public companies in which the person serves as a member of the remuneration committee	Remarks
		Holding a post of lecturer or above in public and private colleges and universities in business, legal, finance, accounting or other fields necessary for the Company's business	Judges, prosecutors, lawyers, accountants or other specialized professional and technical staff passing national examinations with certificates which are required for the Company's business	Work experience in business, legal, finance, accounting or other fields necessary for the Company's business	1	2	3	4	5	6	7	8		
Independent director	Chang Shan Juh	V			V	V	V	V	V	V	V	V	0	
Independent director	Shiau Fung Shyung	V			V	V	V	V	V	V	V	V	2	
Independent director	Chen Ko Hung			V	V	V	V	V	V	V	V	V	0	

Note 1: For the position, please fill in as a director, independent director or others.

Note 2: For members who fulfil the following conditions during the two years before the election and the term of office, please tick the box under the respective condition codes.

(1) Not being an employee of the Company or its affiliates.

(2) Not being a director nor supervisor of the Company or its affiliates (except for independent directors of the Company or its parent company or subsidiaries in which the Company directly and indirectly holds more than 50% of the shares with voting rights).

(3) Each of the persons and his/her spouse/minor children, either in their own name or in other’s name, is not a natural person shareholder who holds more than one percent of the Company's total issued shares or is one of the top ten shareholders of the Company.

(4) Not being a spouse, a relative within two degrees of kinship or a lineal blood relative within three degrees of kinship of the persons listed in the preceding three clauses.

(5) Not being a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the total issued shares of the Company, or a director, supervisor or employee of the top five corporate shareholders.

(6) Not being a director, supervisor or manager of specific companies or institutions which have financial or business dealings with the Company, or a shareholder holding more than 5% of such companies or institutions.

(7) Not being a professional, business owner of sole proprietorship, partnership, company or institution, partner, director, supervisor or manager who provides business, legal, financial, accounting and other services or consulting for the Company or its affiliates, or their spouses.

(8) None of the events stipulated in Article 30 of the Company Law exists.

2. Duties of the remuneration committee

- Establish policies, systems, standards and structures for directors' performance appraisal and directors' and managers' remuneration, and review them regularly;
- regularly assess and recommend directors' and managers' remuneration; and
- other matters required by the Listing Act.

3. Details of the remuneration committee

(1) The Company's remuneration committee comprises three independent directors.

(2) The term of office of the current session: 8 June 2017 to 7 June 2020. During the latest year (2018) and as of the date of issue of annual report, the remuneration committee held 8 meetings. The attendance of the members is as follows:

Title	Name	Attendance in person	Attendance by proxy	Attendance rate in person (%)	Remarks
Convener	Chang Shan Juh	8	0	100	
Member	Shiau Fung Shyung	8	0	100	
Member	Chen Ko Hung	8	0	100	

(3) Other disclosure:

① If the board of directors does not adopt or amend the recommendations of the remuneration committee, the date of board meeting, session, content of the proposal, the resolution of the board of directors and the Company's response to the opinion of the remuneration committee shall be recorded (if the remuneration approved by the board of directors is better than the recommendation of the remuneration committee, the difference and the reasons therefor should be stated): no such situation.

② If any resolution of the remuneration committee is objected to or qualified by committee member(s) with a record or written statement, the date of remuneration committee meeting, session, content of the proposal, the opinions of all members and the response to the members' objection shall be recorded: no such situation.

Remuneration committee	Content of the proposal	Resolution	The Company's response to the opinion of the remuneration committee
Third session Third meeting 23 February 2018	1. The Company's 2017 employee remuneration and directors' remuneration proposal	All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors
Third session Fourth meeting 24 April 2018	1. To consider the 2018 salary adjustment plan of the Company and its subsidiaries	All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors

Third session Fifth meeting 30 August 2018	1. Proposed issuance of employee stock option certificates by the Company	The remuneration committee suggested the Company to explain the hypothetical basis of the "expected dividend yield" in the fair value trial report after the meeting and report it at the next meeting. All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors
Third session Sixth meeting 28 September 2018	1. Proposed issuance of employee stock option certificates for 2018 by the Company	All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors
Third session Seventh meeting 14 December 2018	1. Bonus payment principle and managers' year-end bonus payment amount for 2018	All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors
Third session Eighth meeting 22 February 2019	1. The Company's 2018 employee remuneration and directors' remuneration proposal	All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors
Third session Ninth meeting 26 April 2019	1. The Company's 2018 employee remuneration proposal	All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors
	2. Proposed appointment of the director of corporate governance	All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors

Third session Tenth meeting 9 May 2019	1. Proposed issuance of employee stock option certificates by the Company	All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors

(5) Fulfillment of social responsibilities

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	
1. Implementation of corporate governance (1) Does the Company have a corporate social responsibility policy or system and evaluate its implementation?	Yes		(1) Although the Company has not formulated a corporate social responsibility policy, it has implemented the social responsibility system in its daily operational activities. The Company will continue to implement corporate social responsibility and may formulate relevant policies in the future as appropriate.	No substantial discrepancy
(2) Does the Company hold regular social responsibility training?	Yes		(2) The Company regularly organises social responsibility training for employees.	No substantial discrepancy
(3) Does the Company have a dedicated (or ad-hoc) CSR department led by senior management and with the board's authorization reports to the board of directors?	Yes		(3) The Company and its subsidiaries spare no effort in education and environmental protection with an attitude of being responsible to the Company, the place of business and the society. Although the Company has not set up a dedicated (or ad-hoc) CSR department, such department may be set up as needed in the future.	No substantial discrepancy
(4) Does the Company set a reasonable remuneration policy, integrate employee appraisal with its CSR policy, and set clear and effective incentive and disciplinary systems?	Yes		(4) The Company's articles of association stipulate that it shall pay the employees' remuneration in an amount of not less than 1% and not more than 15% of the pre-tax profit before deducting the employees' and directors' remuneration for the year.	No substantial discrepancy

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	
			The Staff Handbook and the Performance Appraisal Management System of the Company clearly stipulate the incentive and disciplinary policies. The Company regularly conducts individual performance appraisal according to the Company's business performance and related systems as the basis for salary adjustment, bonus payment and promotion. In the future, the Company will further integrate the employee performance appraisal system with corporate social responsibility policies.	
2. Sustainable environment development (1) Is the Company committed to improving resource efficiency and to the use of renewable materials with low environmental impact?	Yes		(1) The Company complies with international regulatory requirements on environmental protection, such as RoHS, WEEE, HF, etc. It introduces green supply chain management and uses materials with low environmental impact. It also strives to improve the utilization efficiency of all resources in adherence to 3R (reduce, reuse and recycle) principle. It successfully uses recyclable wood chips to manufacture speaker housings with special casting processes.	No substantial discrepancy
(2) Has the Company set an environmental management system designed according to its industry characteristics?	Yes		(2) The Company's production plant is located in mainland China, and complies with national and regional laws, regulations and other relevant requirements on environment, safety and health, and enhances its environmental, safety and health	No substantial discrepancy

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	
			management in accordance with the relevant provisions of branded customers. In terms of environmental engineering, the Company gradually improved environmental protection facilities, built a new solid waste recycling room according to environmental protection standards. The sewage pipes were also improved to ensure that sewage enters the cesspool for treatment according to discharge standards.	
(3) Does the Company track the impact of climate change on its operations, take stock of its greenhouse gas emissions, and set energy conservation and greenhouse gas reduction strategy?	Yes		(3) The Company has formulated the following measures to reduce the impact of climate change on its operational activities: 1. For the lighting equipment of the Company's Taiwan office, traditional fluorescent lamps were replaced with LED lighting. 2. Multi-party video conferencing equipment was set for the Company and its subsidiaries to reduce the number of business trips. 3. Staff quarters are provided in the factory, and shuttle buses are provided for employees to reduce the fuel consumption and exhaust emissions generated by employee commuting. 4. Each factory is dedicated to greening the environment in addition to energy saving and carbon reduction in operation.	No substantial discrepancy

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	
			5. Lighting improvement and energy conservation for air compressor system were implemented in each factory to reduce carbon emissions and greenhouse gas in accordance with environmental protection policies.	
3. Promotion of social welfare (1) Does the Company set policies and procedures in compliance with relevant regulations and the International Bill of Human Rights?	Yes		(1) The Company complies with all relevant labor laws and regulations of the local competent authority to protect the rights and interests of employees.	No substantial discrepancy

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	
(2) Has the Company established appropriately managed employee complaint procedures and channels?	Yes		(2) The Company has an e-mail and employee suggestion box as a channel for employee complaints and suggestions. The dedicated unit will forward them to the respective business units to assist in the processing and report the progress or results to the employees. In order to protect the employees' rights and smooth communication, the Company has also	No substantial discrepancy

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	
			established a staff corner on the Company's website under the stakeholder section with dedicated personnel to handle employee complaints.	
(3) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training?	Yes		(3) The Company regularly tests and maintains fire safety equipment and sets up access control to enhance the safety of the working environment. It also sets up the Employee Health Management Procedures and regularly conducts fire drills and employee health checks to raise employees' awareness on safety and health. The implementation work is as follows: (1) In 2018, with an aim to promote environmental protection and safe production, our factory invested approximately NT$10.89 million in the woodworking workshop dust explosion-proof renovation project, the plastics department production exhaust gas treatment project, and the woodworking workshop production wastewater treatment project. (2) In cooperation with medical institutions near the factory, we provide annual health check, psychological consultation and emergency medical treatment for employees. First aid equipment is installed in the factory. (3) Two fire drills are conducted in winter and summer every year. In 2018, over 10,201 employees participated in fire and safety	No substantial discrepancy

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	
			training. (4) Work environment inspections are conducted at least once per year. In 2018, the number of work-related injuries (excluding traffic accidents) has decreased as compared with the previous year. (5) Employee health checkups are conducted every year to raise employees' awareness on their own health management and disease prevention and for early detection and treatment for diseases. (6) Regular training on first aid and CPR are organised for relevant staff members to be able to perform first aid when necessary. (7) Regular promotions of labor safety and health education are carried out.	
(4) Has the Company established a mechanism for regular communication with employees and use reasonable measures to notify employees of operational changes which may cause significant impact to employees?	Yes		(4) The Company has established a mechanism for regular communication with employees, including quarterly journals, to establish a communication channel for employees and to convey important operational messages to all employees. Each year, a senior executive meeting is held to review the operating results for the year and jointly set the operational targets for the following year. Each factory holds supervisory meetings from time to time to communicate the Company's annual business objectives to employees on a top-down approach.	No substantial discrepancy
(5) Has the Company established effective career development training plans for its staff?	Yes		(5) The Company designs various career development programmes according to each	No substantial discrepancy

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	
			function in combination with the Company's future development strategies and objectives.	
(6) Has the Company set polices and consumer complaint procedures in its R&D, purchasing, production, operations, and service processes to protect consumer rights?	Yes		(6) The Company has established new customer processing procedures, customer data processing procedures, etc., maintained smooth communication with customers and accepted customer audits. In response to customer complaints, the Company will clearly define the problem and responsibility, and regularly evaluate customer satisfaction to ensure the best service is provided to customers. In addition to the entering of confidentiality agreements with the branded customers, the Company also strictly admonishes the relevant R&D personnel to protect customers' intellectual property rights and emphasises on the importance of data confidentiality.	No substantial discrepancy
(7) Does the Company follow regulations and international standards in the marketing and labelling of its products and services?	Yes		(7) The Company's marketing and labelling of products and services follow relevant regulations and international standards. In August 2016, the Company's car speakers achieved zero-defect supply chain quality management standard ISO/TS16949 certification. This certification confirms that the Company's entire operating process from receiving orders, product development, production management, quality assurance system to financial management meets the	No substantial discrepancy

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	
			stringent requirements of car speaker suppliers.	
(8) Does the Company evaluate their environmental and social track records before engaging with potential suppliers?	Yes		(8) The Company will perform supplier evaluation before engaging with potential suppliers. We work closely with branded customers and material suppliers to ensure strict compliance with the standards from material development, product manufacturing, packaging and shipping, so that product safety meets international standards.	No substantial discrepancy
(9) Does the Company's contracts with major suppliers include termination clauses if they violate CSR policy and cause significant environmental and social impact?	Yes		(9) The Company requires its suppliers to abide by the Company's integrity management policy in order to obtain the most reasonable quotation, best quality and best service; if the supplier violates relevant requirements of the Company's integrity management policy, the Company will terminate business dealings with it.	No substantial discrepancy
4. Enhanced information disclosure (1) Does the Company disclose relevant and reliable CSR information on its website and the Market Observation Post?	Yes		(1) The Company's website has established the "Corporate Social Responsibility Zone" to disclose relevant information on environmental protection, education subsidy and social welfare, and disclose information about corporate social responsibility in annual reports or prospectuses.	No substantial discrepancy
5. If the Company has established its own corporate social responsibility code of practice according to the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, describe the differences between its operation and the code of practice: Not applicable				

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	

6. Other important information to facilitate better understanding of the Company's implementation of corporate social responsibility:

(1) Environmental protection:

- The Company adheres to the principles of 3R (reduce, reuse and recycle) and makes effective use of all resources. It successfully uses recyclable wood chips to manufacture speaker housings with special casting processes.
- For product development, the Company also complies with the environmental protection policies of the EU, the United States and other countries to develop green products, making the Company a green partner of international renowned companies.
- In 2018, with an aim to promote environmental protection and safe production, the factory invested approximately NT$10.89 million in the woodworking workshop dust explosion-proof renovation project, the plastics department production exhaust gas treatment project, and the woodworking workshop production wastewater treatment project.

(2) Social engagement:

Every year, the Eastech long-distance running team participates in and makes donation to charity events, and supports long-distance running activities in different regions to promote the Company's healthy running culture. Major events in 2018 include:

On 21 January 2018, several representatives participated in the Standard Chartered Hong Kong Marathon 2018;
On 9 December 2018, two representatives participated in the 2018 Taipei Marathon;
On 30 December 2018, representatives participated in the NOVA Trail Race 2018, which raised fund for the NOVA expansion plan of the Hong Kong Chinese Women's Club College and donation to Po Leung Kuk.

(3) Education subsidy:

In October 2004, a director of the Company's subsidiary established Xiu De Chinese – Anglo Kindergarten in Huiyang New Market. It was recognised as a first class kindergarten in Huizhou in March 2011 and as one of the four excellent kindergartens in Huiyang in 2018. The kindergarten provides a quality education platform for the children of our employees and children in the surrounding communities. As part of the Company's employee benefits policy, the children of our employees are entitled to tuition subsidy and manpower and material support.

(4) Social welfare

While pursuing robust development, Eastech Group spares no effort to contribute to society and make donations to certain social welfare groups to support social welfare from time to time.

Assessment item	Implementation status			The discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the underlying reasons
	Yes	No	Description	
7. Other information regarding the Corporate Social Responsibility Report of the Company which are verified by certification bodies: In order to fulfill the responsibility of environmental protection and caring for the safety and health of our colleagues, and for the responsibility of pollution prevention management and social responsibility of environmental protection, the Company obtained ISO14001 environmental management system certification in September 2010 and the certificate was renewed in November 2017. The Company obtained the ISO9001 quality management system certification in July 2010 and the certificate was renewed in July 2016. In August 2016, the Company's car speakers achieved zero-defect supply chain quality management standard ISO/TS16949 certification.				

(6) Implementation of ethical management policy

Assessment Item	Implementation Status			The discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the underlying reasons
	Yes	No	Summary	
1. Establishment of corporate conduct and ethics policy and implementation measures (1) Does the Company have bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and the commitment regarding implementation of such policy from the board of directors and the management team?	Yes		(1) The Company has established Procedures for Ethical Management and Guidelines for Conduct, which are issued to each supplier in order to make its suppliers and other business-related institutions and personnel fully aware of its principles and rules with respect to ethical management. The board and the management team also rigorously and thoroughly implement such policies, and will not participate in matters related to their own	No substantial discrepancy

Assessment Item	Implementation Status			The discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the underlying reasons
	Yes	No	Summary	
			interests as appropriate.	
(2) Does the Company establish relevant policies which are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequence of violation and complaint procedures in such policies?	Yes		(2) Procedures for Ethical Management and Guidelines for Conduct of the Company explicitly prohibits unethical conduct, Codes of Ethical Conduct also requires the prevention of obtaining personal gain, fair trade, compliance with rules and regulations, encouraging reporting on illegal or unethical activities, etc., and in case of violation, the violator will be punished in accordance with relevant provisions.	No substantial discrepancy
(3) Does the Company establish appropriate compliance measures for the business activities prescribed in Article 7-2 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and any other such activities with higher risk of unethical conduct?	Yes		(3) Procedures for Ethical Management and Guidelines for Conduct of the Company explicitly prohibit providing or accepting improper benefits, handling procedures for facilitating payments, and also standardize the procedures for handling political contributions and charitable donations or sponsorships.	No substantial discrepancy
2. Ethic management practice (1) Does the Company assess the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?	Yes		(1) Before developing a commercial relationship with another party, the Company evaluates the legality and ethical management policy of the party, and avoids business dealing with parties that have a record of involvement in unethical conduct; when entering into a contract with another party, the contract terms shall include	No substantial discrepancy

Assessment Item	Implementation Status			The discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the underlying reasons
	Yes	No	Summary	
			compliance of ethical management policy.	
(2) Does the Company set up a unit which is dedicated to or tasked with promoting the Company's ethical standards and reports directly to the board with periodical updates on relevant matters?	Yes		(2) The human resources department of the Company is responsible for promoting the ethical management of the Company, which reports to the board periodically.	No substantial discrepancy
(3) Does the Company establish policies to prevent conflict of interests, provide appropriate communication and complaint channels and implement such policies properly?	Yes		(3) Procedures for Ethical Management and Guidelines for Conduct and Codes of Ethical Conduct of the Company stipulate the policy of avoiding conflict of interest, and complaint channels are established for handling cases in respect of violation of laws or code of ethics and business conduct.	No substantial discrepancy
(4) To implement relevant policies on ethical conducts, does the Company establish effective accounting and internal control systems that are audited by internal auditors or accountants CPA periodically?	Yes		(4) The Company implements ethical management, and has established effective accounting and internal control systems, which are audited by internal auditors, and the audit report is submitted to the board.	No substantial discrepancy
(5) Does the Company provide internal and external ethical conduct training programs on a regular basis?	Yes		(5) In 2018, the Company provided internal and external ethical conduct training programs (including relevant programs such as compliance with regulations of ethical management, battle for information and legal confidentiality, utilization of BIG Data for safeguarding against corruption, discussion of legal liability of "employee corruption" and ways to determine and Corporate Con) for a total of 208 people with a total of 327	No substantial discrepancy

Assessment Item	Implementation Status			The discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the underlying reasons
	Yes	No	Summary	
			man-hours.	
3. Implementation of whistleblowing procedures (1) Does the company establish specific whistleblowing and reward procedures, set up conveniently accessible whistleblowing channels, and designate responsible individuals to handle the concerns reported?	Yes		(1) Procedures for Reporting of Illegal and Unethical Behavior or Unethical Conduct stipulate the whistleblowing and reward system, and complaint channels and communicating mailbox were established for internal and external personnel to report, and responsible personnel were designated to handle the concerns reported.	No substantial discrepancy
(2) Does the Company establish standard operation procedures for investigating the concerns reported and ensuring such concerns are handled in a confidential manner?	Yes		(2) The Company established the standard procedure and relevant confidentiality system for investigating the concerns received, and records of procedures and results of investigation will be stored. If violation of regulations is confirmed, report will be summited to the management team immediately, and the violator will be punished depending on the seriousness.	No substantial discrepancy
(3) Does the Company adopt proper measures to prevent a complainant from retaliation for his/her reporting concerns?	Yes		(3) The Company keeps the personal information of the whistleblower confidential, and adopts proper measures to protect the whistleblower from retaliation for his/her concerns reported.	No substantial discrepancy
4. Information Disclosure (1) Does the Company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System?	Yes		(1) Procedures for Ethical Management and Guidelines of the Company and relevant governance information are disclosed on the website of the Company (“Investors” page)	No substantial discrepancy

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">The discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the underlying reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td></td><td></td><td></td><td>(website: https://eastech.com).</td><td></td></tr>
<tr><td colspan="5">5. If the Company has established corporate governance policies based on Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, describe any discrepancy between the policies and their implementation:
The Company has established Procedures for Ethical Management and Guidelines for Conduct, and complies with it. There is no discrepancy between the Procedures for Ethical Management and Guidelines for Conduct and its implementation.</td></tr>
<tr><td colspan="5">6. Other important information to facilitate better understanding of the Company’s corporate conduct and ethics compliance practices (e.g., review the Company’s corporate conduct and ethics policy)
(1) The Company established Procedures for Ethical Management and Guidelines for Conduct, and issued to each supplier to indicate the Company’s determination of ethical management.
(2) Rules of Procedure of the Board of Director of the Company require that if any director or a juristic person represented by a director is an interested party with respect to any agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interests of the Company, the director may not participate in discussion or voting on that agenda item, and shall further abstain from discussion and voting on that item and may not act as another director's proxy to exercise voting rights on that matter.
(3) The Company has established Procedures for Insider Trading Prevention, all personnel of the Company may not take advantage of undisclosed information of which they have learned to engage in insider trading. Personnel are also prohibited from divulging undisclosed information to any other party, in order to prevent other party from using such information to engage in insider trading.</td></tr>
</table>

(7) If company has established Corporate Governance Code and relevant regulations, disclosure of means to access:

The Company established “Corporate Governance Code”, “Procedures for Ethical Management and Guidelines for Conduct”, “Codes of Ethical Conduct”, relevant regulations, etc., please refer to the website of the Company at https://eastech.com or Market Observation Post System.

(8) Other important information that is able to enhance the governance of the company:

1. The Company established “Verification and Disclosure of Material Information of Companies”, pursuant to which, each division of the Company shall handle the public disclosure of information prudently and ensure the accuracy and truthfulness of the information; information with obligation of confidentiality and shall not be divulged before the formal disclosure.

2. Director’s training in 2018

Title	Name	Date		Holder	Course name	Training hours
		Since	**Up to**			
Chairman	Liou Jenq Lin	2018/06/13	2018/06/13	Legal foundation, Taiwan Academy of Banking and Finance	New ideas for succession management relating to going concern	3
		2018/08/08	2018/08/08	Legal foundation, Taiwan Academy of Banking and Finance	News risk management strategy and responsive measures	3
Director	Pai Chin Chang	2018/12/21	2018/12/21	Taiwan Corporate Governance Association	The last defense line of governance of companies-liability insurance of directors and supervisors	3
		2018/12/25	2018/12/25	Taiwan Corporate Governance Association	The impact on governance of companies brought by the amendment of Company Act-case study	3
Director	Chang Tung I	2018/06/15	2018/06/15	Association of Certified Fraud Examiners	The utilization of BIG Data for safeguarding against corruption	3
		2018/07/26	2018/07/26	Legal Foundation, Securities & Futures Institute of ROC	Strengthen the governance of companies by utilizing the self-evaluation system of the board of directors	3
Representative of juristic-person director	Kwok King Lam Keenan Ken	2018/12/05	2018/12/05	Legal Foundation, Securities & Futures Institute of ROC	Corporate strategy and key performance indicators	3
		2018/12/05	2018/12/05	Legal Foundation, Securities & Futures Institute of ROC	A discussion of manpower during the mergers and acquisitions of corporations and integration after mergers and acquisitions	3

Independent Director	Shiau Fung Shyung	2018/08/09	2018/08/09	Taiwan Corporate Governance Association	An introduction of liability risks of directors and supervisors and case study	3
		2018/11/08	2018/11/08	Taiwan Corporate Governance Association	A discussion of legal problem in respect of instant messaging	3
Independent Director	Chang Shan Juh	2018/08/16	2018/08/16	Legal Foundation, Securities & Futures Institute of ROC	The explanation of competition standards relating to the right of operation of companies and case study	3
		2018/08/22	2018/08/22	Legal Foundation, Securities & Futures Institute of ROC	The impact on corporate operation brought by the changes in tax act and corresponding actions	3
Independent Director	Chen Ko Hung	2018/11/15	2018/11/16	Legal Foundation, Accounting Research and Development Foundation of the ROC	The Programme for the Continuous Development of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12

3. Manager's training in 2018

Title	Name	Date		Holder	Course name	Training hours
		Since	Up to			
Chief financial officer	Lam Pui Man	2018/06/16	2018/06/16	The Association of Chartered Certified Accountants (ACCA Hong Kong)	ACCA Hong Kong Annual Conference 2018	7.5
		2018/08/08	2018/08/08	Legal Foundation, Accounting Research and Development Foundation of the ROC	A discussion of legal liability of "employee's corruption" and its forensics	3.0
		2018/09/08	2018/09/08	The Hong Kong Institute of Certified Public Accountants (HKICPA)	2018 Conference - A Reality Check for Accountants Today	3.5
		2018/09/04	2018/09/11	The Hong Kong Institute of Certified Public Accountants (HKICPA)	ITIL@2011 Edition Foundation: Service Strategy Fundamentals	2.5
		2018/09/28	2018/09/28	The Hong Kong Institute of Certified Public Accountants (HKICPA)	Planning Project Costs	2.0
		2018/10/03	2018/10/04	The Hong Kong Institute of Certified Public Accountants (HKICPA)	ITIL@2011 Edition OSA: Technology and Implementation Considerations	2.5

Chief audit officer	Tang Kai Tak	2018/04/12	2018/04/12	Legal Foundation, Accounting Research and Development Foundation of the ROC	The analysis of cases of the latest labor inspection and the application of computer auditing of salary cycle	6.0
		2018/05/21	2018/08/30	Association of Certified Fraud Examiners	Corporate Con-Certified Fraud Examiners	12

4. The Company's personnel relating to financial information transparency and their relevant licenses by competent authorities:

Department	Licenses	Number of personnel
Finance department	Hong Kong Public Accountants	3
	Hong Kong Chartered Secretaries	1
Audit department	Hong Kong Public Accountants	1
	International Certified Internal Auditor	1

(9) Matters to be disclosed relating to the implementation of internal control:

1. Management's Report on Internal Control

Eastech Holding Limited

Management's Report on Internal Control

Date: 22 February 2019

Based on the findings of a self-assessment, the Company states the following with regard to its internal control system during the year 2018:

1. The Company's Board of Directors and managers are responsible for establishing, implementing, and maintaining an adequate internal control system. And the Company has established such system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency of our reporting, and compliance with applicable rulings, laws and regulations.

2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes in environment and situation due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and the Company takes immediate remedial actions in response to any identified deficiencies.

3. The Company evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the"Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities. Each criterion includes several items. For the aforesaid items, please refer to the requirement of the Regulations.

4. The Company has evaluated the design and operating effectiveness of its internal control system according to the criteria of the aforesaid Regulations.

5. Based on the findings of such evaluation, the Company believes that, during 2018, it has maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable rulings, laws and regulations.

6. This Statement is an integral part of the Company's annual report and prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.

7. This Statement was passed by the Board of Directors in their meeting held on February 22, 2019, with none of the seven attending directors expressing dissenting opinions, and they all affirmed the content of this Statement.

Eastech Holding Limited

Chairman: Liou Jenq Lin

General Manager: Pai Chin Chang

2. If a CPA has been engaged to carry out a special audit of the internal control system, the CPA audit report shall be disclosed: Nil.

(10) For the latest year and up to the date of publication of the annual report, disclose any sanctions imposed in accordance with the law upon the company or its internal personnel, any sanctions imposed by the company upon its internal personnel for violations of internal control system provisions, principal deficiencies, and the state of any efforts to make improvements: Nil.

(11) Material resolutions of a general meeting or a board of directors' meeting during the most recent fiscal year and up to the date of publication of the annual report:

1. Material resolutions of general meeting of the Company in 2018:

Date	Material resolutions	Implementation
11 June 2018	Matters for approval 1. 2017 Business Report and Consolidated Financial Statements of the Company	Has complied with the resolution.
	2. Resolution on the Distribution of the Company's Surplus for 2017	Determined 3 July 2018 as the ex-dividend date, and 19 July 2018 as the cash dividend payment date. The cash dividend paid for ordinary shares was NTD 0.70377221 per share.
	Matters for discussion 1. Resolution on the Proposed Amendment to the Articles of Association of the Company	The amendments to the Articles of Association of the Company were announced on the website of the Company and the Company is operating in accordance with the amended Article of Association.

2. Material resolutions of Board of Directors' meeting of the Company during 2018 up to the date of publication of the annual report:

Date	Material resolutions
23 February 2018	1. 2017 Business Report and Consolidated Financial Statements of the Company 2. Resolution on the Distribution of the Company's Surplus for 2017 3. Resolution on the Distribution of Employees' and Directors' Remuneration for 2018 4. The Company proposed to issue the Management's Report on Internal Control pursuant to the provisions under Article 24 of the Regulations Governing Establishment of Internal Control Systems by Public Companies 5. Resolution on the recovery and cancellation of the Restricted Shares of employees and the reduction of capital by the Company 6. Matters related to the convening of the general meeting by the Board of Directors of the Company for 2018
24 April 2018	1. Resolution on the Proposed Amendment to the Articles of

Date	Material resolutions
	Association of the Company 2. Internal adjustment of Deloitte & Touche for changing of certified public accountants 3. Proposed amendments to the Rules of Procedure of the Board of Director of the Company 4. Proposed amendments to the Audit Committee Charter of the Company 5. Proposed amendments to the Rules Governing the Scope of Powers of Independent Directors 6. Discussion of remuneration adjustment of the Company and its subsidiaries for the year 2018 7. Proposed increase of matters for convening a general meeting of the Company for the year 2018
9 May 2018	1. 2018 First Quarter Consolidated Financial Statements of the Company 2. Resolution on the recovery and cancellation of the Restricted Shares of employees and the reduction of capital by the Company 3. Regular evaluation for the independence of the certified public accountants by the Company
11 June 2018	1. Adjustment of shareholder's dividend ratio 2. Determination of the ex-dividend date for the year 2018
8 August 2018	1. 2018 First Half Consolidated Financial Statements of the Company 2. Resolution on the recovery and cancellation of the Restricted Shares of employees and the reduction of capital by the Company 3. Resolution on the Endorsement Guarantee for Eastern Asia Technology (HK) Limited by the Company 4. Resolution on the Endorsement Guarantee for Eastech Electronics (HK) Limited by the Company
30 August 2018	1. Resolution on the proposed issuance of employee stock option certificates 2. Resolution on amendments to the Endorsement Guarantee for Eastern Asia Technology (HK) Limited by the Company 3. Resolution on amendments to the Endorsement Guarantee for Eastech Electronics (HK) Limited by the Company
28 September 2018	1. The resolution on issuance of employee stock option certificates for the year 2018
8 November 2018	1. 2018 third quarter Consolidated Financial Statements of the Company 2. Cooperation with the internal adjustment of Deloitte & Touche for changing of certified public accountants 3. Resolution on the repurchase of treasury stock that were not transferred for three years after the date of acquisition in accordance with the law and the recovery and cancellation of the Restricted Shares of employees and the reduction of capital 4. Proposed renewal of liability insurance of directors, supervisors and managers
14 December 2018	1. Proposed investment in Vietnam to establish a new company 2. Proposed approval for the operating plan of the Company for the

Date	Material resolutions
	year 2019 3. Preparation of budgetary of the Company for the year 2019 4. Proposed approval for the audit plan of the Company for the year 2019 5. Proposed amendments to "production cycle", "property, plant and equipment cycle", "sales and collection cycle", "purchase and payment cycle", "salary cycle" and "authority table" and addition of "ETHY R&D cycle" of the internal control system of the Company 6. Resolution on the renewal of short-term facility from CTBC Bank 7. Bonus payment principal and the amount of year end bonus of managers for the year 2018
22 February 2019	1. 2018 Business Report and Consolidated Financial Statements of the Company 2. Resolution on the Distribution of the Company's Surplus for 2018 3. Resolution on the Distribution of Employees' and Directors' Remuneration for 2018 4. The Company proposed to issue the Management's Report on Internal Control pursuant to the requirements under Article 24 of the Regulations Governing Establishment of Internal Control Systems by Public Companies 5. Resolution on the recovery and cancellation of the Restricted Shares of employees and the reduction of capital by the Company 6. Resolution on the application of mid-term credit facility of USD 3 million by the Company from Shanghai Commercial & Savings Bank, Ltd. 7. Matters related to the convening of the general meeting by the Board of Directors of the Company for 2019
6 March 2019	1. Approval for the selling of forward exchange with the total amount not more than USD 14 million
26 April 2019	1. Proposed Amendment to the Memorandum and Articles of Association of the Company 2. Proposed increase of the authorized capital of the Company 3. Proposed amendments to "regulations governing the acquisition and disposal of assets" of the Company 4. Proposed amendments to "regulations governing the Operational Procedures for Endorsements/Guarantees" 5. Proposed amendments to "regulations governing the Operational Procedures for Lending Funds to Others" 6. Resolution on the Endorsement Guarantee of the Company for Eastern Asia Technology (HK) Limited 7. Resolution on the Endorsement Guarantee of the Company for Eastech Electronics (HK) Limited. 8. Resolution on the Endorsement Guarantee of the Company for Eastech (VN) Company Limited. 9. Resolution on the appointment of management of the Company 10. Proposed increase of matters for convening a general meeting of the Company for the year 2019
9 May 2019	1. 2019 First Quarter Consolidated Financial Statements of the

Date	Material resolutions
	Company 2. Resolution on proposed issuance of employee stock option certificates 3. Resolution on the recovery and cancellation of the Restricted Shares of employees and reduction of capital by the Company 4. Regular evaluation for the independence of the certified public accountants by the Company 5. Proposed establishment of “standard operating procedures for handling requests made by directors” of the Company

(12) Where, during the latest year and up to the date of publication of the annual report, a director or the audit committee has expressed a dissenting opinion with respect to a material resolution passed by the board of directors, and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof: Nil.

(13) A summary of resignations and dismissals, during the latest year and up to the date of publication of the annual report, of the Company's chairman, general manager, principal accounting officer, principal financial officer, chief internal auditor, and principal research and development officer:

Table of summary of resignations and dismissals of parties concerned of the Company

31 March 2019

TITLE	NAME	ON-BOARD DATE	DATE OF RESIGNATION OR DISMISSAL	REASON OF RESIGNATION OR DISMISSAL
NONE	NONE	NONE	NONE	NONE

Note: Parties concerned refer to chairman, general manager, principal accounting officer, principal financial officer, chief internal auditor, and principal research and development officer of the Company.

4. Information on the accountant's fees

(1) Information on audit fees paid to auditors

Table of range on audit fees paid to auditors

Accounting Firm	Name of CPA		Audit period	Remarks
Deloitte & Touche	Shih Chin-Chuan	Liu Shu-Lin	2018	Nil

Amount Unit: NT$'000

Amount range \ Item		Audit fees	Non-audit fees	**Total**
1	Lower than 2,000		✓	
2	2,000 (inclusive)-4,000			
3	4,000(inclusive)-6,000	✓		✓
4	6,000(inclusive)-8,000			
5	8,000(inclusive)-10,000			
6	10,000(inclusive) above			

(2) When non-audit fees paid to the CPA, to the accounting firm of the CPA, and to any affiliated enterprise of such accounting firm are equivalent to one quarter or more of the audit fees paid to them, the amounts of both audit and non-audit fees and the details of the non-audit services shall be disclosed.

Amount Unit: NT$'000

Auditors	Name of CPA	Audit fees	Non-audit fees					CPA's Audit Period	Remarks
			System design	Company registration	Human resource	Others	Sub-total		
Deloitte & Touche	Shih Chin-Chuan and Liu Shu-Lin	5,150	0	0	0	390	390	2018	Authentication of major subsidiaries, issuance of employee stock option certificates and recovery and cancellation of issued Restricted Shares and reduce the capital, and the translation fee for the English financial statements.

(3) When the Company changes its accounting firm and the audit fees paid for the financial year in which the change took place are lower than those paid for the financial year immediately preceding the change, the amount and percentage of the audit fees before and after the change and the reason shall be disclosed: Not applicable.

(4) When the audit fees paid for the current financial year are lower than those paid for the immediately preceding financial year by 15 percent or more, the amount and percentage of and reason for the reduction in audit fees shall be disclosed: Nil.

5. Information on the change of accountant: As Deloitte & Touche carried out internal organization adjustment, the certified public accountants have been changed since the fourth quarter of 2018.

6. The chairman, general manager, manager of financial or accounting affairs of the Company who has held a post in the certified public accountant firm or its affiliates in the latest year: Nil.

7. Movements of shareholdings and pledge thereof held by directors, supervisors, managers and shareholders (whose shareholdings representing over 10% of total shares) for the latest year and as of the date of issue of annual report. Where the counterparty in any such transfer or pledge of equity interests is a related party, disclose the counterparty's name, its relationship with the Company, directors, supervisors, and shareholders with shareholdings representing over 10% of total shares, and the number of shares transferred or pledged:

(1) Movements of shareholdings and pledge thereof held by directors, supervisors, managers and substantial shareholders

Unit: share

Title	Name	2018		As of 12 April 2019	
		Increase (decrease) in shares held	Increase (decrease) in shares pledged	Increase (decrease) in shares held	Increase (decrease) in shares pledged
Chairman	Liou Jenq Lin	0	0	0	0
Director and president	Pai Chin Chang	31,000	0	(54,000)	0
Director	Chang Tung I	679,000	0	0	0
Director	Eastech Electronics (Taiwan) Inc.	0	0	0	0
Representative of juristic-person director Eastech Electronics (Taiwan) Inc.	Kwok King Lam Keenan Ken	0	0	0	0
Independent director	Shiau Fung Shyung	0	0	0	0
Independent director	Chang Shan Juh	0	0	0	0
Independent director	Chen Ko Hung	0	0	0	0
Vice president	Chu Ming Chung (Note)	10,000	0	0	0
Vice president	Chih Tai An	5,000	0	(2,000)	0
Vice president	Chang Po Chao	1,000	0	0	0
Chief financial officer	Lam Pui Man	0	0	0	0
Chief audit officer	Tang Kai Tak	0	0	0	0
Substantial shareholder	Cathay United Bank is entrusted to manage the investment account for Above Vantage Limited	0	0	21,000	0

Note: Resigned on 1 March 2019.

(2) **Information on the counterparty of a share transfer or share pledge which is a related party: Nil.**

8. Details of shareholdings of top ten shareholders, their relationship as related parties or as spouse or second degree relatives

12 April 2019; Unit: share

Name	Shareholdings		Spouse & minor shareholding		Total shareholdings in the names of other persons		For those who are related to the top ten shareholders or are spouses or within the second degree of kinship, their name and relationship.		Remarks
	No. of shares	Shareholding %	No. of shares	Shareholding %	No. of shares	Shareholding %	Name	Relationship	
Cathay United Bank is entrusted to manage the investment account for Above Vantage Limited	27,956,600	45.40	0	0	0	0	Nil	Nil	Nil
Taipei Fubon Bank Co., Ltd. is entrusted to manage the investment account for New Advantage Holdings Ltd.	6,000,000	9.74	0	0	0	0	Nil	Nil	Nil
Wu Shu-Jhen	1,583,000	2.57	0	0	0	0	Nil	Nil	Nil
Kwok King Lam Keenan Ken	1,512,000	2.46	0	0	0	0	Nil	Nil	Nil
Liou Jenq Lin	1,500,400	2.44	0	0	0	0	Nil	Nil	Nil
Representative of AVY Precision Technology INC.: Dong Zun Ren	890,000	1.45	0	0	0	0	Nil	Nil	Nil
Chang Tung I	723,000	1.17	0	0	0	0	Nil	Nil	Nil
Jiang Ji-Ru	706,000	1.15	0	0	0	0	Nil	Nil	Nil
Eastech Holding Limited overseas foreign-national employees collective	654,000	1.06	0	0	0	0	Nil	Nil	Nil
Wang Guo-Hao	535,000	0.87	0	0	0	0	Nil	Nil	Nil

9. The number of shares held by the Company, the Company's directors, supervisors, managers and entities directly or indirectly controlled by the Company in the same investee, and the combined proportion of shares in aggregate:

Consolidated shareholding percentage

31 December 2018; unit: share; %

Investees (Note)	Investment of the Company		Investment of the directors, supervisors, managers and directly or indirectly controlled entities		Consolidated investment	
	Number of shares	Shareholding %	Number of shares	Shareholding %	Number of shares	Shareholding %
N/A	N/A	N/A	N/A	N/A	N/A	N/A

Note: The investees are all wholly-owned by the Company.

IV. CAPITAL OVERVIEW

1. Capital and shares

(1) Source of the Company's share capital

i. Source of the Company's share capital

12 April 2019; Unit: 1,000 Shares; Unit: NT$'000

Month / Year	Issue Price	Authorized Share Capital		Paid-in Share Capital		Remark		
		No. of Shares	Amount	No. of Shares	Amount	Source of Share Capital	Paid by assets other than cash	Others
February 2011	NT$10	80,000	800,000	100	1,000	Initial capital	—	—
March 2011	NT$10	80,000	800,000	53,900	539,000	Issuance of new shares	Note 1	—
November 2012	NT$60	80,000	800,000	6,750	67,500	Increase of capital by cash	—	Note 2
June 2015	NT$0	80,000	800,000	252	2,520	Issuance of restricted shares for employees	—	Note 3
December 2016	NT$0	80,000	800,000	500	5,000	Issuance of restricted shares for employees	—	Note 4
December 2017	NT$0	80,000	800,000	500	5,000	Issuance of restricted shares for employees	—	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 53,900,000 new shares were issued to DJR, a substantial shareholder of the Company, 100% equity of EAH were acquired from EATL at a consideration of HK$293,887,883 and 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 EAHY, EMHY and ESHY.

Note 2: Approved by Letters 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.

12 April 2019; Unit: Shares

Type of shares	Authorized share capital			Remark
	Issued shares (note)	Unissued shares	Total	
Ordinary shares	61,579,000 listed shares	18,421,000	80,000,000	

Note: Including 625,000 restricted shares not yet available to the public.

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

(2) Shareholding structure

12 April 2019

Shareholding Structure / Amount	Government authority	Financial institution	Other legal entity	Individual	Foreign entity and individual	China entity and individual	Total
No. of person	0	3	22	2,006	19	1	2,051
No. of Shares held	0	54,000	3,278,000	21,123,823	36,911,177	212,000	61,579,000
% of Shareholding	0	0.09	5.32	34.30	59.94	0.34	100

(3) Shareholding distribution

1.Ordinary shares

12 April 2019; Unit: Shares

Ranking of shareholdings	No. of shareholders	No. of shares held	Shareholding (%)
1 to 999	132	9,258	0.02
1,000 to 5,000	1,413	2,870,309	4.66
5,001 to 10,000	213	1,720,313	2.79
10,001 to 15,000	63	841,000	1.37
15,001 to 20,000	55	1,030,000	1.67
20,001 to 30,000	43	1,118,289	1.82
30,001 to 50,000	50	2,058,054	3.34
50,001 to 100,000	45	3,306,777	5.37
100,001 to 200,000	14	1,932,000	3.14
200,001 to 400,000	8	2,253,000	3.66
400,001 to 600,000	6	2,915,000	4.73
600,001 to 800,000	3	2,083,000	3.38
800,001 to 1,000,000	1	890,000	1.45
1,000,001 and above	5	38,552,000	62.61
Total	2,051	61,579,000	100

2. Preferred Shares: Nil

(4) List of substantial shareholders:

Name of shareholders holding more than 5% of total shares or top ten shareholders, their shareholdings and proportion

12 April 2019

Name of substantial shareholders \ Shares	No. of shares held	Shareholding (%)
Cathay United Bank is entrusted to manage the investment account for Above Vantage Limited	27,956,600	45.40
Taipei Fubon Bank Co., Ltd. is entrusted to manage the investment account for New Advantage Holdings Ltd.	6,000,000	9.74
Wu Shu-Jhen	1,583,000	2.57
Kwok King Lam Keenan Ken	1,512,000	2.46
Liou Jenq Lin	1,500,400	2.44
AVY Precision Technology Inc.	890,000	1.45
Chang Tung I	723,000	1.17
Jiang Ji-Ru	706,000	1.15
Eastech Holding Limited overseas foreign-national employees collective	654,000	1.06
Wang Guo-Hao	535,000	0.87

(5) Market price, net assets, earnings and dividends per share and the relevant information

Unit: NT$; 1,000 Shares

Item			2017	2018	For the period ended 31 March 2019
Market price per share	Highest		35.20	30.15	35.85
	Lowest		25.00	18.55	25.00
	Average		30.46	24.83	30.06
Net assets per share (Notes 1 & 2)	Before distribution		25.20	27.63	29.06
	After distribution		24.48	(Note 7)	-
Earnings (loss) per share (Notes 1 & 2)	Weighted average number of shares		60,807 thousand shares	61,237 thousand shares	61,144 thousand shares
	Earnings per share		2.05	4.05	0.39
Dividend per share	Cash dividend (Note 2 & 3)		0.70	1.30	-
	Stock Dividend Distribution	Retained shares distribution	-	-	-
		Capital reserve shares distribution	-	-	-
	Accumulated unpaid dividend		-	-	-
Analysis of return on investment	Price-earnings ratio (note 4)		14.86	6.13	-
	Price-dividend ratio (note 5)		43.51	(Note 7)	-
	Cash dividend yield (note 6)		2.30%	(Note 7)	-

Note 1: The net assets and earnings per share for 2017 and 2018 were calculated based on the audited consolidated financial statements. The net assets and earnings per share for the first quarter of 2019 were calculated based on the reviewed consolidated financial statements.

Note 2: The net assets, earnings and dividend per share for 2017 and 2018 were calculated based on the weighted average number of shares of 60,807 thousand shares and 61,237thousand shares. As of 31 March 2019, the net assets and earnings per share were calculated based on the weighted average number of shares of 61,144 thousand shares.

Note 3: The above information is based on the profits distribution proposed at 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-Dividend 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: The 2018 dividend distribution proposal is still pending approval by shareholders at the general meeting.

(6) Dividend policy and its implementation

1. Dividend Policy

Pursuant to the resolution passed by the shareholders at the general meeting on 11 June 2018, the Articles of Association of the Company were 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 employees' compensation, and set aside no more than 2% of such earnings as directors' compensation. If the Company has accumulated losses, it shall first set aside the losses and distribute the employees' compensation and directors' compensation from the remaining earnings as set forth in the preceding paragraph. The distribution of the employees' compensation can be made in cash or stock to the employees of this Company and its subsidiaries in accordance with the laws. The distribution of the employees' compensation and directors' compensation 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 is 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 shareholders 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.

The Board of the Company also approved the amendment of the Company's Articles of Association which authorizes the Board to approve the proposal of cash dividend distribution and it will be submitted to 2019 Annual General Meeting for approval. Once the amendment is approved by AGM, the dividends/bonus distribution to the Shareholders shall not be less than 10% 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.

Note: The above-mentioned amendment to the Company's Articles of Association has been approved by AGM on 10 June 2019. After that, the cash dividend distribution proposal is approved by the Board and reported to Shareholders at Annual General Meeting.

2. Status of the proposed (confirmed) dividend distribution is as follows:

The Company's 2018 dividend distribution proposal has been approved by the Board on 22 February 2019 and cash dividend shall be payable at NT$1.3 per share.

(7) The effect of the proposed stock dividend distribution at the general meeting on the Company's business performance and earnings per share: Not applicable.

(8) Staff and directors' remuneration

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

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

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

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

   The estimated remuneration of staff and directors for the period was determined based on the requirements of the Articles of Association and was approved by the Board on 22 February 2019. There is no difference from the actual amount paid.

3. The distribution of remuneration approved by the Board:

   (1) The remuneration of staff and directors shall be paid in cash or stock. In case there is difference between the amounts paid and the estimated amount recognized for the year, the shortfall, reasons and handling method should be disclosed.

   On 22 February 2019, the Board approved the proposal to distribute staff and directors' remuneration of NT$22,000 thousand and NT$6,867 thousand respectively in cash.

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

4. Reporting of the remuneration distribution and its result at the general meeting: it is expected that the Company will hold a general meeting on 10 June 2019 to report on the remuneration distribution and the result of distribution.

5. The actual distribution of staff and directors' remuneration for the previous year (including number of shares distributed, the amount and the share price) and, in case of difference between the amount paid and the staff and directors' remuneration recognized, the shortfall, reasons and handling method:

   Under the 2017 dividend distribution proposal of the Company and in accordance with the Articles of Association, cash dividend of NT$43,377 thousand (NT$0.7 per share) was distributed to shareholders, remuneration of approximately NT$3,486 thousand was paid to staff and remuneration of approximately NT$3,401 thousand was distributed to directors. Such distribution was approved by resolution at the general meeting held on 11 June 2018. There is no difference from the distribution amount proposed by the Board.

(9) Information on repurchase of the Company's shares

Description: 1. It was the first time for the Company to repurchase 300,000 ordinary shares and transfer them to employees in 2015. As the three-year transfer period expired, the Company cancelled the shares and completed the procedures on 22 November 2018.

2. Details of execution are as follows:

Times of repurchase	First
Purpose of repurchase	For transfer of shares to employees
Actual period of shares repurchase	2015/10/30 to 2015/11/09
Actual types and number of shares repurchased:	300,000 ordinary shares
Actual amount of shares repurchased	NT$16,652,131
Average price per share repurchased	NT$55.51
Number of shares cancelled	300,000 ordinary shares
Accumulated number of shares of the Company held	0
Accumulated number of shares of the Company held as a percentage of total number of shares in issue (%)	0%

2. Corporate bonds (including overseas corporate bonds): Nil

3. Perferred stock: Nil

4. Global depositary receipts: Nil

5. Employee stock options

(1) Outstanding employee stock options and the impact on shareholders' interests

9 May 2019

Type of employee stock options	First employee stock options
Effective date	19 September 2018
Date of issuance (application)	28 September 2018
Unit of issuance	1,200 units
Number of shares subscribed as a percentage of total number of shares in issue (%)	1.95%
Subscription period	2018.09.28 to 2022.09.27
Way of performance	Issuance of new shares
Restriction period and ratio (%) of subscription	100% of stock options shall be exercisable upon 3 years from expiry
Number of shares acquired	0
Subscription amount	0
Number of shares not yet acquired	1,200,000shares
Subscription price per share not yet acquired	NT$23.95
Number of shares not yet acquired as a percentage of total number of issued shares (%)	1.95%
Impact on shareholders' interests	Upon 3 years from the expiry of the employee stock options, the stock options holders of the Company are entitled to fully exercise the stock options in accordance with this measures and the dilution of these original shareholders' equity will not be material.

Note: Based on the total number of 61,519,000 issued shares (taking into account of the 60,000 restricted stocks in aggregate proposed to be cancelled by the Board on 9 May 2019).

(2) The name of the management and the top ten employees who obtained the employee stock options, acquisition and subscription

9 May 2019; Unit: 1,000 Shares

	Position	Name	Number of shares acquired	Number of shares obtained as a percentage of total number of shares in issue (note 1)	Exercised				Not exercised			
					Number of shares acquired	Price of shares acquired	Amount of shares acquired	Number of shares acquired as a percentage of total number of shares in issue (note 1)	Number of shares acquired	Price of shares acquired	Amount of shares acquired	Number of shares acquired as a percentage of total number of shares in issue (note 1)
Management	Director (note 2)	Pai Chin Chang	270	0.44%	0	0	0	0	270	23.95	6,467	0.44%
	Director (note 3)	Chang Tung I										
	Deputy general manager	Chih Tai An										
Staff	Staff of subsidiaries	(note 4)	930	1.51%	0	0	0	0	930	23.95	22,274	1.51%

Note 1: Based on the total number of 61,519,000 issued shares (taking into account of the 60,000 restricted stocks in aggregate proposed to be cancelled by the Board on 9 May 2019).

Note 2: Being the general manager of the Company.

Note 3: Being the vice executive president of Eastech Electronics (Taiwan) Inc., a subsidiary.

Note 4: Staff other than the management of the Company: Heng Chai Lon, Lee Kheng Wee, Sou Eng Hwa, Hsu Chih Hsian, Chan Hoi Lung, Chang Ling Chu, Teng Chiou Shiang (in the order of number of strokes in their Chinese surname)

6. Restricted shares for employees

(1) Restricted shares for employees that did not satisfy all vesting conditions and impact on shareholders' interests:

9 May 2019

Type of restricted shares for employees	Restricted shares for employees in 2014	Restricted shares for employees in 2016	Restricted shares for employees in 2017
Effective date	1 July 2014	29 June 2016	25 July 2017
Date of issuance	2 June 2015	20 December 2016	20 November 2017
Number of issued restricted shares for employees	252,000 shares	500,000 shares	500,000 shares
Issue price	NT$0	NT$0	NT$0
Number of issued restricted shares for employees as a percentage of total number of issued shares	0.41%	0.81%	0.81%
Vesting conditions of restricted shares for employees	Employees who work in the combined company for one year upon the granting of stocks awards and whose performance meets the specified requirements will be taken as fulfilling the vesting conditions in the following percentages: 1 year: 25%; 2 years: 25%; 3 years: 25%; 4 years: 25%		

Type of restricted shares for employees	Restricted shares for employees in 2014	Restricted shares for employees in 2016	Restricted shares for employees in 2017
Restricted rights of restricted shares for employees	1. Before the vesting conditions are satisfied, the employees shall not sell, pledge, transfer, donate, create or otherwise dispose of the restricted shares for employees. 2. Before the vesting conditions are satisfied, the restricted shares for employees may still participate in share distribution, dividend distribution, cash injection and voting rights, being the same as the issued ordinary shares of the Company. 3. Upon the issuance of restricted shares for employees, the employees of the combined company shall immediately deliver them to be kept in trust or for custody and shall not require the trustee or the custodian bank to return the restricted shares for employees for any reason in any manner unless the conditions are satisfied.		
Custody of restricted shares for employees	Stocks of the R.O.C. staff are kept by custody and those of employees with other nationalities are kept by the engaged custodian bank.		
Measures for the staff who were granted or subscribed for new stocks but did not satisfy the vesting conditions	If the restricted shares for employees do not satisfy the vesting conditions, the Company will recover the stocks from the employees at nil consideration and commence the cancellation procedures in accordance with the terms agreed in the issuance measures.		
Number of restricted shares for employees recovered or repurchased	25,000 shares	86,000 shares	72,000 shares
Number of restricted shares for employees upon release of restrictions	183,000 shares	214,000 shares	107,000 shares
Number of restricted shares for employees still subject to restrictions	44,000 shares	200,000 shares	321,000 shares
Number of restricted shares for employees still subject to restrictions as a percentage of total number of issued shares (%)	0.07%	0.33%	0.52%
Impact on shareholders' interests	The dilution ratio is low and has no significant impact on shareholders' interests.	The dilution ratio is low and has proposed no significant impact on shareholders' interests.	The dilution ratio is low and has no significant impact on shareholders' interests.

Note: Based on the total number of 61,519,000 the issued shares (taking into account of the 60,000 restricted stocks in aggregate to be cancelled by the Board on 9 May 2019).

(2) Names of the management and the top ten employees who obtained the restricted shares for employees and details

9 May 2019; Unit: 1,000 Shares

<table>
<tr><th rowspan="2"></th><th rowspan="2">Position</th><th rowspan="2">Name</th><th rowspan="2">Number of the restricted shares for employees obtained</th><th rowspan="2">Number of the restricted shares for employees obtained to total number of shares in issue ratio (note 1）</th><th colspan="4">Number of restricted shares for employees unrestricted</th><th colspan="4">Number of restricted shares for employees not yet unrestricted</th></tr>
<tr><th>Number of stocks unrestricted</th><th>Issuance price</th><th>Amount of issuance</th><th>Number of the restricted shares for employees unrestricted to total number of shares in issue ratio (note 1)</th><th>Number of stocks not yet unrestricted</th><th>Issuance price</th><th>Amount of issuance</th><th>Number of the restricted shares for employees not yet unrestricted to total number of shares in issue ratio (note 1)</th></tr>
<tr><td rowspan="6">Management</td><td>Director (note 2)</td><td>Pai Chin Chang</td><td rowspan="6">208</td><td rowspan="6">0.34%</td><td rowspan="6">87</td><td rowspan="6">0</td><td rowspan="6">0</td><td rowspan="6">0.14%</td><td rowspan="6">121</td><td rowspan="6">0</td><td rowspan="6">0</td><td rowspan="6">0.20%</td></tr>
<tr><td>Director (note 3)</td><td>Chang Tung I</td></tr>
<tr><td>Deputy General Manager</td><td>Chih Tai An</td></tr>
<tr><td>Deputy General Manager</td><td>Chang Po Chao</td></tr>
<tr><td>Chief Financial Officer</td><td>Lam Pui Man</td></tr>
<tr><td>Chief Auditing Officer</td><td>Tang Kai Tak</td></tr>
<tr><td>Staff</td><td>Staff of subsidiaries</td><td>(note 4)</td><td>408</td><td>0.66%</td><td>168</td><td>0</td><td>0</td><td>0.27%</td><td>240</td><td>0</td><td>0</td><td>0.39%</td></tr>
</table>

Note 1: Based on the total number of 61,519,000 issued shares (taking into account of the 60,000 restricted stocks in aggregate proposed to be cancelled by the Board on 9 May 2019).
Note 2: Being the general manager of the Company.
Note 3:Being the vice executive president of Eastech Electronics (Taiwan) Inc., a subsidiary.
Note 4: Staff other than the management of the Company (the top ten staff): Heng Chai Lon, Lee Kheng Wee, Kim Seon Dae, Lin Ji Xiong, Ma Yiu Pun, Choi Sung Su, Chan Hoi Lung, Chan Kuan Wai, Cheung Wang, Teng Chiou Shiang (in the order of number of strokes in their Chinese surname)

7. Mergers and acquisitions

(1) Mergers and acquisitions in progress: Not applicable.

(2) Split in progress: Not applicable.

8. Issuance of new shares due to acquisition of shares of another company: Nil.

9. Implementation of the fund utilization plan : Nil.

V. OPERATIONAL HIGHLIGHTS

1. Business Activities

(1) 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	2017		2018	
	Amount	%	Amount	%
Acoustic Modules	18,387	0.24	230,794	2.50
Automotive	37,280	0.48	4,564	0.05
Home Audio	5,781,473	75.14	6,221,346	67.52
Personal Audio	316,178	4.11	1,537,370	16.69
Transducer Speaker	399,415	5.19	390,020	4.23
Wearable Audio	601,525	7.82	578,902	6.28
Others (Note)	540,015	7.02	250,759	2.73
Total	7,694,273	100.00	9,213,755	100.00

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

3. Existing Products (Services) of the Company

Acoustic Modules	Voice control, acoustic kits and modules for communication devices
Automotive	Car speaker
Home Audio	DVD HtiB, sound bars, multimedia speaker, premium speaker, voice user interface (VUI) AI speaker, home music center, DVD home music center
Personal Audio	Bluetooth®, Airplay 2 & Wi-Fi speaker, voice user interface AI speaker
Transducer Speaker	Premium transducers, automotive transducers
Wearable Audio	Wired earphones, wireless earphones, neck-hanging Bluetooth® wireless earphones, TWS earphones

4. New products developed

(1) Acoustic Modules: VUI AI Audio Systems, communication devices.

(2) Automotive: car speaker.

(3) Home Audio: Dolby Atmos Sound Bars, Sound Bars with wireless surround, GVA/Alexa speaker system.

(4) Personal Audio: Premium Bluetooth®, Airplay 2 & Wi-Fi speaker, VUI GVA AI speaker.

(5) Transducer Speaker: electronic speaker, 2-way acoustic suspension ultra-thin speaker, dual-magnet ultra-high-efficient speaker, PUNKTKILDE™ high-efficiency speaker

(6) Wearable Audio: TWS earphones.

(2) Industry Overview

1. Current Industry Status and Development

(1) Home Audio

In the era of high quality sound system, with hardware devices including LED TV, Smart TV and Blu-Ray Player being popularized and the consumers' access to diversified audio and video information through the OTT type and digitalized TV in recent years, Dolby Digital surround sound effect of the home theater and Sound Bars are perfectly demonstrated. Digital audio technology enhances the quality of audio and video effect of the home systems, which stimulates the consumers' demand on premium audio and video devices and thus the home theater and Sound Bars.

(2) Personal Audio

Wireless and electronic personal audio systems will be on the trend and voice recognition will be the primary interactive interface for IoT devices, smart home devices 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 selling point in recent years and will experience leapfrog growth in the coming years.

(4) Wearable Audio

Earphone is the major wearable audio device of the Company, which is an inevitable component in output end of mobile audio/video players comprising of four parts: head band holder, ear piece, cable and plug and speaker (left and right audio units). In 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 into four kinds, namely circumaural, in-ear, supra-aural and canal, based on its design and functions.

Circumaural: Circumaural headphones usually cover our ears with a soft pad, making a closed structure between our ears and earphones. The sounding unit of the earphones is generally larger than that of other types, so the music sound field and dynamic performance are relatively better as well.

In-ear: The sounding unit of in-ear earphones is placed outside of the ear hole. It becomes the main accessory of portable players as it is small in size, light in weight, produced in simple procedures with low cost. However, sound insulation to the outside world is limited by this structure and the music sound field and resolution are insufficient, thus stimulating the development of the canal earphone.

Supra-aural: Supra-aural earphone is smaller in size compared with circumaural earphone and has the advantages of the in-ear and circumaural earphones. Its sounding unit is placed close to our auricles, which is a common design applied in portable earphones.

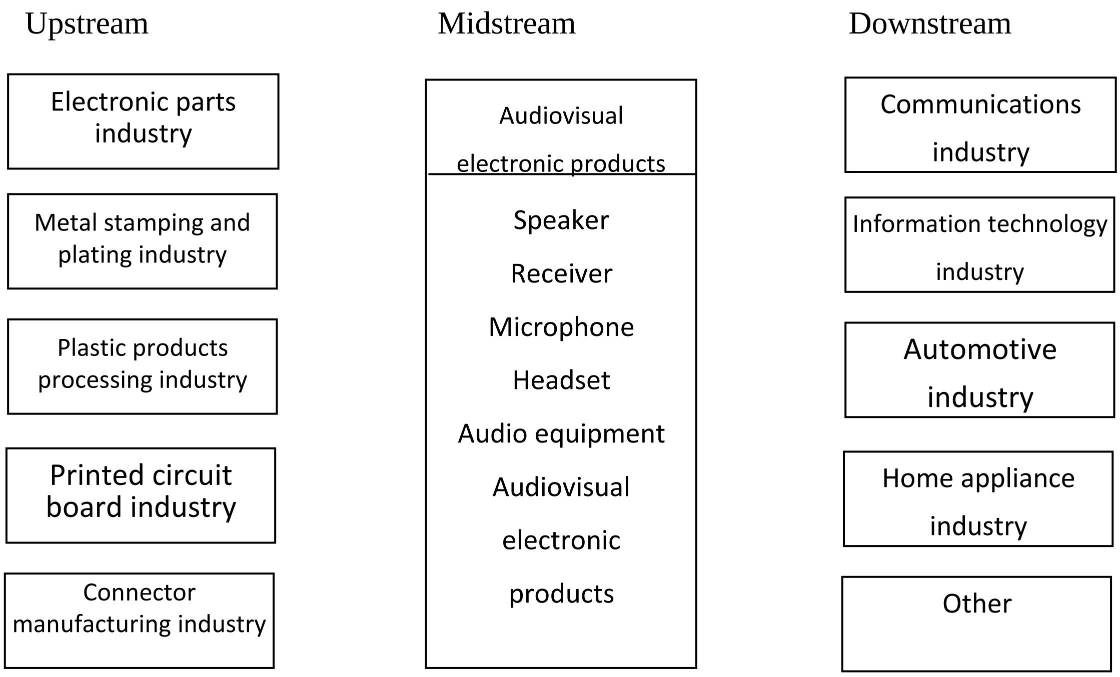
Canal: Canal earphone, which is evolved from the improvement of hearing aids, has become one of the popular earphone models in recent years. It has the same appearance and lightness features with the in-ear earphones and its sounding unit can extend into our ear canal with a distance even closer to our eardrum as compared with in-ear earphones so that it has excellent sound insulation (up to 32 decibels).

With the increasing demand on tablet computers, smart phones and various digital audio and video products, new products are continuously launched and digital technology is applied to digital audio, headphone amplifiers and wireless transmissions. The increasing demand on portable audio devices will surely further stimulate the development of the headset market. Due to the strong demand on the downstream market, global headset sales are facing good operating conditions and it is expected the market demand will grow rapidly in the coming five years.

In the development of the earphone industry, the earphone products will also be designed and produced with the concept of energy-saving and using new recyclable materials. The new energy-saving and environmental-friendly technology will be more widely applied in the production and manufacture process of audio-visual products, which fulfills to the public's awareness of environmental protection. Anti-noise technology in wireless headphone will become more and more mature. The sound quality of wireless headphone can rival that of wired headphone and will substitute for it in future.

2. Relationship between the upstream, midstream and downstream industries

In the industrial supply chain of the audio-visual electronic products manufacturing industry, upstream manufacturers of plastic injection, metal stamping, wire processing and electronic parts provide relevant components which are tested by electro-acoustic manufacturers in terms of assembly nature and then sold to the downstream industry for use through the electro-acoustic manufacturers' or their agents' distribution channels. The downstream and product end-use industries include the communications, information technology, automotive and home appliance industries. The speaker systems and headsets produced by the Company are mainly used in downstream end-use products such as home theatres, audio combinations, computers/tablets, game consoles, digital music players and smart phones.



Source: Taiwan Industry Economics Services

3. Development Trend and Competition of Products

(1) Development Trend of Products

①Speaker Systems and Audio/Video Systems

Over the past decades, the industry reached breakthrough in terms of use of materials and prototyping technology and the development was relatively slow. In recent years, the rapid evolvement of digitalization and networking, and the popularity of portable electronic consumer products namely LCD TV, DVD Blu-ray player, notebook, tablet computer and smart phones have drastically changed the demand of consumer for audio and 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 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 thus greatly reduced. This trend has enabled the shift to product unification of main unit and speakers from the separate installation of main unit and speakers. The size of sound products are reduced and 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.

The manufacturers are committed to developing more evolved acoustic technology and creating high-quality audio and video experiences for home entertainment. TV is equipped with single-unit surround sound and high-end Bluetooth speakers, which offers high resolution sound quality player, LDAC Bluetooth transmission technology and Multi-room smart wireless music streaming functions as well as advantages such as online music streaming services. With acoustic technology, the sound quality and real sense of music when it is created and recorded can be demonstrated. Together with the housing design and sound quality at home, users can enjoy the audio equipment with the highest quality, which further enhances their wireless music-listening experience.

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. 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 an increasing number of non-traditional OEM competitors from IT industry. Music + voice + OEM service and All-in-one audio products are gradually taking shape, which can be applied in smart home and IoT and provide OEM voice services integrated by third-party, representing a new era of the audio industry.

②Wearable Audio

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.

According to statistics of research institutes, wearable devices (or hearable devices) will substitute for smart meters and become the best-selling wearable device category with shipments of up to 158 million units in future. As functions become more and more, wearable devices will no longer only serve in communications and entertainment industries. Currently, wearable devices are mainly applied in fitness and health guidance, communications and entertainment, hearing aids/medical devices and other professional fields. In future, wearable devices will be featured with virtual personal assistant functions to perform a variety of tasks, such as answering questions and giving hands-free instructions. In addition, advanced wearable devices can reduce the use of smart phones because the devices can handle many tasks that smart phones currently performed to provide assistance to users.

(2)Competition

①Speaker Systems and Audio/Video Electronics Systems

Ever 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 a 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 vendors. New players have less advantage in terms of production technology, research and development, which also hinders their competitiveness. Competition of the industry has two opposite extremes. While large-scaled vendors have mature technology and expanded equipment to easily reach scale of economy, it is hard for the small vendors or new players to keep abreast of their development. Besides, the OEM order taking nature of the industry results in 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 their position as long-term suppliers 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 brands in the electronics industry, outpacing other industry players.

Recently, since the cross-industry large IT electronics companies have joined the market which leads to keen competition in the industry, growth in sales and gross profit of the Company are under pressure.

Due to its convenience and the wireless transmission technology of mobile devices, Bluetooth wireless speakers have gradually become the mainstream audio products in recent years. In addition, hardware player systems such as DVD and Blu-ray disc players are being replaced by emerging media including cloud or online video (YouTube)/music, resulting in a trade-off effect.

② Wearable earphones

The demand on earphones has been growing along with the popular trend of smartphone and functional innovation. Such huge opportunities also bring massive competition in the market. As the Company has a medium-sized earphones division, to compete with the larger competitors, the Company maintains good relationship with existing clients through flexible and customized services, and ensures the growth of business and client orders with its extensive R&D technologies applied in earphones .

(3) Technology, Research and Development ("R&D")

1. Technical level and R&D of the business operated

In the manufacturing industry of audio-visual electronic products, R&D and product innovation capabilities are the key factors to success for the Company in competing with its peers in the world. The Company has cultivated its own R&D unit for many years, which has formed a complete work division flow and integration system, comprising functions of acoustic and electronic R&D, structural development, software/hardware engineering capabilities. In the meantime, the Company has developed the speaker unit development technology for more than 20 years. In the 2019 CES, the Company successfully launched the "PUNKTKILDE™", which is a new brand of quality sensors. This product line is a series of sensors designed by Scan-Speak and produced by Eastech, which introduces the Danish design, a functionalistic design style, to more customers around the world by providing superior sound quality and economies of scale. Coupled with its advanced wood carving technique of loudspeaker and plastic injection technology as well as the electronic technologies of sound devices, we can provide customers with high standards of R&D design with international standard audition studio and cutting-edge speaker development technology by using Klippel® and installing world-leading design tools such as COMSOL. Since being able to cater for the new product development of international manufacturers, the Company obtained ISO9001 and ISO14001 international quality assurance systems in 2006 and obtained TS16949 certification in 2016. In addition, the key components of the speaker systems are mainly made in its own factory to ensure the stability of product quality and delivery guarantee.

Technology of earphones are further enhanced together with electro-acoustic software and upgraded electro-acoustic equipment, which becomes a High Resolution technology and is applied in developing the touch Bluetooth® headset and Voice enabled earphones equipped with DSP and CVC noise reduction technology. Hence, it ranks amongst the top R&D technologies.

2. R&D Personnel and their Qualification (and Experience)

Unit: No. of individuals

No. of individual/ Year		2017	2018	As at 31 March 2019
Education Background Distribution	Doctoral	0	1	1
	Postgraduate	4	11	15
	Degree/Professional	168	169	169
	Senior High School	50	35	48
	Below Senior High School	45	55	40

3.R&D expenses per year for the latest two years

Unit: NT$'000

Year	2017	2018
R&D Expenses (A)	281,860	294,942
Net Revenues (B)	7,694,273	9,213,755
The Proportion of R&D Expenses %=(A)/(B)	3.66	3.20

4. Results of research and development

The major results of research and development of the latest two years and as of the recent period:

Year	Name of product	Efficiency description
2017	Earphones 1. Flow pressure adjustment structure of earphones	Earphones 1. This project sets a valve on the side of the vent hole on the front cover of the vocal unit so that even if the earmuffs covered the vent hole when wearing, the air pressure can be discharged to the back chamber of the earphone, and the front cavity is sealed after wearing. Then, set a inclining angle for the valve according to the shape of the earmuffs as the structure of the earmuffs attaching to the valve and the inclining angle of the valve can make the air pressure to be discharged to the back chamber of the earphone more easily which can eliminate the air pressure incurred when wearing

Year	Name of product	Efficiency description
		and prevent the distortion of diaphragm of vocal unit. After wearing, the vent hole will be blocked and the front cavity will be sealed in order to adjust the low-frequency sound of vocal unit.
	2. Head-mounted noise reduction test system V1.0	2. The different functions of the head-mounted noise reduction test system can be conducted in the menu or through hierarchical management structure. The information intelligence can highly enhance work efficiency. The fast and accessible operations with efficient and powerful functions have made the system easy to use. This system mainly the functions of: duo-earphone calibration test, test data, quality test, noise reduction curve test, advanced test, permission settings, data export and system management.
	3. Speaker automatic detection and file division system V1.0	3. The functions of the speaker automatic detection and file division system mainly includes: automatic detection procedure of the speaker, data comparison, differentiated data setting, speaker detection connection diagram, detection curve diagram, data calibration and other functions. At the same time, Windows multi-thread processing technology is used for reasonable allocation of system hardware resources, so that multiple tasks can be carried out at the same time for a fast operation without waiting.
	Speakers/audio-visual electronic systems 1. Reverse magnetic dynamic coil speaker	Speakers/audio-visual electronic systems 1. As an important part of the commonly used audio-visual system, the speaker is a very important passive component for the sound reproduction effect. In the traditional sense, the design of dynamic coil speaker uses the left hand theorem to allow the speaker to create sound converting the electromagnetic force. However, the efficiency of energy conversion from electricity to sound energy was low, which often has a efficiency of less than 3%. According to the law of conservation of energy, most of the energy is emitted in the form of heat, causing the speaker to generate heat during playing music, which seriously affects the safety of the entire audio-visual system. Modern audio-visual products emphasize on simple outfit and safe operations, but a more important feature is that it must have sufficient power to provide sound with high reality to achieve the satisfaction from users' experience. However, the heat conversion ability of traditional dynamic

Year	Name of product	Efficiency description
		coil speakers is limited as it is installed in the loudspeaker box as the magnetic return unit with largest the heat generating volume of the entire speaker, which resulted in serious heat in the loudspeaker box. It greatly affects the confidence of customers on the safety issue. As the size of loudspeaker box needs to be large and the inner space of the loudspeaker box was limited, the overall appearance is bulky and the power of the audio-visual system cannot be expanded, resulting in a bottleneck of the system. By restructuring the magnetic return system and vibration system, this patent use fixed frame and supporting system to place the magnetic return system in front of the vibration system and to be installed outside the inner cavity of the loudspeaker box, which significantly improves the condition of heat generation during music playing process of audio-visual system. And under the comparison with the speakers with same power the design of size structure is significantly smaller than traditional speakers which comprehensively direct the speaker to the level of efficiency, safety and appearance.
	2.Ultra-thin flat magnetic array speaker	2. With the development of technologies, the application of audio-visual equipment has become more and more popular. It has become an indispensable tool and decoration in work or home life, and has been continuously developed over time. However, as a sound product, the traditional dynamic coil speaker has a bulky appearance as a magnetic unit that has the largest size in the speaker box has to be put into the loudspeaker box which resulting in a huge loudspeaker box and unpleasant appearance and significantly affect the visual perception of the customers as it violates the modern needs of living environment and thus reduces the desire of purchasing the product. This patent can effectively reduce the height of the speakers through the high-magnetic energy NeO magnetic circuit formed by NeO main magnet; and fix the magnetic circuit by changing the rear U-shaped iron of the speaker into a one-piece U-iron; and stick the SMD vocal coil on the PCB drum paper by applying surface sticking technology and connect the various groups of vocal coils among the SMC vocal coil by using etched circuit, and thus the efficiency of energy and sound conversion was great. As concluded by the implementation of this project, the overall size of the speakers was significantly reduced and it effectively increases the

Year	Name of product	Efficiency description
		power and sound pressure, which the customers can enjoy in both visual and audio sensations. And the cost of relevant component are reasonable that it is suitable1to become popular and for promotion-use.
2018	High and low volume speaker with Cone & Dome design using magnesium-lithium alloy	1. Magnesium-lithium alloy is a structural metal material with the lowest density. It generally contains 14-16% of lithium if adding lithium into magnesium metal with a proportion between 1.4-1.6, strength of 220-340MPa and elastic modulus of 40GPa, which is lower than the 1.8 of general magnesium alloy and slightly higher than the density of plastic. Its damping, which is a dozen times of lithium alloy, is large, which can adsorb the impact force and has good shock cancelling and noise reduction effect. Save as the light material of magnesium-lithium alloy, the largest feature is that it can go through normal-temperature forming process, for example, the large-scale technological production such as rolling and stamping. It can also cast-molding and semi-solid injection molding. 2. Magnesium-lithium alloy is the lightest metal structural material in the world, which has good thermal conductivity, electricity conductivity and ductility. It has a wide usage in aviation and aerospace and national defense and military fields. With the increasing demands on light-weight materials, energy-saving, environmental protection and sustainable development of structural materials in today's world, magnesium-lithium alloy has also shown broad application prospects in the fields of transportation, electronics and medical products that require light-weight structural materials. Used for vibration diaphragm of speakers (due to its high damping coefficient of ~0.01, it is the top material for vibration diaphragm speakers) 3. Magnesium-lithium alloy is the alloy material with the lowest density. Its density is generally between 1.35-1.65 (when the content of lithium is 6.9%, the density of magnesium-lithium alloy is 1.57g/cm3, when the content of lithium is 13.0%, the density of magnesium-lithium alloy is 1.42g/cm3, when the content of lithium is more than 31%, the density of the magnesium-lithium alloy will

Year	Name of product	Efficiency description
	Compact transducer	be less than 1g/cm3, at which the magnesium-lithium alloy can float on the water surface), which is 1/4-1/3 lighter than the ordinary magnesium alloy and 1/3-1/2 lighter than aluminum alloy and it is called ultra-light alloy. Magnesium-lithium alloy has high specific strength and specific stiffness (from the perspective of material stiffness, if the stiffness of ordinary steel is 1, the stiffness of titanium is 2.9, the stiffness of aluminum is 8.19, the stiffness of magnesium is 18.9, and the stiffness of magnesium-lithium alloy is 22.68) and excellent shock resistance and resistance to high-energy particle penetration. Therefore, the high and low volume unit speaker with Cone & Dome design and usage of magnesium-lithium alloy has a flat frequency response curve, great internal dilapidation resistance, good transient response, which greatly reduce the vibrating ring problem of metal materials, and have a good noise reduction effect. 1. This high-stroke thin speaker is designed to hold the stroke of a conventional speaker, thus ensuring the THD to maintain the level of the traditional speaker and the overall height of the speaker is reduced. 2. This high-stroke thin speaker is suitable for today's popular portable audio-visual products or thin home audio, which can reduce the product size to the thinnest. 3. The range of applications ranges from 2” to 6.5”, which covers most product sizes. 4. This design has been applied to the development of new models by internationally renowned brands.
	<u>Earphones</u> Non-vertical earphones	<u>Earphones</u> This project has two characteristics: 1. The ear shell structure has no outer casing of the BA dynamic iron vocal unit material. 2. Each BA vocal unit has a metal casing, which limited the space and cavity of the earphone. The sound outlet, vibration (vocal diaphragm) board, connected reed and reed position are used as patent and two or more strands are used on the coil to avoid the skin effect and improve the electrical characteristics. It will be the top priority in the application of digital audio in the future. This project is a new application based on the electromagnetic principle with the addition of in-ear earphone structure. The changing the wiring

Year	Name of product	Efficiency description
		of the coil is to reduce the skin effect in the electrical, and to reduce the current noise in the future digital signal, to obtain a timbre with relatively pure and less noise.

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

1. Short-term business development plan

(1) Research and development strategies and plans

A. Integrate voice recognition, voice control, operating system, etc., and turn the audio system into the output input terminal of intelligent home, and expand our partnership with IT leaders in Mainland China.

B. Strengthen our business in Japan and expand our existing product lines and the product lines of Japanese leading electronic customers, such as headphones, Sound Bar, PORTABLE SPEAKER, etc.

C. Utilizing the technology of DESIGNED BY Scan-Speak, we introduced quality and cost-effective PUNKTKILDE™ high-efficiency speakers, developed to address the trend of high timbre, and provide audio cavity modules for international brands.

D. Active wireless speaker system, including 2.4G/5.8G Wireless, Wi-Fi, Bluetooth transmission functions.

E. Increase the development and application of high-end family theaters and smart audio such as DSP and HDMI.

F. The interaction between TV and the cyber world has led to the development of audio products (Streaming and Connectivity) that correspond to network transmissions.

G. Customized high-end (HI-FI) speakers.

H. The earphones add the TWS product development and the research and development of high-end earphones such as High Resolution drive unit and earphones, patented coaxial homophone, smart sports Bluetooth earphone, DSP and ANC, AEC noise reduction technology earphones and Voice enabled earphones.

I. Actively invest in new product development (a) - Atmos related (b) High end BT & Wi-Fi Speaker.

J. Integrate the speaker and electronic research and development team, and strengthen the ability of receiving orders of the one-stop/OBO (One Body Operation) outsourcing OEM/ODM for Korean-style and Japanese-style customers.

K. Actively expand the Audio Customer of the top-tier brand in Europe and America.

L. Increase the original standard equipment or AM (after-sales service) orders for Chinese and international brands.

M. Cooperate with major chip manufacturers in AUDIO technology, early participate in each AUDIO chip module SoC of each chip manufacturer, and provide the latest technological platform to the customers of some of our top-tier brand to strengthen our development ability.

(2)Production strategies and plans

A. Understand the market trend, and set the production direction accordingly and clarify the positioning of the factory.

B. Actively reform and improve the production efficiency and processing technology.

C. Invest in assembly automation and energy-saving equipment to reduce labour force and energy. Accelerate the automation equipment that enlarges the speaker unit.

D. Keep improving the production to enhance productivity of the plant. Set up independent production lines according to different categories of customers to meet customer needs. Set annual cost indicators to reduce the costs of material and expenses.

E. Gradually integrate upwards to increase the added value of the product. Establish a dust-free constant temperature and humidity production line for the production of high-end products.

F. Strengthen the development capability of engineering institutions, and actively introduce CMF (Color, Material & Finish) engineer and various software and electronic engineering personnel.

G. Electronics factory SMT merged with management to increase efficiency.

H. Establish more professional plants and carry out grading transformation of plant areas and plants.

(3) Operating and financial strategies and plans

A. Establish a comprehensive human resources system, use mergers to integrate and cultivate outstanding acoustic talents.

B. Establish a comprehensive quality system and establish an internal knowledge management system in accordance with the requirements of major international clients.

C. Strengthen the international business team, focus on high-end customers of advanced audio and the fast-growing Sound Bars market and smart audio market.

D. In response to the increasing labour costs in Mainland China, the capital expenses in China is focused on the investment in automation equipment.

2. Long Term Development Strategies and Plans

(1)R&D Strategies and Plans

Headphone is an explosive product with increasing growth points. The Company actively promotes multiple patent projects and enhances technical cooperation with its existing electronic departments. Coupled with the demand on audio products from existing audio system customers, it is expected that headphones will bring better performance and higher profits for the Company.

Developing light and portable speaker systems is a market trend and the new speakers are equipped with VUI AI Audio Systems while design of speaker driver needs to be improved by using new materials or changing structure in order to enhance audio quality. By making use of the technology of the word-class transducer brand Scan-Speak from its subsidiary in Denmark, PUNKTKILDE™, a high-quality and low-cost transducer is developed and launched to introduce a high-spec low-price competitive advantage for the Group. This further procures the promotion of speakers in domestic and international markets and thus the speakers can be embedded in those new hardware devices.

The Company cooperates with major wafer manufacturers in developing AUDIO technology to attract engagement of various AUDIO chip modules SoC from wafer manufacturers in advance, so as to provide some of our first-line branded customers with the latest technology platform and enhance our strengths in development.

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

(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.

D. The establishment plan of the Vietnamese factory can circumvent the punitive tariffs on Chinese products sold to the United States, which brings great advantages to us for striving to provide customers with low-end and high-volume products and appropriately dividing the quotations in China.

(3)Operational and Financial Strategies and Plans

A. Promoting the idea of internationalization and strengthening the international management capability, while at the same time recruiting different talents from the world, 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.

2. Market and Sales Overview

(1) Market Analysis

1. Regions of Major Product Sales (Service Provision)

Unit: NT$’000

Year / Regions	2017		2018	
	Amount	Ratio (%)	Amount	Ratio (%)
China (Note)	4,052,622	52.67	5,864,807	63.65
Hong Kong	1,324,989	17.22	805,515	8.74
Japan	560,757	7.29	696,203	7.56
Korea	436,780	5.68	568,596	6.17
Others	1,319,125	17.14	1,278,634	13.88
Total	7,694,273	100.00	9,213,755	100.00

Note: Including indirect export

2. Market Share

The Company primarily engages in the R&D, manufacturing and sales of speaker systems, earphones and AV electronics products, in which, speakers and audio products with electronics and traditional speakers are the major items contributing to the Company's operating income. It is easy to tap into the speaker manufacturing industry, however, it is hard to become a competitive manufacturer that has good performance in terms of technology, quality control, R&D trials, the ability to meet the delivery period as demand by clients, after-sales service and equipment investment. Although there are numerous speaker manufacturers in the PRC, most of them are in lack of technology, quality control supervision, R&D trials and the ability to meet the delivery period as demand by clients. The Company has engaged in the manufacturing of acoustic products for more than 20 years, accumulated considerable experience in every aspect in respect of manufacturing of speakers, and acquired the core technologies for manufacturing of speakers, and established long-term cooperating relationship with branded clients, and became the strategic partner of multiple well-known branded customers for more than ten years. Currently, although there is no relevant statistic data for objectively evaluate the market share of the Company, through estimation with the procurement ratio of the Company products by the international AV electronics branded clients, the market share of the Company in the speaker system market is relatively high, and the Company is the major supplier of speakers and other relevant products for international brands.

3. The future demand and supply and growth of the market

(1). Speaker systems

In 1980s, since the PRC focused on manufacturing color TV and exporting speakers, the electro-acoustic industry entered its high-speed growth period. On one hand, the original electro-acoustic enterprises introduced speaker technologies and components, on the other hand, the specialized equipment were produced and product lines are established, which changed the way of operations, expanded the scale of enterprises and raised the consistency of products. As the industry supply chains are improving, the industry is heading towards the professional manufacturing. Guangdong Province of Mainland China, the place of production of the Company, is a processing center of speaker products, which attracts many international leading speaker manufacturers to move their base of production to Guangdong. Many speaker processing enterprises in the Guangdong Province engage in OEM business for well-known international branded speakers. At the end of the last century, the PRC had surpassed Japan to become the world’s top country for manufacturing and exporting speaker components, and became the world factory. For some high-end speaker products, in recent years, a trend to relocate the manufacturing business from Europe and U.S. to the PRC can be observed.

(2) Wearable audio

In respect of the global market, the capacity of the earphones market is relatively large and the industry has positive prospect. Along with the enrichment of the public entertainment life, portable entertainment equipment such as iPod®, tablets as well as smartphones continue to upgrade and become more popular, the digital entertainment function of smartphones also improved significantly. In addition, earphones have currently become accessories for youngsters to mix & match, it is no doubt the earphones market will expand.

4. Competition Niche

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

The Company 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 top five consumer electronics branded enterprises. Apart from the long-term relationship, the excellent customer services and product quality help the Company 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.

(2) Strong R&D Capability

In the recent years, the Company actively participated 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 centers in Taiwan, Shenzhen, Singapore and Huiyang of Guangdong 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

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) Vertical integration, high local content rate and professional core production technology

The key components of speaker systems are mainly self-made, to ensure the quality of the products and to meet the delivery period as demand by clients. The Company has experience of over 20 years in R&D of speaker units, along with the solid R&D of speaker woodwork and plastic injection technology, and the R&D of digital speaker systems and the manufacturing technology, together with the audition room with international standards and Klippel ®, the top notch R&D technology of speakers, the Company can accommodate the demand of international branded clients for R&D of new products.

5. Favourable and unfavourable factors for long-term development and the responsive measures

(1) Favourable factors for the future development of the Company

A. Leisure trend becomes more popular, which stimulates the demand of consumers for AV equipment

As player of cloud download and digital TV become more popular, the cost for consumer to acquire AV information decreased and it becomes more convenient. And since leisure trend becomes more popular, consumers further demand for AV effects such as 4K high resolution, 3D stereo and three-dimensional sound effects, which create a right in the scene feeling, and they would like to create such AV effects at home. Where sound bars system is a leading trend and the demand in the market increased continuously, which is positive for the Company's future development.

B. The innovation of functions of consumer electronics increases the desire of consumer to purchase

The improvement in technologies leads to the innovative and diverse development of the function of technology products. New electronic products are heading to the direction of integration that a single product could fulfill multiple needs and usage of consumers, which completely change the habit of consumer and consumers are stimulated to purchase new products for their convenience. For instance, single-functional product such as MP3, pen recorder, radio, PDA as well as cell phones were gradually replaced by new multi-functional products such as portable devices like smartphones, tablets, etc. Smartphones and tablets not only integrated functions of multiple products, at the same time, they provide more functions and convenience to consumers, changing the habits of them and driving the demand for relevant applicable products such as Bluetooth and Wi-Fi multi-media speakers, smart speakers and earphones, which is positive for the Company's future development.

C. The main sales customers are the pioneers of R&D of consumer electronic products

International branded manufacturers play the role of pioneers in respect of the innovation of AV products, and strive to lead the direction of the whole industry through innovation and R&D of AV products. The Company has maintained a long-term close cooperation relationship with branded customers in the world, not only fulfilling the demand of international manufacturers in terms of production technology, the R&D of products was also in line with the trend in the market, which gives the Company a better picture in the market, and is positive for the future development of the Company.

(2) Unfavourable factors for future development of the Company and the responsive measures

A. Shortage of labor and increase in labor cost

The production process of the Company still relies on relatively large amount of manpower. Since Mainland China implemented the Labor Contract Law, the basic salary increased every year, coupled with economic restructuring, the end of demographic dividend and the raising awareness of labor rights, the shortage of labor is still severe, which leaded to the increase in production cost.

Responsive measures:

The Company strived to improve the production procedure, developed into automatic production to increase the production efficiency and reduced the reliance on labor. Through the design of process and the education and training for personnel, the effective utilization of manpower was improved, and the complementary measures focused on labor's benefit and life reduced the desire of labor to leave and lowered the labor cost of the Company. In addition, the Company has achieved a relatively large scale of automatic production, which reduced the demand for labor.

B. Competitors from different industries reduced the growth of the gross profit margin

In recent years, the development of companies extended as a result of the innovation of products in many traditional industries, for instance, the TV industry has extended to the speaker industry. For traditional speaker industry, this increased a certain numbers of competitors. The competition between competitors of the same industry inhibited the growth of gross profit margin.

Responsive measures:

The Company continued to reinforce its advantages in producing good quality sound effect that it takes a relative long time for competitors to copy. Strengthening of R&D, improvement of production technology and effective cost control were all favorable foundation of the Company.

C. Swift changes in consumer electronic products

The products of the Company such as home audio/video systems, Sound Bars, speaker box as well as earphones are all consumer electronic products. As the 3C market experienced flourish development, the consumer market and changes of electronic products were advancing all the time, the products of the Company has to accommodate with the taste and preference of consumers and in line with the trend of the market. Therefore, the growth of the Company is subject to the ability of the branded manufacturers' to predict the taste and preference of the consumers, and the ability of the Company to design, develop, produce and to sell the products to the end customers.

Responsive measures:

The sales representatives and R&D staff of the Company paid attention to the demand of the market at all time and cooperated closely with different branded manufacturers to provide the latest analysis for demand and trend of the market, so as to be the first to capture the opportunities, by researching and developing more innovative and advance product technologies and the technologies of appearance design, to lower the risk arising from the change in demand for consumer electronic products.

D. Impacts brought by the United States-China trade war

The products produced by the Company were not yet the products being charged high tariffs under the trade war. However, either for avoiding the risk of high tariffs transferring to the costs or for improving the setup of production capacity of the production base, it is necessary to establish a second production base outside the PRC.

Responsive measures:

The Company has acquired a piece of land located at the northern part of Hai Duong Province, Vietnam. It is expected that the construction will be completed in December 2019 and commence production. Since the local supply chains are not complete, and the basic complementary facilities are incomplete, which will increase the external cost. Despite the local manpower cost is only half of the PRC's, the production effectiveness is far from being comparable with that of PRC. However, based on the purpose of risk spreading, in the early stage, the production base in Vietnam is deemed to be a backup production base outside the PRC.

(2) Major purposes and production process of key products

1. Major purposes of key products

Key products	Major purposes
Acoustic Modules	Speaker units and their additional kit
Automotive	Car speakers or the audible unit of car speakers
Home Audio	AV electronic and speaker products
Personal Audio	Portable wireless speakers and smart speakers
Transducer Speaker	Important parts of acoustic modules
Wearable Audio	Earphones and ear-worn smart device

2. The production process of key products

(1) The production process of speaker systems: paint black plastic on the edges of the horn and woofer→ place the horn and woofer→ fix the horn→ fix the woofer→ direct the cables of the horn and woofer→ direct the wire→ weld the wire→ check the phase→ stick the back label and staple the mini cable→ inject plastic for panels at the four sides → initial assemble→ pressure to seal the gap→ chamfer→ trim the edges→ inject plastic to the hole of the column feet at the front panel → check and select plastic sticks→ place the plastic sticks→ check and place the cloth frame→ pressure and fix the cloth frame and plastic sticks→ leveling→ carry out audio test→ tear off the protective film→ Q.C. inspection → packaging.

(2) The production procedure of AV electronics: getting the materials from the production lines→ SMT solder paste printing→ SMT Pasting→ Reflow soldering→ AOI inspection→ visual inspection→ horizontal parts assembling → vertical parts assembling→ PCB board connectors→ wave soldering→ PCB board surface repair→ PCB ICT →PCB Function Verification Test→ assemble speakers on the top case→ assemble the PCB board→ cables installation/management→ internal check→ close the cover/ lock the bottom case by screws→ Function Verification Test for the semi-finished product→ Install wire gauze/foot pad→ install left and right cap→ install PCB board→ tighten the screws to lock the wire gauze→ Hi-POT test→ main unit decoration → Function Verification Test for the finished product→ reposition/ install left decoration cover→ main unit cleansing/appearance inspection→ apply protective film on the covers→ put on stickers/ scan the bar code→ pack the main unit into plastic bag→裝主機 pack the main unit/ sticking of bar code→ fold the corrugated box/ seal the box→ weigh the main unit→ stack the AV electronics/place the AV electronics→ delivery.

(3) Speaker units

The production procedure of speaker units: glue the pole piece→ assemble the support with the pole piece by welding→ connect the yoke with the magnet→ insert the center fixture→ support and pole piece input→ drying→ remove the center fixture→ line up the boards→ vacuuming→ insert baffle and voice coil → coat glue on three points→ fit the vibration board→ coil washing→ coat glue on the gasket→ fix the gasket → appearance inspection→ line up the boards→ remove the voice coil fixture→ direct and wrap the cables→ eye soldering→ remove the cable remains of the eye→ cable adjustment→ terminal board soldering→ remove the cable remains of the terminal board→ cable adjustment for the second time→ appearance inspection→ coat glue on the dust cap→ coat glue on the eye→ fit the dust cap → drying→ magnetization→ polarity inspection→ Q.C. inspection→ appearance inspection→ packaging.

(4) Wearable audio

The production procedure of earphones: pull the cable through the back case→ weld the speakers→ inspection on the appearance of the welding point→ check the phase → inject plastic to the front case (pug in the screws)→ assemble the front and back cases→ check the resistance→ appearance inspection→ audio test→ electroacoustic test→ insert silicon ear cushion→ packaging.

(3) Supply of major raw materials

The main raw materials for the products of the Company are speaker units, plastic, wood, etc. Based on the considerations such as quality, yield rate, stability of delivery as well as cost control, the Company chose to maintain long-term cooperation relationship with excellent manufacturers, and there were at least two or more suppliers to provide main raw materials to decentralize the source. The supply of raw materials was in good condition.

(4) The name of customers accounting for more than 10% of the total purchase/sales volume in any year of the latest two years, their transaction amount and proportion

1. The name of suppliers accounting for more than 10% of the total purchase volume in any year of the latest two years, their sales amount and proportion, and the explanation for the movements: The Company has diverse suppliers, for the recent two years and as of the first quarter 2019, the Company did not have purchases from a single supplier accounting for 10% or more of the total purchases.

2. The name of customers accounting for more than 10% of the total sales volume in any year of the latest two years, their sales amount and proportion, and the explanation for the movements

Unit: NT$'000

Item	2017				2018				For the first quarter ended 2019			
	Company	Amount	Percentage of annual net sales (%)	Relationship with the issuer	Company	Amount	Percentage of the annual net sales (%)	Relationship with the issuer	Company	Amount	Percentage of annual net sales (%)	Relationship with the issuer
1	Company L	2,007,850	26.10	Nil	Company L	2,195,283	23.83	Nil	Company L	489,672	22.16	Nil
2	Company U1	-	-	Nil	Company U1	-	-	Nil	Company U1	340,296	15.40	Nil
3	Company U	1,426,691	18.54	Nil	Company U	1,557,766	16.91	Nil	Company U	186,542	8.44	Nil
4	Company X	186,958	2.43	Nil	Company X	1,355,240	14.71	Nil	Company X	212,038	9.59	Nil
5	Company L1	903,692	11.74	Nil	Company L1	862,086	9.36	Nil	Company L1	178,597	8.08	Nil
6	Company S	796,695	10.35	Nil	Company S	135,132	1.47	Nil	Company S	-	-	Nil
7	Others	2,372,387	30.84	—	Others	3,108,248	33.72	—	Others	802,820	36.33	—
	Net sales	7,694,273	100.00	—	Net sales	9,213,755	100.00	—	Net sales	2,209,965	100.00	—

Explanation for the movements:

(1) The sales order of company L had a significant year-on-year increase as a result of the withdrawal of a speaker supplier from the competition and the increase of order of particular products.
(2) The sales of specific products to customers for company U and company X were ideal, and the sales order increased as a result of the increased demand from the customers.
(3) The sales of specific products to customers for company L1 were not good, and the sales order decreased as a result of the decreased demand from the customers.
(4) The sales order of company S decreased as a result of the decrease demand from customers resulted from the downturn of global economy and the market of consumer electronics.

(5) Table of production volume and value for the recent two years

Unit: '000 pc/set; NT$'000

Year / Quantity and Value / Key Products	2017			2018		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Acoustic Modules	197	167	13,621	3,110	2,643	334,614
Automotive	93	79	36,083	0	0	2,239
Home Audio	12,024	10,296	4,936,372	10,009	8,493	5,732,539
Personal Audio	772	719	242,333	6,822	5,463	1,895,112
Transducer Speaker	4,001	3,414	357,841	2,575	2,206	240,568
Wearable Audio	8,406	6,725	503,890	7,152	6,079	487,576
Others	27,960	23,685	697,814	14,553	12,289	802,245
Total	53,453	45,085	6,787,954	44,221	37,173	9,494,893

Explanation for the movements:

As the order for high-end consumer electronics from new customers increased, the revenue increased as compared with 2017. Although the capacity utilization was similar as compared with last year, the average production value of 2018 increased as compared with 2017.

(6) Table of sales volume and value for the recent two years

Unit: '000 pc/set; NT$'000

Year / Sales quantity and value / Key Products	2017				2018			
	Domestic sales(Note)		Export sales		Domestic sales(Note)		Export sales	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Acoustic Modules	147	15,919	13	2,468	2,348	230,614	1	180
Automotive	-	-	96	37,280	1	1,393	6	3,171
Home Audio	10,251	1,299,192	28,243	4,482,281	10,333	1,710,735	22,071	4,510,611
Personal Audio	1,002	143,255	312	172,923	4,963	1,208,943	395	328,427
Transducer Speaker	1,144	75,143	1,368	324,272	1,640	91,931	1,276	298,089
Wearable Audio	-	163	6,614	601,362	3	331	1,276	578,571
Others	7,008	316,473	1,649	223,542	5,948	78,518	2,474	172,241
Total	19,552	1,850,145	38,295	5,844,128	25,236	3,322,465	27,499	5,891,290

Note: Domestic sales refer to the sales to the PRC.

Explanation for the movements:

The sales value of 2018 increased as compared with 2017 as a result of the significant growth of demand of home audio systems and personal audio systems as compared with last year, resulted from the increase in the orders of high-end consumer electronics from new customers.

3. Number of employees for the recent two years and as of the date of issue of annual report

Unit：Person; %

Person/Year		2017	2018	As of 31 March 2019
Number of employee	Managerial Level (Note)	49	79	90
	Production	1,505	1,637	1,448
	General	1,484	1,406	1,393
	Total	3,038	3,122	2,931
Average age		36.23	28.93	42.03
Average year of service		6.53	5.67	6.06
Academic qualification (%)	Doctoral	0.00	0.03	0.03
	Master	0.82	0.48	0.78
	University	9.71	13.81	14.64
	Senior high school	20.51	13.13	18.53
	Below senior high school	68.96	72.55	66.02

Note: Managerial personnel refers to supervisor of associate level or above.

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 be incurred before implementing responsive measures, in case the amount cannot be reasonably estimated, explanation of the reason): Nil.

Table of environmental protection expenditures of factories in 2018

Unit: NT$

Environmental protection costs	Explanation	Expenditures
Dust explosion prevention construction for woodworking workshop	The prevention of diffusion of dust from the specific source of dust, the overall ventilation device was installed, including the prevention expenses for air pollution, the prevention expenses for other pollution, etc.	9,000,000
Exhaust gas treatment construction for production of plastic division	The costs for treatment of exhaust gas emissions, including the prevention expenses for air pollution, the prevention expenses for other pollution, etc.	1,500,000
Waste water treatment construction for production of woodworking workshop	The costs for water conservation, including the prevention expenses for water pollution, expenses for other pollution, etc.	390,000
Total		10,890,000

5. Labour Relations

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

1. Employee benefit, learning, training, retiring systems and their implementation, and Labor 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 Labor law and set up Labor 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:

① The Company implements employee benefit initiatives regularly and maintains employee insurance in accordance with local laws.

② Human-oriented promotion and transfer policies as well as effective bonus incentive scheme.

③ Recreational activities are held.

④ School fee subsidies for children of factory employees studying in the Xiu De Chinese – Anglo Kindergarten.

⑤ 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:

① 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.

② 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, With effective from 1 July 2005, pursuant to the implementation of “Labor 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.

(2) Explanation for the recent two years and as of the date of issue of annual report, the losses suffered due to labor disputes, and disclosure of possible amount that may be incurred currently or in the future and the responsive measures, in case the amount cannot be reasonably estimated, explanation of the reason:

The Company is committed to maintain the harmony between the Company and the employees, and resolve problems by carrying out two-way communication and cooperation. Until now, the harmonious labor relations are maintained and no material labor disputes occur.

6. Material contracts: None.

VI. Financial Information

1. Latest five-year financial summary

(1) Condensed Balance Sheet and Consolidated Statement of Profit or Loss

1. Condensed Balance Sheet

Unit: NT$'000

Item / Year		Financial information for the last five years					As at 31 March 2019
		2014	2015	2016	2017	2018	
Current assets		2,398,124	3,280,555	2,841,601	3,437,400	3,847,439	3,836,120
Property, plant and equipment		563,432	1,205,589	976,413	814,687	743,556	730,520
Intangible assets		237,093	204,873	211,279	248,618	260,941	261,102
Other assets		18,194	204,205	198,687	189,769	175,031	331,990
Total assets		3,216,843	4,895,222	4,227,980	4,690,474	5,026,967	5,159,732
Current liabilities	Before allocation	972,760	2,613,568	2,431,373	2,955,466	3,160,334	3,167,617
	After allocation	1,276,510	2,917,318	2,614,379	3,023,733	3,203,711	3,167,617
Non-current liabilities		96,708	309,355	151,920	134,692	131,089	251,366
Total liabilities	Before allocation	1,069,468	2,922,923	2,583,293	3,090,158	3,291,463	3,382,983
	After allocation	1,373,218	3,226,673	2,766,299	3,158,425	3,334,800	3,382,983
Interests attributable to the owners of the parent company		1,843,625	1,668,549	1,461,681	1,532,049	1,692,167	1,776,749
Share capital		607,500	610,020	615,020	619,860	616,060	615,790
Capital reserve		729,815	744,831	756,922	766,834	751,962	751,992
Retained earnings	Before Allocation	642,019	568,647	379,099	305,043	499,029	479,578
	After Allocation	338,269	264,897	196,093	236,776	455,652	479,578
Other interests		168,041	89,472	(65,683)	(50,750)	(107,488)	(46,592)
Stock inventory		—	(40,671)	(40,671)	(40,671)	(24,019)	(24,019)
Non-controlling interests		—	—	—	—	—	—
Total interests	Before Allocation	2,147,375	1,972,299	1,644,687	1,600,316	1,735,544	1,776,749
	After Allocation	1,843,625	1,668,549	1,461,681	1,532,049	1,692,167	1,776,749

Sources: Consolidated financial reports for the years of 2014 to 2018 which were audited by the accountant; the consolidated financial report with the financial information as at 31 March 2019 which was reviewed by the auditor.

2. Consolidated Statement of Profit and Loss

Unit: NT$'000

Item \ Year	Financial information for the last five years					First quarter of 2019
	2014	2015	2016	2017	2018	
Operating revenue	5,685,347	8,166,474	6,469,043	7,694,273	9,213,755	2,209,965
Operating gross profit	902,509	1,232,812	1,005,744	857,091	1,181,675	272,172
Operating (loss) profit (Note 1)	295,368	212,014	106,224	1,390	289,580	64,640
Non-operating income and expenses	22,191	88,965	87,082	163,318	40,254	(29,976)
Net profit (loss) before tax	317,559	300,979	193,306	164,708	329,834	34,664
Net profit (loss) from continuing operations during the current period	264,652	255,274	133,932	124,944	247,707	23,926
Loss from discontinued operations	—	—	—	—	—	—
Net profit (loss) during the current period	264,652	255,274	133,932	124,944	247,707	23,926
Other comprehensive income/(loss)during the current period (net amount after tax)	69,085	(90,421)	(163,142)	5,107	(72,015)	57,813
Total comprehensive profit/(loss) during the period	333,737	164,853	(29,210)	130,051	175,692	81,739
Net profit (loss) attributable to owners of the parent company	264,652	255,274	133,932	124,944	247,707	23,926
Net profit attributable to non-controlling interests	—	—	—	—	—	—
Total comprehensive profit/(loss) attributable to owners of the parent company	333,737	164,853	(29,210)	130,051	175,692	81,739
Total comprehensive profit/(loss) attributable to non-controlling interests	—	—	—	—	—	—
Earnings (losses) per share (Note 2)	4.36	4.23	2.22	2.05	4.05	0.39

Sources: Consolidated financial reports for the years of 2014 to 2018 which were audited by the accountant; the consolidated financial report with the financial information as ay 31 March 2019 which was reviewed by the auditor.

Note 1: Operating (loss) profit is calculated by operating gross profit－selling and distribution expenses－general and administrative expenses.

Note 2: The calculation of earnings per share for the year 2014 is based on the Company's weighted average number of 60,750,000 shares. The calculation of earnings per share for the year 2015 is based on the Company's weighted average number of 60,393,000 shares. The calculation of earnings per share for the year 2016 is based on the Company's weighted average number of 60,270,000 shares. The calculation of earnings per share for the year 2017 is based on the Company's weighted average number of 60,807,000 shares. The calculation of earnings per share for the year 2018 is based on the Company's weighted average number of 61,237,000 shares. The calculation of earnings per share for the first quarter of 2019 is based on the Company's weighted average number of 61,144,000 shares.

3. Condensed Balance Sheet － Taiwanese Financial Accounting Standard: Not applicable.

4. Consolidated Statement of Profit and Loss－ Taiwanese Financial Accounting Standard: Not applicable.

(2)Important issues affecting the consistency comparison of the above condensed financial statements such as accounting changes, company mergers or suspension of operations of departments, etc. and their impact on the financial report for the year: nil

(3) Names of accountants and the audit opinion thereof for the recent five years

1. Names of accountants and the audit opinion thereof for the recent five years

Year	Accountant	Name of the firm	Audit opinion
2014	Shih Chih-Chuan, Lai Kwan-Chung	Deloitte & Touche Taiwan	Modified unqualified opinion
2015	Shih Chin-Chuan, Lai Kwan-Chung	Deloitte & Touche Taiwan	Modified unqualified opinion
2016	Lai Kwan-Chung, Liu Shu-Lin	Deloitte & Touche Taiwan	Unqualified opinion with emphasizing paragraphs
2017	Lai Kwan-Chung, Liu Shu-Lin	Deloitte & Touche Taiwan	Unqualified opinion with emphasizing paragraphs
2018	Shih Chin-Chuan, Liu Shu-Lin,	Deloitte & Touche Taiwan	Unqualified opinion

2. In the last five years, if there was a change of accountants, explanation from the company, the original and succeeding accountants should be given: internal adjustment of the firm.

2. Latest five-year financial analysis

(1) Comprehensive analysis of the latest five-year financial information – International Financial Reporting Standards

Analysing Item		2014	2015	2016	2017	2018	As of 31 March 2019
	Year	Financial information for the last five years					
Financial structure (%)	Debt to asset ratio	42.69	65.91	65.43	67.34	66.34	65.57
	Long-term capital to properties, plant and equipment ratio	344.38	164.06	165.26	204.59	245.21	272.70
Debt repaying ability (%)	Current ratio	187.87	112.45	108.69	113.68	120.09	121.10
	Quick ratio	151.21	87.84	85.48	86.71	96.68	93.41
	Interest cover	97.96	12.55	7.63	6.75	9.63	4.69
Operating ability	Receivables turnover ratio (times)	5.56	6.08	4.92	5.46	4.87	4.41
	Average collection days	65.64	60.03	74.18	66.85	74.94	82.76
	Inventory turnover ratio (times)	14.65	14.23	9.42	11.25	12.71	12.05
	Payables turnover ratio (times)	5.56	5.76	4.15	4.75	4.74	4.34
	Average sales days	24.91	25.65	38.74	32.44	28.71	30.29
	Property, plant and equipment turnover ratio(times)	10.09	6.77	6.63	9.44	12.39	12.10
	Total assets turnover ratio (times)	1.92	2.01	1.42	1.73	1.90	1.74
Profitability	Return on assets (%)	9.02	6.85	3.49	3.36	5.78	2.52
	Return on equity (%)	14.47	14.54	8.56	8.35	15.37	5.52
	Profit before tax to paid-in capital ratio (%)	52.27	49.34	31.43	26.57	53.54	22.52
	Net profit margin (%)	4.65	3.13	2.07	1.62	2.69	1.08
	Earnings per share (NT$) (Note 2)	4.36	4.23	2.22	2.05	4.05	0.39
Cash flow	Cash flow ratio (%)	19.50	22.48	24.51	(7.74)	12.03	6.85
	Cash flow adequacy ratio (%)	83.38	90.04	118.24	108.89	85.16	Note 1
	Cash re-investment ratio (%)	(2.00)	12.20	17.76	(11.13)	11.83	6.94
Leverage	Operating Leverage	1.33	2.06	3.16	161.58	1.78	2.02
	Financial Leverage	1.01	1.14	1.38	(0.05)	1.15	1.17

Analysis and explanation on the change of each of the financial ratios reaching 20% in the past two years:

1. With the increase in sales revenue in 2018 and the Company's transformation to strengthen the wireless and smart audio segment, the net profit before income tax and interest expenses increased significantly as compared with that of 2017, which increased the interest coverage to 9.63.
2. As mentioned in 1 above, benefiting from the significant increase in sales of goods compared with that of 2017, the net amount of property, plant and equipment decreased as compared with that of last year, resulting in an increase in the turnover rate of property, plant and equipment to 12.39.
3. As mentioned in 1 above, with the increase in sales revenue in 2018 and the promising results of the Company's transformation to strengthen the wireless and smart audio segment, the profit and loss before and after tax increased significantly as compared with that of 2017, which

contributed to increases in the return on assets, return on equity, profit before tax to paid-in capital ratio, net profit margin and earnings per share to 5.78%, 15.37%, 53.54%, 2.69% and 4.05, respectively.

4. Mainly due to the significant increase in operating profit in 2018 as compared with that of last year, which resulted in an increase in the actual operating cash flow, leading to increases in cash flow ratio, cash flow adequacy ratio and cash re-investment ratio to 12.03%, 85.16% and 11.83%, respectively.
5. As mentioned in 1 above, with the increase in sales revenue in 2018 and the promising results of the Company's transformation to strengthen the wireless and smart audio segment, the gross operating profit increased significantly, resulting in a significant increase in operating profit in 2018 as compared with the same period last year, such that the operating leverage lowered to 1.78. In addition, since the operating profit in 2018 was more than the interest expenses, the financial leverage has increased from negative to 1.15.

Note 1: No calculation of cash flow adequacy ratio in 2019 as net cash flow was only recorded in the first quarter of 2019.

Note 2: The calculation of earnings per share for the year 2014 was based on the Company's weighted average number of 60,750,000 shares. The calculation of earnings per share for the year 2015 was based on the Company's weighted average number of 60,393,000 shares. The calculation of earnings per share for the year 2016 was based on the Company's weighted average number of 60,270,000 shares. The calculation of earnings per share for the year 2017 was based on the Company's weighted average number of 60,807,000 shares. The calculation of earnings per share for the year 2018 was based on the Company's weighted average number of 61,237,000 shares. The calculation of earnings per share for the first quarter of 2019 was based on the Company's weighted average number of 61,144,000 shares.

Note 3: The formulas of the financial analysis in this table are as follows:

1. Financial structure
   (1) Debt to asset ratio＝total debts/total assets.
   (2) Long-term capital to properties, plant and equipment ＝(total equity + non-current liabilities) / property, plant and equipment.
2. Debt repaying ability
   (1) Current ratio＝current assets / current liabilities.
   (2) Quick ratio＝(current assets – inventory – prepaid expenses) / current liabilities.
   (3) Interest cover＝profit before income tax and interest expenses / interest expenses for the current period.
3. Operating ability
   (1)Receivables (including accounts receivable and notes receivable arising from operation) turnover ratio＝net sales amount / balance of average receivables for each period (including accounts receivable and notes receivable arising from operation).
   (2) Average collection days＝365 / receivables turnover ratio.
   (3) Inventory turnover ratio＝Sales cost / average inventory amount.
   (4) Payables (including accounts payable and notes payable arising from operation) turnover ratio＝sales cost / balance of average payables for each period (including accounts payable and notes payable arising from operation).
   (5) Average sales days＝365 / inventory turnover ratio.
   (6) Property, plant and equipment turnover ratio＝net sales amount / average net amount of property, plant and equipment.
   (7) Total assets turnover ratio＝net sales amount / average total assets.

4. Profitability

(1) Return on assets＝(profit or loss after tax + interest expenses × (1 – tax rate)) / average total assets.

(2) Return on equity＝profit or loss after tax / average total equity.

(3) Profit before tax to paid-in capital ratio＝profit before tax / paid-in capital.

(4) Net profit margin = profit or loss after tax / net sales amount.

(5) Earnings per share＝(profit or loss attributable to the owners of the parent company – dividends for preferred shares) / weighted average number of issued shares.

5. Cash flow

(1) Cash flow ratio＝net cash flow from operation / current liabilities.

(2) Cash flow adequacy ratio＝net cash flow from operation for the latest five years / latest five years (capital expenses + amount of increase in inventory + cash dividends).

(3) Cash re-investment ratio＝(net cash flow from operation – cash dividends) / (gross amount of property, plant and equipment + long-term investments + other non-current assets + working capital).

6. Leverage

(1) Operating Leverage＝(net operating income – costs and expenses from change in operation) / operating income.

(2) Financial Leverage＝operating income / (operating income – interest expenses).

Note 4: Special attention should be paid to the following matters when using the calculation formula for earnings per share in the preceding note:

1. Based on the weighted average number of ordinary shares, and not on the number of shares issued at the end of the year.
2. As for capital increase or treasury stock trading, the circulation period should be considered in the calculation of weighted average number of shares.
3. As for transfer of surplus or capital reserve to capital increase, adjustment shall be made according to the proportion of capital increase when calculating earnings per share of the previous year and half year, and there is no need to consider the issue period of the capital increase.
4. If the preferred shares are non-convertible accumulative preferred shares, their dividends for the year (whether paid or not) shall be deducted from the net profit after tax or added to the net loss after tax. If the preferred shares are non-cumulative in nature, when there is net profit after tax, the dividends of preferred shares shall be deducted from the net profit after tax; when it is a loss, no adjustment is needed.

Note 5: Special attention should be paid to the following matters when making the cash flow analysis:

1. Net cash flow from operation refers to the net cash inflows from operating activities in the cash flow statement
2. Capital expenditure refers to the amount of cash outflows of capital investment per year.
3. The increase in inventory shall only be included when the closing balance is greater than the opening balance. If inventory is reduced at the end of the year, it shall be calculated as nil.
4. Cash dividends include cash dividends for ordinary shares and preferred shares.
5. Gross amount of property, plant and equipment refers to the total amount of property, plant and equipment before deducting accumulated depreciation.

Note 6: The issuer shall classify the operating costs and operating expenses into fixed and variable items according to their nature. If there is any estimation or subjective judgment, attention shall be paid to the reasonableness and consistency shall be maintained.

Note 7: If the Company's shares are without par value or the par value is not NT$10, the abovementioned calculation of the ratio of paid-up capital shall be calculated based on the equity ratio attributable to the owner of the parent company on the balance sheet.

(2) Comprehensive analysis of financial information in the past five years – Taiwanese Financial Accounting Standards: Not applicable.

3. Audit report of the audit committee on the financial report for the past year

Audit Report of the Audit Committee

The Board of Directors has prepared the Company's 2018 annual business report, consolidated financial statements and surplus distribution proposals. The consolidated financial statements have been audited by Deloitte Taiwan and issued its audit report. The above business report, consolidated financial statements and surplus distribution proposal have been reviewed by the Audit Committee and it is considered that there is no disagreement on them. The report is made in accordance with the relevant provisions of the Securities Exchange Act as above for review.

Eastech Holding Limited

Convener of the Audit Committee: Chen Ko Hung

22 February 2019

4. Consolidated financial report for the past year audited and certified by the accountant: please refer to pages 142 to227.

5. The Company's individual financial report for the past year audited and certified by the accountant: Not applicable.

6. The impact of financial difficulties (if any) of the Company and its affiliates during the past year and as of the date of issue of annual report on the Company's financial position: None

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 referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, 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 (collectively referred to as the "consolidated financial statements").

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, 2018 and 2017, 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.

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, 2018. 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, 2018 are stated as follows:

<u>Revenue Recognition</u>

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 of 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 IFRS 15 is complied with.

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 in 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 client'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 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, 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, 2018 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.

The engagement partners on the audit resulting in this independent auditor's report are Chin-Chuan Shih and Shu-Lin Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 22, 2019

<u>*Notice to Readers*</u>

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.

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

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of Hong Kong Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 224,596	18	$ 193,004	16
Financial assets at fair value through profit or loss (Note 7)	56	-	51	-
Notes and accounts receivable, net (Notes 8, 19 and 23)	535,221	42	440,917	36
Inventories (Notes 10 and 23)	144,264	11	167,256	13
Restricted assets (Notes 6 and 23)	5,372	-	1,315	-
Income tax refund recoverable	164	-	4,419	-
Other receivables and prepayments (Note 9)	75,674	6	94,290	8
Prepayments for land lease - current (Note 14)	367	-	385	-
Total current assets	985,714	77	901,637	73
NON-CURRENT ASSETS				
Property, plant and equipment (Notes 11 and 23)	190,499	15	213,694	18
Financial assets measured at cost (Note 12)	-	-	29,029	2
Financial assets at fair value through profit or loss - non-current (Note 7)	25,192	2	-	-
Intangible assets (Notes 13 and 23)	66,853	5	65,213	5
Prepayments for land lease - non-current (Note 14)	16,769	1	17,893	2
Deferred tax assets (Notes 4 and 20)	2,882	-	2,855	-
Total non-current assets	302,195	23	328,684	27
TOTAL	$ 1,287,909	100	$ 1,230,321	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bank borrowings (Note 15)	$ 268,850	21	$ 258,219	21
Notes and accounts payable (Note 16)	444,067	34	433,656	35
Current tax liabilities (Notes 4 and 20)	8,258	1	3,675	-
Other payables (Note 16)	99,616	8	97,581	8
Total current liabilities	820,791	64	793,131	64
NON-CURRENT LIABILITIES				
Long-term bank borrowings (Note 15)	1,892	-	4,210	-
Deferred tax liabilities (Notes 4 and 20)	30,176	2	28,854	3
Net defined benefit liabilities (Notes 4 and 17)	1,517	-	2,266	-
Total non-current liabilities	33,585	2	35,330	3
Total liabilities	854,376	66	828,461	67
EQUITY (Note 18)				
Share capital - common stock	162,902	13	163,891	13
Capital surplus	199,511	15	202,979	17
Treasury shares	(5,966)	-	(9,929)	(1)
Exchange differences on translating foreign operations	(42,546)	(3)	(21,289)	(2)
Employee unearned benefit	(4,647)	-	(7,799)	-
Unrealized losses on financial assets at fair value through other comprehensive income	(7,787)	(1)	-	-
Retained earnings				
Legal reserve	13,154	1	12,143	1
Unappropriated earnings	118,912	9	61,864	5
Total equity	433,533	34	401,860	33
TOTAL	$ 1,287,909	100	$ 1,230,321	100

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

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

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 876,643	18	$ 735,808	16
Financial assets at fair value through profit or loss (Note 7)	219	-	194	-
Notes and accounts receivable, net (Notes 8, 19 and 23)	2,089,075	42	1,680,952	36
Inventories (Notes 10 and 23)	563,091	11	637,647	13
Restricted assets (Notes 6 and 23)	20,968	-	5,013	-
Income tax refund recoverable	640	-	16,847	-
Other receivables and prepayments (Note 9)	295,371	6	359,471	8
Prepayments for land lease - current (Note 14)	1,432	-	1,468	-
Total current assets	3,847,439	77	3,437,400	73
NON-CURRENT ASSETS				
Property, plant and equipment (Notes 11 and 23)	743,556	15	814,687	18
Financial assets measured at cost (Note 12)	-	-	110,670	2
Financial assets at fair value through profit or loss - non-current (Note 7)	98,329	2	-	-
Intangible assets (Notes 13 and 23)	260,941	5	248,618	5
Prepayments for land lease - non-current (Note 14)	65,453	1	68,215	2
Deferred tax assets (Notes 4 and 20)	11,249	-	10,884	-
Total non-current assets	1,179,528	23	1,253,074	27
TOTAL	$ 5,026,967	100	$ 4,690,474	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bank borrowings (Note 15)	$ 1,049,375	21	$ 984,434	21
Notes and accounts payable (Note 16)	1,733,282	34	1,653,270	35
Current tax liabilities (Notes 4 and 20)	32,233	1	14,011	-
Other payables (Note 16)	388,821	8	372,018	8
Total current liabilities	3,203,711	64	3,023,733	64
NON-CURRENT LIABILITIES				
Long-term bank borrowings (Note 15)	7,385	-	16,050	-
Deferred tax liabilities (Notes 4 and 20)	117,783	2	110,003	3
Net defined benefit liabilities (Notes 4 and 17)	5,921	-	8,639	-
Total non-current liabilities	131,089	2	134,692	3
Total liabilities	3,334,800	66	3,158,425	67
EQUITY (Note 18)				
Share capital - common stock	616,060	12	619,860	13
Capital surplus	751,962	15	766,834	17
Treasury shares	(24,019)	-	(40,671)	(1)
Exchange differences on translating foreign operations	(113,524)	(2)	(69,570)	(1)
Employee unearned benefit	(18,396)	-	(30,955)	(1)
Unrealized losses on financial assets at fair value through other comprehensive income	(29,950)	(1)	-	-
Retained earnings				
Legal reserve	54,382	1	49,775	1
Unappropriated earnings	455,652	9	236,776	5
Total equity	1,692,167	34	1,532,049	33
TOTAL	$ 5,026,967	100	$ 4,690,474	100

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of Hong Kong Dollars)

	2018		2017	
	Amount	**%**	**Amount**	**%**
NET REVENUE (Notes 4 and 19)	$ 2,394,676	100	$ 1,979,285	100
COST OF REVENUE (Note 10)	2,087,555	87	1,758,806	89
GROSS PROFIT	307,121	13	220,479	11
OPERATING EXPENSES				
Selling and distribution	44,487	2	40,955	2
General and administrative	187,290	8	179,088	9
Total operating expenses	231,777	10	220,043	11
PROFIT FROM OPERATIONS	75,344	3	436	-
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 19)	18,138	1	62,596	3
Foreign exchange gain (loss), net (Note 26)	4,916	-	(10,709)	(1)
Finance costs (Note 19)	(9,939)	-	(7,370)	-
Other losses (Note 19)	(2,653)	-	(2,505)	-
Total non-operating income and expense	10,462	1	42,012	2
PROFIT BEFORE INCOME TAX	85,806	4	42,448	2
INCOME TAX (Notes 4 and 20)	(21,345)	(1)	(10,229)	(1)
NET PROFIT	64,461	3	32,219	1
OTHER COMPREHENSIVE (LOSS) INCOME (NET OF INCOME TAX)				
Items that will not be reclassified subsequently to profit or loss:				
Effect of tax rate changes (Note 20)	77	-	-	-
Remeasurement of defined benefit plans (Notes 4, 17 and 20)	414	-	(1,448)	-

(Continued)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of Hong Kong Dollars)

	2018		2017	
	Amount	**%**	**Amount**	**%**
Unrealized loss on investments in equity instruments at fair value through other comprehensive income (Note 26)	$ (7,787)	-	$ -	-
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(21,257)	(1)	35,408	2
	(28,553)	(1)	33,960	2
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 35,908	2	$ 66,179	3
EARNINGS PER SHARE (Note 21)				
Basic earnings per share	$1.05		$0.53	
Diluted earnings per share	$1.05		$0.53	
WEIGHTED AVERAGE NUMBER OF SHARES	61,237 thousand shares		60,807 thousand shares	

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
	Amount	**%**	**Amount**	**%**
NET REVENUE (Notes 4 and 19)	$ 9,213,755	100	$ 7,694,273	100
COST OF REVENUE (Note 10)	8,032,080	87	6,837,182	89
GROSS PROFIT	1,181,675	13	857,091	11
OPERATING EXPENSES				
Selling and distribution	171,168	2	159,208	2
General and administrative	720,927	8	696,493	9
Total operating expenses	892,095	10	855,701	11
PROFIT FROM OPERATIONS	289,580	3	1,390	-
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 19)	69,788	1	243,336	3
Foreign exchange gain (loss), net (Note 26)	18,915	-	(41,630)	(1)
Finance costs (Note 19)	(38,241)	-	(28,650)	-
Other losses (Note 19)	(10,208)	-	(9,738)	-
Total non-operating income and expense	40,254	1	163,318	2
PROFIT BEFORE INCOME TAX	329,834	4	164,708	2
INCOME TAX (Notes 4 and 20)	(82,127)	(1)	(39,764)	-
NET PROFIT	247,707	3	124,944	2
OTHER COMPREHENSIVE (LOSS) INCOME (NET OF INCOME TAX)				
Items that will not be reclassified subsequently to profit or loss:				
Effect of tax rate changes (Note 20)	294	-	-	-
Remeasurement of defined benefit plans (Notes 4, 17 and 20)	1,595	-	(5,630)	-

(Continued)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
	Amount	**%**	**Amount**	**%**
Unrealized loss on investments in equity instruments at fair value through other comprehensive income (Note 26)	$ (29,950)	-	$ -	-
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(43,954)	(1)	10,737	-
	(72,015)	(1)	5,107	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 175,692	2	$ 130,051	2
EARNINGS PER SHARE (Note 21)				
Basic earnings per share	$4.05		$2.05	
Diluted earnings per share	$4.05		$2.05	
WEIGHTED AVERAGE NUMBER OF SHARES	61,237 thousand shares		60,807 thousand shares	

The accompanying notes are an integral part of the consolidated financial statements. (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, 2018 AND 2017
(In Thousands of Hong Kong Dollars)

	Share Capital - Common Stock	Capital Surplus	Treasury Shares	Exchange Differences on Translating Foreign Operations	Employee Unearned Benefit	Unrealized Losses on Financial Assets at Fair value Through Other Comprehensive Income	Retained Earnings		Total Equity
							Legal Reserve	Unappropriated Earnings	
BALANCE AT JANUARY 1, 2017	$ 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	163,891	202,979	(9,929)	(21,289)	(7,799)	-	12,143	61,864	401,860
Effect of retrospective application of IFRS 9 (Note 3)	-	-	-	-	-	-	-	4,528	4,528
BALANCE AT JANUARY 1, 2018	163,891	202,979	(9,929)	(21,289)	(7,799)	-	12,143	66,392	406,388
Appropriation of 2017 earnings									
Cash dividends	-	-	-	-	-	-	-	(11,421)	(11,421)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	84	-	-	-	-	-	-	84
Legal reserve of subsidiaries	-	-	-	-	-	-	1,011	(1,011)	-
Issuance of restricted shares for employees	(198)	(528)	-	-	726	-	-	-	-
Restricted shares plan for employees	-	-	-	-	2,426	-	-	-	2,426
Compensation costs of employee stock options	-	148	-	-	-	-	-	-	148
Cancellation of treasury shares	(791)	(3,172)	3,963	-	-	-	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	-	-	-	64,461	64,461
Other comprehensive loss (net of income tax) for the year ended December 31, 2018	-	-	-	(21,257)	-	(7,787)	-	491	(28,553)
BALANCE AT DECEMBER 31, 2018	$ 162,902	$ 199,511	$ (5,966)	$ (42,546)	$ (4,647)	$ (7,787)	$ 13,154	$ 118,912	$ 433,533

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Share Capital - Common Stock	Capital Surplus	Treasury Shares	Exchange Differences on Translating Foreign Operations	Employee Unearned Benefit	Unrealized Losses on Financial Assets at Fair value Through Other Comprehensive Income	Retained Earnings		Total Equity
							Legal Reserve	Unappropriated Earnings	
BALANCE AT JANUARY 1, 2017	$ 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	619,860	766,834	(40,671)	(69,570)	(30,955)	-	49,775	236,776	1,532,049
Effect of retrospective application of IFRS 9 (Note 3)	-	-	-	-	-	-	-	17,264	17,264
BALANCE AT JANUARY 1, 2018	619,860	766,834	(40,671)	(69,570)	(30,955)	-	49,775	254,040	1,549,313
Appropriation of 2017 earnings									
Cash dividends	-	-	-	-	-	-	-	(43,377)	(43,377)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	319	-	-	-	-	-	-	319
Legal reserve of subsidiaries	-	-	-	-	-	-	4,607	(4,607)	-
Issuance of restricted shares for employees	(800)	(2,121)	-	-	2,921	-	-	-	-
Restricted shares plan for employees	-	-	-	-	9,638	-	-	-	9,638
Compensation costs of employee stock options	-	582	-	-	-	-	-	-	582
Cancellation of treasury shares	(3,000)	(13,652)	16,652	-	-	-	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	-	-	-	247,707	247,707
Other comprehensive loss (net of income tax) for the year ended December 31, 2018	-	-	-	(43,954)	-	(29,950)	-	1,889	(72,015)
BALANCE AT DECEMBER 31, 2018	$ 616,060	$ 751,962	$ (24,019)	$ (113,524)	$ (18,396)	$ (29,950)	$ 54,382	$ 455,652	$ 1,692,167

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands)

	2018				2017			
		HK$		NT$		HK$		NT$
CASH FLOWS FROM OPERATING ACTIVITIES								
Profit before income tax	$	85,806	$	329,834	$	42,448	$	164,708
Adjustments for:								
Amortization - other intangible assets		13,007		50,046		6,949		27,014
Amortization - prepayment for land lease		553		2,128		544		2,115
Provision for (reversal of) impairment loss on bad debt		5,561		21,396		(404)		(1,571)
Allowance for inventories provision and inventories write-off		13,465		51,808		7,116		27,663
Depreciation expenses		45,228		174,019		49,925		194,078
Loss on disposal of property, plant and equipment		2,571		9,892		1,867		7,258
Gain on disposal of assets held for sale		-		-		(41,634)		(161,848)
Loss of write-off other intangible assets		3,288		12,651		1,040		4,043
Impairment loss of financial assets measured at cost		-		-		132		513
Interest expense		9,939		38,241		7,370		28,650
Interest income		(950)		(3,655)		(1,170)		(4,548)
Dividend income		(1,739)		(6,691)		(2,868)		(11,149)
Gain on reversal of investment payable		-		-		(3,652)		(14,197)
Employees expenses of restricted shares		2,426		9,638		2,001		8,079
Compensation costs of employee stock options		148		582		-		-
Gain on fair value changes of financial instruments		(5)		(19)		(12)		(47)
Operating cash flows before working capital changes		179,298		689,870		69,652		270,761
Changes in operating assets and liabilities								
Notes and accounts receivable		(97,517)		(375,206)		(168,451)		(654,836)
Other receivable and prepayments		16,268		62,593		(34,325)		(133,435)
Inventories		9,527		36,659		(54,496)		(211,848)
Notes and accounts payable and other payables		12,446		47,887		140,205		545,033
Net defined benefit liabilities		(749)		(2,882)		201		781
Cash generated from (used in) operations		119,273		458,921		(47,214)		(183,544)
Interest paid		(9,939)		(38,241)		(7,370)		(28,650)
Interest received		950		3,655		1,170		4,548
Dividend received		1,739		6,691		2,868		11,149
Income tax paid		(11,830)		(45,517)		(9,680)		(37,630)
Net cash generated from (used in) operating activities		100,193		385,509		(60,226)		(234,127)

(Continued)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands)

	2018		2017	
	HK$	**NT$**	**HK$**	**NT$**
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease in investment payable	$ -	$ -	$ (14,671)	$ (57,032)
Payments for acquiring property, plant and equipment	(33,347)	(128,306)	(23,290)	(90,538)
(Increase) decrease in pledge deposits	(4,057)	(15,610)	82	319
Proceeds from disposal of property, plant and equipment	407	1,566	253	984
Proceeds from disposal of assets held for sale	-	-	46,391	180,340
Increase in other intangible assets	(20,576)	(79,168)	(13,017)	(50,602)
Net cash used in investing activities	(57,573)	(221,518)	(4,252)	(16,529)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in bank borrowings	1,095,333	4,214,402	1,026,791	3,991,548
Repayments of bank borrowings	(1,085,176)	(4,175,324)	(990,155)	(3,849,129)
Payment under capital lease contract	-	-	(200)	(778)
Cash dividend	(11,421)	(43,377)	(17,690)	(68,267)
Cash dividend received from treasury shares	84	319	131	505
Net cash (used in) generated from financing activities	(1,180)	(3,980)	18,877	73,879
EFFECT OF EXCHANGE RATE CHANGES	(9,848)	(19,176)	13,587	(23,827)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,592	140,835	(32,014)	(200,604)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	193,004	735,808	225,018	936,412
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 224,596	$ 876,643	$ 193,004	$ 735,808
CASH AND CASH EQUIVALENTS AS FOLLOWS:				
Cash and bank deposits	$ 229,968	$ 897,611	$ 194,319	$ 740,821
Pledge deposits	(5,372)	(20,968)	(1,315)	(5,013)
Cash and cash equivalents	$ 224,596	$ 876,643	$ 193,004	$ 735,808

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

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 Company's and its subsidiaries (collectively as the "Group") 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 22, 2019.

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

a. Standards and interpretations effective for the year

The Group has adopted all new, revised and amended International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC) and Interpretations of IAS (SIC) (collectively, the "IFRSs") issued into effect after fiscal year beginning on January 1, 2018. Except for the following, whenever applied, the initial application of the amendments to the IFRSs issued into effect would not have any material impact on the Group's accounting policies:

1) IFRS 9 "Financial Instruments" and related amendment

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

The Group analyzed the facts and circumstances of its financial assets as of January 1, 2018 and 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.

The impact on measurement categories, carrying amount and related reconciliation for each class of the Group's financial assets and financial liabilities when retrospectively applying IFRS 9 on January 1, 2018 is detailed below:

Unit: H.K. Dollars

	Measurement Category		**Carrying Amount**		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
Cash and cash equivalents, restricted assets	Loans and receivables	Amortized cost	$ 194,319	$ 194,319	a)
Embedded derivative instrument	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	3,801	3,801	b)
Equity investments	Held-for-trading	Mandatorily at FVTPL	51	51	
	Available-for-sale	Mandatorily at FVTPL	17,373	21,901	c)
	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	7,855	7,855	d)
Notes and accounts receivable, other receivables and refundable deposits	Loans and receivables	Amortized cost	485,638	485,638	a)

Unit: N.T. Dollars

	Measurement Category		**Carrying Amount**		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
Cash and cash equivalents, restricted assets	Loans and receivables	Amortized cost	$ 740,821	$ 740,821	a)
Embedded derivative instrument	Held-for-trading	Mandatorily at FVTPL	14,488	14,488	b)
Equity investments	Held-for-trading	Mandatorily at FVTPL	194	194	
	Available-for-sale	Mandatorily at FVTPL	66,232	83,496	c)
	Available-for-sale	FVTOCI - equity instruments	29,950	29,950	d)
Notes and accounts receivable, other receivables and refundable deposits	Loans and receivables	Amortized cost	1,851,446	1,851,446	a)

Unit: H.K. Dollars

Financial Assets	**Carrying Amount as of January 1, 2018 (IAS 39)**	**Reclassifi-cations**	**Remea-surements**	**Carrying Amount as of January 1, 2018 (IFRS 9)**	**Retained Earnings Effect on January 1, 2018**	**Remark**
FVTPL - embedded derivative instrument	$ 51	$ -	$ -	$ 51	$ -	
Add: Reclassification from held-for-trading (IAS 39) - equity instruments	-	3,801	-	3,801	-	b)
Add: Reclassification from available-for-sale (IAS 39)	-	17,373	4,528	21,901	4,528	c)
	$ 51	$ 21,174	$ 4,528	$ 25,753	$ 4,528	
FVTOCI- equity instruments						
Add: Reclassification from available-for-sale (IAS 39)	$ -	$ 7,855	$ -	$ 7,855	$ -	d)

(Continued)

Financial Assets	Carrying Amount as of January 1, 2018 (IAS 39)	Reclassifi-cations	Remea-surements	Carrying Amount as of January 1, 2018 (IFRS 9)	Retained Earnings Effect on January 1, 2018	Remark
Amortized cost						
Add: Reclassification from loans and receivables (IAS 39)	$ -	$ 679,957	$ -	$ 679,957	$ -	a)

(Concluded)

Unit: N.T. Dollars

Financial Assets	Carrying Amount as of January 1, 2018 (IAS 39)	Reclassifi-cations	Remea-surements	Carrying Amount as of January 1, 2018 (IFRS 9)	Retained Earnings Effect on January 1, 2018	Remark
FVTPL - embedded derivative instrument	$ 194	$ -	$ -	$ 194	$ -	
Add: Reclassification from held-for-trading (IAS 39)	-	14,488	-	14,488	-	b)
- equity instruments Add: Reclassification from available-for-sale (IAS 39)	-	66,232	17,264	83,496	17,264	c)
	$ 194	$ 80,720	$ 17,264	$ 98,178	$ 17,264	
FVTOCI- equity instruments						
Add: Reclassification from available-for-sale (IAS 39)	$ -	$ 29,950	$ -	$ 29,950	$ -	d)
Amortized cost						
Add: Reclassification from loans and receivables (IAS 39)	$ -	$ 2,592,267	$ -	$ 2,592,267	$ -	a)

a) Cash and cash equivalents, notes and accounts receivable, other receivables and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with assessment of expected credit loss under IFRS 9.

b) Embedded derivative instrument previously measured at cost under IAS 39 have been classified as at FVTPL mandatorily.

c) As equity investments that were previously classified as available-for-sale financial assets under IAS 39 are held for trading, the Group elected to designate these investments as at FVTPL under IFRS 9. As equity investments previously measured at cost under IAS 39 are remeasured at fair value under IFRS 9, the adjustments would result in an increase in financial assets at FVTPL and retained earnings of HK$4,528 thousand (equivalent to approximately NT$17,264 thousand) on January 1, 2018.

d) As equity investments that were previously classified as available-for-sale financial assets under IAS 39 are not held for trading, the Group elected to designate these investments as at FVTOCI under IFRS 9. The Group assessed that cost may be an appropriate estimate of fair value for the investments.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. Refer to Note 4 for related accounting policies.

b. Standards and interpretations 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 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
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 16 “Leases”	January 1, 2019
IFRS 17 “Insurance contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020
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
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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 16 “Leases”

  IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4 and a number of related interpretations.

  Definition of a lease

  Upon initial application of IFRS 16, the Group will elect to apply the guidance of IFRS 16, in determining whether contracts are, or contain, a lease, only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

  The Group as lessee

  Upon initial application of IFRS 16, the Group will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land located in China are recognized as prepayments for leases. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group will apply IAS 36 to all right-of-use assets for assessing impairment loss.

Anticipated impact on assets, liabilities and equity

Unit: H.K. Dollars

	Carrying Amount as of December 31, 2018	**Reclassification from Initial Application**	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Prepayments for leases - current	$ 367	$ (367)	$ -	$ -
Prepayments for leases - non-current	16,769	(16,769)	-	-
Right-of-use assets	-	17,136	24,756	41,892
Total effect on assets	$ 17,136	$ -	$ 24,756	$ 41,892
Lease liabilities - current	$ -	$ -	$ 6,422	$ 6,422
Lease liabilities - non-current	-	-	18,334	18,334
Total effect on liabilities	$ -	$ -	$ 24,756	$ 24,756

Unit: N.T. Dollars

	Carrying Amount as of December 31, 2018	**Reclassification from Initial Application**	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Prepayments for leases - current	$ 1,432	$ (1,432)	$ -	$ -
Prepayments for leases - non-current	65,453	(65,453)	-	-
Right-of-use assets	-	66,885	96,628	163,513
Total effect on assets	$ 66,885	$ -	$ 96,628	$ 163,513
Lease liabilities - current	$ -	$ -	$ 25,066	$ 25,066
Lease liabilities - non-current	-	-	71,562	71,562
Total effect on liabilities	$ -	$ -	$ 96,628	$ 96,628

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments will have on the Group's financial position and financial performance and will disclose these other impacts when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. 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").

b. 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.

c. 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.

d. Basis of consolidation

1) 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.

2) 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.

3) 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 December 31 2018	Percentage of Ownership Interest December 31 2017	Descriptions
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	Eastech Systems (Huiyang) Co., Ltd. ("ESHY")	Production and sales of speaker systems	100.00	100.00	〃
EAH	Eastech (Huiyang) Co., Ltd. ("EAHY")	Production, assembly and sales of speaker systems and accessories	100.00	100.00	〃
EAH	Eastech Microacoustics (Huiyang) Co., Ltd. ("EMHY")	Production and sales of earphones	100.00	100.00	〃
EAH	Shenzhen MaliMaliBox Trading Corporation Limited ("MMSZ")	Import and export trading of audio and earphones products and accessories	100.00	100.00	MMSZ 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.
ETT	Eastech Electronics (HK) Limited ("ETH")	Sales of smart speaker and AV electronics home entertainment system	100.00	100.00	〃
ETH	Eastech Electronics (Huiyang) 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	100.00	ETS was established by ETH in October 2017

e. Revenue recognition

<u>2018/contracts applicable to IFRS 15</u>

The Group identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

1) Revenue from sale of goods

Revenue from sale of goods comes from sales of audio system related products, include transducer speaker. Sales of audio system related products are recognized as revenue when the goods are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables and recognized concurrently.

2) Revenue from rendering of services

Service revenue income is recognized when services are provided.

Revenue from a contract to provide services is recognized according to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

Revenue from processing trade is based on the labour hours and direct expenses incurred with its contract rate.

<u>2017/not retrospectively applying IFRS 15</u>

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.

1) Revenue from sale of goods

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

   a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

   b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

   c) The amount of revenue can be measured reliably;

   d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

   e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

   Specifically, revenue from sales of goods is recognized when the delivery of goods and legal ownership transferred.

2) Revenue from rendering of services

   Service income is recognized when services are provided. Revenue from a contract to provide services is recognized according to the stage of completion of the contract.

f. 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. The 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.

g. Property, plant and equipment

Land and buildings held for use 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.

h. 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.

i. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

j. Intangible assets

1) 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 lives, residual values, and amortization methods are reviewed at the end of the year, with the effect of any changes in the estimates accounted for on a prospective basis.

2) Internally-generated intangible assets - research and development expenditures

Expenditures on research activities are recognized as expenses in the period in which they are 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:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditures attributable to the intangible asset during its development.

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

3) 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.

4) Derecognition of intangible assets

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

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

Before the Group recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit or assets related to contract costs is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Leasing

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

1) The Group as lessor

Rental income from operating leases is recognized 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.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their 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.

m. Borrowing costs

Borrowing costs directly attributable to an 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 that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

n. 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.

o. Share-based payment arrangements

1) Restricted shares for employees granted to employees

The fair value at the grant date of the restricted shares for employees is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares that are expected to ultimately vest, with a corresponding increase in other equity - unearned employee benefits. It is recognized as an expense in full at the grant date if vested immediately.

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 restricted shares for employees expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - restricted shares for employees.

2) Employee stock options granted to employees

The fair value at the grant date of the employee stock options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee stock options.

At the end of each reporting period, the Group revises its estimate of the number of employee stock options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee stock options.

p. Taxation

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

1) 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.

2) 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 and unused loss carryforwards 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.

3) Current and deferred tax for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

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.

q. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement categories

<u>2018</u>

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 26.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, notes and accounts receivable, net, other receivables and prepayments, restricted assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

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.

b) Impairment of financial assets and contract assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) as well as contract assets.

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables and contract assets. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

<u>2017</u>

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:

i. Significant financial difficulty of the issuer or counterparty; or
ii. Default or delinquency in interest or principal payments; or
iii. 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.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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 any 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.

Before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

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

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

All financial liabilities are measured at amortized cost using the effective interest method.

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

r. 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, estimations 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 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. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables, investments in debt instruments, and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss of receivables, the Group takes into consideration the estimation of the future cash flows of such assets. The amount of impairment loss is measured as the difference between such an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. 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.

d. 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 11 for details about the carrying amount of the property, plant and equipment.

e. 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 2018 and 2017 are set out in Note 13.

f. 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 13.

g. 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 20.

6. CASH AND CASH EQUIVALENTS

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Cash on hand	$ 194	$ 757	$ 224	$ 854
Cash at bank	224,402	875,886	188,600	719,018
Fixed deposits	5,372	20,968	5,495	20,949
	229,968	897,611	194,319	740,821
Less: Pledged deposits	(5,372)	(20,968)	(1,315)	(5,013)
	$ 224,596	$ 876,643	$ 193,004	$ 735,808

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 23), and is recognized under restricted assets.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

a. Financial assets at FVTPL

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Financial assets at FVTPL - current				
Non-derivative financial assets				
Foreign-listed stocks	$ 56	$ 219	$ 51	$ 194
Financial assets at FVTPL - non-current (Note 12)				
Embedded derivative financial assets mandatorily at FVTPL				
FVTOCI - equity instruments				
Foreign convertible corporate bond and call warrant	$ 3,801	$ 14,833	$ -	$ -
Non-derivative financial assets				
Domestic unlisted stocks	21,391	83,496	-	-
	$ 25,192	$ 98,329	$ -	$ -

b. Financial assets at FVTOCI - 2018

The Group held common stocks of downstream audio product design company for medium to long-term strategic purposes. Since the changes in the fair value of these investments accounted for as FVTPL would not be consistent with the Group's strategy of holding these investments for long-term purposes, the Group's management elected to designate these investments at FVTOCI. At December 31, 2018, the management of the Group carried out an impairment review by comparing their respective recoverable amounts with the carrying amounts. Impairment loss recognized on the financial assets at FVTOCI was HK$7,787 thousand (NT$29,950 thousand) and recognized in other equity.

8. NOTES AND ACCOUNTS RECEIVABLE

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Notes receivable	$ 1,957	$ 7,639	$ 11,906	$ 45,390
Accounts receivable	536,434	2,093,809	429,011	1,635,562
Less: Allowance for impairment loss	(3,170)	(12,373)	-	-
	$ 535,221	$ 2,089,075	$ 440,917	$ 1,680,952

a. For the year ended December 31, 2018

The Group's average sales credit term is 75 days. No interest was charged on any outstanding trade receivables. The Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the financial department annually.

The Group applies the simplified approach to make provision for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables (excluding trade receivables that recognizes loss allowance at full amount). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position and adjusted for general economic conditions of the industry in which the debtors operate. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, or when the trade receivables are over 180 days past due, whichever occurs earlier.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2018

Unit: H.K. Dollars

	Not Past Due	1 to 180 Days	181 to 365 Days	Past due 366 Days	Total
Gross carrying amount	$ 527,476	$ 7,795	$ 2,770	$ 350	$ 538,391
Loss allowance (Lifetime ECL)	-	(50)	(2,770)	(350)	(3,170)
Amortized cost	$ 527,476	$ 7,745	$ -	$ -	$ 535,221

Unit: N.T. Dollars

	Not Past Due	1 to 180 Days	181 to 365 Days	Past due 366 Days	Total
Gross carrying amount	$ 2,058,844	$ 30,426	$ 10,812	$ 1,366	$ 2,101,448
Loss allowance (Lifetime ECL)	-	(195)	(10,812)	(1,366)	(12,373)
Amortized cost	$ 2,058,844	$ 30,231	$ -	$ -	$ 2,089,075

The movements of the loss allowance of trade receivables were as follows:

	For the Year Ended December 31, 2018	
	HK$	NT$
Balance at January 1, 2018	$ -	$ -
Add: Impairment losses recognized	3,213	12,362
Effect of exchange rate changes	(43)	11
Balance at December 31, 2018	$ 3,170	$ 12,373

b. 2017

The Group applied the same credit policy in 2017 and 2018. Allowance of impairment loss was based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The analysis of receivables was as follows:

	December 31, 2017	
	HK$	NT$
Neither overdue nor impaired	$ 433,252	$ 1,651,730
Overdue but not impaired (1)	7,665	29,222
Accounts receivable, net	$ 440,917	$ 1,680,952

1) The aging of receivables that were overdue but not impaired was as follows:

	December 31, 2017	
	HK$	NT$
0-90 days	$ 7,317	$ 27,895
91-180 days	348	1,327
	$ 7,665	$ 29,222

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 hold any collateral over these balances.

2) The movements of the allowance for doubtful debts were as follows:

Unit: H.K. Dollars

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	$ 1,297	$ -	$ 1,297
Written off	(893)	-	(893)
Recovered	(404)	-	(404)
Balance at December 31, 2017	$ -	$ -	$ -

Unit: N.T. Dollars

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	$ 5,397	$ -	$ 5,397
Written off	(3,471)	-	(3,471)
Recovered	(1,571)	-	(1,571)
Effect of exchange rate changes	(355)	-	(355)
Balance at December 31, 2017	$ -	$ -	$ -

c. The carrying amount of trade receivable pledged as collateral (with recourse) for borrowings is disclosed in Notes 23 and 26(h).

9. OTHER RECEIVABLES AND PREPAYMENTS

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Other receivables	$ 38,819	$ 151,518	$ 43,171	$ 164,585
Allowance for impairment loss	(16,310)	(63,661)	(13,962)	(53,229)
Other receivables, net	22,509	87,857	29,209	111,356
Prepayments for purchases	9,718	37,931	12,575	47,941
Prepayments	5,830	22,757	5,173	19,722
Prepayments for purchases equipment and mold	3,239	12,642	2,648	10,095
Value-added tax recoverable and refundable	30,113	117,537	29,173	111,219
Guarantee deposits	4,265	16,647	15,512	59,138
	$ 75,674	$ 295,371	$ 94,290	$ 359,471

Other receivables of the Group mainly consist of the followings:

a. Other receivables relating to litigations (including guarantee deposits) as described in Note 25(a) were as follows:

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Other receivables (including security deposits)	$ 23,439	$ 91,487	$ 23,682	$ 90,285
Less: Allowance for impairment loss	(16,310)	(63,661)	(13,962)	(53,229)
	$ 7,129	$ 27,826	$ 9,720	$ 37,056

b. As of December 31, 2018 and 2017, the amounts of temporary payments as described in Note 16(b) were HK$8,893 thousand and HK$11,643 thousand (equivalent to approximately NT$34,711 thousand and NT$44,388 thousand).

10. INVENTORIES

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Raw materials	$ 69,231	$ 270,222	$ 90,094	$ 343,474
Work-in-process	46,876	182,966	47,768	182,111
Finished goods	19,784	77,221	23,620	90,049
Goods in transit	8,373	32,682	5,774	22,013
	$ 144,264	$ 563,091	$ 167,256	$ 637,647

The cost of inventories recognized as cost of goods sold in the years ended December 31, 2018 and 2017 was HK$2,087,555 thousand and HK$1,758,806 thousand (equivalent to approximately NT$8,032,080 thousand and NT$6,837,182 thousand), respectively, which included HK$13,465 thousand and HK$7,116 thousand (equivalent to approximately NT$51,808 thousand and NT$27,663 thousand), allowance for inventories provision and inventories write-off, respectively.

11. PROPERTY, PLANT AND EQUIPMENT

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

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Cost	$ 464,156	$ 1,811,694	$ 488,917	$ 1,863,947
Accumulated depreciation and impairment	(273,657)	(1,068,138)	(275,223)	(1,049,260)
Book value	$ 190,499	$ 743,556	$ 213,694	$ 814,687

(Continued)

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Land and buildings	$ 33,683	$ 131,471	$ 45,066	$ 171,809
Machineries and office equipment	155,919	608,584	167,106	637,075
Construction in progress	897	3,501	1,522	5,803
Book value	$ 190,499	$ 743,556	$ 213,694	$ 814,687

(Concluded)

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, 2017	$ 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	128,249	488,936	359,146	1,369,208	1,522	5,803	488,917	1,863,947
Additions	-	-	32,036	123,262	1,311	5,044	33,347	128,306
Disposals	(48)	(185)	(26,707)	(102,758)	(298)	(1,146)	(27,053)	(104,089)
Reclassification	-	-	1,353	5,206	(1,592)	(6,125)	(239)	(919)
Effect of exchange rate changes	(6,644)	(14,290)	(24,126)	(61,186)	(46)	(75)	(30,816)	(75,551)
Balance at December 31, 2018	$ 121,557	$ 474,461	$ 341,702	$ 1,333,732	$ 897	$ 3,501	$ 464,156	$ 1,811,694
Accumulated depreciation and impairment								
Balance at January 1, 2017	$ 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	83,183	317,127	192,040	732,133	-	-	275,223	1,049,260
Depreciation	10,155	39,072	35,073	134,947	-	-	45,228	174,019
Disposals	(23)	(89)	(24,052)	(92,542)	-	-	(24,075)	(92,631)
Effect of exchange rate changes	(5,441)	(13,120)	(17,278)	(49,390)	-	-	(22,719)	(62,510)
Balance at December 31, 2018	$ 87,874	$ 342,990	$ 185,783	$ 725,148	$ -	$ -	$ 273,657	$ 1,068,138

The management assessed that there was no impairment loss indicator for the years ended December 31, 2018 and 2017.

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; 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, 2018 and 2017 were as follows:

Company Name	Location	Description	Tenure/Unexpired Term
EAHY	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.
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.
		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.

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

e. Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 23.

12. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017 (Audited)	
	HK$	NT$
Non-current		
Investments in equity - foreign unlisted Audio Design Experts Inc.	$ 11,656	$ 44,438
Investments in equity - domestic unlisted HT Precision Technologies, Inc.	17,373	66,232
	$ 29,029	$ 110,670

Since the fair values of the Group's investments in non-publicly traded shares, convertible corporate bond and call warrants cannot be reliably measured, the investments are measured at the cost less any impairment. The aforementioned investments were classified under IFRS 9. Refer to Notes 3(a) and 7 for information relating to their reclassification.

13. INTANGIBLE ASSETS

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Goodwill	$ 28,919	$ 112,877	$ 29,683	$ 113,163
Technical knowledge (including capitalized costs of)	33,099	129,192	29,080	110,865
Customer relationship	4,835	18,872	6,450	24,590
	$ 66,853	$ 260,941	$ 65,213	$ 248,618

a. Details of goodwill were as follows:

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Related to ScS	$ 25,759	$ 100,543	$ 26,363	$ 100,506
Related to EMHY	3,160	12,334	3,320	12,657
	$ 28,919	$ 112,877	$ 29,683	$ 113,163

The above goodwill represents the excess of the cost of acquisition over the net fair value of the identifiable assets from EMHY'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 8% and 10% per annum for the years ended December 31, 2018 and 2017, respectively.

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, 2018 and 2017.

The movements of goodwill were as follows:

	2018		2017	
	HK$	**NT$**	**HK$**	**NT$**
Balance at January 1	$ 29,683	$ 113,163	$ 26,391	$ 109,826
Effect of exchange rate changes	(764)	(286)	3,292	3,337
Balance at December 31	$ 28,919	$ 112,877	$ 29,683	$ 113,163

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

	2018		2017	
	HK$	**NT$**	**HK$**	**NT$**
Balance at January 1	$ 35,530	$ 135,455	$ 24,379	$ 101,453
Additions	20,576	79,168	13,017	50,602
Amortization	(13,007)	(50,046)	(6,949)	(27,014)
Reclassification from property, plant and equipment	239	919	2,117	8,230
Write-off	(3,288)	(12,651)	(1,040)	(4,043)
Effect of exchange rate changes	(2,116)	(4,781)	4,006	6,227
Balance at December 31	$ 37,934	$ 148,064	$ 35,530	$ 135,455

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

Technical acknowledge (including capitalized costs of R&D)	2-15 years
Customer relationship	9 years

14. PREPAYMENTS FOR LAND LEASE

	December 31			
	2018		**2017**	
	HK$	**NT$**	**HK$**	**NT$**
Prepayments for land lease - current	$ 367	$ 1,432	$ 385	$ 1,468
Prepayments for land lease - non-current	16,769	65,453	17,893	68,215
	$ 17,136	$ 66,885	$ 18,278	$ 69,683

Prepayments 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 11(d).

15. BANK BORROWINGS

a. Short-term bank borrowings:

	December 31					
	2018			2017		
	Interest Rate	HK$	NT$	Interest Rate	HK$	NT$
Factoring	4.16%-7.37%	$ 3,886	$ 15,169	4.16%-6.25%	$ 2,367	$ 9,024
Bank borrowings	1.68%-4.81%	255,121	995,787	1.58%-4.63%	228,498	871,126
Commercial paper	1.99%	7,686	30,000	1.8%	7,869	30,000
Long-term borrowings due within 1 year	2.1%-4.63%	2,157	8,419	2.1%-4.63%	19,485	74,284
		$ 268,850	$ 1,049,375		$ 258,219	$ 984,434

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

Unexpired commercial paper as following:

December 31, 2018

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	1.99%	-	$ -

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%	-	$ -

The commercial paper issued by the Group are all short-term 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					
	2018			2017		
	Interest Rate	HK	NT$	Interest Rate	HK$	NT$
Long-term bank borrowings	2.1%-4.63%	$ 4,049	$ 15,804	2.1%-4.63%	$ 23,695	$ 90,334
Less: Long-term bank borrowings due within 1 year		(2,157)	(8,419)		(19,485)	(74,284)
		$ 1,892	$ 7,385		$ 4,210	$ 16,050

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			
	2018		2017	
	HK$	NT$	HK$	NT$
Due within 2 to 5 years	$ 1,892	$ 7,385	$ 4,210	$ 16,050

c. The detail of the Group's pledged assets for obtaining bank facilities please refer to Note 23.

16. 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 is charged by notes and accounts payable in general. 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			
	2018		2017	
	HK$	NT$	HK$	NT$
Accrued salaries	$ 44,353	$ 173,119	$ 40,163	$ 153,117
Temporary receivables (remark)	16,713	65,234	20,184	76,949
Other payable	38,550	150,468	37,234	141,952
	$ 99,616	$ 388,821	$ 97,581	$ 372,018

Remark: 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.

17. 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			
	2018		2017	
	HK$	NT$	HK$	NT$
Present value of defined benefit obligation	$ 9,189	$ 35,866	$ 9,987	$ 38,074
Fair value of plan assets	(7,672)	(29,945)	(7,721)	(29,435)
Net defined benefit liability	$ 1,517	$ 5,921	$ 2,266	$ 8,639

The movements of net defined benefit (Note) 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, 2017	$ 30,762	$ (22,168)	$ 8,594
Current service cost	192	-	192
Net interest expense (income)	269	(205)	64
Recognized in profit or loss	461	(205)	256
	31,223	(22,373)	8,850
Re-measurement			
Return on plan assets (excluding amounts included in net interest)	-	(70)	(70)
Actuarial loss - changes in demographic assumptions	982	-	982
Actuarial gain - changes in financial assumptions	(870)	-	(870)
Actuarial loss - experience adjustments	6,739	-	6,739
Recognized in other comprehensive income	6,851	(70)	6,781
Contributions from the employer	-	(6,992)	(6,992)
Balance at December 31, 2017	38,074	(29,435)	8,639

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Current service cost	$ 266	$ -	$ 266
Net interest expense (income)	428	(368)	60
Recognized in profit or loss	694	(368)	326
	38,768	(29,803)	8,965
Re-measurement			
Return on plan assets (excluding amounts included in net interest)	-	(757)	(757)
Actuarial loss - changes in demographic assumptions	47	-	47
Actuarial loss - changes in financial assumptions	390	-	390
Actuarial gain - experience adjustments	(1,673)	-	(1,673)
Recognized in other comprehensive income	(1,236)	(757)	(1,993)
Contributions from the employer	-	(1,051)	(1,051)
Benefits paid	(1,666)	1,666	-
Balance at December 31, 2018	$ 35,866	$ (29,945)	$ 5,921

(Concluded)

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:

	December 31	
	2018	2017
Discount rate	1.000%	1.125%
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:

	December 31	
	2018	2017
Discount rate		
0.25% increase	$ (774)	$ (867)
0.25% decrease	$ 799	$ 896
Expected rate of salary increase		
0.25% increase	$ 772	$ 865
0.25% decrease	$ (752)	$ (842)

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.

	December 31	
	2018	2017
The expected contributions to the plan for the next year	$ 1,200	$ 6,562
The average duration of the defined benefit obligation	8.7 years	9.2 years

18. 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, 2018 and 2017 were NT$616,060 thousand and NT$619,860 thousand (equivalent to approximately HK$162,902 thousand and HK$163,891 thousand), respectively, divided into 61,606 thousand shares and 61,986 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)

	For the Years Ended December 31	
	2018	2017
January 1	61,986	61,502
Cancellation of treasury share (Note 1)	(300)	-
Issuance of restricted shares (Note 2)	-	500
Write-off of restricted shares	(80)	(16)
December 31	61,606	61,986

Note 1: On November 8, 2018, the Company's board of directors passed a resolution to retire 300 thousand treasury shares, and completed the procedures of capital reduction by the end of November, 2018.

Note 2: The Company's board of directors meeting held on November 8, 2017, resolved to issue restricted shares (see detail in Note 18(e)) to the Group's specific employees. The restricted shares issued record date was November 20, 2017.

b. Treasury shares

As of December 31 of 2018 and 2017, the detail of treasury shares are as follow:

Purpose of Buy-back	**Shares Transferred to Employees (In Thousands of Shares)**	**Shares Held by Subsidiaries (In Thousands of Shares)**	**Total (In Thousands of Shares)**
Number of shares at January 1, 2018	300	453	753
Decrease during the year	(300)	-	(300)
Number of shares at December 31, 2018	-	453	453

In November, 2018, the Group retired 300 thousand treasury shares, totaling NT$16,652 thousand. The retirement of treasury shares debited NT$3,000 thousand (equivalent to approximately HK$791 thousand) of share capital and NT$13,652 (equivalent to approximately HK$3,172 thousand) of capital surplus. There is no movement of the treasury shares for the year ended December 31, 2017.

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, 2018

Subsidiary	**Number of Shares Held (In Thousands of Shares)**	**Carrying Amount**	**Market Price**
ETT	453	HK$5,966 thousand (equivalent to approximately NT$24,019 thousand)	HK$3,000 thousand (equivalent to approximately NT$11,710 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, 2018 and 2017, the capital surplus of the Company are as follows:

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital				
Arising from issuance of common share	$ 190,526	$ 716,163	$ 193,698	$ 729,815
Cash dividend received from treasury stock	1,112	4,455	1,028	4,136
May not be used for any purpose				
Arising from employee restricted shares	7,725	30,762	8,253	32,883
Arising from employee share options	148	582	-	-
	$ 199,511	$ 751,962	$ 202,979	$ 766,834

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 19(d) for details.

The appropriations of earnings for 2017 and 2016 were approved in the shareholders' meeting on June 11, 2018 and June 8, 2017, respectively. Details of the dividend per share of the earnings appropriations for 2017 and 2016 of the Company were as follows:

	2017
Ordinary share dividend - cash	NT$0.7 per share, totaling NT$43,377 thousand

	2016
Ordinary share dividend - cash	NT$1.11 per share, totaling NT$68,267 thousand

The appropriation of earnings for 2018 had been proposed by the Company's board of directors on February 22, 2019. The appropriation and dividends per share were as follows:

	2018
Ordinary share dividend - cash	NT$1.3 per share, totaling NT$80,000 thousand

The appropriation of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on June 10, 2019.

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.

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, 2018.

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

1) Information on 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:

a) Remain employed by the Company within one year after the grant date; and performance rating of "A" - 25% of restricted shares will be vested;

b) Remain employed by the Company within two years after the grant date; and performance rating of "A" - 25% of restricted shares will be vested;

c) Remain employed by the Company within three years after grant date; and performance rating of "A" - 25% of restricted shares will be vested.

d) 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:

a) Employees, except for inheritance, should not sell, transfer, pledge, donate or dispose of the shares in any other way.

b) The shares should be held in trust.

c) 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.

d) 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:

	Number of Shares (In Thousands) For the Years Ended December 31	
	2018	2017
Balance at the beginning of the period	993	689
Granted	-	500
Vested	(261)	(180)
Forfeited	(80)	(16)
Balance at the end of the period	652	993

2) Employee stock options

In order to attract and retain outstanding employees and to provide such employees with incentives and foster their loyalty in the advancement of the interests of the Company and its shareholders, the Company granted qualified employees of the Company or any of its subsidiaries 1,200 units of stock options on September 28, 2018. Each unit of options is entitled to subscribe one thousand ordinary shares of the Company when exercised. The options granted are valid for 4 years and exercisable at 100 percentage after the three years from the grant date. The exercise price is equal to the closing price of NT$23.95 per share of the Company as stated in the daily quotations of the Stock Exchange on the date of grant. After the options are granted, upon the occurrence of certain events relating to the change in the number of common shares of the Company and distribute cash dividend, the exercise price shall be adjusted in accordance with the regulated formula.

Information on employee stock options was as follow:

Employee Stock Options	For the Year Ended December 31, 2018 Number of Options
Balance at the beginning of period	-
Granted	1,200
Exercised	-
Balance at the end period	1,200
Options exercisable, end of period	-
Weighted-average exercise price of options granted (NT$)	$ 23.95
Weighted-average fair value of options granted (NT$)	$ 5.82

Information about outstanding options was as follows:

	December 31, 2018
Range of exercise price (NT$)	$23.95
Weighted-average remaining contractual life (years)	3 years

Employee stock options granted on September 28, 2018 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	September 28, 2018
Grant-date share price (NT$)	23.95
Exercise price (NT$)	23.95
Expected volatility	31.81%
Expected life (in years)	3.5 years
Expected dividend yield	-
Risk-free interest rate	0.66%

Expected volatility was based on the historical share price volatility over the past 2 years.

The compensation costs for the year ended December 31, 2018 is recognized at HK$148 thousand equivalent to (approximately NT$582 thousand).

19. CONSOLIDATED NET PROFIT

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

a. Net revenue

1) Contract information

a) Revenue from sale of goods

The Group sells audio system related products and recognizes revenue at which time the goods are delivered to the customer's specific location. The Group does not provide any after-sales services, such as warranty, right to return, etc. The quotation of products is based on the current market price of the raw materials, the labor input and direct costs, and the expected profit. The term of sales of products is fixed price, not volatile. Since payment term granted to customers are usually less than 180 days, there is no significant financing component from contracts with customers.

b) Revenue from project service (recognized under non-operating income)

Please refer to the remark in Note 16(b).

2) Contact balances

	December 31, 2018		**December 31, 2017**	
	HK$	**NT$**	**HK$**	**NT$**
Notes and accounts receivable, net (Note 8)	$ 535,221	$2,089,075	$ 440,917	$ 1,680,952

3) Disaggregation of revenue from customer contracts

	For the Year Ended December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Acoustic modules	$ 59,984	$ 230,794	$ 4,730	$ 18,387
Automotive	1,209	4,564	9,590	37,280
Home audio	1,616,942	6,221,346	1,487,234	5,781,473
Personal audio	399,566	1,537,370	81,334	316,178
Transducer speaker	101,367	390,020	102,746	399,415
Wearable audio	150,458	578,902	154,737	601,525
Others	65,150	250,759	138,914	540,015
	$ 2,394,676	$ 9,213,755	$ 1,979,285	$ 7,694,273

b. Depreciation and amortization expenses

	For the Years Ended December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Depreciation of property, plant and equipment	$ 45,228	$ 174,019	$ 49,925	$ 194,078
Amortization of other intangible assets	13,007	50,046	6,949	27,014
Amortization of prepayments for lease	553	2,128	544	2,115
	$ 58,788	$ 226,193	$ 57,418	$ 223,207

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

	For the Years Ended December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Remuneration of directors and key management				
Short-term benefits	$ 36,327	$ 139,772	$ 34,193	$ 132,922
Post-employment benefits	1,242	4,779	850	3,304
Share-based payments	1,917	7,555	1,128	4,524
Employee benefits				
Short-term benefits	408,697	1,572,503	352,203	1,369,154
Post-employment benefits	19,734	75,929	17,827	69,301
Share-based payments	657	2,665	873	3,555
	$ 468,574	$ 1,803,203	$ 407,074	$ 1,582,760

d. Employees' compensation and remuneration of directors and supervisors

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 directors' remuneration at the rates no higher than 2%, respectively, of net profit before income tax, employees' and directors' remuneration.

The Company accrued employees' and directors' remuneration based on the aforementioned Article of Incorporation. 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 2018 and 2017 had been resolved by the board of directors on February 22, 2019 and February 23, 2018, respectively, were as below:

	2018
Directors' remuneration - cash	HK$1,785 thousand (equivalent to approximately NT$6,867 thousand)
Employees' remuneration - cash	HK$5,718 thousand (equivalent to approximately NT$22,000 thousand)

	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)

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, 2018 and 2017.

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

e. Other income

	For the Years Ended December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Project service income	$ 8,470	$ 32,589	$ 7,389	$ 28,724
Interest income	950	3,655	1,170	4,548
Rental revenue	335	1,289	287	1,116
Dividend income	1,739	6,691	2,868	11,149
Scrap income	3,039	11,693	1,051	4,086
Gains on disposal of property, plant and equipment	20	77	7	27
Gain on disposal of assets held for sale	-	-	41,634	161,848
Net gain on financial instruments at fair value through profit or loss	5	19	12	47
Others	3,580	13,775	8,178	31,791
	$ 18,138	$ 69,788	$ 62,596	$ 243,336

f. Other losses

	For the Years Ended December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Losses on scrap and disposal of property, plant and equipment	$ 2,591	$ 9,969	$ 1,874	$ 7,285
Others	62	239	631	2,453
	$ 2,653	$ 10,208	$ 2,505	$ 9,738

g. Finance costs

	For the Years Ended December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Interest expense arising from bank borrowings	$ 9,939	$ 38,241	$ 7,370	$ 28,650

20. INCOME TAXES

a. Income tax expense recognized in profit or loss

	For the Years Ended December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Current tax				
In respect of the current year	$ 17,549	$ 67,521	$ 7,529	$ 29,268
Adjustments for prior years	(1,176)	(4,524)	(597)	(2,322)
Deferred tax				
Effect of tax rate changes	(127)	(472)	-	-
In respect of the current year	5,099	19,602	3,297	12,818
Income tax expenses recognized in profit or loss	$ 21,345	$ 82,127	$ 10,229	$ 39,764

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

	For the Years Ended December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Profit before tax	$ 85,806	$ 329,834	$ 42,448	$ 164,708
Income tax expense calculated at the statutory rate (16.5%)	$ 14,158	$ 54,474	$ 7,004	$ 27,227
Tax-exempt income and non-deductible expenses in determining taxable income	5,456	20,505	6,206	24,126
Income tax adjustment for prior years	(1,176)	(4,524)	(597)	(2,322)
Effect on deferred tax assets unrecognized in prior years	594	2,756	(4,344)	(16,887)
Effect of tax rate changes	(127)	(472)	-	-
Effect of different tax rate of foreign operations in other jurisdictions	2,440	9,388	1,960	7,620
Income tax expense recognized in profit or loss	$ 21,345	$ 82,127	$ 10,229	$ 39,764

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 2017 applicable tax rate for subsidiaries in Hong Kong is 16.5%. Profits Tax bill of Hong Kong was amended in April 2018. The tax rates were changed from single tax rate to a two-tiered tax rate. The applicable tax rates are as follows:

The first HK$2 million of assessable profits is 8.5%; over HK$2 million of assessable profits is 16.5%.

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, EAHY and EMHY obtained the innovation and high technology enterprise certificates issued by local tax authorities in July 2013. Therefore, EAHY and EMHY 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%. EAHY and EMHY obtained the proof of review. Therefore, EAHY and EMHY are still subject to the applicable preferential income tax rate from 2017 to 2018.

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 foreign dividends allocated to the Hong Kong company meets certain conditions the Department of 5% levy tax earnings distribution.

The local tax rates for the subsidiaries in Denmark and Singapore are 22% and 17%, respectively.

The Income Tax Act in Taiwan was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs.

b. Income tax recognized in other comprehensive income

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Deferred Tax				
Effect of change in tax rate	$ 77	$ 294	$ -	$ -
In respect of the current year				
Remeasurement of defined benefit plan	(104)	(398)	297	1,154
	$ (27)	$ (104)	$ 297	$ 1,154

c. Deferred tax assets

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Allowance of inventories provision	$ 1,198	$ 4,676	$ 1,583	$ 6,035
Defined benefit plan	719	2,806	746	2,844
Others	965	3,767	526	2,005
	$ 2,882	$ 11,249	$ 2,855	$ 10,884

The movements of deferred tax assets are as follows:

Unit: H.K. Dollars

	Allowance of Inventories Provision	Defined Benefit Plan	Others	Total
Balance at January 1, 2017	$ 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	123	-	115	238
Balance at December 31, 2017	1,583	746	526	2,855
Recognized in profit or loss	(321)	-	479	158
Recognized in other comprehensive income	-	(27)		(27)
Effect of exchange rate changes	(64)	-	(40)	(104)
Balance at December 31, 2018	$ 1,198	$ 719	$ 965	$ 2,882

Unit: N.T. Dollars

	Allowance of Inventories Provision	Defined Benefit Plan	Others	Total
Balance at January 1, 2017	$ 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	6,035	2,844	2,005	10,884
Recognized in profit or loss	(1,235)	-	1,843	608
Recognized in other comprehensive income	-	(104)	-	(104)
Effect of exchange rate changes	(124)	66	(81)	(139)
Balance at December 31, 2018	$ 4,676	$ 2,806	$ 3,767	$ 11,249

d. Deferred tax liabilities

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Temporary differences on other intangible assets	$ 8,287	$ 32,346	$ 8,174	$ 31,163
Temporary differences on inventory and depreciation of property, plant and equipment	7,209	28,138	7,323	27,918
Unappropriated earnings of subsidiaries	14,680	57,299	13,357	50,922
	$ 30,176	$ 117,783	$ 28,854	$ 110,003

The movements of deferred tax liabilities are 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, 2017	$ 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	8,174	7,323	13,357	28,854
Recognized in profit or loss	1,128	(498)	4,500	5,130
Decrease	-	-	(3,177)	(3,177)
Effect of exchange rate changes	(1,015)	384	-	(631)
Balance at December 31, 2018	$ 8,287	$ 7,209	$ 14,680	$ 30,176

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, 2017	$ 24,312	$ 31,348	$ 59,285	$ 114,945
Recognized in profit or loss	6,554	(2,372)	5,528	9,710
Decrease	-	-	(8,984)	(8,984)
Effect of exchange rate changes	297	(1,058)	(4,907)	(5,668)
Balance at December 31, 2017	31,163	27,918	50,922	110,003
Recognized in profit or loss	4,340	(1,916)	17,314	19,738
Decrease	-	-	(12,224)	(12,224)
Effect of exchange rate changes	(3,157)	2,136	1,287	266
Balance at December 31, 2018	$ 32,346	$ 28,138	$ 57,299	$ 117,783

e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Loss carryforwards	$ 43,858	$ 171,187	$ 48,944	$ 186,594
Deductible temporary difference				
Investments in equity instruments at FVTOCI	$ 7,787	$ 29,950	$ -	$ -

f. Income tax assessments

The Company and its subsidiaries are located in the Cayman Islands, PRC, Hong Kong, Singapore 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.

21. EARNINGS PER SHARE

Unit: $ Per Share

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Basic earnings per share	$ 1.05	$ 4.05	$ 0.53	$ 2.05
Diluted earnings per share	$ 1.05	$ 4.05	$ 0.53	$ 2.05

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share are as follows:

Net Profit for the Year

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Profit for the year attributable to owners of the Company	$ 64,461	$ 247,707	$ 32,219	$ 124,944

The weighted average number of ordinary shares outstanding (in thousand shares) is as follows:

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings per share	61,237	60,807
Effect of potentially dilutive ordinary shares		
Employee share options	-	-
Weighted average number of ordinary shares used in the computation of diluted earnings per share	61,237	60,807

As of December 31, 2018, the total exercise price of the employee stock options (the exercise price plus the unrecognized compensation cost) is higher than the weighted-average share price of the Company during the period when the employee stock options are outstanding. There is no dilutive effect and it is not required to calculate the diluted earnings per share.

The restricted shares plan for employees are entitled to vote and to receive dividends after granted. In additions, if employees resign in the vesting 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.

22. TRANSACTIONS WITH RELATED PARTIES

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

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 19(c) for details.

23. PLEDGED ASSETS

The following assets and treasury shares disclosed in Note 18 were provided as collateral for bank borrowings. Part of loan guarantees is provided by the Chairman of the Company.

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Other intangible assets	$ 6,920	$ 27,010	$ 7,976	$ 30,408
Accounts receivable with recourse	5,171	20,183	3,191	12,165
Machineries and office equipment	3,956	15,441	4,731	18,036
Inventories and other assets	15,214	59,384	16,243	61,925
Pledge deposits (recognized under restricted assets - current)	5,372	20,968	1,315	5,013
	$ 36,633	$ 142,986	$ 33,456	$ 127,547

24. 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 14), 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 a purchase option to acquire the leased land at the expiration of the lease periods.

b. Non-cancellable operating leases

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Within 1 year	$ 11,883	$ 46,382	$ 9,370	$ 35,722
More than 1 year and within 5 years	11,878	46,362	17,930	68,356
More than 5 years	13,401	52,307	14,963	57,045
	$ 37,162	$ 145,051	$ 42,263	$ 161,123

Rental expenses of the Group arising from operating leases for years ended December 31, 2018 and 2017 amounted to HK$15,001 thousand and HK$7,818 thousand (equivalent to approximately NT$57,718 thousand and NT$30,392 thousand), respectively.

25. 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, 2018 and 2017, the amounts sought for legal matters whereby EAH is the plaintiff are Brazilian Currency R$13,400 thousand and R$12,400 thousand (approximately NT$105,800 thousand and NT$111,800 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, 2018 and 2017, amounts recorded as other receivables (net of impairment loss) are HK$6,306 thousand and HK$8,654 thousand (approximately NT$24,614 thousand and NT$32,992 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, 2018 and 2017, 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, 2018 and 2017, pledged deposit recorded as other receivables (net of impairment loss) are HK$823 thousand and HK$1,066 thousand (approximately NT$3,212 thousand and NT$4,064 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$15,612 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$34,957 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 recognized 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.

26. 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 2018.

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, 2018 and 2017, the cash and cash equivalents, restricted assets - current (pledged deposit) and bank borrowings were as follows:

	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Debt (bank borrowing)	$ (270,742)	$ (1,056,760)	$ (262,429)	$ (1,000,484)
Cash and cash equivalents (including pledged deposit)	229,968	897,611	194,319	740,821
Net (debt) cash	$ (40,774)	$ (159,149)	$ (68,110)	$ (259,663)
Equity	$ 433,533	$ 1,692,167	$ 401,860	$ 1,532,049
Debt-equity ratio	9%	9%	17%	17%

The Group's is not subject to any externally imposed capital requirements.

b. Fair value of financial instruments

1) Fair value of financial instruments not measured at fair value

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 equivalents, notes and accounts receivable, net, other financial assets, notes and accounts payable, other payables and bank borrowings approach other fair values.

2) Fair value of financial instruments measured at fair value on a recurring basis

Fair value hierarchy

December 31, 2018

Unit: H.K. Dollars

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Foreign-listed stocks	$ 56	$ -	$	$ 56
Domestic - unlisted stocks		-	21,391	21,391
Embedded derivative instrument	-	-	3,801	3,801
	$ 56	$ -	$ 25,192	$ 25,248

Unit: N.T. Dollars

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Foreign-listed stocks	$ 219	$ -	$ -	$ 219
Domestic - unlisted stocks	-	-	83,496	83,496
Embedded derivative instrument	-	-	14,833	14,833
	$ 219	$ -	$ 98,329	$ 98,548

December 31, 2017

Unit: H.K. Dollars

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Foreign-listed stocks	$ 51	$ -	$ -	$ 51

Unit: N.T. Dollars

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Foreign-listed stocks	$ 194	$ -	$ -	$ 194

3) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2018

Unit: H.K. Dollars

Financial Assets	Financial Assets at FVTPL: Embedded Derivatives Instrument	Financial Assets at FVTPL: Equity Instruments	Financial Assets at FVTOCI: Equity Instruments	Total
Balance at January 1, 2018 (IAS 39)	$ -	$ -	$ -	$ -
Reclassification and remeasurements from available-for-sale (IAS 39)	3,801	21,901	7,855	33,557
Balance at January 1, 2018 (IFRS 9)	3,801	21,901	7,855	33,557
Recognized in other comprehensive income (included in unrealized gain/(loss) on financial assets at FVTOCI)	-	-	(7,787)	(7,787)
Effect of exchange rate changes	-	(510)	(68)	(578)
Balance at December 31, 2018	$ 3,801	$ 21,391	$ -	$ 25,192
Recognized in other gains and losses - unrealized	$ -	$ -	$ -	$ -

Unit: N.T. Dollars

Financial Assets	Financial Assets at FVTPL: Derivatives Financial Assets	Financial Assets at FVTPL: Equity Instruments	Financial Assets at FVTOCI: Equity Instruments	Total
Balance at January 1, 2018 (IAS 39)	$ -	$ -	$ -	$ -
Reclassification and remeasurements from available-for-sale (IAS 39)	14,488	83,496	29,950	127,934
Balance at January 1, 2018 (IFRS 9)	14,488	83,496	29,950	127,934
Recognized in other comprehensive income (included in unrealized gain/(loss) on financial assets at FVTOCI)	-	-	(29,950)	(29,950)
Effect of exchange rate changes	345	-	-	345
Balance at December 31, 2018	$ 14,833	$ 83,496	$ -	$ 98,329
Recognized in other gains and losses - unrealized	$ -	$ -	$ -	$ -

Since the investee company had no significant changes in its operating activities and financial status for the year ended December 31, 2018, the Group assessed that there is no material change for FVTPL.

4) Valuation techniques and inputs applied for Level 3 fair value measurement

a) The fair values of equity investments at FVTPL are mainly determined by using the income approach. The income approach utilizes discounted cash flows to determine the present value of the expected future economic benefits that will be derived from the investment. On December 31, 2018, the Group uses significant unobservable inputs, which include long term revenue growth rate of approximately 1%, discount rate of 8%. When other inputs remain equal, if long term revenue growth rate decreases by 1%, the fair value will decrease by NT$2,043 thousand; if discount rate increases by 1%, the fair value will decrease by NT$9,597 thousand.

b) Since there are no enough and recent information to determine the fair value of derivatives financial assets and there may be a wide range of possible fair value measurements, the Group assess that cost may be an appropriate estimate of fair value for the investments.

c. Categories of financial instruments

	December 31, 2018		December 31, 2017	
	HK$	NT$	HK$	NT$
Financial assets				
Financial assets at FVTPL				
Held for trading	$ 56	$ 219	$ 51	$ 194
Mandatorily at FVTPL	25,192	98,329	-	-
Financial assets measured at cost	-	-	29,029	110,670
Amortized cost (Note 1)	791,963	3,091,190	-	-
Loans and receivables (Note 1)	-	-	679,957	2,592,267
	$ 817,211	$ 3,189,738	$ 709,037	$ 2,703,131
Financial liabilities				
Amortized cost (Note 2)	$ 814,425	$ 3,178,863	$ 793,666	$ 3,025,772

Note 1: The balance includes cash and cash equivalents (including pledged deposits), notes and accounts receivable, other receivables and refundable deposits, etc.

Note 2: The balance includes bank borrowings, notes and accounts payable, other payables, etc.

d. 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 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.

e. 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			
	2018		**2017**	
	HK$	**NT$**	**HK$**	**NT$**
USD	$ 482,905	$ 1,884,875	$ 456,780	$ 1,741,428
HKD	413	1,612	391	1,491
	$ 483,318	$ 1,886,487	$ 457,171	$ 1,742,919

	Liabilities			
	December 31			
	2018		**2017**	
	HK$	**NT$**	**HK$**	**NT$**
USD	$ 296,665	$ 1,157,943	$ 283,078	$ 1,079,207
HKD	29,841	116,475	65,720	250,551
	$ 326,506	$ 1,274,418	$ 348,798	$ 1,329,758

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 For the Year Ended December 31, 2018		**Currency USD Impact For the Year Ended December 31, 2017**	
	HK$	**NT$**	**HK$**	**NT$**
Profit or loss	$ 9,312	$ 36,347	$ 8,685	$ 33,111

	Currency H.K. Dollars Impact For the Year Ended December 31, 2018		**Currency H.K. Dollars Impact For the Year Ended December 31, 2017**	
	HK$	**NT$**	**HK$**	**NT$**
Profit or loss	$ (1,471)	$ (5,743)	$ (3,266)	$ (12,453)

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 2018 and 2017 would have been decreased by HK$205 thousand and HK$360 thousand (equivalent to approximately NT$800 thousand and NT$1,376 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, 2018				
	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	-	$ 444,067	$ -	$ -	$ 444,067
Other payables	-	99,616	-	-	99,616
<u>Interest bearing liabilities</u>					
Bank borrowings	3.38%	277,941	1,956	-	279,897

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

Unit: N.T. Dollars

	December 31, 2018				
	Effective Interest Rate	**On Demand or Within 1 Year**	**2 Years to 5 Years**	**More than 5 Years**	**Total**
Non-interest bearing liabilities					
Notes and accounts payable	-	$ 1,733,282	$ -	$ -	$ 1,733,282
Other payables	-	388,821	-	-	388,821
Interest bearing liabilities					
Bank borrowings	3.38%	1,084,859	7,635	-	1,092,494

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

f. Financial facilities

Bank borrowings

	Liabilities			
	December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Secured borrowings				
Amount unused	$ 157,088	$ 613,146	$ 250,530	$ 955,121

g. 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, 2018

Unit: Foreign Currencies (In Thousands)

	Foreign Currencies	Function Currencies	Exchange Rate (Note)	Carrying Amount (NT$)
Financial assets				
Monetary items				
USD	$ 56,615	HKD	30.7150	$ 1,738,919
USD	4,296	NTD	30.7150	131,955
USD	143	RMB	30.7150	4,387
USD	313	DKK	30.7150	9,614
	$ 61,367			$ 1,884,875
Financial liabilities				
Monetary items				
USD	$ 23,427	HKD	30.7150	$ 719,555
USD	10,818	RMB	30.7150	332,272
USD	3,129	NTD	30.7150	96,120
USD	325	DKK	30.7150	9,996
	$ 37,699			$ 1,157,943
HKD	$ 29,815	RMB	3.9032	$ 116,366
HKD	28	NTD	3.9032	109
	$ 29,843			$ 116,475

December 31, 2017

Unit: Foreign Currencies (In Thousands)

	Foreign Currencies	Function Currencies	Exchange Rate (Note)	Carrying Amount (NT$)
Financial assets				
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	85	DKK	29.745	2,516
	$ 58,545			$ 1,741,428
Financial liabilities				
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	16	DKK	29.745	480
	$ 36,281			$ 1,079,207
HKD	$ 65,697	RMB	3.8124	$ 250,463
HKD	23	NTD	3.8124	88
	$ 65,720			$ 250,551

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

Information of foreign exchange gains and losses in 2018 and 2017 are as follow:

	For the Years Ended December 31			
	2018		2017	
	HK$	NT$	HK$	NT$
Realized foreign exchange gain (loss)	$ 2,343	$ 9,015	$ (4,108)	$ (15,969)
Unrealized foreign exchange gain (loss)	2,573	9,900	(6,601)	(25,661)
	$ 4,916	$ 18,915	$ (10,709)	$ (41,630)

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.

h. Information of transferred financial assets

In 2018 and 2017, 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 uncollected 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, 2018 and 2017, the carrying amount of the trade receivables that have been transferred but have not been derecognized and the related liability recognized please refer to Notes 23 and 15, respectively.

27. 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, 2018 and 2017, 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, 2018 and 2017. The product revenue of the Group please refer to Note 19(a).

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			
	2018		2017	
	Revenue from External Customers		Revenue from External Customers	
	HK$	NT$	HK$	NT$
China	$ 1,524,277	$ 5,864,807	$ 1,042,502	$ 4,052,622
Hong Kong	209,355	805,515	340,842	1,324,989
Japan	180,945	696,203	144,250	560,757
South Korea	147,779	568,596	112,358	436,780
Others	332,320	1,278,634	339,333	1,319,125
	$ 2,394,676	$ 9,213,755	$ 1,979,285	$ 7,694,273

	December 31			
	2018		2017	
	Non-current Assets		Non-current Assets	
	HK$	NT$	HK$	NT$
China	$ 219,631	$ 857,264	$ 234,363	$ 893,487
Hong Kong	5,641	22,018	5,908	22,524
Taiwan	4,160	16,237	4,640	17,689
Denmark	44,689	174,431	51,889	197,820
	$ 274,121	$ 1,069,950	$ 296,800	$ 1,131,520

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					
	2018			2017		
	HK$	NT$	%	HK$	NT$	%
Company A	$ 570,559	$ 2,195,283	24	$ 516,502	$ 2,007,850	26
Company B	404,867	1,557,766	17	367,004	1,426,691	19
Company C	352,230	1,355,240	15	48,093	186,957	2
Company D	224,058	862,086	9	232,437	903,576	12
Company E	35,121	135,132	1	204,943	796,695	10

28. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On January 25, 2019, EAH established a wholly-owned subsidiary - Eastech (VN) Company Limited in Vietnam with the registered capital of US$3.5 million.

29. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others (Table 1)

2) Endorsements/guarantees provided (Table 2)

3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 3)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital (None)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital (None)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 4)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 5)

9) Trading in derivative instruments (Note 7 and Note 26)

10) Intercompany relationships and significant intercompany transactions (Table 6)

11) Information on investees (Table 7)

b. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 8)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (Table 8):

a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period

c) The amount of property transactions and the amount of the resultant gains or losses

d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes

e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds

f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

FINANCING PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit
													Item	Value		
0	Eastech	EAH	Other receivables from related parties	Yes	$ 118,767	$ -	$ -	-	The need for short-term financing	$ -	Operating capital	$ -	-	$ -	$ 676,867	$ 676,867
1	EAH	ETH	Other receivables from related parties	Yes	123,869	122,272	-	-	The need for short-term financing	-	Operating capital	-	-	-	449,440	449,440

Note 1: a. The financing is provided to 100% owned subsidiaries. Based on Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies, the financing limits for any borrowers are set forth as below:

1) The individual financing amount provided to a subsidiary that the Company holds, directly or indirectly, 100% of the voting shares shall not exceed 40% of the net worth of the Company.

2) The total financing amount provided by the Company shall not exceed 40% of the net worth of the Company.

b. EAH’s lending limits for any borrower are set forth below:

1) The individual financing amount provided to a subsidiary that EAH holds, directly or indirectly, 100% of the voting shares shall not exceed 40% of the net worth of EAH.

2) The total financing amount provided by EAH shall not exceed 40% of the net worth of EAH.

Note 2: The balance represents the amounts approved at the Board meeting.

Note 3: According to Procedures for Lending Funds to Other Parties of the Company, "net worth" is determined based on the Company's most recent audited/reviewed financial statements. The financing limits on the Company's public announcement in December 2018 is different from the above amounts because the number on the announcement is calculated based on the 2018 Q3 reviewed financial statements. Since 2018 year-end financial statements have not yet been audited, the amount on the December announcement is based on the reviewed financial statements for the nine months ended September 30, 2018.

Note 4: EAH’s financing limits on the Company's public announcement in December 2018 is different from the above amounts because the number on the announcement is calculated based on EAH 2017 audited financial statements. Since 2018 year-end financial statements have not yet been audited, the amount on the December announcement is based on EAH 2017 audited financial statements.

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

No.	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship										
0	Eastech	EAH	Subsidiary	$ -	$ 655,126	$ 647,318	$ 104,495	$ -	38	$ 3,384,334	Yes	No	No
		ETH	Subsidiary	-	539,295	532,578	346,658	-	31	3,384,334	Yes	No	No
1	EAH	ScS	Subsidiary	-	51,046	49,172	15,066	99,970	3	3,384,334	Yes	No	No

Note 1: Relationship of the guarantee:

The subsidiaries that Company hold, directly or indirectly, more than 50% of common shares.

Note 2:

a. The Company's limitation of the endorsements/guarantees are set forth below:

1) The total amount of the guarantee provided by the Company to other entities shall not exceed two hundred percent (200%) of the Company's consolidated net worth.

2) For the 100% owned subsidiaries, directly or indirectly, the guarantee amounts are not subject to the limit.

3) The Company can provide the guarantee for an entity whose voting shares are more than 90% owned directly or indirectly by the Company, and the total amount of the guarantee shall not exceed ten Percent (10%) of the Company's net worth.

4) The total amount of the guarantee provided by the Company and its subsidiaries to any individual entity shall not exceed three hundred percent (300%) of the Company's consolidated net worth.

b. EAH's limitation of the endorsements/guarantees are set forth below:

1) The total amount of the guarantee provided by EAH to other entities shall not exceed two hundred percent (200%) of the listed parent company's (e.g. the Company's) consolidated net worth.

2) For subsidiaries 100% owned, directly or indirectly, by the listed parent company (e.g. the Company), the guarantee amounts are not subject to the limit.

Note 3: According to the endorsements/guarantees guidance of the Company, "net worth" is calculated based on the Company's most recent audited/reviewed financial statements. The endorsements/guarantees limits on the Company's public announcement in December 2018 is different from the above amounts because the number on the announcement is calculated based on the 2018 Q3 reviewed financial statements. Since 2018 year-end financial statements have not yet been audited, the amount on the December announcement is based on the reviewed financial statements for the nine months ended September 30, 2018.

TABLE 3

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

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
ETH	Oversea publicly traded stocks							
	Audio Pixels Holdings Limited	-	FVTPL - current	500	$ 219	-	$ 219	
ETT	Taiwan publicly traded stocks							
	Eastech Holding Limited	Subsidiary	FVTPL	453,000	$ 11,710	1	$ 11,710	Note 1
	Oversea non-publicly traded stocks							
	Outlaw Audio Inc.	-	FVTPL	12,053	$ -	10	$ -	Note 2
	Audio Design Experts Inc.	-	FVTOCI - non-current	166,667	$ -	6	$ -	Note 2
	Taiwan non-publicly traded stocks							
	HT Precision Technologies, Inc.	-	FVTPL - non-current	5,574,114	$ 83,496	19	$ 83,496	
EAH	Oversea non-publicly convertible corporate bond and call warrants							
	Audio Design Experts Inc.	-	FVTPL - non-current	-	$ 14,833	N/A	$ 14,833	

Note 1: The stocks are held by the Company's subsidiary, hence, the investment is accounted for treasury shares.

Note 2: The investment is provided with impairment loss in full.

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
EAH	EAHY	Parent and Subsidiary	Purchase	$ 2,299,167	69	90 days	$ -	-	$ (629,403)	(72)	Note 1
EAHY	EAH	Parent and Subsidiary	Sale	(2,299,167)	(73)	90 days	-	-	629,403	88	Note 1
	EAH	Parent and Subsidiary	Purchase	609,860	21	90 days	-	-	629,403	88	Note 1
EAH	EAHY	Parent and Subsidiary	Sale	(609,860)	(17)	90 days	-	-	(629,403)	(72)	Note 1
ETT	ETH	Parent and Subsidiary	Purchase	651,845	89	90 days	-	-	(25,429)	(80)	Note 1
ETH	ETT	Parent and Subsidiary	Sale	(651,845)	(24)	90 days	-	-	25,429	4	Note 1
	ETHY	Parent and Subsidiary	Purchase	2,491,525	96	90 days	-	-	(417,365)	(97)	Note 1
ETHY	ETH	Parent and Subsidiary	Sale	(2,491,525)	(66)	90 days	-	-	417,365	52	Note 1
EAH	EMHY	Parent and Subsidiary	Purchase	564,887	17	90 days	-	-	(164,198)	(19)	Note 1
EMHY	EAH	Parent and Subsidiary	Sale	(564,887)	(100)	90 days	-	-	164,198	(100)	Note 1
EAH	MMSZ	Parent and Subsidiary	Purchase	164,485	5	90 days	-	-	(26,262)	(3)	Note 1
MMSZ	EAH	Parent and Subsidiary	Sale	(164,485)	(95)	90 days	-	-	26,262	96	Note 1
ESHY	EAHY	Fellow subsidiary	Purchase	382,835	15	90 days	-	-	(83,385)	(11)	Note 1
EAHY	ESHY	Fellow subsidiary	Sale	(382,835)	(12)	90 days	-	-	83,385	12	Note 1
ETHY	EAHY	Fellow subsidiary	Purchase	414,246	12	90 days	-	-	(498)	-	Note 1
EAHY	ETHY	Fellow subsidiary	Sale	(414,246)	(13)	90 days	-	-	498	-	Note 1
ESHY	ETHY	Fellow subsidiary	Purchase	993,548	40	90 days	-	-	(271,138)	(37)	Note 1
ETHY	ESHY	Fellow subsidiary	Sale	$ (993,548)	(26)	90 days	-	-	271,138	34	Note 1
	ESHY	Fellow subsidiary	Purchase	111,191	3	90 days	-	-	271,138	34	Note 1
ESHY	ETHY	Fellow subsidiary	Sale	(111,191)	(4)	90 days	-	-	(271,138)	(37)	Note 1

Note 1: Intercompany transactions are eliminated in consolidated financial statement.

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

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
EAHY	EAH	Parent and subsidiary	$ 629,403	3.69	$ -	-	$ 12,151	$ -
ETHY	ESHY	Fellow subsidiary	271,138	5.57	-	-	187,068	-
	ETH	Parent and subsidiary	417,365	4.82	-	-	195,963	-
EMHY	EAH	Parent and subsidiary	164,198	3.98	-	-	29,979	-

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transaction Details			
				Financial Statement Accounts	Amount	Payment Terms	% of Total Sales or Assets
	2018						
0	The Company	EAH	a, b	Dividend income	$ 51,943	Dividend	1
1	EAH	EAHY	a, b	Dividend income	196,261	Dividend	2
1	EAH	EAHY	a, b	Net revenue from sale of goods and purchases	609,860	Credit on transfer pricing policy	7
1	EAH	ETH	a, b	Other receivables from and other payables to related parties	122,272	Short-term investment financing with 1 year period	2
2	EAHY	EAH	a, b	Net revenue from sale of goods and purchases	2,299,167	Credit on transfer pricing policy	25
2	EAHY	EAH	a, b	Receivables from and payables to related parties	629,403	90 days	13
2	EAHY	ETHY	c	Net revenue from sale of goods and purchases	414,246	Credit on transfer pricing policy	4
2	EAHY	ESHY	c	Net revenue from sale of goods and purchases	382,835	Credit on transfer pricing policy	4
2	EAHY	ESHY	c	Receivables from and payables to related parties	83,385	90 days	2
3	EMHY	EAH	a, b	Net revenue from sale of goods and purchases	564,887	Credit on transfer pricing policy	6
3	EMHY	EAH	a, b	Receivables from and payables to related parties	164,198	90 days	3
4	ETT	ETHY	a, b	Net revenue from sale of goods and purchases	76,739	Credit on transfer pricing policy	1
5	ETHY	ETH	a, b	Net revenue from sale of goods and purchases	2,491,525	Credit on transfer pricing policy	27
5	ETHY	ETH	a, b	Receivables from and payables to related parties	417,365	90 days	8
5	ETHY	ESHY	c	Net revenue from sale of goods and purchases	993,548	Credit on transfer pricing policy	11
5	ETHY	ESHY	c	Receivables from and payables to related parties	271,138	90 days	5
6	ETH	ETT	a, b	Net revenue from sale of goods and purchases	651,845	Credit on transfer pricing policy	7
6	ETH	ETT	a, b	Receivables from and payables to related parties	25,429	90 days	1
7	MMSZ	EAH	a, b	Net revenue from sale of goods and purchases	164,485	Credit on transfer pricing policy	2
7	MMSZ	EAH	a, b	Receivables from and payables to related parties	26,262	90 days	1
8	ESHY	ETHY	c	Net revenue from sale of goods and purchases	111,191	Credit on transfer pricing policy	1

Note 1: For the disclosure of intercompany transactions within the Group, individual code numbers are assigned to each entity of the Group, which are set forth below:

a. No. 0 represents the parent company.

b. The code number for the subsidiaries is listed below:

No. 1: EAH; No. 2 EAHY; No. 3: EMHY; No. 4: ETT; No. 5: ETHY; No. 6: ETH; No. 7: MMSZ; and No. 8: ESHY.

Note 2: There are three categories of the related party transactions:

a. Parent company to its subsidiary.
b. Subsidiary to its parent company.
c. Subsidiary to other subsidiary.

Note 3: In calculation the weight percentages of related party transactions over total sales or total assets, the consolidated total asset is used for calculating the balance sheet item, whereas the consolidated sales accumulated sales up to date is used for calculating the net income items.

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profit (Loss) (Note)	Note
				December 31, 2018	December 31, 2017	Number of Shares	%	Carrying Amount			
The Company	EAH	Hong Kong	Sales of speaker systems and earphones	$ 1,341,546	$ 1,341,546	80,000,000	100.00	$ 1,341,546	$ 177,723	$ -	
EAH	ScS	Denmark	Research, development, production and sales of high-end speaker	225,530	225,530	1,320,045	100.00	225,530	9,281	-	
EAH	ETT	Taiwan	Design and sales of smart speaker and AV electronics home entertainment systems	497,219	497,219	9,529,966	99.98	497,219	(20,501)	-	
ETT	ETH	Hong Kong	Sales of smart speaker and AV electronics home entertainment systems	349,011	349,011	40,000,000	100.00	349,011	6,188	-	
ETH	ETS	Singapore	Research and development of system architecture/new product concept/state-of-the-art products/sound and acoustics advance technology	2	2	100	100.00	2	(239)	-	

Note 1: Based on IAS 27: The investments in subsidiaries are account for at cost less impairment. Dividends from a subsidiary are recognized in profit or loss.

Note 2: Please refer to Table 8 for the information on investments in Mainland China.

EASTECH HOLDING LIMITED AND SUBSIDIARIES

(Formerly Known as Eastern Technologies Holding Limited)

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. Information of Investee Company, Main Business and Products, Total Amount of Paid-in Capital, Method of Investment, Remittance of Funds, Net Income of the Investee, % of Ownership, Carrying Amount of Investments and Repatriation of Investment Income

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Note 1)	Method of Investment (Note 2)	Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 3)	Carrying Amount as of December 31, 2018 (Note 3)	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
ESHY	Production and sales of speaker systems	HK$ 9,000	c.	$ -	$ -	$ -	$ -	$ 75,160	100	$ -	HK$ 9,282 (NT$ 36,230)	$ -
EAHY	Production, assembly and sales of speaker systems and accessories	US$ 6,500	c.	-	-	-	-	168,929	100	-	HK$ 38,576 (NT$ 150,570)	-
EMHY	Production and sales of earphones	US$ 2,145	c.	-	-	-	-	26,441	100	-	HK$ 17,018 (NT$ 66,425)	-
MMSZ	Import and export trading of audio and earphones products and accessories	RMB 2,000	b.	-	-	-	-	840	100	-	HK$ 2,528 (NT$ 9,867)	-
ETHY	Production and sales of smart speaker and AV electronics home entertainment systems	HK$ 58,000	c.	-	-	-	-	19,403	100	-	HK$ 58,000 (NT$ 226,386)	-

(Continued)

2. Upper Limit on the Amount of Investment in Mainland China:

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
N/A	N/A	N/A

3. The significant transactions (including purchases and sales, property transactions, and the rendering or receipt of services) with investee companies in mainland China, either directly or indirectly through a third party: please see Table 6.

4. The negotiable instrument endorsements or guarantees or pledges with investee companies in mainland China, either directly or indirectly through a third party: None.

5. The financing of funds with investee companies in mainland China, either directly or indirectly through a third party: None.

Note 1: The amounts are represented registered capital.

Note 2: The Method of Investment is divided into 3 types as follows:

a. Direct investment from the Company.

b. Indirect investment via the Company’s subsidiary in Hong Kong.

c. The Company was established in the Cayman Islands and is a foreign company listed in Taiwan. The companies located in China (except ETHY) had established before the Company listed in Taiwan, so the main source of investment funds were not come from Taiwan. ETHY is the investee obtained from the acquisition of ETT Group after the listing, and the source of funds for the acquisition of the ETT Group is based on the working capital of the Company.

Note 3:

a. If the investee company is in preparation, and no investment income and losses are recognized, it should be noted.

b. Recognized investment income (loss):

1) The basis for investment income (loss) recognition is from the financial statements audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.

2) The basis for investment income (loss) recognition is from the financial statements audited and attested by R.O.C. parent company’s CPA.

3) Other. (Based on IAS 27: The investments in subsidiaries are account for at cost less impairment. Dividends from a subsidiary are recognized in profit or loss.)

VII. Review and Analysis of Financial Position, Operating Results and Risk Management

1. Financial position

1. The main reasons for and the impact of the significant changes in assets, liabilities and shareholders' equity in the last two years

Unit: NT$'000; %

Year / Account items	2017	2018	Differences	
			Amount	%
Current assets	3,437,400	3,847,439	410,039	11.93%
Fixed assets	814,687	743,556	(71,131)	-8.73%
Other assets	438,387	435,972	(2,415)	-0.55%
Total assets	4,690,474	5,026,967	336,493	7.17%
Current liabilities	3,023,733	3,203,711	179,978	5.95%
Long-term liabilities	24,689	13,306	(11,383)	-46.11%
Other liabilities	110,003	117,783	7,780	7.07%
Total liabilities	3,158,425	3,334,800	176,375	5.58%
Share capitals	619,860	616,060	(3,800)	-0.61%
Capital reserves	766,834	751,962	(14,872)	-1.94%
Treasury shares	(40,671)	(24,019)	16,652	-40.94%
Unearned benefit of employees	(30,955)	(18,396)	12,559	-40.57%
Provision of re-valuation appreciation	—	—	—	N/A
Unrealized loss of financial assets measured at fair value through other comprehensive income (loss)	—	(29,950)	(29,950)	N/A
Retained earnings (including statutory surplus reserve)	286,551	510,034	223,483	77.99%
Exchange differences on translation of foreign operations	(69,570)	(113,524)	(43,954)	63.18%
Total shareholder's equity	1,532,049	1,692,167	160,118	10.45%

Description of significant changes: (amount changed over 10% and reached 1% of the total assets of the year)

1. Increase in current assets: mainly attributable to the significant increase of sales revenue in 2018 compared with that of last year, which resulted in an increase in amounts and notes receivable of approximately NT$410 million compared with last year and an increase in current assets compared with the end of last year.
2. Increase in retained earnings: mainly attributable to the net profit after tax for 2018 was higher than the cash dividends allocated this year.
3. Increase in total shareholders' equity: as the increase in retained earnings was more than the decrease in the unrealized loss of financial assets measured at fair value through other comprehensive income (loss) and the Exchange differences on translation of foreign operations.

2. Future plan addressing significant impacts: there is no significant impact on the Company's finance and business.

2. Financial performance

1. The main reasons for and the impact of the significant changes in operating income, operating net profit and profit before tax:

Unit: NT$'000; %

Year / Account items	2017	2018	Differences	
			Amount	%
Operating income	7,722,371	9,220,523	1,498,152	19.40%
Less: Sales returns and allowance	28,098	6,768	(21,330)	-75.91%
Net operating income	7,694,273	9,213,755	1,519,482	19.75%
Operating costs	6,837,182	8,032,080	1,194,898	17.48%
Operating gross profit	857,091	1,181,675	324,584	37.87%
Operating expenses	855,701	892,095	36,394	4.25%
Operating net profit	1,390	289,580	288,190	20733.09%
Non-operating income	201,706	88,703	(113,003)	-56.02%
Non-operating expenses and losses	38,388	48,449	10,061	26.21%
Profit before tax	164,708	329,834	165,126	100.25%
Less: income tax expenses	39,764	82,127	42,363	106.54%
Net profit after tax	124,944	247,707	122,763	98.25%

Description of significant changes: (amount changed over 10% and reached 1% of the total assets of the year)

1. Increase in net operating income and operating costs: mainly attributable to the increase in orders of new high-end electronic customers in 2018 which resulted in an increase in sales revenue and costs.
2. Increase in operating gross profit: mainly benefited from a significant increase in sales revenue, RMB depreciation and the company's transformation to strengthen the wireless and smart audio field, and the operating margin increased compared with the previous year.
3. Increase in operating net profit: as stated in 2 above, the operating net profit increased since the increase in operating gross profit is more than the increase of operating expenses.
4. Decrease in non-operating income: due to the inclusion in 2017 of the disposal of staff quarters and Hong Kong offices with net profits of the disposal were approximately NT$162 million and the write-off of balance payable for Scan-Speak acquisition of NT$14 million while deducting the exchange gains for the year which increased by NT$61 million compared with that of last year, the non-operating income and decreased.
5. Increase in profit before tax: mainly attributable to the increase in operating net profit was more than the decrease in net non-operating income and expenses.
6. Increase in net profit after tax: mainly attributable to the increase in profit before tax deducting the increase of income tax expenses.

2. Expected sales volume and its basis, and its possible future financial impact on the Company and response plan

The company mainly sets the annual output target based on the customer's estimated demand, capacity plan and historical operating performance. The Company will pay attention to the changes in market demand from time to time in order to expand the market share, and enhance the profit of the Company. The Company's future business should be sustainable and it will maintain a good financial position.

3. Cash flow

(1) Analysis of changes in cash flow for the recent years

1. Analysis of changes in cash flow for the recent years

Unit: NT$'000; %

Item \ Year	2017	2018	Increase (decrease)	Changes (%)
Operating activities	(234,127)	385,509	619,636	N/A
Investing activities	(16,529)	(221,518)	(204,989)	-1240.18%
Financing activities	73,879	(3,980)	(77,859)	N/A

Analysis of changes:

1. Operating activities: mainly attributable to the increase of profit before tax in 2018 compared with that of last year, and the net cash flow arising from operating activities was approximately NT$459 million after the adjustments of income and expenses cash flow and net changes of current assets and liabilities not affecting cash flow, while there was a net cash outflow of approximately NT$184 million in last year.
2. Investing activities: mainly attributable to the increase of acquisition of machine, equipment and intangible assets of approximately NT$ 66 million, deducting the acquisition investment amount of last year and receiving the net amount of disposal of held-for-sale asset of approximately NT$123 million.
3. Financing activities: mainly attributable to new bank borrowings in 2018 were lower than the cash dividends distributed in the year which resulting in a net cash outflow arising from fund raising activities of approximately NT$ 4 million. The net cash inflow from fund raising activities was NT$ 80 million for last year.

2. Improvement plan for insufficient liquidity

The Company and its subsidiaries have close relationship with their bankers and have established good financing and credit standing to enrich their working capital. The Company has increased the amount of medium-term bank loan facility to avoid funding long-term investment with short-term loans. Under the growth of revenue and stable profits, the Company has no threat of lacking liquidity or short of funds under reasonable liquidity requirement.

(2) Cash liquidity analysis for the coming year

The Company anticipates that with the carrying amount of cash in 2019 and by utilizing banking facilities, the overall cash requirement for capital expenditures and operation needs could be met, and its cash liquidity will be good in the coming year.

4. The impact of material capital expenditures on financial position for the latest year

The Company's acquisition of fixed assets in 2018 amounted to NT$128,306,000 which was regular capital expenditures, mainly for the acquisition of automated machinery and equipment and the upgrading of existing production equipment. The source of funds was self-owned funds, and the aforementioned capital investment is expected to bring relevant cash inflows in the future, so it will not have a significant impact on the financial position of the Company.

5. The equity investment policy for the latest year, the major reasons for its gain or loss, improvement plan and investment plan for the next year

(1) Equity investment policy of the Company

The current investment policy of the Company focuses on the relevant subject matter of the fundamental business without involving investments in other industries. The investment policy was implemented by the relevant implementation departments in accordance with internal control regulations including the methods of "Investment Cycle" and "Management Procedures for Acquisition and Disposal of Assets". These method or procedure have been considered and approved by the Board or / and shareholders.

(2)**The major reasons for the gain or loss of the investment and its improvement plan**

Unit: NT$'000

Item / Investment business	Gain or (loss) recognized in 2018	Major reasons for the gain or loss	Improvement plan
Eastern Asia Technology (HK) Limited ("EAH")	177,273	In good operating condition	N/A
Eastech Systems (Huiyang) Co., Ltd. ("ESHY")	75,160	In good operating condition	N/A
Eastech (Huiyang) Co., Ltd. ("EAHY")	168,929	In good operating condition	N/A
Eastech Microacoustics (Huiyang) Co., Ltd. ("EMHY")	26,441	In good operating condition	N/A
Shenzhen MaliMaliBox Trading Corporation Limited ("MMSZ")	840	In good operating condition	N/A
Scan-Speak A/S ("ScS")	9,281	In good operating condition	N/A
Eastech Electronics (Taiwan) Inc. ("ETT")	(20,501)	The operation did not reach the scale of economy, which resulting in a loss.	Continue to explore new customers and control the costs to increase operational efficiency and thus improve the profitability.
Eastech Electronics (HK) Limited ("ETH")	6,188	In good operating condition	N/A
Eastech Electronics (Huiyang) Co., Ltd. ("ETHY")	19,403	In good operating condition	N/A
Eastech Electronics (SG) Pte. Ltd. ("ETS")	(239)	Although the net loss for the current year was lower than that of last year, the business still failed to meet the expectation and led to a loss.	Improve product development time and increase product development according to customers' needs to increase profitability.

(3) Investment Plan for the Next Year:

The potential investment plan in the following projects for the next year:

(1) In order to increase the cost competitiveness of products and reduce the tariff risks arising from sales to the US region, a factory will be built in Vietnam in the coming year to leverage the cheaper labor costs and various multilateral tariff concessions in Vietnam to increase the competitiveness of the product prices of the Company.

(2) Continue to optimize the automation equipment and environmental improvement of the

production line of speaker and earphone production, woodworking workshop and injection molding workshop, and especially strengthen the environmental protection works of sewage and exhaust gas emission. Equipment for production safety and fire safety will be improved.

(3) Strengthen the talents, equipment investment and organization optimization for new product development of vehicle speakers, AI speakers, and Bluetooth earphones.

(4) An instant message management system that improves data on production, warehouse, logistics, business and engineering, and especially strengthens hardware and software investment in IT and improves management efficiency.

6. Analysis and assessment of risks for the latest year and as of the date of issue of the annual report

(1) The impact of interest rates, exchange rate changes, and inflation on the Company's profit and loss and future response measures

1. The impact of interest rates on the Company's profit and loss and future countermeasures

The Company's interest expenses in 2018 was NT$38.241 million, accounting for about 0.4% of the net operating income, which was a minor ratio and interest rate changes have little effect on the Company.

Countermeasures:

①Designate staff to monitor the interest rate from time to time and adjust the use of funds in a timely manner to respond to the financial risks arising from the changes of interest rate.

②Evaluate the interest rate of bank borrowings from time to time and maintain a good relationship with the bank to obtain favorable interest rates.

③Refer to the research report and outlook by local and foreign economic institutions and banks to grasp the future trend of interest rate.

2. The impact of changes in foreign exchange rates on the Company's profit and loss and future countermeasures

The Company's sales and purchases are mostly settled in USD, HKD and RMB. The exchange gain in 2018 was NT$ 18.915 million, accounting for about 0.2% of its net operating income; the ratio was minor and the changes in foreign exchange rates has no material impact on the Company.

Countermeasures:

① Strengthen the awareness of risk aversion of financial staff, maintain foreign exchange positions according to the future trend of foreign exchange rates to support the needs of the operations of subsidiaries of the Group and reduce the impact of changes in foreign exchange rates to the Company.

②Monitor changes in the foreign exchange market, understand the trend of changes in foreign exchange rates, and adjust according to the accidental changes in types of currency of receivables and payables in a timely manner. Under the permission of the regulations, leverage the ways of forward exchange contract and borrowing debts in foreign currency in a timely manner to reduce the impact of changes in foreign exchange rates to the profit and loss of Company.

③Increase the development of sales in the domestic market of the PRC, enhance the proportion of RMB income to reduce the RMB needs of working capital of sub-subsidiaries in Mainland China and reduce the needs of exchanging USD and HKD to RMB and reduce its foreign exchange risks.

3. The impact of inflation on the Company's profit and loss and future countermeasures

Currently, the global economy is under recovery with consistently improving financial conditions and fluctuation of prices of goods, and thus the annual growth of the consumer price index of major countries are in rebounding trend. On the other hand, the world's major economies are still facing various uncertainties. In the future, corporations may suffer from the increase of raw material costs and labour costs. However, the Company focuses on technological research and development which will accelerate the launch of products in line with the trend of the market to enhance the operating results of the Company, and strives to obtain greater return. Meanwhile, the Company will adjust sales strategies, cost structure and trading terms in a timely manner according to the market conditions in order to cope with the impact of inflation. Under the rapid changes of general economic environment, there is no immediate material impact caused by the abovementioned inflation or deflation. The Company will also accelerate the launching of products with high gross profit, maintain good interactive relationship with clients and suppliers, and flexibly adjust the sales and purchases strategies, cost structure and trading terms to mitigate the impact of growth of prices. Therefore, inflation will not cause material impact on the Company.

(2)The major reasons for the policies, profit or loss of high-risk, high-leverage investment, capital loan to others, endorsement guarantee and derivative commodity trading, and future response measures

The Company has formulated "Management Procedures for Acquisition and Disposal of Assets", "Operating Measures for Capital Loan to Others", "Administrative Measures for Endorsement Guarantees", and "Processes for Trading Commodity Derivatives", etc. to act as the basis of compliance for the Company and its subsidiaries to engage in relevant activities.

As of 31 March 2019, based on the operational needs and in order to increase the flexibility of financial allocation, EAH, a subsidiary of the Company, lent USD 4 million (representing approximately NT$ 123,364,000) to ETH, the above capital loan was in compliance with the regulations of relevant operating procedures; save for the endorsement guarantee made by the Company for the bank borrowings of EAH and ETH (its subsidiaries), the Company has no other endorsement guarantee. And EAH, a subsidiary of the Company, has made an endorsement guarantee for the bank borrowing of Scan-Speak A/S, its subsidiary. The above capital loans were in compliance with the regulations of relevant operating procedures. Overall, there is no impact on the consolidated profit and loss.

(3) Future research and development plan and expected research and development expenses

The research and development of products is the driving force for the development of the Company, and the focuses of research and development of the Company in 2019 are as follows:

(1)Develop True Wireless Stereo (TWS), High-Res and Bluetooth Active Noise Cancellation (ANC) earphone and the turn-key whole solution or module of hardware and software providing the above functions.

(2)The research and development of wireless speakers system (Bluetooth 5.0 version speaker and Wi-Fi speaker) and multi-room function system.

(3)The research and development of the voice control system products (Amazon Alexa and Google GVA) with differentiated Active-Echo-Cancellation (AEC) and high sound quality.

(4)Develop the Amazon Alexa and Google GVA modules of Android system TV Sound Bar embedded standard to provide multiple choices of turn-key solution.

(5)Development of the Dolby Atmos system; continue to provide the latest Dolby Atmos of 1.6 version for the Sound Bar App.

(6)Establish strategic partnerships with top providers of technology development in electro-acoustic industry (such as Dolby and DTS) to obtain the leading advantage in introducing products, increase competitiveness, and obtain OEM opportunities of relevant products.

(7)The research and development of innovative voice control product; especially in the field of Internet of Things and artificial intelligence, to obtain the proprietary technologies in moving in traffic and hand gestures and face recognition technologies for the next phase of product innovation.

(8)Expand the cooperation with Scan-Speak and establish the sub-brand of "PUNKTKILDE™" of transducer with Danish design and Chinese manufacture in order to strengthen the differentiated advantage of high-end products with competitive price, which enhance the quality and quantity of the unit speakers of Eastech inside in the application of each product.

(9) Intensify the research and development of car speakers.

(10)Seek cooperation or investment opportunities in advanced materials technology and processing flow to increase the breadth and depth of product differentiation.

(11)Establish long-term goals with suppliers, such as environmental protection, energy saving and carbon reduction, and recycling or natural decomposition of packaging materials, etc. Although it is not related to processing flow or reduction of costs, it helps to fulfill the green commitment of CSR practice.

The research and development expenses of the Company in 2018 was NT$ 294.942 million, representing approximately 3.2% of the operating income, which increased NT$ 13.082 million when compared with the research and development expenses in 2017 of NT$ 281.860 million. In 2019, the research and development expenses required to invest continuously for the sustainable development of the Company and expected to account for 3% - 5% of the revenue amount.

(4) The impact of important domestic and foreign policies and legal changes on the financial position of the Company and future countermeasures

The company was registered in the Cayman Islands, and its main operating places are Hong Kong and Mainland China. The products are eventually sold all over the world. The major economic activity of Cayman Islands is financial services. Hong Kong, the United States, Japan, Europe and Mainland China are major economies in the world, which have relatively stable economic development and political environment. The speaker systems and earphones developed and sold by the company are consumer goods, which is not a licensed or restricted industry. The implementation of the Company's various businesses are handled in accordance with important domestic and international policies and laws, and we pay attention to the important domestic and international policy development trends and legal changes, and respond to changes in the market environment and take appropriate countermeasures. Therefore, the Company has no significant matters affecting its financial position due to the changes in important policies and laws in the Cayman Islands or Mainland China.

According to the latest published "Economic Substantive Law Enforcement Rules 2.0" by the Cayman Islands, the relevant provisions on the economic activities of a holding company are relaxed. The Company is only a holding company and should have no significant impact.

(5) The impact of changes in technologies and industry on the financial position of the Company and future countermeasures

The business of the Company is electronic audio / audio-visual products. While hearing is one of the five senses of humans, the biological demands for sound analogy are irreplaceable. Although the sizes of traditional large speakers and wireless transmission were affected by the smaller speakers as the modern people strive for "efficiency" and "simplicity". However, both of the large and small speakers are included in the scope of business of the Company. Technologies emerged because of humanity. The Company always follows the trend and keeps abreast with the times to go forward together with our clients by introducing products with new forms, new technologies and new applications, including artificial intelligence smart audio. Therefore, there are no material adverse impact of changes in technologies and industry on the financial position of the Company.

(6) The impact of changes in corporate image on the risk management of the Company and future countermeasures

The Company is a OEM/ODM/JDM manufacturer of speaker system. Since its establishment, it focused on the operation of its main business and its market share worldwide ranks no.1 in OEM speaker system of family theatre audio set. The Company has the most comprehensive team in audio, structure and speaker development and engineering, and establishes good and long-term relationship with the clients of the brand. The operating results and reputation of the Company are good and the market has no negative news relating to its corporate image. Therefore, the Company should have no issue of corporate risk brought by the changes in corporate image.

(7)The expected resultant benefits, potential risks and countermeasures of implementation of mergers and acquisitions

In 2014, the Company acquired Scan-Speak A/S, a Danish famous top-tier transducer manufacturer and be ready to enter the field of top-tier speakers and vehicle speakers.

In January 2015, the Company acquired ETT, an audio-visual electronic and audio OEM manufacturer, and entered the field of audio manufacturing. It has enabled the Company to acquire more market share in the acoustics industry and became a comprehensive solution provider in the acoustics sector.

The above mergers and acquisitions are conducted based on the industrial layout of the Company. The vertical integrating strategies obtain top-tier transducer brand and technologies and apply in the market of high-end speaker brands. And the expanding strategies included the OEM of audio-visual equipment. The mergers and the core competitiveness of the Company complement each other to diversify its clients and business. The Company successfully transformed and entered the high-end OEM market and return to the track of profit growing.

(8) The expected benefits and potential risks of plant expansion and countermeasures

As of the publishing date of the annual report, due to the impact of Sino-US Trade War, the Company needs a second manufacturing base outside the PRC. In addition, the operating environment in Mainland China continues to deteriorate. The Company has established a plant in Vietnam for best allocation of production resources.

Currently, we planned to initially place the processing and assembling lines of speakers of earphones and transducers and orders of Bluetooth speakers to the US. The Company appointed contractors to build the plant. The factories in vicinity are mostly Taiwanese factories of upstream segment of supply chain and non-competitive participants in acoustics industry, which forms an industry community that can support each other due to the commonality and complementarity and share the resources to reach higher operating efficiency.

(9) Risks and countermeasures for purchasing or sales concentration

1. The risks and countermeasures of concentration of purchasing:

In 2018, there are no companies which account for over 5% of the purchasing of the Company. The speakers industry has become mature with various upstream supplying plants and sufficient resources, and thus the risk of supply interruption is minor. Overall, there is no risk of over-concentration on purchasing.

2. The risks and countermeasures of concentration of sales of goods:

The company is a professional OEM manufacturer of speaker systems and the recipients of the output are international brand customers or their designated OEM factories. In addition to the close cooperation with brand customers, currently more than 90% of the Company's operating income comes from the revenues of designated manufacturing for customers of international brands. However, as the clients of the Company are the top five brands in the audio market and the Company is an important supplier of speaker products for the above-mentioned brands, major international manufacturers have a considerable degree of dependence on the Company, and due to the quality, delivery and coordination, international manufacturers rarely change the purchasers, so there should be no risk of sales concentration.

(10) The impacts, risks and countermeasures of a large number of shares transferred or replaced by directors, supervisors or shareholders holding more than 10% of the Shares of the Company: Nil

(11) The impacts, risks and countermeasures of changes in operating rights of the Company: Nil

(12) Litigation or non-litigation events - major litigation, non-litigation or administrative arbitration event which involves the Company and Company's directors, supervisors, general managers, actual responsible person, major shareholders holding more than 10% of the Shares and its subsidiaries with judgment confirmed or still in litigation, and its consequences may have material impact on the interests of shareholders or security prices:

The Company and the Company's directors, general managers, actual responsible person, major shareholders and arbitration with a shareholding of more than 10% and its subsidiaries have no litigation, non-litigation or administrative event which may have material impact on the interests of shareholders or security prices.

(13)Other important risks and countermeasures:

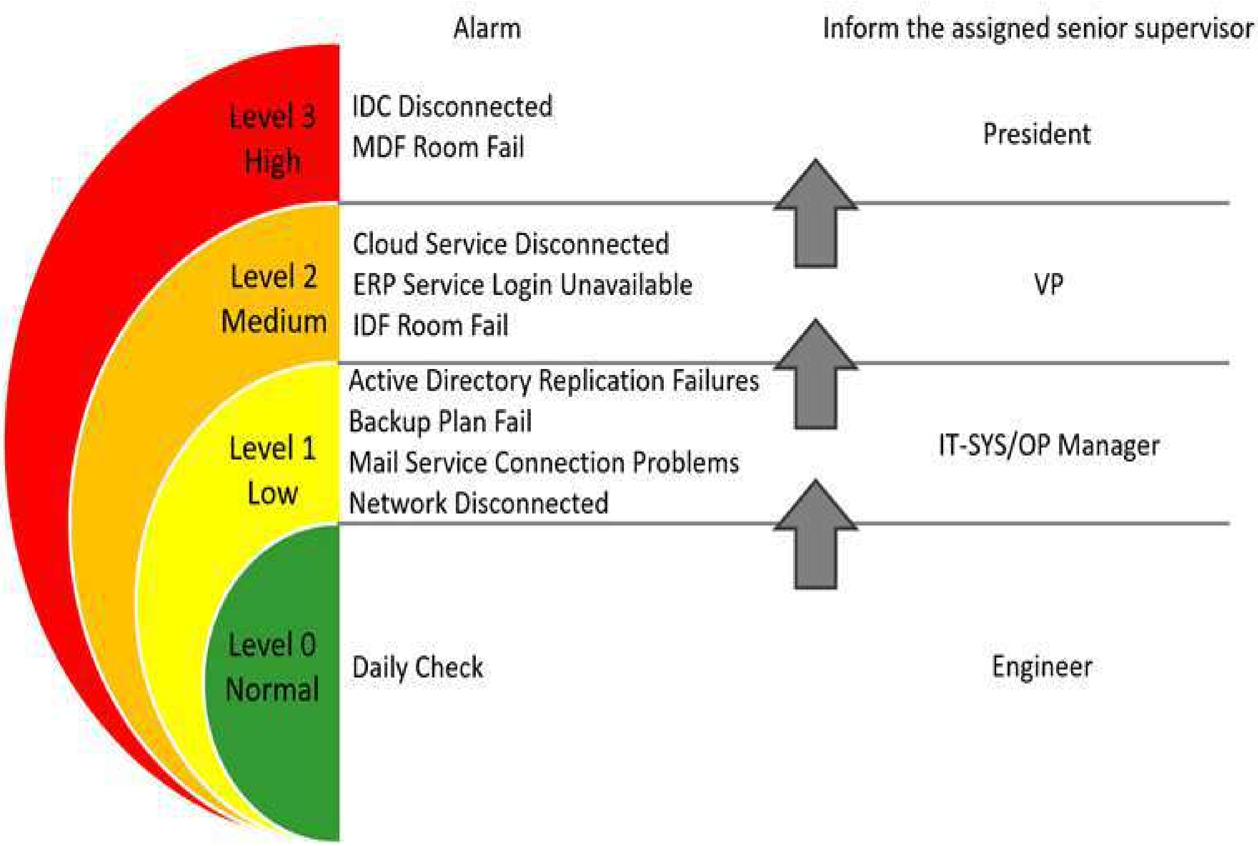
The Company has established an "Information Security Management Policy" and implemented information security management operations.

As a part of customer-centric and smart production development, and deeply rooted it in orders, production, material management, financial cash flow and fundamental systems, we have developed a diversified structure and derived four key systems from this structure, which are MES, PLM, SAP, and Mail System, respectively. These four key systems are listed as potential information security risks and countermeasures are conducted based on the following methods.

The four key systems have established a data-backup mechanism and kept the backup media in a different place, and also established a daily inspection system for the computer room, and conducted simulation tests and emergency response of the computer room every quarter to ensure the normal operation of critical system and data security. The risk of system disruption caused by natural disasters and human error can be reduced to ensure the expected system recovery target time is met.

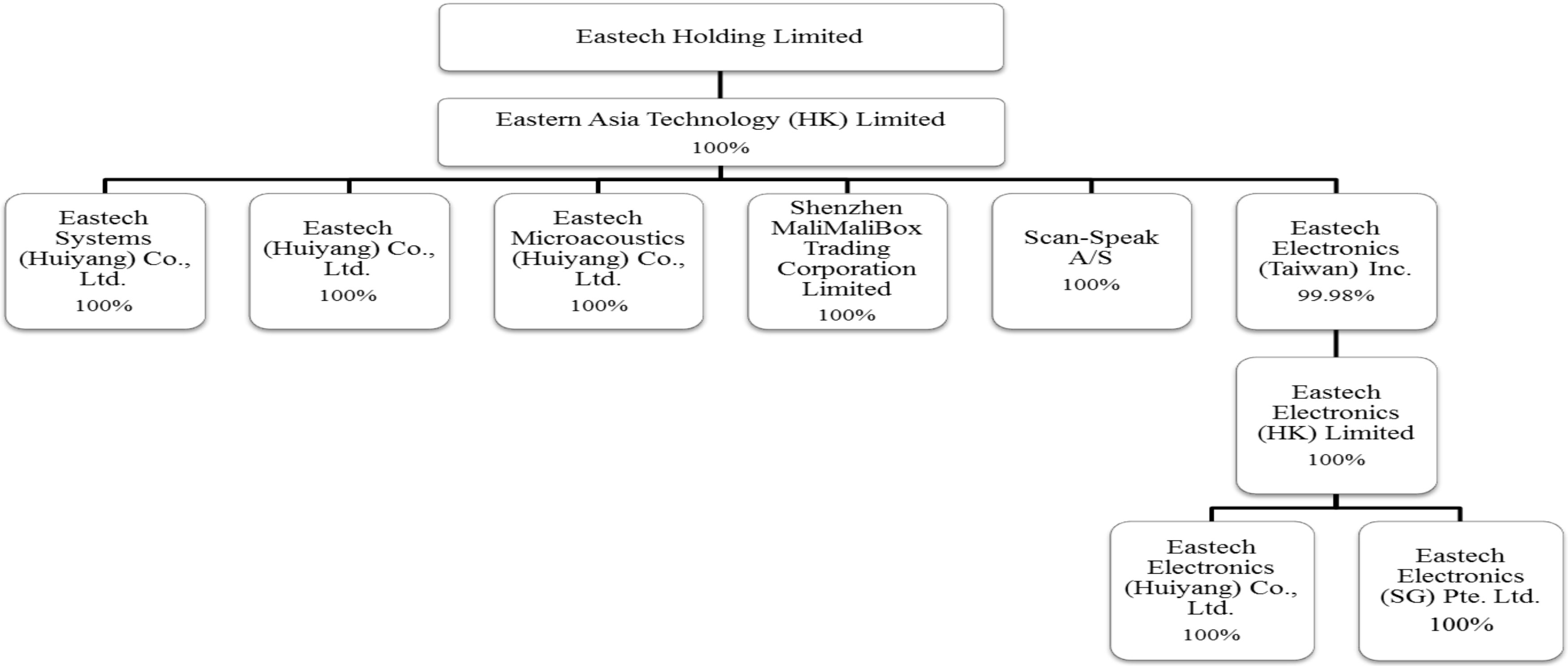
In addition to substantial investment in traditional information security, the information and legal departments jointly hold an information security seminar in each fiscal year. In addition to sharing the latest hacking attack methods, it also aims at improving users' information security awareness and building the most powerful information security system starting from the user's own security awareness.

A risk management framework with reporting mechanism to upper levels is established for disaster contingency and control. The framework is the basis for IT policies and standards while ensuring continuous compliance and compliance with the latest security measures.



7. Other significant matters: Nil.

VIII. Special Disclosure
1. Information on affiliates for the latest year
(a)Consolidated business reports of affiliated enterprises
1. Affiliated enterprises diagram 31 December 2018



2. Basic information of each affiliated enterprise

31 December 2018; Unit: dollar

Company	Date of Establishment	Contact Address	Paid-in capital	Principal Business or Products
EAH	1988.01.12	Unit 906, 9th Floor, Nanyang Plaza,No. 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong	HKD 80,000,000	Sales of speaker systems and earphone products
EAHY	1995.08.07	Dongfeng Administrative Area, Xinxu Town, Huiyang District, Huizhou, Guangdong province, the PRC	USD 6,500,000	Production, assembly and sales of speaker systems and components
EMHY	2002.11.07	Dongfeng Administrative Area, Xinxu Town, Huiyang District, Huizhou, Guangdong province, the PRC	USD 2,144,900	Production and sales of earphones
ESHY	1995.10.06	Dongfeng Administrative Area, Xinxu Town, Huiyang District, Huizhou, Guangdong province, the PRC	HKD 9,000,000	Production and sales of speaker systems
MMSZ	2013.11.13	8 Floor, International KeJi Mansion, 3007 Shen Nan Middle Road, Futian District, Shenzhen	RMB 2,000,000	Import and export of audio systems and earphone products and components
ScS	1983.08.30	N.C. Madsensvej 1, 6920 Videbaek, Denmark	DKK 1,320,045	Research and development, production and sales of high-end speakers
ETT	1992.11.04	8F, No.188, Baoqiao Rd., Xindian Dist., New Taipei City	NTD 95,360,300	Design and sales of smart speakers and audio/video electronic home entertainment systems
ETH	1996.03.14	Unit 906, 9th Floor, Nanyang Plaza,No. 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong	HKD 40,000,000	Sales of smart speakers and audio/video electronic home entertainment systems
ETHY	1997.01.01	Dongfeng Administrative Area, Xinxu Town, Huiyang District, Huizhou, Guangdong province, the PRC	HKD 58,000,000	Design and sales of smart speakers and audio/video electronic home entertainment systems
ETS	2017.10.04	1Pemimpin Drive, #08-06 One Pemimpin, Singapore 576151	SGD100	Research and development of system architecture/new product concepts/state-of-the-art products and sound and acoustic advanced technology

3. Presumption of relationship of control or subordination, information of the shareholders in common: Nil.

4. Operational results of each affiliate enterprise

31 December 2018; unit: except the amount of capital is denominated in foreign currency, the rest are denominated in NTD thousands

Company	Amount of capital	Total Assets	Total Liabilities	Net Assets	Operating revenue	Operating profit (loss)	Current profit and loss	Earnings (loss) per share (dollar)
EAH	HKD80,000,000	2,143,633	1,020,035	1,123,599	3,539,981	(23,209)	177,723	2.22
EAHY	USD 6,500,000	1,391,694	491,385	900,309	3,139,999	188,796	168,929	Not applicable
EMHY	USD 2,144,900	284,500	109,922	174,578	565,234	18,620	26,441	Not applicable
ESHY	HKD 9,000,000	909,027	752,763	156,264	3,084,336	97,401	75,160	Not applicable
MMSZ	RMB 2,000,000	42,273	32,909	9,364	164,484	(1,281)	840	Not applicable
ScS	DKK1,320,045	126,189	66,488	59,701	199,928	13,891	9,281	7.03
ETT	NTD 95,360,300	662,497	352,202	310,295	763,386	(42,984)	(20,501)	(2.15)
ETH	HKD 40,000,000	937,006	867,345	69,661	2,747,313	4,308	6,188	0.15
ETHY	HKD 58,000,000	1,529,885	910,209	619,676	3,791,114	16,660	19,403	Not applicable
ETS	SGD100	1,075	1,596	(521)	-	(18,889)	(239)	(2,390.00)

Note: Limited company without shares.

5. Information of directors, supervisors and general managers of each affiliate enterprise

Company	Position	Name or representative	Shareholding	
			Number of shares(shares)	Percentage of shareholding (%)
Eastern Asia Technology (HK) Limited	Director	Liou Jenq Lin	0	0
	Director	Wong Kar Sue	0	0
Eastech (Huiyang) Co., Ltd.	Director	Liou Jenq Lin	0	0
	Director	Wong Kar Sue	0	0
	Director	Chih Tai An	0	0
Eastech Microacoustics (Huiyang) Co., Ltd.	Director	Liou Jenq Lin	0	0
	Director	Wong Kar Sue	0	0
	Director	Chih Tai An	0	0
Eastech Systems (Huiyang) Co., Ltd.	Director	Liou Jenq Lin	0	0
	Director	Wong Kar Sue	0	0
	Director	Chih Tai An	0	0
Shenzhen MaliMaliBox Trading Corporation Limited	Director	Liou Jenq Lin	0	0
	Director	Lam Pui Man	0	0
	Director	Leung Hong Sun	0	0
Scan-Speak A/S	Director	Liou Jenq Lin	0	0
	Director	Chang Tung I	0	0
	Director	Teng Chiou Shiang	0	0
	Director	Colleen Lois Hallam	0	0
Eastech Electronics (Taiwan) Inc.	Director	Liou Jenq Lin	0	0
	Director	Chang Tung I	0	0
	Director	Teng Chiou Shiang	0	0
	Supervisor	Lam Pui Man	0	0
Eastech Electronics (HK) Limited	Director	Liou Jenq Lin	0	0
	Director	Lam Pui Man	0	0
Eastech Electronics (Huiyang) Co., Ltd.	Director	Liou Jenq Lin	0	0
	Director	Chang Tung I	0	0
	Director	Teng Chiou Shiang	0	0
Eastech Electronics (SG) Pte. Ltd.	Director	Lee Kheng Wee	0	0

(b) Consolidated financial statements of affiliated enterprises: same with the consolidated financial statements, please refer to pages 143 to 227.
(c) Declaration on consolidated statement: not applicable.

2. Private placement of securities during the latest year and as of the date of issue of annual report: nil.
3. The Company's shares held or disposed of by subsidiaries during the latest year and as of the date of issue of annual report

Unit: NTD thousands; shares; %

Subsidiary (note 1)	Paid-in capital	Source of funds	Shareholding percentage of the Company	Date of acquisition or disposal	Number of shares aquired and amount	Number of shares disposed of and amount	Invesment gains or losses	Number of shares held and amount as at the publication date of the annual report (note 2)	Creation of pledge	Endorsement and guarantee amount for subsidiaries by the Company	Loans to subsidiaries by the Company
Eastech Electronics (Taiwan) Inc.	$95,360	Self-owned funds	99.98%	Acquired in February 2013	453,000 shares and $27,617	0	0	Number of shares: 453,000 shares Amount: 15,923	0 share	0	0

Note 1: Acquired in January 2015.
Note 2: Based on the closing price of NTD 35.15 on 29 March 2019.

4. Other required supplementary notes: nil.
5. Matters which have a significant impact on shareholders' equity or securities prices as stipulated in Article 36(3)(ii) of the Securities and Exchange Act during the latest year and as of the date of issue of annual report: nil.
6. Explanation for significant discrepancy with national regulations on shareholders' rights protection:
The lastest Articles of Association of the Company were approved at the general meeting on 11 June 2018 for amendment. After comparing important matters for shareholder's rights protection set out in the "Checklist for Shareholders' Rights Protection Measures at Foreign Issuer's Domicile"(30 Novemeber 2018 version), part of the important matters for shareholders' rights protection were not applicable under Cayman law, therefore, they are not required under the Articles of Association of the Company. A summary of which is as follows:

Important matters for shareholders' rights protection	Relevant rules of the Company Act or the Securities and Exchange Act	Provisions under the Articles of Association and explanation for discrepancy
2. The convening procedures and way of resolution of the general meeting		
The major contents of the following matters shall be set out in the notice of the reasons for convening the general meeting, and shall not be raised by provisional motion (the major contents of which shall be	Article 172 of the Company Act and Article 26-1 and Article 43-6 of the Securities and Exchange Act	There is no concept of supervisor in the Cayman Companies Law, and the Company has established an audit committee, therefore the Articles of Association do not include provisions for supervisors. The rest are all required under the Articles of

Important matters for shareholders' rights protection	Relevant rules of the Company Act or the Securities and Exchange Act	Provisions under the Articles of Association and explanation for discrepancy
published on the websites designated by the competent authorities or the company, and the website link shall be set out in the notice): (1) Election or dismissal of directors and supervisors; (2) Alteration of the Articles of Association; (3) Reduction of capital; (4) Application for the ceasing of public issue; (5) Dissolution, merger, conversion of shares and demerger of the company; (6) Enter into, amend, or terminate any contract for lease of the company's entire business, or for entrusted business, or for regular joint operation with others; (7) Assignment of the whole or any essential part of its business or assets; (8) Taking up of the whole business or assets of other parties which has great significance on the business operation of the company; (9) Private placement of quoted equity securities; (10) Approval of engagement in competing activities with the company by directors; (11) Distribution of whole or part of the dividends and bonuses by way of issuing new shares; (12) Distribution of statutory surplus reserve and capital reserve arising from share issue at a premium or gift or donation to the original shareholders by way of issuing new shares or cash.		Association of the Company.
The following resolutions involve material interests of shareholders, and shall be attended by over two-thirds of the shareholders representing the total shares issued, and the resolutions shall be approved upon over half of the voting rights voted in favor of the resolution. If the attended shareholders' shares do not	1. Article 185 of the Company Act 2. Article 277 of the Company Act 3. Article 159 of the Company Act	1. As provided in the Cayman Companies Law: Special resolution as defined under the Cayman Companies Law refers to: The notice of the reasons for convening the general meeting sets out the special resolution to be considered, and the resolution approved by over two-thirds of shares which are entitled to vote at the general meeting.

Important matters for shareholders' rights protection	Relevant rules of the Company Act or the Securities and Exchange Act	Provisions under the Articles of Association and explanation for discrepancy
meet the aforesaid requirement, there shall be over half of the shareholders of the total shares issued to attend, and the resolutions shall be approved upon over two-thirds of the voting rights vote in favor of the resolution: 1. The company enters into, amends, or terminates any contract for lease of the company's entire business, for entrusted business, or for regular joint operation with others, transfers the whole or any essential part of its business or assets, accepts the transfer of other party's entire business or assets, which has great significance on the business operation of the company; 2. Alteration of the Articles of Association; 3. Where the alteration of the Articles of Association prejudices the interests of preferred stock shareholders, such alteration shall be subject to resolution at the preferred stock shareholders meeting; 4. Distribution of dividends and bonuses in whole or part by way of issuing new shares; 5. Resolution related to dissolution, merger, or demerger of shares of the company;	4. Article 240 of the Company Act 5. Article 316 of the Company Act	Pursuant to the Cayman Companies Law, the following matters shall be considered and approved at the general meeting of the company by way of special resolution: (1) requirements for altering the Memorandum with respect to any objectives, powers or other matters specified; (2) requirements for altering or adding to the Articles of Association; (3) reduction of capital of the company; (4) voluntary dissolution for reasons other than not able to repay debts when due; (5) merging with other companies. 2. The Articles of Association of the Company provide that: For the purpose of differentiating from the "special resolution" required by the Cayman Companies Law, and to comply with the relevant requirements under the Company Act of ROC, Article 2(a)(47) of the Company's Articles of Association defines "a special resolution of the Company passed in accordance with the Law, being a resolution passed by a majority of at least two-thirds of such Shareholders at a general meeting of the Company of which notice has been duly given" as "special resolution"; Article 2(a)(52) defines "a resolution passed by a majority vote of the Shareholders at a general meeting attended by the Shareholders who represent not less than two-thirds of all issued and outstanding Shares entitled to vote" as "type A special (supermajority) resolution"; Article 2(a)(53) defines "a resolution passed by two-thirds majority of the Shareholders at a general meeting attended by the Shareholders who represent at least a majority of all issued and outstanding Shares entitled to vote" as "type B special (supermajority) resolution". A summary of which is as follows: (1) Pursuant to Article 30 and Article 148 of the Articles of Association of the Company, the following matters shall be approved at the general meeting by way of "special resolution": (a) change of company name; (b) change of currecy denomination of the share capital; (c) reduction of

Important matters for shareholders' rights protection	Relevant rules of the Company Act or the Securities and Exchange Act	Provisions under the Articles of Association and explanation for discrepancy
		share capital and capital redemption reserve fund; (d) voluntary dissolution of the Company; (e) issue of securities by private placement; (f) merging with other companies; (g) alteration of Memorandum and Articles of Association. (2) Pursuant to Article 31 of the Articles of Association of the Company, the following matters shall be approved at the general meeting by way of "type A special (supermajority) resolution", if the attended shareholders' shares do not meet the aforesaid requirement, the matters shall be approved by way of "type B special (supermajority) resolution": (a) enter into, amend, or terminate any contract for lease of the company's business in whole, for entrusted business, or for regular joint operation with others; (b) transfer the whole or any essential part of its business or assets; (c) take over the transfer of another's whole business or assets, which will have a material effect on the business operation of the company; (d) distribute part or all of its dividends or bonus by way of issuance new shares; (e) effect any Spin-off in accordance with the Taiwan Laws; (f) cease to be a public company in Taiwan and ceased to be listed on a stock market; and (g) offer or issue shares with the rights subject to certain restrictions set by the Company in accordance with the Taiwan Laws to the employees of the Company and/or its subsidiaries. (3) Explanation for discrepancy: As stated by the Cayman lawyer, the Articles of Association of Cayman companies shall comply with the requirements of Cayman Companies Law. In case of contradiction, the requirements of Cayman Companies Law shall prevail. "Special resolution" is a legal term as required by the Cayman Companies Law. Matters considered to be "special resolution" pursuant to the Cayman Companies Law shall be considered

Important matters for shareholders' rights protection	Relevant rules of the Company Act or the Securities and Exchange Act	Provisions under the Articles of Association and explanation for discrepancy
		by the shareholders by way of "special resolution" in accordance with the Articles of Association, whereas any matters approved without meeting the minimum votes required by the Cayman Companies Law shall be invalid under the Cayman Companies Law. Furthermore, for resolution to be considered by way of "special resolution", the Cayman Companies Law requires companies to specifically indicate the resolution to be considered by way of "special resolution" at the general meeting. To comply with the Cayman Companies Law's relevant requriements related to "special resolution", matters related to "alteration of the Articles of Association", "dissolution" as well as "merger" as required by Article 30 and Article 148 of the Articles of Association of the Company, shall be approved by way of "special resolution" other than "type A special (supermajority) resolution" or "type B special (supermajority) resolution". (4) The impact on the shareholders in Taiwan: Matters required by the Taiwan Laws in relation to the "protection of shareholders' rights" to be approved by way of supermajority resolution (other than alteration of the Articles of Association, dissolution and merger) have been approved by way of type (A) special (supermajority) resolution or type (B) special (supermajority) resolution pursuant to Article 31 of the Articles of Association, which are in accordance with relevant requirements under the Taiwan Laws in relation to the "protection of shareholders' rights". For matters such as "alteration of the Articles of Association", "dissolution" as well as "merger", they shall be handled by way of "special resolution" pursuant to the Cayman Companies Law, which are not able to be amended according to the Taiwan Laws in relation to the "protection of shareholders' rights". However, as the requirement for voting power right in respect of "special resolution" under the Cayman Companies Law (approved upon two-thirds of voting

Important matters for shareholders' rights protection	Relevant rules of the Company Act or the Securities and Exchange Act	Provisions under the Articles of Association and explanation for discrepancy
		rights vote in favor of the resolution) is principally not lower than the requirements under the Company Act of ROC, therefore, such part of the Articles of Association of the Company shall have no adverse impact on the shareholders.
3. Authorities and responsibilities of directors		
1. The term of office of a director or supervisor shall not exceed three years; but he/she may be eligible for re-election. 2. In the process of electing directors or supervisors at a general meeting, the number of votes exercisable in respect of one share shall be the same as the number of directors to be elected, and the total number of votes per share may be consolidated for election of one candidate or may be split for election of more than one candidate. A candidate to whom the ballots cast represent a prevailing number of votes shall be deemed a director elect.	1. Article 195 (1) of the Company Act 2. Article 198 of the Company Act 3. Article 199(1) of the Company Act 4. Article 217(1) of the Company Act 5. Article 227 of the Company Act	There is no concept of supervisor in the Cayman Companies Law, and as the Company has established the audit committee, therefore the Articles of Association do not include requirements for supervisors.
1. The qualifications, composition, election, dismissal, exercise of powers and matters for compliance of directors, independent directors, members of remuneration committee and audit committee or supervisors shall comply with the requirements under the Securities and Exchange Act of ROC.	Article 14-2, Article 14-4, Article 14-5, Article 14-6 and Article 26-3 of the Securities and Exchange Act	There is no concept of supervisor in the Cayman Companies Law, and as the Company has established the audit committee, therefore the Articles of Association do not include requirements for supervisors.
1. The transfer of more than half of the company's shares held during the term by directors (excluding independent directors) or supervisors of the company, shall result in their automatic discharge. 2. Upon being elected, transfer of more than half of the company's shares held before the taking of office or transfer of more than half of the shares held during the period of suspension of share	Article 197 and Article 227 of the Company Act and Article 14-2 of the Securities and Exchange Act	There is no concept of supervisor in the Cayman Companies Law, and as the Company has established the audit committee, therefore the Articles of Association do not include requirements for supervisors.

Important matters for shareholders' rights protection	Relevant rules of the Company Act or the Securities and Exchange Act	Provisions under the Articles of Association and explanation for discrepancy
transfer prior to the general meeting by the directors (excluding independent directors) or supervisors, the election shall be deemed invalid. Note: For companies which are not able to include the check items into the Articles of Association or their constitutional documents, they shall adopt relevant complementary measures.		
1. Supervisors of a company shall be elected by the meeting of shareholders, among them at least one supervisor shall have a domicile within the territory of the Republic of China. 2. The term of office of a supervisor shall not exceed three years, and may be eligible for re-election. 3. In the event all supervisors of a company are discharged, the board of directors shall, within 60 days, convene a special meeting of shareholders to elect new supervisors. 4. Supervisors shall supervise the execution of business operations of the company, and may at any time or from time to time investigate the business and financial conditions of the company, inspect, transcribe or make copies of the accounting books and documents, and request the board of directors or the management to make reports thereon. 5. Supervisors shall audit the various statements and records prepared for submission to the general meeting by the board of directors, and shall give a report of their findings and opinions at the meeting of shareholders. 6. In performing auditing business, the supervisors may appoint, on behalf of the company, a practicing lawyer and a certified public accountant to conduct the examination.	Article 216 to Article 222 of the Company Act	There is no concept of supervisor in the Cayman Companies Law, and as the Company has established the audit committee, therefore the Articles of Association do not include requirements for supervisors.

Important matters for shareholders' rights protection	Relevant rules of the Company Act or the Securities and Exchange Act	Provisions under the Articles of Association and explanation for discrepancy
7. Supervisors of a company shall attend the meeting of the board of directors to express their opinions. In case the board of directors or any director commits any act when carrying out the business operations of the company in violation of the laws, regulations, the Articles of Association or the resolutions of the general meeting, the supervisors shall forthwith advise, by notice, the board of directors or the director, as the case may be, to cease such act. 8. Supervisors shall each exercise the supervision power independently. 9. A supervisor shall not be concurrently a director, a managerial officer or other staff/employee of the company		
1. Shareholder(s) who has/have been continuously holding 1% or more of the total number of the company's shares issued over six months may request the supervisors of the company in writing to institute, for the company, an action against a director of the company, and the Taiwan Taipei District Court shall be the first instance court. 2. In case the supervisors fail to institute an action within 30 days after having received the request of shareholders, the shareholders may then institute the action for the company, and the Taiwan Taipei District Court shall be the first instance court. 3. Subject to the condition that the board of directors does not or is unable to convene a meeting of shareholders, the supervisors may, for the benefit of the company, call a meeting of shareholders when it is deemed necessary.	Article 200, Article 214, Article 220 and Article 227 of the Company Act	There is no concept of supervisor in the Cayman Company Law, and as the Company has established the audit committee, therefore the Articles of Association do not include requirements for supervisors.
1. A director of a company shall have the loyalty and shall exercise the due care of a good administrator	Article 8(2) and (3) and Article 23(3) of the	Although the Company has included the summary of the above requirements in the Articles of Association, according

Important matters for shareholders' rights protection	Relevant rules of the Company Act or the Securities and Exchange Act	Provisions under the Articles of Association and explanation for discrepancy
in conducting business operation of the company. If the directors of a company have caused damage to any other person, he/she shall be liable for the damage to such other person. In case the directors of a company do anything for themselves or on behalf of another person in violation of the provisions, the general meeting may, by a resolution, consider the earnings generated from such an act as earnings of the company. 2. If a director of a company has, in the course of conducting the business operations, violated any provision of the applicable laws and/or regulations and thus caused damage to any other person, he/she shall be liable, jointly and severally, for the damage so caused. 3. Managerial personnel and supervisor of a company, in the course of conducting the business operations, shall be liable for the same damage that the director is liable for.	Company Act	to the opinion of Cayman lawyer, pursuant to the Cayman common law, the Articles of Association aim to standardize the rights and responsibilities between the company and the shareholders, which has no binding effect on third parties. In respect of the violation of loyalty and exercising due care of a good administrator by a director and causing damage to the company, the company may claim for compensation pursuant to Cayman common law or the appointment agreement entered into with the director. However, as required by the Articles of Association, for considering the earnings of third parties as earnings of the company or the director shall be liable jointly with the company for the damage to other person, the above requirements may not be able to be executed under the Cayman common law since the third parties are not bound by the Articles of Association of the company. Moreover, there is no concept of supervisor in the Cayman Companies Law, and as the Company has established the audit committee, therefore the Articles of Association do not include requirements for supervisors.
Where a juristic person acts as a shareholder of a company, its authorized representative may also be elected as a director or supervisor of the company. If there are more than one such authorized representatives, each of them may be so elected, but such authorized representatives may not concurrently be selected or serve as a director or supervisor of the company.	Article 27(2) of the Company Act	A director of a Cayman company may be a natural person or juristic person, however the juristic person can only be elected as one director, and may authorize representative to conduct the business operations, yet the concept of representatives of juristic person being elected as multiple directors in the Cayman Companies Law. And there is no concept of supervisor in the Cayman Companies Law, and as the Company has established the audit committee, therefore the Articles of Association do not include requirements for supervisors.