

Stock code: 5225



## Eastech Holding Limited

(Formerly known as Eastern Technologies Holding Limited)

# 2019 Annual Report

### Notice to Readers

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

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

Issued on 07 May 2020

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Overseas stock exchange on which securities are traded: Not applicable

Company website: <https://www.easotech.com>

## LIST OF DIRECTORS

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Major : Master of Electronic Engineering and MBA from University of Southern  
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IBM Senior Engineer Advisor, U.S.  
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Name : Pai Chin Chang  
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President of Eastech Holding Limited (Formerly known as Eastern Technologies  
Holding Limited)

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Name : Kwok King Lam Keenan Ken  
Representative of Eastech Electronics (Taiwan) Inc.  
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### Independent Directors

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Major : PHD of Economics from Chinese Culture University  
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Dean of College of Commerce of Tamkang University  
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Name : Chang Shan Juh  
Nationality : Taiwan  
Major : Master of Electronic Engineering from University of Southern California, U.S.  
Qualifications : Director of Planning Division of Tatung Company  
Lecturer of Faculty of Electronic Engineering and Human Resources Officer of  
Tatung University  
Director of Personnel Management and Development of Tatung Company

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

**EASTECH HOLDING LIMITED**  
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## **I. LETTER TO SHAREHOLDERS**

### **Dear Shareholders**

2019 was a year of qualitative change and optimization. Following the success of new products applied in the Internet of Things such as smart speakers in 2018, the Company continued to achieve effective IT transformation in the chaos of the US-China trade war in 2019, with overall revenue growth, gross profit margin and the net profit rate showing comprehensive growth as well as the revenue and profit reaching a record high again. The first phase of construction of the Vietnam factory was completed as scheduled and commenced mass-production. Apart from the fact that the backup production base has become more complete, the Company was in the position in keeping pace with the times and grasping opportunities under the trend of global industrial chain fragmentation.

In addition to actively deploying high-end speakers and niche products, we, as always, were transforming our business into the acoustic applications in the Internet of Things, actively transforming and exploring a new blue ocean market, developing potential brand customers to seek a new wave of operational growth momentum, and replacing price competition with differentiation to strengthen competitiveness.

### **I. 2019 Business Report**

#### **(I) Implementation Results of Business Plan**

Unit: NT\$'000

<div>Year</div> <div>Item</div>	2019	2018	Increase (Decrease)	Changes (%)
Net Sales	10,530,374	9,213,755	1,316,619	14.3%
Gross Profit	1,490,451	1,181,675	308,776	26.1%
Net Operating Profit	357,885	289,580	68,305	23.6%
Profit Before Tax	379,981	329,834	50,147	15.2%
Profit After Tax	308,155	247,707	60,448	24.4%

#### **(II) Implementation of budget: No financial forecast has been prepared by the Company for 2019.**

(III) Analysis on Financial Income and Expenditure and Profitability

Item		2019	2018
Financial Structure (%)	Debt to asset ratio	64.7%	66.3%
	Long-term capital to fixed assets ratio	285.7%	245.2%
Solvency (%)	Current ratio	127.6%	120.1%
	Quick ratio	101.7%	96.7%
Profitability (%)	Return on assets	6.6%	5.8%
	Return on equity of shareholders	17.3%	15.4%
	Net profit ratio	2.9%	2.7%
	Earnings per share (NT\$)	5.04	4.05

(IV) Research and Development

1. In 2019, 8 new patents were approved and 16 patents were under review.
2. The research and development cost in 2019 was NT\$290,889 thousand, representing a decrease of NT\$4,053 thousand as compared to the research and development cost of NT\$294,942 thousand in 2018, accounting for approximately 2.76% 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.

## II. Business Plan for 2020

(I) Operating Strategy

In 2020, the Company will focus on the ODM field of composite products such as audio/video electronics systems and audio products to strengthen the integration and synergy of electronics and acoustics: electronic capabilities bring products and invoices while speakers and acoustic capabilities bring profits. After the reshuffling of the top ten customers, the transformation has achieved remarkable results. On the basis of the existing top five audio-visual consumer electronics brand customers in the world, the Company

has developed sound-intelligence, electronic wireless transformation and analog digitalization, and transformed into a multi-dimensional, electronic and digital Internet of Things provider. Business outlook of the year is treated with a prudent and optimistic attitude.

(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 2020 will increase slightly as compared to 2019, 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 Japanese brand customers in previous years, the earphones business will usher in new orders for earphone products among existing audio brand customers, including TWS (True Wireless Stereo) and Bluetooth wireless earphones.

(III) Important Production and Sales Policies

1. Marketing Policy

In 2020, as a result of the US-China trade war having signed a phased agreement, the unnecessary disturbance will come to an end. However, the industry consensus that de-Americanization and pro-US will divide into two camps and continue their fight. Affected by the long-term and persistent confrontation, the revenue is estimated to slightly grow as compared to 2019. The Company will adopt the following policies:

- (1) Strengthen our sales teams in key global markets such as the US, Europe, 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 mainland brand customers, we are more prepared and confident to develop Chinese IT leading and potential local Chinese international brands.
- (3) 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.

- (4) The Company will fully increase the OEM/ODM/JDM business and various new applications for AI smart speakers and voice recognition control products to achieve optimal production lines' width and depth.
- (5) The Company will devote more business resources in TWS to expand its market share and product mix.

## 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) The Hai Duong factory in northern Vietnam reduces existing labor-intensive labor costs, upgrades the automation investment, and ensures the minimization of production plant personnel. The logistics model is planned in advance from the plant design to reduce logistics personnel input and establish a more efficient logistics system. Vertically integrating the advantages of the Company by fully implementing and utilizing the Company's advantages in production scales such as unit speakers, woodworking technologies and plastic injection molding, investing in mass production of Vietnam factory in a fast manner to ensure the core competitiveness of the factory. The introduction of Manufacturing Execution System (MES) has quickly and efficiently maximize the production capacity to stimulate and achieve the goal.
- (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. Enhancing most of the models on the basis of the existing output UPH (Unit Per Hour) by strengthening the atomized operation and optimize the process. Increase online SPI (Solder Paste Inspection) and online AOI (Automatic Optical Inspection) to improve quality control capabilities and improve productivity.
- (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) Strengthen the MES (Manufacturing Execution System) and SCM (Supply Chain Management) to collaborate with suppliers, so as to effectively manage plant operations. Strengthen MPM (Manufacturing Project Management) of the mass production project management department while dividing MPM into 3 groups: Maintenance, System and Headphones. Promoting the systematic model operation mode while distributing manpower more precisely to ensure mass-produced MP projects can enter a stable state.
- (5) 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.
- (6) 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.
- (7) 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 cornerstone for the Company's sustainable development. The Company's 2020 research and development focus is as follows:

- (1) Develop wireless speaker system (Bluetooth 5.0 version speakers and Wi-Fi speakers) with systematic single chip partners and multi-room function system.
- (2) Develop differentiated Active-Echo-Cancellation (AEC) and high-quality voice control system products (Amazon Alexa and Google GVA).
- (3) Develop Amazon Alexa and Google GVA modules embedded in TV Sound Bar to provide a turn-key solution for a variety of packages.
- (4) Develop the Dolby Atmos System and DTS; continue to provide the latest Dolby Atmos version 1.7.2 and DTS-IMAX enhanced products for the Sound Bar application.

- (5) 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.
- (6) 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.
- (7) Search for cooperation or investment opportunities in advanced materials technology for products and unit speakers and process flow to increase the breadth and depth of product differentiation.
- (8) Establish long-term goals in respect of environmental protection, energy saving and reduction in carbon emission, and recycling or natural decomposition of raw materials and packaging materials with suppliers and others. It can help to achieve our commitment to CSR practices.

#### (IV) Future Development Strategy of the Company

- 1. Strengthening the sales teams in important global markets such as China, the United States, Europe, Japan and South Korea, and cooperating with brand customers to develop new markets and new products, introduce new technologies and enhance new applications.
- 2. With the Company's in-house IT transformation, the CE surface, IT backbones and the existing smart audio sales performance have provided the Company more strength and confidence to develop internationally renowned brand equivalent to China's domestic IT unicorn level BATJ.
- 3. The Company is optimistic that the related products of IoT (Internet of Things) and VAC (Voice Activation Control) will become the future and main stream. While further strengthening the Sound Bar industry leadership position, customers are encouraged to recognize and focus on the transformation of the Company's research and development team in respond to new technologies and applications. The corporate growth of the Company in the future is expected to be originated from businesses relating to Internet of Things, wireless Bluetooth and voice control.

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

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

- (1) With the general trend of miniaturization and personalization of audio/video products, the Company's product structure has changed. The proportion of traditional speakers has gradually declined in line with the market trend while the production of electronic speakers and audio products with AI speakers, Sound Bars and wireless speakers is still the growing momentum.
- (2) 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.

However, benefited from the Korean customers due to the transfer of mainland supply chain of Korean lines to Vietnam, the single-rate effect resulted in doubling rates and increases in 2019. The increase in market penetration of mainland-based brand customers due to the emphasis on market products and grabbing the market at parity resulted in the sharp decline in revenue and profit, which contributed less to the Company in 2019 than in the past.

- (3) 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.
- (4) 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, coupling with the current fragmentation of the global supply chain, mainland-based factories no longer enjoy home-field advantages, and it is not easy to compete with competitors from other countries on the same foothold.



- (5) The listening and viewing modes of personal audio/video and streaming music have become a trend, resulting in a slight decrease in the growth of traditional home speaker products and home theater audio system demand. The trend of smart audio led by Amazon Echo mainly differs in voice recognition commands and smart home functions, making smart audio an entrance to smart homes and an outlet to increase the volume of single speakers and speakers. However, AI voice recognition is ubiquitous and can be implemented on different platforms or vehicles such as Sound Bars and routers. Although it is the Company's biggest driver of growth momentum in the past two years, it has slowed down since 2019, and the product line is diverted to different functions and different prices with different markets. At the same time, Sound Bars has achieved great sales results with the blooming of oversized digital 4K TVs, the purchase and matching of Sound Bars, and the penetration of the European and American markets has increased significantly.
- (6) 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. Three local factories, EAHY, ETHY 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 2019.
- (2) The tightening in regulatory efforts in foreign exchange balance and write-off and customs tariffs in the mainland, and the increase in related taxes and fees, has resulted in unexpected increase in operating costs other than our normal business operation.
- (3) 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.

- (4) The factory site in Vietnam is located in Cong Hoa Industrial Park, Chi Linh Town, Hai Duong Province, Vietnam. Currently Chi Linh is a third-tier city, the wage costs are adjusted in accordance with law which will increase the Company's personnel costs.

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

(1) The impact of the US-China trade war:

The first phase of agreement was entered into on 15 January 2020. The Company's home and personal audio products are not affected by the tariffs. No matter how the future evolves after the first quarter, the Company responds to the following:

- (a) The second phase of the Vietnam factory is expected to commence operation before the end of June this year, providing more complete vertical integration services and optimizing costs, copying the successful operation model of the mainland factory for years. Except for headphones, which are affected by tariffs exported to the United States, the main headphones products destined for the United States will be produced in Vietnam to reduce tariff pass-through losses. In addition, due to the optimal production scale of the Vietnam factory and the multiple production bases configuration requirements of brand customers, orders from some mainland factories will also be transferred to the Vietnam factory for production. In relation to the initial learning curve and the optimal production scale, the benefit is estimated to be rather general in the first half of 2020, while returning to normal level in the second half of the year. Benefiting from the advantages of Vietnam's tariffs, the corresponding orders from Vietnam factories will continue to increase.
- (b) The Company will still actively develop China's IT leaders and potential brand customers. The more high-tech and high value-added products for domestic sales and other customers in China will still be produced in the mainland. It is estimated that sales in 2020 will continue to grow steadily. After the transformation, the gross profit of orders taken up in the initial period will gradually improve and be more capable of obtaining orders from customers with higher gross profit.

(c) Although the Hong Kong Company is an entity operating in Hong Kong which is mainly engaged in order reception and back-office support, if the Hong Kong special economic status is cancelled by the US, the Singapore subsidiary also has the order receiving function and can act as a backup order receiving company.

(2) Impact of the COVID-19:

The COVID-19 has raged since January this year, causing the China's economy to freeze and production to come to a standstill. It is believed to be a short-term adverse factor. No matter how long will it last, we will be "expecting enemies loosely and defending them strictly" anyway. The Company already has the Vietnam factory as a backup production base, and it is urgent to accelerate the construction of the Vietnam factory for routine production so that the Vietnam supply chain will be more complete. Even though the business revenue or profit may lag behind in the first quarter, we will catch up with the progress in the forthcoming quarters provided that there is no decrease in the demand from end-users.

Opportunities always coexist with challenges, crises may become turning points, and opportunities are always reserved for those who are prepared. The responsibility of the Company's management 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 238 of this annual report.

**(c) Risk analysis:** please refer to pages 228 to 237 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. 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.

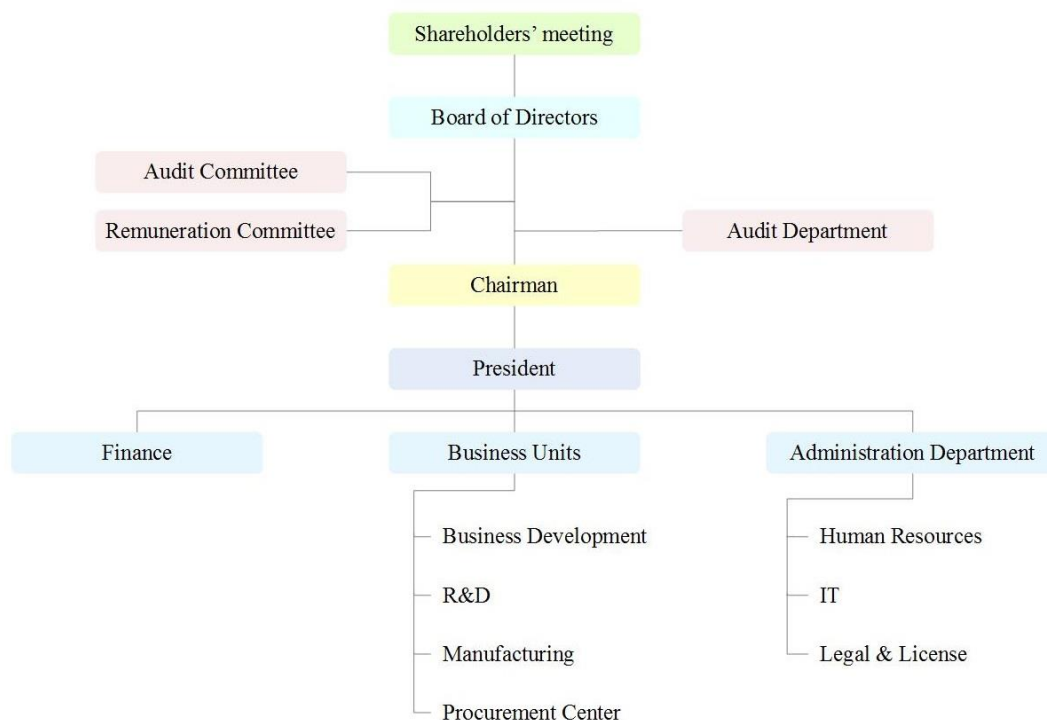
Date	Important Events
	The Company conducted capital increase by cash through issue of 6,750 thousand ordinary shares with carrying amount of NT\$10 per share, totaling NT\$67,500 thousand. The paid-in share capital after the capital increase was NT\$607,500 thousand
2013	EAHY and EMHY were approved 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”. 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-subsidary 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. In August, Eastech Microacoustics (HK) Limited was established to engage in the sales of earphones and audio-visual products.

### III. CORPORATE GOVERNANCE

#### 1. Organization

##### (a) Organization Chart

31 December 2019



##### (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 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)

14 April 2010

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			Remarks
							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	Nil
Director	Taiwan	Pai Chin Chang	Male	8 June 2017	3 years	24 March 2011	335,000	0.54	266,000	0.43	0	0	0	0	Executive Master of Business Administration from Hong Kong International Business College	President of the Company	Nil	Nil	Nil	Nil
Director	Taiwan	Chang Tung I	Male	8 June 2017	3 years	24 March 2011	50,000	0.08	68,000	0.11	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	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	Nil
	Hong Kong	Kwok King Lam Keenan Ken	Male	-	-	-	1,512,000	2.46	1,331,000	2.17	0	0	0	0	Master of Finance and Management from University of Michigan, U.S.	The Company: Nil Other companies: (Note 2)				
Independent Director	Taiwan	Shiau Fung Shyung (Note 3)	Male	8 June 2017	3 years	12 August 2011	0	0	0	0	0	0	0	0	PHD of Economic from Chinese Culture University Master of Economic from Yale University, U.S. Master of Agricultural Economic 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	Nil



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			Remarks
							No. of shares	Shareholding %	No. of shares	Shareholding %	No. of shares	Shareholding %	No. of shares	Shareholding %			Title	Name	Relationship	
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 Planning Department of Tatung Company Head of Human Resources Development Department on 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	Nil
Independent Director	Taiwan	Chen Ko Hung	Male	8 June 2017	3 years	24 March 2011	0	0	0	0	0	0	0	0	MBS of National Chengchi University (NCCU) Bachelor of Accounting, NCCU 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 Chipplus Semiconductor Corp.	Nil	Nil	Nil	Nil

Note 1: Director of Eastech Electronics (Taiwan) Inc., 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, 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, CPJobs International 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.

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 2020

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%)
	Tsai ○ Xian (0.0018%)
	Wang ○ Yu (0.0014%)
	Cheng ○ Zhi (0.0009%)
	Lin ○ Qi (0.0007%)
	Lu ○ Bang (0.0007%)
	Fan ○ Hao (0.0004%)
	Tsai ○ Qi (0.0003%)

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

31 March 2020

Corporate Name	Substantial Shareholders
Eastern Asia Technology (HK) Limited	Eastech Holding Limited (100%)

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

31 March 2020

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	11	12	
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 during the two years prior to election and their tenure 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's affiliates (except for independent directors of the Company and its parent company, subsidiaries or subsidiaries under the same parent company in accordance with the law or local national laws and regulations act concurrently as an independent director).

- (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 managers listed in (1) or persons listed in (2) and (3).
- (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 or appoint a representative to act as a director or supervisor of the Company in accordance with Item 1 or Item 2 in Article 27 of the Company Law (except for independent directors of the Company and its parent company or subsidiaries under the same parent company in accordance with the law or local national laws and regulations act concurrently as an independent director).
- (6) Not being the directors, supervisors or employees of other companies controlled by the same person who have more than half of the shares that are not on the board of directors of the Company (except for independent directors of the Company and its parent company or subsidiaries under the same parent company in accordance with the law or local national laws and regulations act concurrently as an independent director).
- (7) Not being a director, supervisor or manager of companies or institutions of the same person or spouse with the Company's chairman, general manager or equivalent (except for independent directors of the Company and its parent company or subsidiaries under the same parent company in accordance with the law or local national laws and regulations act concurrently as an independent director).
- (8) 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 (except for specific companies or institution hold more than 20% but not exceeding 50% of the Company's issued shares and independent directors of the Company and its parent company or subsidiaries under the same parent company in accordance with the law or local national laws and regulations act concurrently as an independent director).
- (9) Not being a professional in commerce, law, finance, accounting, etc., a sole proprietor, partner of a partnership, owner, director, supervisor, manager of a company or institution who provides auditing service to the Company or its affiliates or having received remuneration not exceeding NT\$500,000 in the past 2 years, except being a member of the remuneration committee, public acquisition review committee or mergers and acquisition special committee who performs duties in accordance with the Securities Trading Law or Enterprise Mergers and Acquisition Law.
- (10) There is no relationship of spouse or within two degrees of kinship with other directors.
- (11) None of the events stipulated in Article 30 of the Company Law exists.
- (12) 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, head of departments and branch offices**

14 April 2020

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			Remarks
					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)	266,000	0.43	0	0	0	0	Executive Master of Business Administrative from Hong Kong International Business College President of Eastech Holding Limited	Nil	Nil	Nil	Nil	Nil
Vice President	Taiwan	Chang Po Chao	Male	1 December 2011	8,000	0.01	0	0	0	0	Bachelor's Degree of International Trading from National Chengchi University Vice President, Public Relations and Spokesman of Eastech Holding Limited	Head of Corporate Governance of the Company	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	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			Remarks
					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	Nil

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

**(c) Remunerations of directors, supervisors, presidents and vice presidents**

**1. Remunerations paid to directors, supervisors, presidents and vice presidents for the latest year (2019)**

**(1) Remunerations of general directors and independent directors**

Unit: NT\$'000

Title	Name	Remunerations of Directors								Percentage of aggregate of A, B, C, and D to net profit after tax		Remunerations of concurrent employments								Percentage of aggregate of A, B, C, D, E, F and G to net profit after tax		Any remunerations from companies other than subsidiaries for investment business
		Salary (A)		Post-employment pension (B)		Directors' Remuneration (C)		Fee incurred for duty performance (D)				Salary, bonus and special bonus (E)		Post-employment pension (F)		Staff 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			
Director	Pai Chin Chang	-	-	-	-	3,309	3,309	125	125	1.11%	1.11%	-	12,576	-	242	-	-	735	-	1.11%	5.51%	-
Director	Chang Tung I																					
Director	Representative of Eastech Electronics (Taiwan) Inc. Kwok King Lam Keenan Ken																					
Independent Director	Chang Shan Juh	-	-	-	-	3,308	3,308	125	125	1.11%	1.11%	-	-	-	-	-	-	-	-	1.11%	1.11%	-
Independent Director	Chen Ko Hung																					
Independent Director	Shiau Fung Shyung																					
Chairman	Liou Jenq Lin	-	-	-	-	1,103	1,103	35	35	0.38%	0.38%	-	8,551	-	-	-	-	658	-	0.38%	3.36%	-
<p>1 Please state the remuneration policy, system, standards and structure of independent directors' remuneration, and describe the relationship with the amount of remuneration according to the responsibilities, risks, time invested and other factors: The remuneration of the Company's independent directors is determined by the Remuneration Committee in accordance with Article 117 of the Company's Articles of Association, and the pre-tax interest before deducting the distribution of employees and directors' remuneration for the current year is not more than 2%. At the discretion of the independent Directors, to consider the value of the Company's operation and contribution, to consider the proposed amount of the remuneration and the principle of the payment, and to submit the proposal to the Board for approval after the resolution has been submitted. The company's payment of remuneration has taken into consideration the company's future operational risks and its positive correlation with operating performance, in order to strike a balance between sustainable operation and risk control.</p> <p>2 In addition to the disclosures in the above table, the directors of the company in the most recent year have received remuneration for providing services to all companies in the financial report (such as serving as consultants that belong to non-employees): Nil</p>																						

Note 1: In accordance with the Company's Articles of Association, the remuneration of directors for 2019 was approved by the Remuneration Committee and the Board on 27 February 2020.

Note 2: In accordance with the Company's Articles of Association, the remuneration of staff for 2019 was approved by the Remuneration Committee and the Board on 27 February 2020.

### 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\$1,000,000	Nil	Nil	Nil	Nil
NT\$1,000,000 (inclusive) – NT\$2,000,000 (not inclusive)	Directors: Liou Jenq Lin Pai Chin Chang Chang Tung I Representative of Eastech Electronics (Taiwan) Inc.: Kwok King Lam Keenan Ken Independent directors: Chang Shan Juh Chen Ko Hung Shiau Fung Shyung	Directors: Liou Jenq Lin Pai Chin Chang Chang Tung I Representative of Eastech Electronics (Taiwan) Inc.: Kwok King Lam Keenan Ken Independent directors: Chang Shan Juh Chen Ko Hung Shiau Fung Shyung	Directors: Liou Jenq Lin Pai Chin Chang Chang Tung I Representative of Eastech Electronics (Taiwan) Inc.: Kwok King Lam Keenan Ken Independent directors: Chang Shan Juh Chen Ko Hung Shiau Fung Shyung	Directors: Representative of Eastech Electronics (Taiwan) Inc.: Kwok King Lam Keenan Ken Independent directors: Chang Shan Juh Chen Ko Hung Shiau Fung Shyung
NT\$2,000,000 (inclusive) – NT\$3,500,000 (not inclusive)	Nil	Nil	Nil	Nil
NT\$3,500,000 (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	Directors: Pai Chin Chang Chang Tung I
NT\$10,000,000 (inclusive) – NT\$15,000,000 (not inclusive)	Nil	Nil	Nil	Directors: Liou Jenq Lin
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-employ- ment 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 (%)		Remunerations from companies other than subsidiaries or parent company 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	-	19,330	-	348	-	128	-	-	1,172	-	-	6.81%	-
President	Pai Chin Chang													
Vice President	Chu Ming Chung (Note 2)													
Vice President	Chih Tai An (Note 3)													
Vice President	Chang Po Chao													

Note 1: In accordance with the Company's Articles of Association, the remuneration of staff for 2019 was approved by the Remuneration Committee and the Board on 27 February 2020.

Note 2: Resigned on 1 March 2019

Note 3: Resigned on 1 June 2019

### Remuneration Ranking

Ranking of remuneration payable to the chairman, each president and vice president of the Company	Name of chairman, president and vice president	
	The Company	All companies contained in the financial statements
Below NT\$1,000,000	Nil	Nil
NT\$1,000,000 (inclusive) – NT\$2,000,000 (not inclusive)	Nil	Chu Ming Chung Chih Tai An
NT\$2,000,000 (inclusive) – NT\$3,500,000 (not inclusive)	Nil	Chang Po Chao
NT\$3,500,000 (inclusive) – NT\$5,000,000 (not inclusive)	Nil	Nil
NT\$5,000,000 (inclusive) – NT\$10,000,000 (not inclusive)	Nil	Liou Jenq Lin Pai Chin Chang
NT\$10,000,000 (inclusive) – NT\$15,000,000 (not inclusive)	Nil	Nil
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 persons	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 tax (%)
Managers	President	Pai Chin Chang	-	1,039	1,039	0.34%
	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 2019 was approved by the Remuneration Committee and the Board on 27 February 2020

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	2018				2019			
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)	7,192	2.90%	7,192	2.90%	8,005	2.60%	8,005	2.60%
Chairman, President and Vice President	-	0.00%	33,759	13.63%	-	0.00%	20,978	6.81%

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

- ① The policies, standards and combinations of remuneration, and procedures for determining remuneration.

Remuneration of directors of the Company is determined by the remuneration committee of the Company in accordance with Article 117 of the Company's Articles of Association 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. At the discretion of the independent

Directors, to consider the value of the Company's operation and contribution, to consider the proposed amount of the remuneration and the principle of the payment, and to submit the proposal to the Board for approval after the resolution has been submitted.

Article 117 of the Articles of Association of the Company provides that the amount of employees' remuneration shall not be less than 1% and not more than 15% of the profit before tax for the current year less the distribution of staff and directors' remuneration. Remuneration 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.

② Relevance to business performance and future risks:

The Company's payment of directors' remuneration has taken into consideration the Company's future operational risks and its positive correlation with operating performance, in order to balance the Company's sustainable operations and risk control.

For the remuneration of the chairman, general manager and deputy general manager, the Company's remuneration for the same position in recent year, and the reasonableness of the correlation between the individual performance and the Company's operating performance and future risks from the achievement of the Company's short-term and long-term business goals and the Company's financial status. It also did not guide managers to engage in behaviors that exceeded the company's risk appetite in pursuit of compensation.

### 3. Particulars of Corporate Governance

#### (1) Board of Directors

1. During the latest year (2019) and as of the date of issue of annual report, 11 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	10	1	91%	Elected on 8 June 2017
Director	Pai Chin Chang	11	0	100%	
Director	Chang Tung I	11	0	100%	
Director	Eastech Electronics (Taiwan) Inc. Representative: Kwok King Lam Keenan Ken	10	1	91%	
Independent Director	Shiau Fung Shyung	10	1	91%	
Independent Director	Chang Shan Juh	11	0	100%	
Independent Director	Chen Ko Hung	11	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 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		

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
	approved the resolution.		
Fourth session Fourteenth 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.		
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
	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 Sixteenth meeting 9 May 2019	1. Proposed issuance of employee stock option certificates 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.		

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 Seventeenth meeting 10 June 2019	1. Proposed issuance of employee stock option certificates for 2018 by the Company	Yes	No
	2. Proposed issuance of employee stock option certificates for 2019 by the Company	Yes	No
	3. Proposed endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	4. 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		
	<p>Voting result of the first resolution: All attending directors and independent directors approved the resolution.</p> <p>Voting result of the second resolution: As Mr. Pai Chin Chang, a director, concurrently served as the general manager, 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 4, and all the attending directors and independent directors approved the resolution.</p> <p>Voting results of the third and fourth resolutions: All attending directors and independent directors approved the resolution.</p>		
Fourth session Eighteenth meeting 14 August 2019	1. Issuance of employee stock option certificates by the Company	Yes	No
	2. Endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	3. Endorsements and guarantees for Eastech Electronics (HK) Limited by the Company	Yes	No
	4. Total amount of the proposed additional investment in Vietnam	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.		

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 Nineteenth meeting 8 November 2019	1. Eastern Asia (HK), a subsidiary of the Company, proposed to increase the total investment in Vietnam	Yes	No
	2. Endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	3. Endorsements and guarantees for Eastech (VN) Company Limited by the Company	Yes	No
	4. Proposed renewal of the liability insurance for directors, supervisors and managers	Yes	No
	Opinions of independent directors: Nil		
	The Company's response to the opinions of independent directors: Nil		
	<p>Voting results of the first to third resolutions: All attending directors and independent directors approved the resolution.</p> <p>Voting results of the fourth resolution: After consulting with all attending directors and independent directors by the chairman, the insured amount was increased to US\$5,000 thousand by the resolution of the audit committee, and passed without exception.</p>		
Fourth session Twentieth meeting 19 December 2019	1. The Company intends to change the functional currency of the financial statements	Yes	No
	2. The resolution in relation to the approval of the pre-sale forward foreign exchange operation, with the total authorized amount not exceeding US\$30,000 thousand	Yes	No
	3. Endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	4. Proposed amendments to the Company's internal control system	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.		



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 Twenty first meeting 27 February 2020	1. The Company's 2019 annual employees' remuneration and directors' remuneration distribution plan	Yes	No
	2. Land purchase and factory construction project by sub-subsidiary Danish Scan-Speak	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 Twenty second meeting 24 April 2020	1. Nomination of candidates for directors and independent directors	Yes	No
	2. Removal of the restriction on the prohibition of competition of the Company's fifth session of new directors and its representatives	Yes	No
	3. Endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	4. Endorsements and guarantees for Eastech Electronics (HK) Limited by the Company	Yes	No
	5. Endorsement and guarantees for Eastech (VN) Company Limited by the Company	Yes	No
	6. Proposed issuance of employee stock option certificates	Yes	No
	Opinions of independent directors: Nil		
	The Company's response to the opinions of independent directors: Nil		
	<p>Voting result of first resolution: As Eastech Holdings Limited (Mr. Liou Jenq Lin, the chairman, concurrently serves as the chairman of Eastech Electronic (Taiwan) Inc. and Mr. Kwok King Lam Keenan Ken, the director, concurrently serves as the legal representative of Eastech Electronic (Taiwan) Inc.), Mr. Pai Chin Chang and Mr. Chang Tung I are the candidates for directors proposed by the board of directors in accordance with the law, they abstained from voting. The number of voters was only 3. After being appointed as the acting chairman and consultation, director Mr. Chen Ko Hung, proposed to nominate Eastech Holdings Limited, Mr. Pai Chin Chang and Mr. Chang Tung I as the candidates for the Company's directors.</p> <p>In this case, independent directors, namely Mr. Shiao Fung Shyung, Mr. Chang Shan Jun and Mr. Chen Ko Hung, are the candidates for independent directors proposed by the board of directors in accordance with the law, they abstained from voting. The number of voters was only</p>		

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
	<p>3. After consultation, the chairman proposed to nominate Mr. Shiau Fung Shyung, Mr. Chang Shan Jun and Mr. Chen Ko Hung as the candidates for the Company's independent directors.</p> <p>Voting result of the second resolution: As independent directors Mr. Shiau Fung Shyung and Mr. Chen Ko Hung had their own interests in this case, 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.</p> <p>Voting result of the third to sixth resolutions: All attending directors and independent directors approved the resolution.</p>		
Fourth session Twenty third meeting 7 May 2020	1. Endorsements and guarantees for Eastern Asia Technology (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.		

- (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 10 June 2019, the board of directors approved the proposal for issuance of employee stock option certificates by the Company for 2019.

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.

Name of directors: Liou Jenq Lin, Kwok King Lam Keenan Ken (legal representative of Eastech Electronics (Taiwan) Inc.), Pai Chin Chang and Chang Tung I

Name of independent directors: Shiau Fung Shyung, Chang Shan Juh and Chen Ko Hung

Content of the proposal:

On 24 April 2020, the board of directors approved the proposal for the nomination of candidates for directors and independent directors

Reason for abstention and their participation in voting:

As directors, namely Mr. Liou Jenq Lin, Mr. Kwok King Lam Keenan Ken (legal representative of Eastech Electronics (Taiwan) Inc.), Mr. Pai Chin Chang and Mr. Chang Tung I and independent directors, namely Mr. Shiau Fung Shyung, Mr. Chang Shan Juh and Mr. Chen Ko Hung had their own interests in this case, they abstained from voting to avoid conflict of interests.

Name of independent directors: Shiau Fung Shyung, Chang Shan Juh and Chen Ko Hung

Content of the proposal:

On 24 April 2020, the board of directors approved the proposal for the removal of the restriction on the prohibition of competition of the Company's fifth session of new directors and its representatives

Reason for abstention and their participation in voting:

As independent directors, Mr. Shiau Fung Shyung and Mr. Chen Ko Hung had their own interests in this case; they abstained from voting to avoid conflict of interests.

(3) Appraisal and Implementation of the Board of Directors:

Evaluation Cycle	Evaluation Period	Evaluation Scope	Evaluation Method
Once a year	From 1 January to 31 December each year	Board of Directors, individual Directors and functional Committees	Internal self-evaluation of the Board of Directors, self-evaluation of Directors, internal self-evaluation of functional Committees
<p>Evaluation content</p> <p>(1) The performance evaluation of the Board of Directors: at least including the level of participation in the Company's operations, the quality of decisions of the Board, the composition and structure of the board, the selection and continuous education of Directors, internal control and etc.</p> <p>(2) Performance evaluation of individual Directors: at least including the mastery of the Company's goals and tasks, the awareness of Directors' responsibilities, the level of participation in the Company's operations, internal relationship management and communication, Directors' professional and continuing education, internal control and etc.</p> <p>(3) Performance evaluation of Functional Committees: the level of participation in the Company's operations, the awareness of Functional Committees' responsibilities, the quality of decisions of the Functional Committees, the composition of functional Committees and the selection of members, internal control and etc.</p>			

- (4) 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 implement corporate governance and enhance the functions of the Board, the Company established a performance target to strengthen the efficiency of the Board. The "Evaluation Method for the Board's Performance" was formulated on 8 November 2019, and the performance evaluation of the Board, Directors and functional committees (remuneration committee and audit committee) was completed in January 2020, the results of the 2019 evaluation were all excellent and the Board overall can operate in active and effective manner.

For better governance of the Company and enhance the function of the Board, and to set up performance target to improve the operating efficiency of the Board, the Measures for Performance Assessment of the Board were formulated on 8 November 2019 and the performance assessment for the Board, the Directors and functional committees (Remuneration Committee and Audit Committee) was completed in January 2020. The assessment results for 2019 were excellent, showing that the Board as a whole operates well.

The Company's "Evaluation Method for the Board's Performance" has been disclosed on Public Information Observation Post and the Company's website.

## **(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 2019 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 (2019) 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 6 June 2017
Independent Director	Shiau Fung Shyung	10	1	91	
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:

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 Fourteenth meeting 22 February 2019	1. The Company's 2018 business report and consolidated financial statements	Yes	No
	2. The Company's 2018 employee remuneration and directors' remuneration proposal	Yes	No
	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	Yes	No
	Resolution of the audit committee (22 February 2019): All members of the audit committee approved the resolution.		
	The Company's response to the opinion of the audit committee: All		

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
	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
	Resolution of the audit committee (6 March 2019): All member 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.		
	The Company's response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.		
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.		

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 Seventeenth meeting 10 June 2019	1. Endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	2. Endorsements and guarantees for Eastech Electronics (Huiyang) Co., Ltd.	Yes	No
	Resolution of the audit committee (10 June 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 Eighteenth meeting 14 August 2019	1. The Company's consolidated financial statements for the first half of 2019	Yes	No
	2. Proposed issuance of employee stock option certificates	Yes	No
	3. Endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	4. Endorsements and guarantees for Eastech Electronics (Huiyang) Co., Ltd.	Yes	No
	5. Total amount of the proposed additional investment in Vietnam	Yes	No
	Resolution of the audit committee (14 August 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 Nineteenth meeting 8 November 2019	1. EAH, a subsidiary of the Company, proposed to increase the total investment in Vietnam	Yes	No
	2. Endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	3. Endorsements and guarantees for Eastech (VN) Company Limited by the Company	Yes	No
	4. Proposed renewal of the liability insurance for directors, supervisors and managers	Yes	No
	Resolution of the audit committee (8 November 2019):  Voting results of resolution no. 1-3: All members of the audit committee approved the resolution.		



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 Twentieth meeting 19 December 2019	Voting results of resolution no. 4: After consulting with all attending directors and independent directors by the chairman, the insured amount was increased to US\$5,000 thousand by the resolution of the audit committee, and passed without exception.		
	The Company's response to the opinion of the audit committee: All attending directors and independent directors approved the resolution.		
	1. The Company intends to change the functional currency of the financial statements	Yes	No
	2. The resolution in relation to the approval of the pre-sale forward foreign exchange operation, with the total authorized amount not exceeding US\$30,000 thousand	Yes	No
	3. Endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	4. Proposed amendments to the Company's internal control system	Yes	No
Resolution of the audit committee (19 December 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 Twenty first meeting 27 February 2020	1. The Company's 2019 annual business report and consolidated financial statements	Yes	No
	2. The Company's 2019 annual employees' remuneration and directors' remuneration distribution plan	Yes	No
	3. The Company intends to agree to issue an "Internal Control System Statement" in accordance with Article 24 of the "Public Issuing Companies' Guidelines for Establishing Internal Control Systems"	Yes	No
	4. Land purchase and factory construction project by sub-subsidiary Danish Scan-Speak	Yes	No
	Resolution of the audit committee (27 February 2020): All members of		

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
	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 Twenty second meeting 24 April 2020	1. Endorsements and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	2. Endorsements and guarantees for Eastech Electronics (HK) Limited by the Company	Yes	No
	3. Endorsement and guarantees for Eastech (VN) Company Limited	Yes	No
	4. Proposed issuance of employee stock option certificates	Yes	No
	Resolution of the audit committee (24 April 2020): 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 Twenty third meeting 7 May 2020	1. Endorsement and guarantees for Eastern Asia Technology (HK) Limited by the Company	Yes	No
	Resolution of the audit committee (7 May 2020): 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 2019 are summarized as follows:

Date	Focus of communication	Communication results
22 February 2019 Audit committee/board of directors	1. Summary report on the internal audit implementation for 2018 2. The Management's Reports on Internal Control for 2018 3. 31 October 2018 to 31 January 2019 internal audit implementation report	No objection
9 May 2019 Audit committee/board of directors	1 February 2019 to 26 April 2019 internal audit implementation report	No objection
14 August 2019 Audit committee/board of directors	27 April 2019 to 31 July 2019 internal audit implementation report	No objection
8 November 2019 Audit committee/board of directors	1 August 2019 to 31 October 2019 internal audit implementation report	No objection
19 December 2019 Audit committee/board of directors	1. The Company's 2020 audit plan 2. 31 October 2019 to 30 November 2019 internal audit implementation report	No objection
27 February 2020 Audit committee/board of	1. Internal audit implementation summary report of 2019 2. "Statement of Internal	No objection

Date	Focus of communication	Communication results
directors	Control System” for 2019 3. 1 December 2019 to 31 January 2020 internal audit implementation report	
24 April 2019 Audit committee/board of directors	1 February 2020 to 25 April 2020 internal audit implementation report	No objection
7 May 2020 Audit committee/board of directors	16 April 2020 to 28 April 2020 internal audit implementation report	No objection

③ Summary of communication between independent directors and accountant

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

Date	Focus of communication	Communication results
22 February 2019 Audit committee/board of directors	The certified public accountant attended the audit committee and the board of directors, and communicated with the directors to explain the matters to be reviewed on the Company’s 2018 consolidated financial report and key audit matters (KAM), which are selected from among professional judgement and understanding the most important matters of the Company's communication with the corporate governance authorities.	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 reported to be completed on 22 February 2019.
14 August 2019 Audit committee/board of directors	Submission of the consolidated financial report for the second quarter of 2019  The certified public accountant attended the audit committee and the board of directors, and communicated to explain the questions of independent directors.	The consolidated financial report for the second quarter was approved by the audit committee and submitted to the board of directors for approval on 14 August 2019; and was published and reported to be completed on 14 August 2019.
19 December 2019 Audit committee/board of	The certified public accountant attended the audit committee and the board of directors, and	In accordance with the order of the competent authority,

Date	Focus of communication	Communication results
directors	communicated with the directors to explain the matters to be reviewed in relation to the Company's 2018 consolidated financial report and key audit matters (KAM) and the latest letter from the competent authorities to order the Company to publish its financial statements.	the company shall submit its own financial reports to the board of directors.
27 February 2020 Audit committee/board of directors	<p>Submission of the annual consolidated financial report of 2019</p> <p>The certified public accountant attended the audit committee and the board of directors, and communicated with the directors to explain the matters to be reviewed on the Company's 2019 consolidated financial report and key audit matters (KAM). The certified public accountant attended the audit committee and the board of directors, and communicated to explain the questions of independent directors.</p>	The consolidated financial report for the second quarter was approved by the audit committee and submitted to the board of directors for approval on 27 February 2020; and was published and reported to be completed on 27 March 2020.

**(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 ( <a href="mailto:ir@eastech.com">ir@eastech.com</a> ) 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	Yes		(4) The Company has established the Rule Governing the	No substantial discrepancy

insiders from using undisclosed information to trade securities on the market?			Prevention of Insider Trading, which prohibits insiders from using undisclosed information to trade securities on the market.	
<p>3. Composition and responsibilities of the board of directors</p> <p>(1) Does the board of directors set and implement a diversity policy?</p>	Yes		<p>(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.</p> <p>For the board diversity policy and its implementation, please refer to Note 1 on page 56 of the annual report.</p> <p>29% of our directors are employees of the Company, while 43% of our directors are independent directors. The three independent directors have nine years of experience serving as independent directors. One director is aged over 70, three aged 60-69, two 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.</p> <p>The Company comprises of seven directors. Mr. Liou Jeng Lin, a director who has been immersed in the acoustic industry for decades, has created and operated the acoustic enterprise layout to date. He is good at arranging enterprise development plans and strategic future development directions, with Mr. Pai Chin Chang, general manager and director, who is strong in production and quality management and technology-based, which every product is like a treasure and incompetent. Chief Financial Officer Mr. Chang Tung I who is a financial director and has the ability to operate many listed cabinet companies. The three aforesaid directors constitute the operating iron triangle of the Company. Mr. Kwok King Lam Keenan Ken, the Hong Kong director, does not participate in the Group's daily internal management. He has been operating in</p>	No substantial discrepancy

			<p>Hong Kong and Thailand for many years. He has good operation management ability and has a diversified international outlook. He can provide non-homogenous thinking with a different regional/industrial perspective to the board of directors. Three independent directors have the background of “administration” and “education”. Mr. Shiau Fung Shyung served as the Vice Council for Economic Construction Committee, and has a foreign master’s degree in economics and has served as the dean of College of Commerce of Tamkang University and an honorary professor so far. Independent director Mr. Chen Ko Hung, a chief financial officer of a TPEX listed company has a chief financial officer's vision, can provide financial early warning and serves as the chairman of the audit committee. He is suitable for legal consultation and other professional consultations. Mr. Chang Shan Juh, the chairman of independent directors, is an expertise in human resources, has the experience of manpower supervision including large listed groups and universities. In addition to serving as the chairman of the Company's compensation committee and facilitating industry-university cooperation with related universities, which makes progress for both teaching and learning. The diversity of the seven directors will be greatly beneficial the Company's future development.</p>	
(2) Has the Company voluntarily established other functional committees besides the remuneration committee and audit committee required by law?	Yes		<p>(2) The Company has established an audit committee and a remuneration committee. Other functional committees will be established according to the actual needs of the Company.</p>	No substantial discrepancy
(3) Has the Company set performance assessment rules and methods for the board of directors and does it perform regular evaluation every year, and reported the results of performance to the board of directors and applied to the reference of the remuneration and renewal nomination of	Yes		<p>(3) On 8 November 2019, the board of directors of the Company passed the “Board Performance Evaluation Method”, which stipulated that the board of directors should perform at least once a year the performance evaluation of the board of directors, members of the</p>	No substantial discrepancy



individual directors?			<p>board and functional committees (remuneration committee and audit committee). The internal evaluation shall be conducted at the end of each year, and the performance evaluation of current year shall be conducted in accordance with this method.</p> <p>The measurement items of the Company's board performance evaluation include the following five aspect:</p> <ol style="list-style-type: none"> <li>1. The level of participation in the operations of the Company.</li> <li>2. Improve the quality of decision-making of the board of directors.</li> <li>3. The composition and structure of the board of directors.</li> <li>4. Selection and continuous training of directors</li> <li>5. Internal control.</li> </ol> <p>The evaluation is carried out by the deliberative unit and is carried out using an internal questionnaire. According to the operation of the board of directors, the participation of directors and the functional committees. It adopts directors' evaluation of the operation of the board of directors, directors' evaluation of their own participation, and functional members' evaluation of the operation of the remuneration and audit committees. The results of the aforesaid evaluations will be used as a reference basis when nominating directors.</p> <p>The Company completed the performance evaluation of the board of directors, board members, and functional committees (remuneration committee and audit committee) in January 2020. The results of the 2019 evaluation are excellent, and the overall board of directors can actively and effectively operate. It has</p>	
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			been reported to the board of directors on 27 February 2020.	
(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 7 May 2020 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 page 57 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 qualified and appropriate number of corporate governance personnel, and appoint a corporate governance supervisor to be in charge of the Company' corporate governance affairs (including but not limited to providing information required for director/supervisor's operations, assisting directors and supervisors to follow laws, convening board/shareholder meetings in compliance with the law, and producing meeting minutes of board/shareholders' meetings)?	Yes		<p>In order to implement corporate governance and as approved by the board of directors on 26 April 2019, the Company designated Mr. Chang Po Chao, the vice president, to act as chief supervisor for corporate governance related matters and shall be reported to by the personnel of the stock affairs department. 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 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.</p> <p>The business development situation is as follows:</p> <ol style="list-style-type: none"> <li>1. To assist independent directors and directors in general in performing their duties, providing the required information and arranging director training</li> </ol>	No substantial discrepancy

				<ul style="list-style-type: none"> <li>(1) To provide company information required by the directors, maintain effective communication between the directors and management.</li> <li>(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 42 to 44 of the annual report.</li> <li>(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.</li> </ul>	
			2.	<p>To assist in the compliance of the board of directors and shareholders' meeting procedures and resolutions</p> <ul style="list-style-type: none"> <li>(1) To confirm whether the Company's shareholders' meeting or board of directors meets relevant regulations.</li> <li>(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.</li> <li>(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.</li> </ul>	
			3.	<p>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</p>	

			<p>involving conflict of interest; and the minutes of the board meeting shall be completed within 20 days after the meeting.</p> <p>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.</p> <p>5. Evaluate and procure appropriate director and manager liability insurance.</p> <p>6. In order to strengthen the efficiency of the operation of the board of directors, an internal performance evaluation is conducted at the beginning of each year on the overall operation of the board of directors in the previous year, and the results of the evaluation and evaluation are reported to the latest board of directors.</p>	
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 ( <a href="https://eastech.com">https://eastech.com</a> ), 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	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: <a href="https://eastech.com">https://eastech.com</a> ) 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	Yes		(2) The Company's Chinese and English websites disclose information about financial business and corporate	No substantial discrepancy

<p>and disclosure of information, implementation of the spokesman system, the legal entities announcements uploaded to website, etc.) to disclose information?</p> <p>(3) Does the Company announce and declare the annual financial report within two months after the end of the fiscal year, and announce and declare the first, second, and third quarterly financial reports and the monthly operating situation within the prescribed time limit?</p>	Yes	<p>governance.</p> <p>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.</p> <p>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.</p> <p>(3) The Company has announced the 2018 consolidated financial report on 22 February 2019, and announced and declared the first, second, and third quarterly financial reports and the monthly operating situation before the prescribed deadline.</p>	No substantial discrepancy
<p>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)?</p>	Yes	<p>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.</p> <p>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.</p> <p>(1) Staff welfare initiatives: The Company provides various regular welfare initiatives for its staff, procures insurance for</p>	No substantial discrepancy

				<p>employees according to local laws and regulations, provides a humane promotion system and transfer system, organizes entertainment activities, subsidizes the tuition for the children of factory workers attending Xiu De Chinese – Anglo Kindergarten, and provides nutritious and hygienic food in staff canteens.</p> <p>(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.</p> <p>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 organized by training institutions at home and abroad.</p> <p>(3) Retirement system: Implemented in accordance with the local labor law.</p> <p>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</p>	
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			<p>information that may affect the decision of investors.</p> <p>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.</p> <p>5. Stakeholder rights: The Company sets up sections for stakeholders on the Company's website (<a href="https://eastech.com">https://eastech.com</a>), 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.</p> <p>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 74 to 76 for details of directors' training.</p> <p>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</p>	
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			<p>risk identification operations and raise employees' risk awareness to ensure sustainable operations of the Company.</p> <p>8 Execution of customer policies: The Company upholds the principle of integrity, attaches importance to customer rights, provides quality services, and establishes long-term cooperative relationships with customers.</p> <p>9. Liability insurance for the Company's directors and supervisors:</p> <p>In 2019, the Company has procured liability insurance for its directors and managers for an insurance period from 20 November 2019 to 20 November 2020. The insured amount, coverage and insurance rate were submitted to the meeting of audit committee and the board of directors on 8 November 2019, which was announced on the Market Observation Post.</p>	
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)	Yes		<p>The Company actively promotes its corporate governance performance, and has completed the following major improvement projects in 2019:</p> <ol style="list-style-type: none"> <li>1. Announcing the English version of the Proceedings Manual 30 days prior to the general meeting</li> <li>2. Announcing the English version of the annual report 7 days prior to the general meeting</li> <li>3. Discussion and resolution of the remuneration committee</li> <li>4. The work focus and operation of the audit committee</li> <li>5. Business execution and training of the chief supervisor of corporate governance</li> <li>6. Formulate the board of directors' performance evaluation methods</li> </ol>	No substantial discrepancy



			7. Reveal communication with stakeholders on website	
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Note 1: Board diversity and its implementation

Core of diversity Name of director	Nationality	Operational judgement 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	✓		✓	✓	✓	✓	✓	✓	✓
Pai Chin Chang	Taiwan	✓		✓	✓	✓		✓	✓	✓
Kwok King Lam Keenan Ken	Hong Kong	✓	✓	✓	✓	✓	✓	✓	✓	
Chang Tung I	Taiwan	✓	✓	✓	✓	✓	✓	✓	✓	✓
Shiau Fung Shyung	Taiwan	✓	✓			✓	✓		✓	✓
Chang Shan Juh	Taiwan	✓			✓		✓	✓	✓	✓
Chen Ko Hung	Taiwan	✓	✓		✓			✓	✓	✓

### 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 independent requirements
1. 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 2019 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.
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**(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	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
	Name	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		
Independent Director	Chang Shan Juh	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Shiau Fung Shyung	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Independent Director	Chen Ko Hung			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	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 assigned by the Company or its parent company or subsidiaries or subsidiaries under the same parent company in accordance with this law or location national laws and regulations are mutually concurrent).
- (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 manager listed in (1) and a spouse, a relative within two degrees of kinship or a lineal blood relative within three degrees of kinship of the persons listed

in (2) and (3).

- (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 the top five corporate shareholders, or a representative appointed to act as a director or supervisor of the company in accordance with Article 27 (1) or (2) of the Company Act (except for independent directors assigned by the Company or its parent company or subsidiaries or subsidiaries under the same parent company in accordance with this law or location national laws and regulations are mutually concurrent).
- (6) Not being a director, supervisor or employee of other companies who are controlled by the same person or more than half of the shares of the company are controlled by the same person (except for independent directors assigned by the Company or its parent company or subsidiaries or subsidiaries under the same parent company in accordance with this law or location national laws and regulations are mutually concurrent).
- (7) Not being a director, supervisor or employee of other companies or organizations who are not the same person or spouse with the company's chairman, general manager or equivalent (except for independent directors assigned by the Company or its parent company or subsidiaries or subsidiaries under the same parent company in accordance with this law or location national laws and regulations are mutually concurrent).
- (8) 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(except for a particular company or institution holds more than 20% but not exceeding 50% of the company's issued shares and independent directors assigned by the Company or its parent company or subsidiaries or subsidiaries under the same parent company in accordance with this law or location national laws and regulations are mutually concurrent).
- (9) 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. However, members of the remuneration committee, public takeovers review Committee, or special committee for mergers and acquisitions performing their functions and powers in accordance with the relevant laws and regulations of the Securities Exchange Act or the Business Mergers and Acquisitions Act are not limited to this.
- (10) 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 director performance evaluation and the remuneration of directors and managers, and review them regularly;
- Regularly evaluate and recommend the remuneration of directors and managers; and
- Other matters required by the Listing Act

3. Operation 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 (2019) 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	7	1	88	
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 Eight meeting 22 February 2019	1. The Company's 2018 employee remuneration and directors' remuneration proposed	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 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
Third session Eleventh meeting 10 June 2019	1. Proposed issuance of employee stock option certificates for 2018 by the Company 2. Proposed issuance of employee stock option certificates for 2019 by the Company 3. To consider the 2019 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 Twelfth meeting 14 August 2019	1. Proposed issuance of employee stock option certificates by the Company 2. To consider the 2019 salary adjustment plan of the Company and its subsidiaries 3. Proposed appointment of subsidiaries	All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors

Remuneration committee	Content of the proposal	Resolution	The Company's response to the opinion of the remuneration committee
Third session Thirteenth meeting 19 December 2019	1. The Company's 2019 work plan of the remuneration committee	All committee members approved the resolution	All committee members approved the resolution
Third session Fourteenth meeting 27 February 2020	1. The Company's 2019 employee remuneration and directors' remuneration proposal  2. Proposed amendments to the issuance of second employee stock option certificates for 2019 by the Company and subscription measures	All committee members approved the resolution	Submitted to the board of directors and approved by all attending directors and independent directors
Third session Fifteenth meeting 24 April 2020	1. Proposed issuance of employee stock option certificates by the Company  2. Proposed amendments to the issuance of second employee stock option certificates for 2019 by the Company and subscription measures	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 and the reasons and difference with the TPEX Listed Companies' code of practice on corporate 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. Does the Company conduct risk assessments on environmental, social and corporate governance issues related to the Company's operations in accordance with the principle of materiality, and formulate relevant risk management policies or strategies?	Yes		1. The Company adheres to the concept of integrity management and the principle of materiality while pursuing the sustainable operation and profit of the Company, it fulfill its corporate social responsibility pays attention to the rights and interests of stakeholders, focuses on environmental, social and corporate governance issues, and incorporates it into the Company management policies and operation activities to achieve the goal of sustainable operation.	No substantial discrepancy
2. 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		2. 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
3. Environmental issues  (1) Does the Company establish an appropriate environmental management system according to its industrial characteristics?	Yes		(1) The Company's production plants are located in mainland China and Vietnam, abide by the laws, regulations and other relevant regulations on environment, safety and health of local countries and regions, and improve the environment, safety and health management in accordance with the relevant regulations of brand customers. In terms of environmental engineering, the Company has gradually improved environmental protection facilities, built solid waste recycling plants in accordance with environmental	No substantial discrepancy



			standards, and stored them separately. Improving sewage pipes to ensure that sewage enters the sewage tank for treatment and meets discharge standards.	
(2) Is the Company committed to improving resource efficiency and to the use of renewable materials with low environmental impact?	Yes		(2) 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
(3) Does the Company assess the potential risks and opportunities of climate change for the Company now and in the future, and take measures to address climate-related issue?	Yes		<p>(3) With the impact of the greenhouse effect, temperature rising as a result of global warming and intensifying extreme climates, more costs must be invested in natural disaster prevention and operational energy acquisition in the future. The Company implements green supply chain management to achieve the goal of enterprise energy conservation management.</p> <p>The Company actively promotes energy saving and carbon reduction, greenhouse gas reduction, water consumption reduction or other waste management policies and other measures, such as strengthening the factory environment, updating environmental protection projects for wastewater and exhaust emission systems, and preventing water pollution and air pollution, which complies with relevant environmental protection emission standards.</p>	No substantial discrepancy
(4) Does the Company count greenhouse gas emissions, water consumption and total weight of waste in the past two years, and formulate policies for energy saving and carbon reduction, greenhouse gas reduction, water use reduction or other waste management?	Yes		<p>(4) In order to continuously promote energy saving, carbon reduction and greenhouse gas reduction, the Company has formulated the following measures to reduce the impact of climate change on its operational activities:</p> <ol style="list-style-type: none"> <li>1. For the lighting equipment of the Company's Taiwan office, traditional fluorescent lamps were replaced</li> </ol>	No substantial discrepancy

			<p>with LED lighting.</p> <p>2. Multi-party video conferencing equipment was set for the Company and its subsidiaries to reduce the number of business trips.</p> <p>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.</p> <p>4. Each factory is dedicated to greening the environment in addition to energy saving and carbon reduction in operation.</p> <p>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.</p> <p>6. The factories promote environmental protection and safe production, and update the dust explosion-proof renovation project of the woodworking workshop, the waste gas treatment project of the plastics department, the wastewater treatment project of the woodworking workshop and the sewage drainage system reconstruction project.</p>	
<p>4. Social issues</p> <p>(1) Does the Company set policies and procedures in compliance with relevant regulations and the International Bill of Human Rights?</p> <p>(2) Does the Company formulate and implement reasonable employee welfare measures (including remuneration, vacations and other benefits), and appropriately reflect operating performance or results in employee remuneration?</p>	<p>Yes</p> <p>Yes</p>		<p>(1) The Company complies with all relevant labor laws and regulations of the local competent authority to protect the rights and interests of employees.</p> <p>(2) The Company formulates various remuneration and welfare measures for employees in accordance with various labor-related laws and regulations of the local competent authority, and provides market-competitive welfare measures to motivate employees.</p>	No substantial discrepancy

<p>(3) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training?</p>	<p>Yes</p>	<p>Article 117 of the Company's Articles of Association stipulates that if the Company makes a profit in the year, it should allocate 1 to 15% of the profit as employees' remuneration and share the surplus result with them.</p> <p>(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:</p> <p>(1) In 2019, with an aim to promote environmental protection and safe production, our factory invested approximately NT\$3 million in the woodworking workshop dust explosion-proof renovation project, the plastics department production exhaust gas treatment project, the woodworking workshop production wastewater treatment project and sewage drainage system reconstruction project.</p> <p>(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.</p> <p>(3) Two fire drills are conducted in winter and summer every year. In 2019, over 6,127 employees participated in fire and safety training.</p> <p>(4) Work environment inspections are conducted at least once per year. In 2019, the number of work-related injuries (excluding traffic accidents) has decreased as compared with the previous year.</p> <p>(5) Employee health checkups are conducted every year to raise employees' awareness on their own</p>	
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			<p>health management and disease prevention and for early detection and treatment for diseases.</p> <p>(6) Regular training on first aid and CPR are organized for relevant staff members to be able to perform first aid when necessary.</p> <p>(7) Regular promotions of labor safety and health education are carried out.</p>	
(4) Has the Company established effective career development training plans for its staff?	Yes		(4) The Company designs various career development programmes according to each function in combination with the Company's future development strategies and objectives.	No substantial discrepancy
(5) With regard to customer health and safety, customer privacy, marketing and labeling of products and services, has the Company followed relevant regulations and international standards, and formulated relevant consumer protection policies and procedures for appeal?	Yes		<p>(5) The Company has followed the relevant regulations and international standards for customer health and safety, customer privacy, marketing and labeling of products and services.</p> <p>The Company's automotive speakers obtained ISO/TS16949 certification for supply chain quality management standards that meet zero defects in August 2016. Through certification, it is determined that the Company's entire operation process from business orders, product development, production management, quality system and financial management can meet the strict requirements of automotive speaker suppliers.</p> <p>The Company has established new customer processing procedures, customer data processing procedures, etc., to maintain smooth communication channels with customers and accept customer audits. In response to customer complaints, properly determine the problem and attribution, and regularly assess customer satisfaction to ensure the best service to customers.</p> <p>In order to protect the intellectual property rights of customers, in addition to the confidentiality agreements regulated by brand customers, the company also</p>	No substantial discrepancy

			regularly warns and promotes the importance of capital and confidentiality to relevant R&D personnel.	
(6) Has the Company formulated supplier management policies that require suppliers to follow relevant regulations on environmental protection, occupational safety and health or labor human rights, and their implementation?	Yes		<p>(6) The Company has set up a supplier management program.</p> <p>The Company's procurement department is responsible for handling supplier management. To ensure that the supplier's quality system management and source management of raw materials comply with regulations, the suppliers are also required to comply with relevant local laws and regulations when operating the Company's business. We also require suppliers to follow the RBA (Responsible Business Alliance) human rights, environment and ethical code of conduct.</p> <p>Establish a good communication mechanism with suppliers, deal with related matters of communication with suppliers, and proactively promote social responsibility views and environmental safety and health management policies to suppliers, including green supply chain, product hazardous substance restriction regulations, environmental protection related laws and regulations And customer product quality requirements, etc., to maintain good cooperative relations with suppliers.</p> <p>The Company's requirements for suppliers are not limited to quality and service. Before cooperating with us, the supplier must sign and comply with the Company's integrity management policy. If the supplier is involved in violation of the Company's integrity management policy, the Company will also terminate the business contacts. At the same time, the implementation status is realized. The Company's auditors conduct annual inventory inspections of the suppliers' social and environmental responsibilities to assess whether the new suppliers are required by laws,</p>	No substantial discrepancy

			regulations, customers and other relevant regulations. If they do not meet the requirements, the supplier will be assisted to improve within the specified time and reached the standard.	
5. Does the Company refer to the internationally-prepared reporting standards or guidelines for preparing corporate social responsibility reports and other reports that disclose the Company's non-financial information? Do the aforesaid reports obtain the confirmation or assurance opinion of the third-party verification unit?	Yes		5. The Company continues to practice corporate social responsibility, and has established a "Corporate Social Responsibility Zone" on the website to expose relevant information such as environmental protection, education subsidies and social welfare, and expose corporate social responsibility-related information in annual reports or public statements. In the future, we will prepare a corporate social responsibility report depending on the Company's development status.	No substantial discrepancy
6. 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				
7. Other important information to facilitate better understanding of the Company's implementation of corporate social responsibility: <div style="margin-left: 20px;"> (1) Environmental protection: <ul style="list-style-type: none"> <li>● 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.</li> <li>● 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.</li> <li>● In 2019, with an aim to promote environmental protection and safe production, the factory invested approximately NT\$3 million in the woodworking workshop dust explosion-proof renovation project, the plastics department production exhaust gas treatment project, the woodworking workshop production wastewater treatment project and sewage drainage system reconstruction project.</li> </ul> </div> <div style="margin-left: 20px;"> (2) Social engagement: <p>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:</p> <p>On 23 February 2019, several representatives participated in the Standard Chartered Hong Kong Marathon 2019;</p> <p>On 2 November 2019, two representatives participated in the Taiwan Taroko Gorge Marathon 2019;</p> </div> <div style="margin-left: 20px;"> (3) Education subsidy: <p>In October 2004, a director of the Company's subsidiary established Xiu De Chinese – Anglo Kindergarten in Huiyang New Market. It was recognized as a first class</p> </div>				

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.

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 September 2019.

The Company obtained the ISO9001 quality management system certification in July 2016 and the certificate was renewed in July 2019.

**(6) Implementation of ethical management policy and the reasons and differences with the TPEX listed companies' integrity management code**

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	
<p>1. Establishment of corporate conduct and ethics policy and implementation measures</p> <p>(1) Does the Company formulate the integrity management policy approved by the board of directors, 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?</p>	Yes		<p>(1) The Company has established Procedures for Ethical Management and Guidelines for Conduct and Code of Ethical Conduct, addressing its corporate conduct and ethics policy and measures which are approved by the board of directors and 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</p>	No substantial discrepancy

			participate in matters related to their own interests as appropriate.	
(2) 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		(2) 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. All have taken preventive measures and carried out education and publicity, planning and reporting system to ensure the effectiveness of the implementation of the system, in order to implement the integrity management policy.	No substantial discrepancy
(3) 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		<p>(3) 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.</p> <p>Every year when the board of directors submits an executive report to promote corporate integrity management, it will re-examine whether the Company's Procedures for Ethical Management and Guidelines for Conduct needs to be revised.</p>	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 compliance of ethical management policy.	No substantial discrepancy



(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 (at least once a year) updates on its integrity management policies and plans to prevent dishonest behaviors and supervision on relevant matters?	Yes		(2) The human resources department of the Company is responsible for formulating and supervising the implementation of integrity management policies and preventive measures to ensure the implementation of integrity management policies, which reports to the board the implementation results of integrity management on an annual basis, and assists the board of directors in evaluating the effective operation of the integrity prevention measures established. On 8 November 2019, the board of directors has completed the integrity management policy and the plan to prevent dishonesty behavior, and supervised the implementation.	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 in accordance with the results of the assessment of the risk of dishonesty, the relevant audit plan will be drawn up and the compliance with the plan to prevent dishonesty will be checked or entrusting accountants CPA to perform the audit?	Yes		(4) The Company implements ethical management, and has established effective accounting and internal control systems, which are audited by internal auditors in accordance with the results of the assessment of the risk of dishonesty, the relevant audit plan will be drawn up and the compliance with the plan to prevent dishonesty will be checked, 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 2019, the Company provided internal and external ethical conduct training programs (including relevant programs such as compliance with regulations of ethical management, commercial fraud review certificate course, legal responsibility and practice case analysis of "inside transaction" in the securities market from the perspective of judicial judgment and discussion of legal liability of "employee corruption") for a total of 313	No substantial discrepancy

			people with a total of 489 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, follow-up measures to be taken after the completion of investigation and ensuring such concerns are handled in a confidential manner?	Yes		(2) The Company established the standard procedure, follow-up measures to be taken after the completion of investigation 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 submitted 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) (website: <a href="https://eastech.com">https://eastech.com</a> ).	
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.				

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.

**(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://easotech.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 2019

Title	Name	Date		Holder	Course name	Training hours
		Since	Up to			
Chairman	Liou Jenq Lin	26 June 2019	26 June 2019	Legal foundation, Taiwan Academy of Banking and Finance	Global anti-evasion trend and shareholding regulations of directors and supervisors	3

Title	Name	Date		Holder	Course name	Training hours
		Since	Up to			
		19 July 2019	19 July 2019			
Director	Pai Chin Chang	12 December 2019	12 December 2019	Taiwan Corporate Governance Association	Best practices for enterprise innovation	3
		12 December 2019	12 December 2019	Legal Foundation, Securities & Futures Institute of ROC	Enterprise financial crisis early warning and type analysis	3
Director	Chang Tung I	12 December 2019	12 December 2019	Legal Foundation, Securities & Futures Institute of ROC	Discussion on information security governance of enterprises – focusing on legal practice	3
		17 July 2019	17 July 2019	Legal Foundation, Securities & Futures Institute of ROC	The principle and application of blockchain	3
Representative of juristic-person director	Kwok King Lam Keenan Ken	17 July 2019	17 July 2019	Legal Foundation, Securities & Futures Institute of ROC	”Printing stocks for bank note” securities fraud – talk about the illegal issuance of stocks and corporate bonds	3
		03 December 2019	03 December 2019	Taiwan Corporate Governance Association	Analysis of the top ten risks in the world in 2019	3
Independent Director	Shiau Fung Shyung	04 December 2019	04 December 2019	Legal Foundation, Securities & Futures Institute of ROC	Case analysis on the establishment of the practice of trust-receiving and special breach of trust by directors and supervisors	3
		07 November 2019	07 November 2019	Taiwan Corporate Governance Association	In the era of digital economy, how can enterprises innovate and break through profitability	3
		10 December 2019	10 December 2019	Taiwan Corporate Governance Association	Company strategy: past, present, future	3

Title	Name	Date		Holder	Course name	Training hours
		Since	Up to			
Independent Director	Chang Shan Juh	01 August 2019	01 August 2019	Taiwan Insurance Institute	Corporate information security governance	3
		05 August 2019	05 August 2019	Legal Foundation, Securities & Futures Institute of ROC	A probe into the prevention of money laundering and the practice of combating capital terrorism	3
Independent Director	Chen Ko Hung	28 October 2019	29 October 2019	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 2019

Title	Name	Date		Holder	Course name	Training hours
		Since	Up to			
Chief Financial Officer	Lam Pui Man	11 May 2019	11 May 2019	The Hong Kong Institute of Certified Public Accountants (HKICPA)	China Tax Conference	4
		15 June 2019	15 June 2019	The Association of Chartered Certified Accountants (ACCA Hong Kong)	ACCA Hong Kong Annual Conference 2019: From Vulnerability to Sustainability	7.5
		25 July 2019	25 July 2019	Legal Foundation, Accounting Research and Development Foundation of the ROC	A discussion of legal liability of "employee's corruption" and its forensics	3
		27 August 2019	27 August 2019	The Association of Chartered Certified Accountants (ACCA Hong Kong)	IFRS 15 - Revenue from contracts with customer	1.5

Title	Name	Date		Holder	Course name	Training hours
		Since	Up to			
		03 September 2019	04 September 2019	The Hong Kong Institute of Certified Public Accountants (HKICPA)	Keeping your project on Budget	1.5
Chief Audit Officer	Tang Kai Tak	22 March 2019	22 March 2019	Legal Foundation, Accounting Research and Development Foundation of the ROC	Analysis of the legal responsibility and practice cases of “internal transaction” in the securities market from the perspective of judicial adjudication	3
		21 June 2019	21 June 2019	Association of Certified Fraud Examiners	Commercial fraud review certificate course	18
Head of Corporate Governance	Chang Po Chao	30 July 2019	30 July 2019	Legal Foundation, Securities & Futures Institute of the ROC	Directors and supervisors (including independent) and corporate governance executives practical workshop	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: 27 February 2020

Based on the findings of a self-assessment, the Company states the following with regard to its internal control system during the year 2019:

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 2019, 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 27 February 2020, 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  
President: 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, or any sanctions imposed by the company upon its internal personnel for violations of internal control system provisions, principal deficiencies. If the result of the sanctions imposed may have a significant impact on shareholders' equity or the price of securities, the content of sanctions and the state of any efforts to make improvements shall be listed: 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 2019:

Date	Material resolutions	Implementation
10 June 2019	Matters for approval 1. 2018 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 2018	Determined 2 July 2019 as the ex-dividend date, and 16 July 2019 as the cash dividend payment date. The cash dividend paid for ordinary shares was NT\$ 1.30041126 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 new Memorandum and Article of Association.
	2. Resolution on the Proposed Increase in the Company's Authorized Capital	The regular general meeting approved the resolution on the proposed amendments to the articles of association to increase the authorized capital amount to NT\$1,200,000,000, divided into 120,000,000 shares with a nominal value of NT\$10 per share. The Articles of Association of the Company were announced on the website of the Company and the Company is operating in



Date	Material resolutions	Implementation
		accordance with the new Articles of Association.
	3. Resolution on the Proposed Amendment to the Procedures for Obtaining or Disposing of Assets of the Company	The amendments to the Proposed Amendment to the Procedures for Obtaining or Disposing of Assets of the Company were announced on the website of the Company and the Company is operating in accordance with the new Procedures for Obtaining or Disposing of Assets.
	4. Resolution on the Proposed Amendment to the Management Measures for Endorsement Guarantee of the Company	The amendments to the Proposed Amendment to the Management Measures for Endorsement Guarantee of the Company were announced on the website of the Company and the Company is operating in accordance with the new Management Measures for Endorsement Guarantee.
	5. Resolution on the Proposed Amendment to the Measures for Fund Loan and Others' Operations of the Company	The amendments to the Proposed Amendment to the Measures for Fund Loan and Others' Operations of the Company were announced on the website of the Company and the Company is operating in accordance with the new Measures for Fund Loan and Others' Operations.

2. Material resolutions of Board of Directors' meeting of the Company during 2019 up to the date of publication of the annual report:

Date	Material resolutions
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 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. Resolution on the application of mid-term credit facility of US\$ 3 million by the Company from Shanghai Commercial & Savings Bank, Ltd.

Date	Material resolutions
	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 US\$ 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 Company
	2. Resolution on the proposed issuance of employee stock option certificates by the Company
	3. Resolution on the recovery and cancellation of the Restricted Shares of employees and the reduction of capital by the Company
	4. Regular evaluation for the independence of the certified public accountants by the Company
	5. Resolution on the proposed formulation of the Standard Operating Procedures for Handling the Requirements of Directors of the Company
10 June 2019	1. Adjustment of shareholder’s dividend ratio
	2. Determination of the ex-dividend date for the year 2019
	3. Resolution on the issuance of employee stock option certificates for the year 2018 by the Company
	4. Resolution on the issuance of employee stock option certificates for the year 2019 by the Company
	5. Discussion of remuneration adjustment of the Company and its subsidiaries for the year 2019
	6. Resolution on the Endorsement Guarantee for Eastern Asia Technology (HK) Limited by the Company

Date	Material resolutions
	7. Resolution on the Endorsement Guarantee for Eastech Electronics (Huiyang) Co., Ltd. by the Company
14 August 2019	1. 2019 First Half Consolidated Financial Statements of the Company
	2. Resolution on the proposed issuance of employee stock option certificates 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
	5. Resolution on the recovery and cancellation of the Restricted Shares of employees and the reduction of capital by the Company
	6. Discussion of remuneration adjustment of the Company and its subsidiaries for the year 2019
	7. Resolution on the appointment of subsidiaries
	8. Resolution on the proposed increase in investment amount in Vietnam
8 November 2019	1. 2019 third quarter Consolidated Financial Statements of the Company
	2. Proposed increase in investment in Vietnam by the subsidiary Eastern Asia Technology (HK) Limited
	3. Resolution on amendments to the Endorsement Guarantee for Eastern Asia Technology (HK) Limited by the Company
	4. Resolution on amendments to the Endorsement Guarantee for Eastech (VN) Company Limited by the Company
	5. Resolution on the proposed renewal of the liability insurance for directors, supervisors and managers
	6. Proposed formulation of the “Evaluation Method for the Performance of the Board of Directors” of the Company
19 December 2019	1. Proposed approval for the operating plan of the Company for the year 2019
	2. Proposed change in the functional current of the financial statements by the Company
	3. Preparation of budgetary of the Company for the year 2020
	4. Approval for the selling of forward exchange with the total amount not more than US\$30 million
	5. Proposed approval for the audit plan of the Company for the year 2020
	6. Resolution on amendments to the Endorsement Guarantee for Eastern Asia Technology (HK) Limited by the Company
	7. Proposed amendments to the internal control system of the Company
27 February 2020	1. 2019 Business Report and Consolidated Financial Statements of the Company
	2. Resolution on the Distribution of Employees’ and Directors’

Date	Material resolutions
	Remuneration for 2019
	3. Resolution on the Distribution of the Company's Cash Dividend for 2019
	4. Determination of the ex-dividend date for the year 2020
	5. Resolution on the election of the fifth session of the board of directors of the Company
	6. 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
	7. Resolution on the proposed amendments to the issuance of second employee stock option certificates for 2019 by the Company and subscription measures
	8. Resolution on the recovery and cancellation of the Restricted Shares of employees and the reduction of capital by the Company
	9. Resolution on the renewal of the China Trust's short-term facility
	10. Submission of the Cayman Annual Declaration and Economic Substance Report
	11. Matters related to the convening of the general meeting by the Board of Directors of the Company for 2020
	12. The Land Purchas and Construction Project by sub-subsidiary Danish Scan-Speak
24 April 2020	1. Resolution on the nomination of candidates for directors and independent directors
	2. Resolution on the removal of the restriction on the prohibition of competition of the Company's fifth session of new directors and their representatives
	3. Proposed amendments to the Articles of Association of the Company
	4. Proposed amendments to the "Rules of Procedure for General Meetings" of the Company
	5. Resolution on the Endorsement Guarantee of the Company for Eastern Asia Technology (HK) Limited
	6. Resolution on the Endorsement Guarantee of the Company for Eastech Electronics (HK) Limited
	7. Resolution on the Endorsement Guarantee of the Company for Eastech (VN) Company Limited
	8. Resolution on the proposed issuance of employee stock option certificates by the Company
	9. Resolution on the proposed amendments to the issuance of second employee stock option certificates for 2019 by the Company and subscription measures
	10. If epidemic prevention is required, it is necessary for the Company to change the venue of the 2020 annual general meeting

Date	Material resolutions
	11. Proposed increase of matters for convening a general meeting of the Company for the year 2020
7 May 2020	1. 2020 First Quarter Consolidated Financial Statements of the Company
	2. Resolution on the Endorsement Guarantee of the Company for Eastech Electronics (HK) Limited
	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

**(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, head of corporate governance and principal research and development officer:**

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

31 March 2020

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, President, Head of Accounting Finance, Internal Audit, Corporate Governance and Research and Development 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	2019	Nil

Unit: NT\$'000

Item	Audit fees	Non-audit fees	Total
Amount range			
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.

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	5,560	0	0	0	0	990	2019	Authentication of major subsidiaries, issuance of employee stock option certificates, and provision of tax analysis for group structure adjustment 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 amount 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 10 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: Nil
- (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	2019		As of 14 April 2020	
		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	(113,000)	0	0	0
Director	Chang Tung I	42,000	0	(697,000)	0
Director	Eastech Electronics (Taiwan) Inc.	0	0	0	0
Representative of juristic-person director Eastech Electronics (Taiwan) Inc.	Kwok King Lam Keenan Ken	(181,000)	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

Title	Name	2019		As of 14 April 2020	
		Increase (decrease) in shares held	Increase (decrease) in shares pledged	Increase (decrease) in shares held	Increase (decrease) in shares pledged
Vice President	Chu Ming Chung (Note 1)	0	0	0	0
Vice President	Chih Tai An (Note 2)	(5,000)	0	0	0
Vice President	Chang Po Chao	(44,000)	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	21,000	0	0	0

Note 1: Resigned on 1 March 2019.

Note 2: Resigned on 1 June 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**

14 April 2020; Unit: share

Name	Shareholdings		Spouse and 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	
Taishin International Bank is entrusted to manage the investment account for Above Vantage	27,956,600	45.49	0	0	0	0	Nil	Nil	Nil
Taipei Fubon Bank Co., Ltd. is entrusted to manage the investment account for Above Vantage	2,272,000	3.70	0	0	0	0	Nil	Nil	Nil
Wu Shu-Jhen	1,976,000	3.22	0	0	0	0	Nil	Nil	Nil
Liou Jenq Lin	1,500,400	2.44	0	0	0	0	Nil	Nil	Nil
Kwok King Lam Keenan Ken	1,331,000	2.17	0	0	0	0	Nil	Nil	Nil
Jiang Ji-Ru	1,050,000	1.71	0	0	0	0	Nil	Nil	Nil
Standard Chartered Bank, Dunbei Branch is entrusted to manage the investment account for Credit Suisse – Renaissance long-term sales	1,032,000	1.68	0	0	0	0	Nil	Nil	Nil
HSBC is entrusted to manage the investment account for Core Pacific-Yamaichi International (H.K.) Limited	933,000	1.52	0	0	0	0	Nil	Nil	Nil
Standard Chartered Bank is entrusted to manage the investment account for Digital emerging market small core capital overseas	572,000	0.93	0	0	0	0	Nil	Nil	Nil
Tsai Ji-Tze	569,000	0.93	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 2019; Unit: share; %

Investees (Note)	Investment of the Company		Investment of the directors, supervisors, managers and directly or indirectly controlled entities		Consolidated Investment	
	No. of shares	Shareholding %	No. of shares	Shareholding %	No. 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

14 April 2020; Unit: thousand 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
June 2019	NT\$10	120,000	1,200,000	-	-	-	-	Note 6

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.

Note 6: On 10 June 2019, the shareholders' general meeting resolved to pass the amendments to the Articles of Association to increase the authorized capital to NT\$1,200,00 thousand, divided into 120,000 thousand shares with the nominal value of NT\$10 per share.

14 April 2020; Unit: Shares

Type of shares	Authorized Share Capital			Remark
	Issued shares (Note)	Unissued shares	Total	
Ordinary shares	61,458,000 listed shares	58,542,000	120,000,000	

Note: Including 280,000 restricted shares not yet available to the public.

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

## (2) Shareholding Structure

14 April 2020

Shareholding Structure Amount	Government Authority	Financial Institution	Other Legal Entity	Individual	Foreign Entity and Individual	Chine Entity and Individual	Total
No. of person	0	1	17	2,769	51	1	2,839
No. of shares	0	2,000	1,737,000	22,446,247	37,143,753	129,000	61,458,000
Shareholding %	0	0	2.82	36.52	60.44	0.21	100

## (3) Shareholding Distribution

### 1. Ordinary Shares

14 April 2020; Unit: Shares

Ranking of Shareholdings	No. of shareholders	No. of shares held	Shareholding (%)
1 to 999	128	10,641	0.02
1,000 to 5,000	2,085	4,278,330	6.96
5,001 to 10,000	291	2,339,758	3.81
10,001 to 15,000	82	1,049,000	1.71
15,001 to 20,000	72	1,346,000	2.19
20,001 to 30,000	44	1,117,000	1.82
30,001 to 50,000	50	1,979,118	3.22
50,001 to 100,000	41	2,792,153	4.54
100,001 to 200,000	22	3,144,000	5.12
200,001 to 400,000	12	3,334,000	5.42
400,001 to 600,000	4	2,017,000	3.28
600,001 to 800,000	0	0	0.00
800,001 to 1,000,000	1	933,000	1.52
1,000,001 and above	7	37,118,000	60.40
Total	2,839	61,458,000	100.00

### 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 if there are less than ten shareholders

14 April 2020

Name of substantial shareholders	No. of shares held	Shareholding (%)
Taishin International Bank is entrusted to manage the investment account for Above Vantage	27,956,600	45.49
Taipei Fubon Bank Co., Ltd. is entrusted to manage the investment account for Above Vantage	2,727,000	3.70
Wu Shu-Jhen	1,976,000	3.22
Liou Jenq Lin	1,500,400	2.44
Kwok King Lam Keenan Ken	1,331,000	2.17
Jiang Ji-Ru	1,050,000	1.71
Standard Chartered Bank, Dunbei Branch is entrusted to manage the investment account for Credit Suisse – Renaissance long-term sales	1,032,000	1.68
HSBC is entrusted to manage the investment account for Core Pacific-Yamaichi International (H.K.) Limited	933,000	1.52
Standard Chartered Bank is entrusted to manage the investment account for Digital emerging market small core capital overseas	572,000	0.93
Tsai Ji-Tze	569,000	0.93

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

Unit: NT\$; thousand Shares

Year		2018	2019	For the period ended 31 March 2020
Item				
Market price per share	Highest	30.15	68.00	56.40
	Lowest	18.55	25.00	19.00
	Average	24.83	43.14	39.42
Net assets per share (Notes 1 & 2)	Before distribution	27.63	30.65	25.79
	After distribution	26.33	30.14	-
Earnings (loss) per share (Notes 1 & 2)	Weighted average no. of shares	61,237 thousand shares	61,087 thousand shares	61,035 thousand shares
	Earnings (losses) per share	4.05	5.04	(4.28)

Item		Year	2018	2019	For the period ended 31 March 2020
Dividend per share	Cash dividend (Notes 2 & 3)		1.30	0.51	-
	Stock Dividend Distribution	Retained shares distribution	-	-	-
		Capital reserve shares distribution	-	-	-
	Accumulated unpaid dividend		-	-	-
Analysis of return on investment	Price-Earnings Ratio (Note 4)		6.13	8.56	-
	Price-Dividend Ratio (Note 5)		19.10	84.59	-
	Cash Dividend Yield (Note 6)		5.24%	1.18%	-

Note 1: The net assets and earnings per share for 2018 and 2019 were calculated based on the audited consolidated financial statements. The net assets and earnings per share for the period ended 31 March 2020 were calculated based on the reviewed consolidated financial statements.

Note 2: The net assets, earnings and dividend per share for 2018 and 2019 were calculated based on the weighted average number of shares of 61,237 thousand shares and 61,087 thousand shares. As of 31 March 2020, the net assets and earnings per share were calculated based on the weighted average number of shares of 61,035 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.

## (6) Dividend Policy and its Implementation

### 1. Dividend Policy

Pursuant to the resolution passed by the shareholders at the general meeting on 10 June 2019, 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 10% of the Remaining Earnings.

With the attendance of more than two-thirds of the directors by the board of directors of the Company and the attendance of more than half of the directors by special resolution, the dividend and all or any of the dividends to be distributed by way of cash shall be reported to the shareholders in general meeting. The cash dividend shall not be less than 50% of the total dividends/bonus distribution and the remaining distribution may be in stock dividends.

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

The Company’s 2019 dividend distribution proposal has been approved by the Board on 27 February 2020 and cash dividend shall be payable at NT\$0.51 per share.

3. Reporting of the distribution of cash dividends and its result at the general meeting:

It is expected that the Company will hold a general meeting on 12 June 2020 to report on the distribution of cash dividends and its result.

**(7) The effect of the proposed stock dividend distribution at the general meeting on the Company’s business performance and earnings per share: No 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 27 February 2020. 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 27 February 2020, the Board approved the proposal to distribute staff and directors' remuneration of NT\$8,255 thousand and NT\$7,720 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 12 June 2020 to report on the distribution of staff and directors' remuneration of NT\$8,255 thousand and NT\$7,720 thousand respectively.
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 2018 dividend distribution proposal of the Company and in accordance with the Articles of Association, cash dividend of NT\$80,000 thousand (NT\$1.3 per share) was distributed to shareholders, remuneration of approximately NT\$22,000 thousand was paid to staff and remuneration of approximately NT\$6,867 thousand was distributed to directors. Such distribution was approved by resolution at the general meeting held on 10 June 2019. There is no difference from the distribution amount proposed by the Board.

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

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

**3. Preferred shares: Nil**

**4. Global depositary receipts: Nil**

## 5. Employee Stock Options

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

7 May 2020

Type of Employee Stock Options	First Employee Stock Options	First Employee Stock Options	Second Employee Stock Options
Effective date	19 September 2018	19 September 2018	23 May 2019
Date of issuance (application)	28 September 2018	10 June 2019	10 June 2019
Unit of issuance	1,200 units	400 units	4,347 units
Number of shares subscribed as a percentage of total no. of shares in issue (%)	1.95%	0.65%	7.07%
Subscription period	28 September 2018 to 27 September 2022	10 June 2019 to 9 June 2023	10 June 2019 to 9 June 2023
Way of performance	Issuance of new shares	Issuance of new shares	Issuance of new shares
Restriction period and ratio (%) of subscription	100% of stock options shall be exercisable upon 3 years from expiry	100% of stock options shall be exercisable upon 3 years from expiry	100% of stock options shall be exercisable upon 3 years from expiry
No. of shares acquired	0	0	0
Subscription amount	0	0	0
No. of shares not yet acquired	1,130,000 shares	400,000 shares	4,347,000 shares
Subscription price per share not yet acquired	NT\$23.00	NT\$31.70	NT\$31.70
No. of shares not yet acquired as a percentage of total no. of issued shares (%)	1.84%	0.65%	7.07%
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.	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.	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 61,455,000 issued shares (taking into account of the 3,000 restricted shares in aggregate proposed to be cancelled by the Board on 7 May 2020).

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

7 May 2020; Unit: thousand shares

	Position	Name	No. of shares acquired	No. of shares obtained as a percentage of total no. of shares in issue (Note 1)	Exercised				Not Exercised			
					No. of shares acquired	Price of shares acquired	Amount of shares acquired	No. of shares obtained as a percentage of total no. of shares in issue (Note 1)	No. of shares acquired	Price of shares acquired	Amount of shares acquired	No. of shares obtained as a percentage of total no. of shares in issue (Note 1)
Managers	Director (Note 2)	Pai Chin Chang	891	1.45%	0	0	0	0	891	NT\$23.00 NT\$31.70	26,505	1.45%
	Director (Note 3)	Chang Tung I										
Staff	Staff of subsidiaries	(Note 4)	4,236	6.89%	0	0	0	0	4,236	NT\$23.00 NT\$31.70	126,190	6.89%

Note 1: Based on the total number of 61,455,000 issued shares (taking into account of the 3,000 restricted shares in aggregate proposed to be cancelled by the Board on 7 May 2020).

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, Liu Ching Shou, Low Weng Seet (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:

7 May 2020

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
No. of issued restricted shares for employees	252,000 shares	500,000 shares	500,000 shares
Issue price	NT\$0	NT\$0	NT\$0
No. of issued restricted shares for employees as a percentage of total no. 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%		
Restricted rights of restricted shares for employees	<ol style="list-style-type: none"> <li>Before the vesting conditions are satisfied, the employees shall not sell, pledge, transfer, donate, create or otherwise dispose of the restricted shares for employees.</li> <li>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.</li> <li>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.</li> </ol>		
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.		
No. of restricted shares for employees recovered or repurchased	25,000 shares	105,000 shares	114,000 shares
No. of restricted shares for employees upon release of restrictions	227,000 shares	301,000 shares	200,000 shares
No. of restricted shares for employees still subject to restrictions	0 shares	94,000 shares	186,000 shares
No. of restricted shares for employees still subject to restrictions as a percentage of total no. of shares (%)	0.00%	0.15%	0.30%
Impact on shareholders' interests	Nil	The dilution ratio is low and has proposed no significant impact on shareholders' interests.	The dilution ratio is low and has proposed no significant impact on shareholders' interests.

Note: Based on the total number of 61,455,000 the issued shares (taking into account of the 3,000 restricted shares in aggregate to be cancelled by the Board on 7 May 2020).

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

7 May 2020; Unit: thousand shares

	Position	Name	No. of the restricted shares for employees obtained	No. of the restricted shares for employees obtained to total no. of shares in issue ratio (Note 1)	Number of restricted shares for employees unrestricted				Number of restricted shares for employees not yet unrestricted			
					No. of shares unrestricted	Issuance price	Amount of issuance	No. of the restricted shares for employees unrestricted to total no. of shares in issue ratio (Note 1)	No. of shares not yet unrestricted	Issuance price	Amount of issuance	No. of the restricted shares for employees not yet unrestricted to total no. of shares in issue ratio (Note 1)
Managers	Director (Note 2)	Pai Chin Chang	188	0.31%	129	0	0	0.21%	59	0	0	0.10%
	Director (Note 3)	Chang Tung I										
	Vice President	Chang Po Chao										
	Chief Financial Officer	Lam Pui Man										
	Chief Audit Officer	Tang Kai Tak										
Staff	Staff of subsidiaries	(Note 4)	376	0.61%	247	0	0	0.40%	129	0	0	0.21%

Note 1: Based on the total number of 61,455,000 issued shares (taking into account of the 3,000 restricted shares in aggregate proposed to be cancelled by the Board on 7 May 2020).

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, Kek Yeh Huar, Choi Sung Su, Chan Hoi Lung, Chan Kuan Wai, Pang Ho Wai, 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	2018		2019	
	Amount	%	Amount	%
Home Audio	6,198,006	67.27	6,34,560	60.25
Personal Audio	2,139,612	23.22	2,499,905	23.74
Transducer Speaker	637,578	6.92	449,237	4.27
Others	238,559	2.59	1,236,672	11.74
Total	9,213,755	100.00	10,530,374	100.00

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

#### 3. Existing Products (Services) of the Company

Home Audio	Home theater, Sound Bars
Personal Audio	Portable wireless speakers, AI music center and earphones
Transducer Speaker	Premium transducers, automotive transducers
Others	Molds, acoustic kits

#### 4. New products developed

##### (1) Home Audio

Dolby Atmos Sound Bars, Sound Bars with wireless surround, GVA/Alexa speaker system.

##### (2) Personal Audio

Premium Bluetooth<sup>®</sup>, Airplay 2 & Wi-Fi speaker, VUI GVA AI speaker, TWS (True Wireless Stereo) speaker/earphone, etc.

##### (3) Transducer Speaker

Electronic speaker, 2-way acoustic suspension ultra-thin speaker, PUNKTKILDE<sup>™</sup> high-efficiency speaker.

## **(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.

Earphone, an inevitable component in output end of mobile audio/video players, mainly comprises 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 the main concern of consumers and the demand for the design and quality of which is getting higher.

① Classification of True Wireless Stereo and in-ear/earbud Bluetooth® earphones

TWS was a popular product in 2019. As a result of the trend started on Apple's AirPods, various smartphone or earphone brands entered the TWS market. Counterpoint Research, a market research institution, estimates that the sales number of global TWS earphones will reach 230 million in 2020, representing a growth of 91.6% compared with that in 2019. The compound annual growth rate from 2019 to 2022 is expected to reach 80%, which will reproduce the explosive growth of smartphones from 2009 to 2012.

② Classification based on design and function

Earphones can be classified into four kinds, namely circumaural, in-ear, supra-aural and canal.

**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 triggering 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.



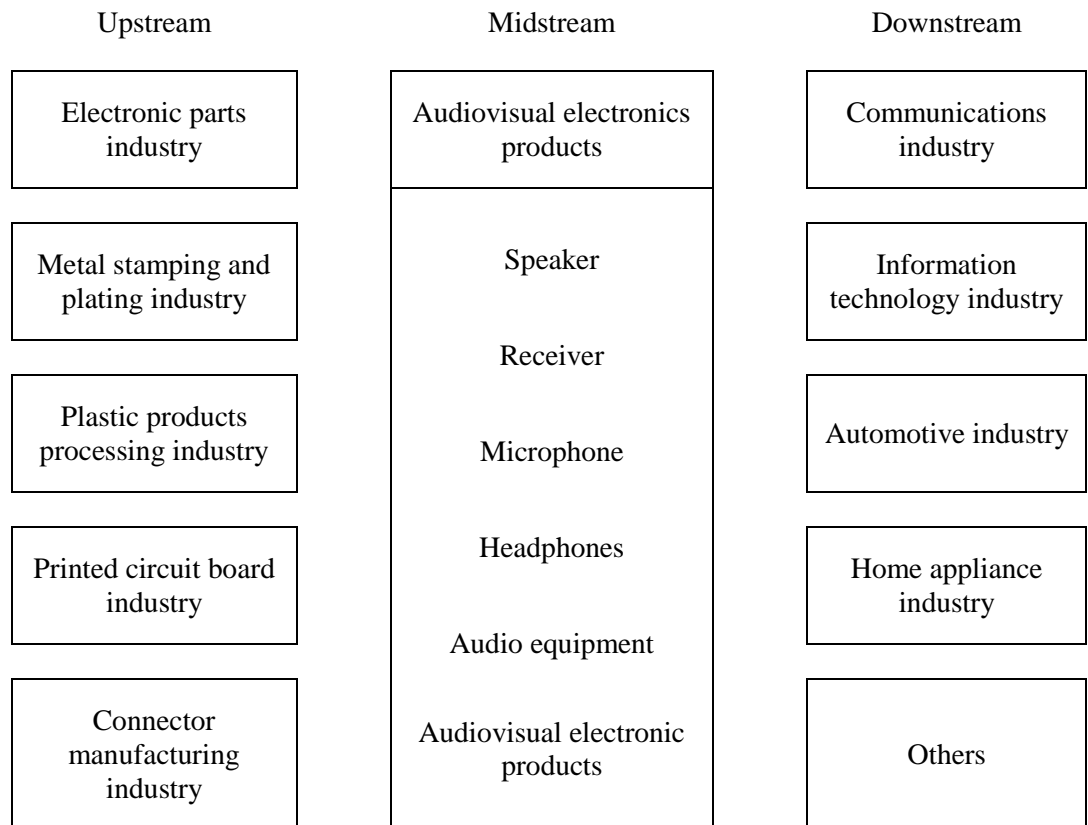
Canal: Canal earphone, which is evolved from the improvement of hearing aids, has become one of the popular earphone models in recent years. It has the same appearance and lightness features with the in-ear earphones and its sounding unit can extend into our ear canal with a distance even closer to our 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 headphones market. Due to the strong demand on the downstream market, global headphones 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 headphones produced by the Company are mainly used in downstream end-use products such as home theaters, 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

##### ① Speaker 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 is 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 for OEMs. 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 are 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.

## ② Earphones

According to a study in China Industrial Information Website, the global earphone market is growing steadily and the market landscape is changing. Excluding those offered together with mobile phones as gift, the sales of earphone will reach 460 million units by 2023, with an average compound annual growth rate of 3.9%. With steady growth of global earphone shipment,

the earphone industry is gradually upgrading, in particular, the wired earphone is replaced with wireless earphone, the proportion of Bluetooth® earphone increases and the headphones becomes smarter. The market size of smart earphones led by AirPods, the true Bluetooth® wireless smart headphone launched by Apple, will reach 16 billion USD by 2020 and maintain a high growth rate. True Wireless Stereo (TWS) earphone market has been flourishing with diversity. With the development of signal transmission technology, the portability of wireless earphones, the hole-free and wireless charging technology of iPhones, the market of Bluetooth® wireless earphones will grow rapidly in future, and it is pretty sure that Bluetooth® wireless earphone will become the main force driving the growth of the earphone 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

### ① Speaker 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 its long history, the speaker manufacturing industry has reached a 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 stand firm 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 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® headphones 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 individual

No. of individual / Year		2018	2019	As at 31 March 2020
Education Background Distribution	Doctoral	1	1	0
	Postgraduate	11	67	68
	Degree/Professional	169	195	202
	Senior High School	35	86	65
	Below Senior High School	55	27	48

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

Unit: NT\$'000

Year	2018	2019
R&D Expenses (A)	294,942	290,889
Net Revenues (B)	9,213,755	10,530,374
The Proportion of R&D Expenses % = (A)/(B)	3.20%	2.76%

4. Results of Research and Development

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

Year	Name of Product	Efficiency Description
2018	High and low volume speaker with Cone & Dome design using magnesium-lithium alloy	<p>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. Apart from the extra light weight of magnesium-lithium alloy material, the largest feature is that it can go through normal-temperature forming process in large-scale production such as the rolling and stamping technology. It can also be used for cast-molding and semi-solid injection molding.</p> <p>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.</p>

Year	Name of Product	Efficiency Description
		<p>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. It is used for vibration diaphragm of speakers (due to its high damping coefficient of ~0.01, it is the top material for vibration diaphragm speakers)</p> <ol style="list-style-type: none"> <li>1. 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/cm<sup>3</sup>, when the content of lithium is 13.0%, the density of magnesium-lithium alloy is 1.42g/cm<sup>3</sup>, when the content of lithium is more than 31%, the density of the magnesium-lithium alloy will be less than 1g/cm<sup>3</sup>, 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 &amp; 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 has a good noise reduction effect.</li> </ol>
	Compact transducer	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>3. The range of applications ranges from 2" to 6.5", which covers most product sizes.</li> <li>4. This design has been applied to the development of new models by internationally renowned brands.</li> </ol>





Year	Name of Product	Efficiency Description
	Design and manufacturing of ultra-thin speakers with the use of high carbon fiber mixed pulp	<p>the joint of the treble ridge, and the large coil of the bass is fixed to the middle and back of the diaphragm body.</p> <p>3. Design a. above can effectively reduce the height of the coaxial speaker. Design b. can effectively improve the problem of large deviation of frequency response and sharp covering angle between the axis and off-axis. Design c. can achieve true point audio source. Design d can attain enclosure and waterproof.</p> <p>4. Suitable for high-end Bluetooth® speakers and Sound Bars.</p> <p>1. This series features an ultra-thin design and its drum paper is made with the combination of carbon fiber and mixed pulp (composition ratio: 60% carbon fiber + 40% pulp), which is the first in the industry.</p> <p>2. The drum paper of high carbon fiber mixed pulp has the following outstanding characteristics: 1) Despite the density of pure pulp has reached 650Kg / m<sup>3</sup>, its density is 400Kg / m<sup>3</sup>, which is the smallest among non-metallic materials. 2) While possessing a density of 400Kg / m<sup>3</sup>, it also has good rigidity as its Young's modulus can reach 10.5GPa. 3) The high carbon fiber hybrid material lets the drum paper have the characteristics of high rigidity and light weight. It can also absorb shock and reduce noise due to its high internal resistance, which makes it stand out from the competition of non-metallic materials.</p> <p>3. This series of speakers also incorporates various current Eastech patents and technologies. In the selection of materials, high carbon fiber hybrid materials are used to greatly enhance the rigidity of the drum paper carcass and greatly increase the adjustment range of internal damping; In terms of structural design, the suspension part (drum paper and elastic wave stitched together) adopts the company's patented technology, the integrated structure design of the drum paper carcass and the dust cover. The overall height of the speaker and the influencing factors of glue are reduced due to the inner convex design of the drum paper; The overall height is reduced by embedding the U-iron in the bracket without affecting the amplitude; Holes are made on the U iron and the coil to reduce wind resistance and noise, thus improving the purity of the speaker's sound; The stitched conductive elastic wave is used on the elastic wave to avoid the common wire contact problem of common ultra-thin speakers; In the magnetic loop</p>

Year	Name of Product	Efficiency Description
	<p><u>Headphones</u></p> <p>Description of subwoofer coaxial tactile vibration headphones</p>	<p>system, we use ultra-strong magnetic neodymium iron to ensure the sound pressure level. The overall design of the speaker unit fulfils the demand for ultra-thin performance without compromising performance, which brings an unparalleled listening feast to the user.</p> <p><u>Headphones</u></p> <p>The new model is a reverse coaxial single magnet with double magnetic circuits. One coil drives the sound membrane to produce sound, and another coil drives the vibrating piece, thereby converting the sound source of vibration potential energy to vibrate the integrated coaxial speaker. The combination of the front cover and the back cover of the headphone forms an integrated headphone of sound-solid coupling and vibration potential energy transmission.</p> <ol style="list-style-type: none"> <li>1. The magnetic cover, magnet, and T iron form a magnetic field loop, driving two sets of coils to work.</li> <li>2. As coil 1 is fixed to the voice membrane, when the coil inputs an alternating audio current, the voice coil produces an alternating motion due to an alternating thrust. As a result, Drive the sound membrane vibrates and pushes the air repeatedly to produce sound.</li> <li>3. As coil 2 is fixed to the vibrating piece, when the coil inputs an alternating audio current, the voice coil produce an alternating motion upon receiving an alternating thrust. The vibrating piece vibrates repeatedly and transmits the potential energy of vibration to the front cover of the headphone through 3 positioning columns, thus improving the power of low-frequency haptic vibration brought by the low-frequency vibration (Not limited to several positioning columns to transfer vibration potential energy).</li> <li>4. Digital power amplifier utilizing two independent channels pushes the vibration system of coil 1 and coil 2 respectively.</li> </ol> <p>One channel is a digital full-frequency power amplifier of independent channel with a control frequency response range: 20-20KHZ. The vibration system fixed by coil 1 and the sound membrane vibrates repeatedly to push the air for sound production by controlling its output power.</p> <p>Another channel is a digital low frequency power amplifier of independent channel with a control frequency response range: 20-200HZ. The vibration system fixed by coil 2 and the vibrating</p>

Year	Name of Product	Efficiency Description
		piece vibrates repeatedly to convert potential energy from vibration by controlling its output power.

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

##### **1. Short-term business development plan**

##### **(1) Research and development strategies and plan**

- 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 Bars, 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 are focused on the investment in automation equipment.

## 2. Long Term Development Strategies and Plans

### (1) R&D Strategies and Plans

Headphone, especially TWS, 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 for TWS products from customers of existing traditional audio brands, 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	2018		2019	
	Amount	Ratio (%)	Amount	Ratio (%)
China (Note)	5,864,807	63.65	4,402,166	41.81
Hong Kong	805,515	8.74	215,762	2.05
Japan	696,203	7.56	517,876	4.92
Korea	568,596	6.17	3,099,426	29.43
Netherlands	351,052	3.81	524,721	4.98
Sweden	2,531	0.03	542,304	5.15
Others	925,051	10.04	1,228,119	11.66
Total	9,213,755	100.00	10,530,374	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 and 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 the 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.

#### (2) Earphones

TWS was a popular product in 2019. As a result of the trend started on Apple's AirPods, various smartphone or earphone brands entered the TWS market. Counterpoint Research, a market research institution, estimates that the sales number of global TWS earphones will reach 230 million in 2020, representing a growth of 91.6% compared with that in 2019. The compound annual growth rate from 2019 to 2022 is expected to reach 80%, repeating the explosive growth of smartphones from 2009 to 2012. AirPods Pro, which was launched in 2019, introduces clarity mode to significantly enhance its outdoor audio experience. Japanese audio manufacturers are making every endeavor in this market to compete with Apple. Without active noise cancellation, it may still be acceptable when you make a phone call in a noisy environment but is not enjoyable when listening to music under such circumstance. Not the end of 2019, however, traditional wired earphones were still main stream in the Japanese market considering that a decent TWS unit cost more than 20,000 JPY. According to findings from Strategy Analytics, a market research institution, the sales volume of AirPods series (60,000,000 sets) took more than 50% of the market share of global TWS market in 2019 and even more than 70% in terms of total revenue, which is higher than or even more than double of the total of other manufacturers.

Japanese audio manufacturers may find their competitive niche from audio enthusiasts or budget limited consumers in the Bluetooth® earphone market in 2020, however, it is not easy for them to challenge Apple. In 2024, the global TWS market is expected to exceed 100 billion USD, and it is impossible for Apple to take up the entire market. How much share will Japanese audio equipment manufacturers take in this market niche depends on response for their new products after launch.

#### 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. Favorable and unfavorable factors for long-term development and the responsive measures

(1) Favorable 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 consumers 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 integrate 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) Unfavorable 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 led 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 monitor/TV industry has extended to the AI speaker industry and consumer electronics assembly factories have also engaged in TWS earphones OEM. For traditional speaker industry, this increased a certain number of competitors. The intensified price reduction of competitors from different industries 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

Following rapid development of the industry, there were keen competitions of product technology and price. MCSync technology, launched by Chinese company Airoha, brought various unbranded TWS headphones to the market. Bluetooth® BLE Audio standard, which will be introduced in the first quarter of 2020, will accelerate the elimination of enterprises lagged behind in technology. Although the Company does not take a large market share in terms of its headphone output, it should keep up with the new TWS headphone landscape set by the phone supply chain. Otherwise it would miss the golden period of the development of TWS, the most popular technology within the industry.

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 included in the products being charged high punitive tariffs under the trade deal signed on 15 January 2020 in the first phase of the trade war. However, in view of the trend of fragmentation of the industry, relying solely on the PRC production base is impractical and having a second production base outside the PRC is already the baseline for taking orders. 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:

Phase I plant in Hải Dương, a northern province in Vietnam, was completed and started its operation in December 2019. The procurement costs in Vietnam were higher than that of the PRC supply chain because of incomplete local supply chains. Although Vietnam has a lower manpower cost as compared with the PRC, its production efficiency is far not comparable with that of the PRC. Phase II construction has started in advance due to risk diversification or customer designation, in order to enhance the value-added ratio of products made in Vietnam by means of improving self-production rate and routine work mode. As a result, the production base in Vietnam is deemed to be the second production base outside the PRC.

E. Impacts brought by the coronavirus epidemic

The coronavirus epidemic originated in Wuhan cast an impact to all industries and markets. In addition to the existing elimination effect formed by the competition of industry technology, disruption of supply chains and the frozen global market demand brought by the epidemic may expedite the shuffle of the acoustic market. Under the circumstance in which the output shipment will decrease in the future, the market may enter a dark period of chaotic and obscure demand, whether an enterprise will be eliminated depends on its business scale and competitiveness.

Responsive measures:

By changing its ways of management and communication, combined with its understanding of globalization, the Company attached more importance to the Vietnam manufacturing base. Only with proactive planning can the Company survive through the worldwide turbulent situation and outperform others.

**(2) Major purposes and production process of key products**

1. Major purposes of key products

Key Products	Major Purposes
Home Audio	Home theater, Sound Bars
Personal Audio	Portable wireless speakers, AI music center and earphones
Transducer Speaker	Key components of acoustic products
Others	Molds, acoustic kits

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 → 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) Transducer speakers

The production procedure of transducer speakers: 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) Earphones

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 (plug 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 past 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 past 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 past two years, their sales amount and proportion, and the explanation for the movements

Unit: NT\$'000

	2018				2019				For the first quarter ended 2020			
Item	Company	Amount	Percentage of annual net sales (%)	Relationship with the issuer	Company	Amount	Percentage of annual net sales (%)	Relationship with the issuer	Company	Amount	Percentage of annual net sales (%)	Relationship with the issuer
1	Company L	2,195,283	23.83	Nil	Company L	1,778,638	16.89	Nil	Company L	265,269	22.91	Nil
2	Company U	1,557,766	16.91	Nil	Company U	322,170	3.06	Nil	Company U	-	-	Nil
3	Company X	1,355,240	14.71	Nil	Company X	657,003	6.24	Nil	Company X	92,611	8.00	Nil
4	Company U1	-	-	Nil	Company U1	2,899,423	27.53	Nil	Company U1	307,635	26.56	Nil
5	Company X1	-	1	Nil	Company X1	410,862	3.90	Nil	Company X1	122,748	10.60	Nil
6	Others	4,105,466	33.72	-	Others	4,462,278	42.38	-	Others	369,836	31.93	-
	Net assets	9,213,755	100.00	-	Net assets	10,530,374	100.00	-	Net assets	1,158,099	100.00	-

Explanation for the movements:

- (1) The sales order of company L decreased as a result of the decrease in demand from customers resulted from the downturn of the South America economy and the market of consumer electronics. In addition, the manufacturing of specific products was transferred to the company's own plant, resulting in a decrease in sales order.
- (2) The sales order of original company decreased in 2019 together with the overall growth of company U1 as a result of the transfer of the sales order of company U to company U1, a member of the same Group.
- (3) The sales of specific products to customers by company X were not satisfactory, and the sales order decreased as a result of the decreased demand from the customers.
- (4) The sales of specific products to customers by company U1 were satisfactory, and the sales order increased as a result of the increased market demand from the customers.
- (5) The sales of specific products to customers by company X1 were satisfactory, and the sales order increased as a result of the increased market demand from the customers.

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

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

Year	2018			2019		
Quantity and Value Key Products	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Home Audio	10,009	8,493	5,732,539	8,794	5,824	5,636,260
Personal Audio	13,035	11,542	2,382,685	15,545	11,600	2,212,590
Transducer Speaker	5,685	4,849	575,182	5,748	4,891	390,558
Others	14,553	12,289	804,487	15,699	11,008	1,039,952
Total	43,282	37,173	9,494,893	45,786	33,323	9,279,360

Explanation for the movements:

As the order for high-end consumer electronics from new customers increased, the revenue increased as compared with 2018 and the production capacity was gradually adjusted and allocated to reach optimal deployment. Although the capacity utilization was lower as compared with last year, the average production value for 2019 increased as compared with 2018.

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

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

Year	2018				2019			
Sales quantity and Value Key Products	Domestic sales (Note)		Export sales		Domestic sales (Note)		Export sales	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Home Audio	10,333	1,710,731	22,066	4,487,275	9,561	756,825	2,556	5,587,735
Personal Audio	4,966	1,209,274	6,665	930,338	4,965	1,247,040	2,583	1,252,865
Transducer Speaker	3,988	322,572	1,709	315,006	2,803	159,305	2,144	289,932
Others	5,949	79,884	20,49	158,675	29,742	322,087	4,873	914,585
Total	25,236	3,322,461	32,489	5,891,294	47,071	2,485,257	12,156	8,045,117

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

Explanation for the movements:

As the order for high-end consumer electronics from new customers increased, the revenue increased as compared with 2018 and the production capacity was gradually adjusted and allocated to reach optimal deployment. Although the capacity utilization was lower as compared with last year, the average production value for 2019 increased as compared with 2018.

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

Unit: Person; %

Person/Year		2018	2019	As of 31 March 2020
No. of employee	Managerial level (Note)	79	52	52
	Production	1,637	1,010	967
	General	1,406	1,325	1,341
	Total	3,122	2,387	2,360
Average age		28.93	44.62	44.77
Average year of service		5.67	7.52	7.61
Academic qualification (%)	Doctoral	0.03	0.03	0.00
	Master	0.48	2.42	2.49
	University	13.81	11.87	12.01
	Senior high school	13.13	16.68	16.79
	Below senior high school	72.55	50.43	49.23

Note: Managerial personnel refer to supervisors of associate level or above.

**4. Environmental Protection Expenditure**

Description for the past two years and as of the issue date of this annual report, losses suffered due to pollution (including any compensation paid and any violations of environmental protection laws or regulations found in environmental inspection, specifying the disposition dates, disposition reference numbers, the provisions of law violated, and the content of the dispositions), and disclosure of an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. In case the amount cannot be reasonably estimated, explanation of the reason: Nil

Table of environmental protection expenditures of Mainland factories in 2019

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.  An automated material storage system was added for dust collection in 2019.	1,100,000
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.	800,000
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.	700,000
Modification construction for waste water drainage system	The costs for treatment of waste water drainage, including the prevention expenses for water pollution, the prevention expenses for other pollution, etc.	400,000
Total		3,000,000

## **5. Labor 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.

To comply with the pension scheme requirements in Vietnam, the subsidiary of the Group in Vietnam is required to contribute a specified percentage of payroll costs to the retirement plan operated by the relevant local authority of Vietnam.

(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 year and as of the date of issue of annual report, the losses suffered due to labor disputes (including any violations of the Labor Standards Act found in labor inspection, specifying the disposition dates, disposition reference numbers, the provisions of law violated, the substance of the legal violations, and the content of the dispositions), and disclosure of an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. In case the amount cannot be reasonably estimated, explanation of the reason:**

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

## 6. Material Contracts:

Nature	Party	Effective Period	Major Contents	Restriction Clause
Construction work	CÔNG TY CỔ PHẦN ĐẦU TƯ VÀ XÂY DỰNG THÁI BÌNH DƯƠNG (Thai Binh Duong Construction and Investment Joint Stock Company)	4 May 2019 to 30 December 2019	Construction of Vietnam plant	Nil

## VI. FINANCIAL INFORMATION

### 1. Latest five-year financial summary

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

##### 1. Condensed Balance Sheet – International Financial Reporting Standards

Unit: NT\$'000

Item \ Year		Financial Information for the last five years					As at 31 March 2020
		2015	2016	2017	2018	2019	
Current Assets		3,280,555	2,841,601	3,437,400	3,847,439	4,031,248	3,707,888
Property, Plant and Equipment		1,205,589	976,413	814,687	743,556	751,071	724,306
Intangible Assets		204,873	211,279	248,618	260,941	245,175	248,033
Other Assets		204,205	198,687	189,769	175,031	277,989	277,160
Total Assets		4,895,222	4,227,980	4,690,474	5,026,967	5,305,483	4,957,387
Current Liabilities	Before allocation	2,613,568	2,431,373	2,955,466	3,160,334	3,080,018	3,125,284
	After allocation	2,917,318	2,614,379	3,023,733	3,203,711	3,160,018	3,125,284
Non-current Liabilities		309,355	151,920	134,692	131,089	273,050	257,929
Total Liabilities	Before allocation	2,922,923	2,583,293	3,090,158	3,291,463	3,353,068	3,383,213
	After allocation	3,226,673	2,766,299	3,158,425	3,334,800	3,433,068	3,383,213
Interests attributable to the owners of the parent company		1,668,549	1,461,681	1,532,049	1,692,167	1,872,415	1,574,174
Share Capital		610,020	615,020	619,860	616,060	615,040	614,580
Capital Reserve		744,831	756,922	766,834	751,962	759,962	763,080
Retained Earnings	Before allocation	568,647	379,099	305,043	499,029	761,200	388,569
	After allocation	264,897	196,093	236,776	455,652	681,200	388,569
Other Interests		89,472	(65,683)	(50,750)	(107,488)	(159,768)	(168,036)
Stock Inventory		(40,671)	(40,671)	(40,671)	(24,019)	(24,019)	(24,019)
Non-controlling Interests		-	-	-	-	-	-
Total Interests	Before allocation	1,972,299	1,644,687	1,600,316	1,735,544	1,952,415	1,574,174
	After allocation	1,668,549	1,461,681	1,532,049	1,692,167	1,872,415	1,574,174

Sources: Consolidated financial reports for the years of 2015 to 2019 which were audited by the accountant; the consolidated financial report with the financial information as at 31 March 2020 which was reviewed by the auditor.

2. Consolidated Statement of Profit and Loss – International Financial Reporting Standards

Unit: NT\$'000

Item \ Year	Financial Information for the last five years					As at 31 March 2020
	2015	2016	2017	2018	2019	
Operating Revenue	8,166,474	6,469,043	7,694,273	9,213,755	10,530,374	1,158,099
Operating Gross Profit	1,232,812	1,005,744	857,091	1,181,675	1,490,451	17,312
Operating (Loss) Profit (Note 1)	212,014	106,224	1,390	289,580	357,885	(268,378)
Non-operating Income and Expenses	88,965	87,082	163,318	40,254	22,096	6,216
Net Profit (Loss) Before Tax	300,979	193,306	164,708	329,834	379,981	(262,162)
Net Profit (Loss) from Continuing Operations during the current period	255,274	133,932	124,944	247,707	308,155	(261,288)
Loss from Discontinued Operations	-	-	-	-	-	-
Net Profit (Loss) from during the current period	255,274	133,932	124,944	247,707	308,155	(261,288)
Other Comprehensive Income/(Loss) during the current period (Net amount after tax)	(90,421)	(163,142)	5,107	(72,015)	(64,482)	(10,302)
Total Comprehensive Profit (Loss) during the period	164,853	(29,210)	130,051	175,692	243,673	(271,590)
Net Profit (Loss) attributable to owners of the parent company	255,274	133,932	124,944	247,707	308,155	(261,288)
Net Profit attributable to non-controlling interests	-	-	-	-	-	-
Total Comprehensive Profit (Loss) attributable to owners of the parent company	164,853	(29,210)	130,051	175,692	243,673	(271,590)
Total Comprehensive Profit (Loss) attributable to non-controlling interests	-	-	-	-	-	-
Earnings (losses) per share (Note 2)	4.23	2.22	2.05	4.05	5.04	(4.28)

Sources: Consolidated financial reports for the years of 2015 to 2019 which were audited by the accountant; the consolidated financial report with the financial information as at 31 March 2020 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 2015 is based on the Company's weighted average number of 60,393 thousand shares. The calculation of earnings per share for the year 2016 is based on the Company's weighted average number of 60,270 thousand shares. The calculation of earnings per share for

the year 2017 is based on the Company's weighted average number of 60,807 thousand shares. The calculation of earnings per share for the year 2018 is based on the Company's weighted average number of 61,237 thousand shares. The calculation of earnings per share for the year 2019 is based on the Company's weighted average number of 61,087 thousand shares. The calculation of losses per share for the first quarter of 2020 is based on the Company's weighted average number of 61,035 thousand shares.

**(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
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
2019	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**

Unit: NTS'000

Analysis Item \ Year		Financial Information for the last five years					As at 31 March 2020
		2015	2016	2017	2018	2019	
Financial Structure (%)	Debt to asset ratio	65.91	65.43	67.34	66.34	64.71	68.25
	Long-term capital to property, plant and equipment ratio	164.06	165.26	204.59	245.21	285.65	252.95
Debt repaying ability (%)	Current ratio	112.45	108.69	113.68	120.09	127.57	118.64
	Quick ratio	87.84	85.48	86.71	96.68	101.73	80.49
	Interest cover	12.55	7.63	6.75	9.63	11.58	(43.93)



Analysis Item \ Year		Financial Information for the last five years					As at 31 March 2020
		2015	2016	2017	2018	2019	
Operating ability	Receivables turnover ratio (times)	6.08	4.92	5.46	4.87	5.55	3.37
	Average collection days	60.03	74.18	66.85	74.94	65.76	108.31
	Inventory turnover ratio (times)	14.23	9.42	11.25	12.71	14.02	5.27
	Payables turnover ratio (times)	5.76	4.15	4.75	4.74	4.77	2.39
	Average sales days	25.65	38.74	32.44	28.71	26.03	69.26
	Property, plant and equipment turnover ratio (times)	6.77	6.63	9.44	12.39	14.02	6.40
	Total assets turnover ratio (times)	2.01	1.42	1.73	1.90	2.04	0.90
Profitability	Return on assets (%)	6.85	3.49	3.36	5.78	6.57	(19.97)
	Return on equity (%)	14.54	8.56	8.35	15.37	17.29	(60.65)
	Return before tax to paid-in capital ratio (%)	49.34	31.43	26.57	53.54	61.78	(170.63)
	Net profit margin	3.13	2.07	1.62	2.69	2.93	(22.56)
	Earnings (losses) per share (NT\$) (Note 2)	4.23	2.22	2.05	4.05	5.04	(4.28)
Cash Flow	Cash flow ratio (%)	22.48	24.51	(7.74)	12.03	45.73	(5.09)
	Cash adequacy ratio (%)	90.04	118.24	108.89	85.16	188.92	N/A
	Cash re-investment ratio (%)	12.20	17.76	(11.13)	11.83	43.01	(5.52)
Leverage	Operating Leverage	2.06	3.16	161.58	1.78	1.72	0.77
	Financial Leverage	1.14	1.38	(0.05)	1.15	1.11	0.98

Please explain the reasons for the changes in various financial ratios in the last two years. (If the increase or decrease does not reach 20%, the analysis is exempted)

1. Because of the gradual improvement in the gross margin and the increase in net profit before tax due to the introduction of developing orders from customers with higher gross profit margin as compared with last year after the transformation, coupled with the reduction in finance costs as a result of the repayment of bank borrowings resulting in a significant increase in interest coverage.

2. As revenue in 2019 has grown compared with the last year and the Company is committed to strengthening the effective management of receivables to improve working capital efficiency, the number of receivables collection days has been significantly reduced compared with 2019, resulting in a decrease of NT\$409 million in accounts and notes as compared with 2018. At the same time, driven by revenue growth, the purchase of raw materials increased, resulting in an increase of NT\$327 million in accounts and notes and other payables compared with 2018 which led to a significant increase in net cash inflow from operating activities in 2019 compared with the last year, an increase of cash flow ratio to 45.73%, an increase of cash flow adequacy ratio to 188.92% and an increase of Cash re-investment ratio to 43.01%.

Note 1: No calculation of cash flow adequacy ratio in 2020 as net cash flow was only recorded in the first quarter of 2020.

Note 2: The calculation of earnings per share for the year 2015 is based on the Company's weighted average number of 60,393 thousand shares. The calculation of earnings per share for the year 2016 is based on the Company's weighted average number of 60,270 thousand shares. The calculation of earnings per share for the year 2017 is based on the Company's weighted average number of 60,807 thousand shares. The calculation of earnings per share for the year 2018 is based on the Company's weighted average number of 61,237 thousand shares. The calculation of earnings per share for the year 2019 is based on the Company's weighted average number of 61,087 thousand shares. The calculation of earnings losses per share for the first quarter of 2020 is based on the Company's weighted average number of 61,035 thousand 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 property, 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 2019 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

26 March 2020

- 4. Consolidated financial report for the past year audited and certified by the accountant:**  
Please refer to pages 140 to 222
- 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:** Nil

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
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, 2019 and 2018, 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, 2019 and 2018, 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 audit of the consolidated financial statements for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission of the Republic of China on February 25, 2020, and auditing standards generally accepted in the Republic of China. We conducted our audit of the consolidated financial statements for the year ended December 31, 2018 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, 2019. 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, 2019 are stated as follows:

### Revenue Recognition

The Group is the original equipment and design (OEM/ODM) manufacturer of speaker systems, and audio-visual 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.
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, 2019 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

March 26, 2020

Notice to Readers

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



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

**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2019 AND 2018**  
(In Thousands of Hong Kong Dollars)

	<b>2019</b>		<b>2018</b>	
<b>ASSETS</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 363,002	26	\$ 224,596	18
Financial assets at fair value through profit or loss (Note 7)	42	-	56	-
Notes and accounts receivable, net (Notes 8, 19 and 23)	435,352	32	535,221	42
Inventories (Notes 10 and 23)	169,016	12	144,264	11
Restricted assets (Notes 6 and 23)	7,563	1	5,372	-
Income tax refund recoverable	817	-	164	-
Other receivables and prepayments (Note 9)	69,114	5	75,674	6
Prepayments for land lease - current (Note 3 and 14)	-	-	367	-
Total current assets	<u>1,044,906</u>	<u>76</u>	<u>985,714</u>	<u>77</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Notes 11 and 23)	194,679	14	190,499	15
Financial assets at fair value through profit or loss - non-current (Note 7)	21,642	2	25,192	2
Right-of-use assets (Notes 3, 4 and 12)	47,170	3	-	-
Intangible assets (Notes 13 and 23)	63,550	5	66,853	5
Prepayments for land lease - non-current (Notes 3 and 14)	-	-	16,769	1
Deferred tax assets (Notes 4 and 20)	<u>3,243</u>	<u>-</u>	<u>2,882</u>	<u>-</u>
Total non-current assets	<u>330,284</u>	<u>24</u>	<u>302,195</u>	<u>23</u>
<b>TOTAL</b>	<u>\$ 1,375,190</u>	<u>100</u>	<u>\$ 1,287,909</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term bank borrowings (Note 15)	\$ 132,985	10	\$ 268,850	21
Notes and accounts payable (Note 16)	534,069	39	444,067	34
Lease liabilities - current (Notes 3, 4 and 12)	6,344	1	-	-
Current tax liabilities (Notes 4 and 20)	5,450	-	8,258	1
Other payables (Note 16)	<u>140,234</u>	<u>10</u>	<u>99,616</u>	<u>8</u>
Total current liabilities	<u>819,082</u>	<u>60</u>	<u>820,791</u>	<u>64</u>
<b>NON-CURRENT LIABILITIES</b>				
Lease liabilities - non-current (Notes 3, 4 and 12)	12,508	1	-	-
Long-term bank borrowings (Note 15)	26,868	2	1,892	-
Deferred tax liabilities (Notes 4 and 20)	30,634	2	30,176	2
Other payables - non-current	765	-	-	-
Net defined benefit liabilities (Notes 4 and 17)	<u>-</u>	<u>-</u>	<u>1,517</u>	<u>-</u>
Total non-current liabilities	<u>70,775</u>	<u>5</u>	<u>33,585</u>	<u>2</u>
Total liabilities	<u>889,857</u>	<u>65</u>	<u>854,376</u>	<u>66</u>
<b>EQUITY (Note 18)</b>				
Share capital - common stock	162,642	12	162,902	13
Capital surplus	201,511	15	199,511	15
Treasury shares	(5,966)	(1)	(5,966)	-
Exchange differences on translating foreign operations	(53,169)	(4)	(42,546)	(3)
Employee unearned benefit	(2,229)	-	(4,647)	-
Unrealized losses on financial assets at fair value through other comprehensive income	(7,787)	(1)	(7,787)	(1)
Retained earnings				
Legal reserve	13,816	1	13,154	1
Unappropriated earnings	<u>176,515</u>	<u>13</u>	<u>118,912</u>	<u>9</u>
Total equity	<u>485,333</u>	<u>35</u>	<u>433,533</u>	<u>34</u>
<b>TOTAL</b>	<u>\$ 1,375,190</u>	<u>100</u>	<u>\$ 1,287,909</u>	<u>100</u>

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, 2019 AND 2018**  
(In Thousands of New Taiwan Dollars)

	<b>2019</b>		<b>2018</b>	
<b>ASSETS</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 1,400,462	26	\$ 876,643	18
Financial assets at fair value through profit or loss (Note 7)	162	-	219	-
Notes and accounts receivable, net (Notes 8, 19 and 23)	1,679,588	32	2,089,075	42
Inventories (Notes 10 and 23)	652,064	12	563,091	11
Restricted assets (Notes 6 and 23)	29,178	1	20,968	-
Income tax refund recoverable	3,152	-	640	-
Other receivables and prepayments (Note 9)	266,642	5	295,371	6
Prepayments for land lease - current (Note 3 and 14)	<u>-</u>	<u>-</u>	<u>1,432</u>	<u>-</u>
Total current assets	<u>4,031,248</u>	<u>76</u>	<u>3,847,439</u>	<u>77</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Notes 11 and 23)	751,071	14	743,556	15
Financial assets at fair value through profit or loss - non-current (Note 7)	83,496	2	98,329	2
Right-of-use assets (Notes 3, 4 and 12)	181,982	3	-	-
Intangible assets (Notes 13 and 23)	245,175	5	260,941	5
Prepayments for land lease - non-current (Notes 3 and 14)	-	-	65,453	1
Deferred tax assets (Notes 4 and 20)	<u>12,511</u>	<u>-</u>	<u>11,249</u>	<u>-</u>
Total non-current assets	<u>1,274,235</u>	<u>24</u>	<u>1,179,528</u>	<u>23</u>
<b>TOTAL</b>	<u>\$ 5,305,483</u>	<u>100</u>	<u>\$ 5,026,967</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term bank borrowings (Note 15)	\$ 513,056	10	\$ 1,049,375	21
Notes and accounts payable (Note 16)	2,060,438	39	1,733,282	34
Lease liabilities - current (Notes 3, 4 and 12)	24,475	1	-	-
Current tax liabilities (Notes 4 and 20)	21,026	-	32,233	1
Other payables (Note 16)	<u>541,023</u>	<u>10</u>	<u>388,821</u>	<u>8</u>
Total current liabilities	<u>3,160,018</u>	<u>60</u>	<u>3,203,711</u>	<u>64</u>
<b>NON-CURRENT LIABILITIES</b>				
Lease liabilities - non-current (Notes 3, 4 and 12)	48,256	1	-	-
Long-term bank borrowings (Note 15)	103,657	2	7,385	-
Deferred tax liabilities (Notes 4 and 20)	118,186	2	117,783	2
Other payables - non-current	2,951	-	-	-
Net defined benefit liabilities (Notes 4 and 17)	<u>-</u>	<u>-</u>	<u>5,921</u>	<u>-</u>
Total non-current liabilities	<u>273,050</u>	<u>5</u>	<u>131,089</u>	<u>2</u>
Total liabilities	<u>3,433,068</u>	<u>65</u>	<u>3,334,800</u>	<u>66</u>
<b>EQUITY (Note 18)</b>				
Share capital - common stock	615,040	12	616,060	12
Capital surplus	759,962	14	751,962	15
Treasury shares	(24,019)	(1)	(24,019)	-
Exchange differences on translating foreign operations	(178,006)	(3)	(113,524)	(2)
Employee unearned benefit	(8,801)	-	(18,396)	-
Unrealized losses on financial assets at fair value through other comprehensive income	(29,950)	(1)	(29,950)	(1)
Retained earnings				
Legal reserve	56,989	1	54,382	1
Unappropriated earnings	<u>681,200</u>	<u>13</u>	<u>455,652</u>	<u>9</u>
Total equity	<u>1,872,415</u>	<u>35</u>	<u>1,692,167</u>	<u>34</u>
<b>TOTAL</b>	<u>\$ 5,305,483</u>	<u>100</u>	<u>\$ 5,026,967</u>	<u>100</u>

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, 2019 AND 2018**  
**(In Thousands of Hong Kong Dollars)**

	<b>2019</b>		<b>2018</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
NET REVENUE (Note 19)	\$ 2,673,566	100	\$ 2,394,676	100
COST OF REVENUE (Note 10)	<u>2,295,154</u>	<u>86</u>	<u>2,087,555</u>	<u>87</u>
GROSS PROFIT	<u>378,412</u>	<u>14</u>	<u>307,121</u>	<u>13</u>
OPERATING EXPENSES				
Selling and distribution	59,104	2	44,487	2
General and administrative	<u>228,427</u>	<u>8</u>	<u>187,290</u>	<u>8</u>
Total operating expenses	<u>287,531</u>	<u>10</u>	<u>231,777</u>	<u>10</u>
PROFIT FROM OPERATIONS	<u>90,881</u>	<u>4</u>	<u>75,344</u>	<u>3</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 19)	13,957	-	18,138	1
Foreign exchange gain (loss), net (Note 25)	10,134	-	4,916	-
Finance costs (Note 19)	(9,118)	-	(9,939)	-
Other losses (Note 19)	<u>(9,363)</u>	<u>-</u>	<u>(2,653)</u>	<u>-</u>
Total non-operating income and expenses	<u>5,610</u>	<u>-</u>	<u>10,462</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	96,491	4	85,806	4
INCOME TAX (Notes 4 and 20)	<u>(18,236)</u>	<u>(1)</u>	<u>(21,345)</u>	<u>(1)</u>
NET PROFIT	<u>78,255</u>	<u>3</u>	<u>64,461</u>	<u>3</u>
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	-	-	414	-

(Continued)

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
**(In Thousands of Hong Kong Dollars)**

	<b>2019</b>		<b>2018</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Unrealized loss on investments in equity instruments at fair value through other comprehensive income (Note 25)	\$ -	-	\$ (7,787)	-
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	<u>(10,623)</u>	<u>-</u>	<u>(21,257)</u>	<u>(1)</u>
	<u>(10,623)</u>	<u>-</u>	<u>(28,553)</u>	<u>(1)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><u>\$ 67,632</u></u>	<u><u>3</u></u>	<u><u>\$ 35,908</u></u>	<u><u>2</u></u>
<b>EARNINGS PER SHARE (Note 21)</b>				
Basic earnings per share	<u>\$1.28</u>		<u>\$1.05</u>	
Diluted earnings per share	<u>\$1.25</u>		<u>\$1.05</u>	

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, 2019 AND 2018**  
**(In Thousands of New Taiwan Dollars)**

	<b>2019</b>		<b>2018</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
NET REVENUE (Note 19)	\$ 10,530,374	100	\$ 9,213,755	100
COST OF REVENUE (Note 10)	<u>9,039,923</u>	<u>86</u>	<u>8,032,080</u>	<u>87</u>
GROSS PROFIT	<u>1,490,451</u>	<u>14</u>	<u>1,181,675</u>	<u>13</u>
OPERATING EXPENSES				
Selling and distribution	232,793	2	171,168	2
General and administrative	<u>899,773</u>	<u>8</u>	<u>720,927</u>	<u>8</u>
Total operating expenses	<u>1,132,566</u>	<u>10</u>	<u>892,095</u>	<u>10</u>
PROFIT FROM OPERATIONS	<u>357,885</u>	<u>4</u>	<u>289,580</u>	<u>3</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 19)	54,972	-	69,788	1
Foreign exchange gain (loss), net (Note 25)	39,915	-	18,915	-
Finance costs (Note 19)	(35,913)	-	(38,241)	-
Other losses (Note 19)	<u>(36,878)</u>	<u>-</u>	<u>(10,208)</u>	<u>-</u>
Total non-operating income and expenses	<u>22,096</u>	<u>-</u>	<u>40,254</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	379,981	4	329,834	4
INCOME TAX (Notes 4 and 20)	<u>(71,826)</u>	<u>(1)</u>	<u>(82,127)</u>	<u>(1)</u>
NET PROFIT	<u>308,155</u>	<u>3</u>	<u>247,707</u>	<u>3</u>
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	-	-	1,595	-

(Continued)

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
**(In Thousands of New Taiwan Dollars)**

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Unrealized loss on investments in equity instruments at fair value through other comprehensive income (Note 25)	\$ -	-	\$ (29,950)	-
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	<u>(64,482)</u>	<u>(1)</u>	<u>(43,954)</u>	<u>(1)</u>
	<u>(64,482)</u>	<u>(1)</u>	<u>(72,015)</u>	<u>(1)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><u>\$ 243,673</u></u>	<u><u>2</u></u>	<u><u>\$ 175,692</u></u>	<u><u>2</u></u>
<b>EARNINGS PER SHARE (Note 21)</b>				
Basic earnings per share	<u><u>\$5.04</u></u>		<u><u>\$4.05</u></u>	
Diluted earnings per share	<u><u>\$4.92</u></u>		<u><u>\$4.05</u></u>	

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, 2019 AND 2018**  
(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, 2018	\$ 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 DECEMBER 31, 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 income (loss) (net of income tax) for the year ended December 31, 2018	-	-	-	(21,257)	-	(7,787)	-	491	(28,553)
BALANCE AT JANUARY 1, 2019	162,902	199,511	(5,966)	(42,546)	(4,647)	(7,787)	13,154	118,912	433,533
Appropriation of 2018 earnings									
Cash dividends	-	-	-	-	-	-	-	(19,990)	(19,990)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	147	-	-	-	-	-	-	147
Legal reserve of subsidiaries	-	-	-	-	-	-	662	(662)	-
Issuance of restricted shares for employees	(260)	(596)	-	-	856	-	-	-	-
Restricted shares plan for employees	-	-	-	-	1,562	-	-	-	1,562
Compensation costs of employee stock options	-	2,449	-	-	-	-	-	-	2,449
Net profit for the year ended December 31, 2019	-	-	-	-	-	-	-	78,255	78,255
Other comprehensive income (loss) (net of income tax) for the year ended December 31, 2019	-	-	-	(10,623)	-	-	-	-	(10,623)
BALANCE AT DECEMBER 31, 2019	<u>\$ 162,642</u>	<u>\$ 201,511</u>	<u>\$ (5,966)</u>	<u>\$ (53,169)</u>	<u>\$ (2,229)</u>	<u>\$ (7,787)</u>	<u>\$ 13,816</u>	<u>\$ 176,515</u>	<u>\$ 485,333</u>

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, 2019 AND 2018**  
(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, 2018	\$ 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 DECEMBER 31, 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 income (loss) (net of income tax) for the year ended December 31, 2018	-	-	-	(43,954)	-	(29,950)	-	1,889	(72,015)
BALANCE AT JANUARY 1, 2019	616,060	751,962	(24,019)	(113,524)	(18,396)	(29,950)	54,382	455,652	1,692,167
Appropriation of 2018 earnings									
Cash dividends	-	-	-	-	-	-	-	(80,000)	(80,000)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	589	-	-	-	-	-	-	589
Legal reserve of subsidiaries	-	-	-	-	-	-	2,607	(2,607)	-
Issuance of restricted shares for employees	(1,020)	(2,341)	-	-	3,361	-	-	-	-
Restricted shares plan for employees	-	-	-	-	6,234	-	-	-	6,234
Compensation costs of employee stock options	-	9,752	-	-	-	-	-	-	9,752
Net profit for the year ended December 31, 2019	-	-	-	-	-	-	-	308,155	308,155
Other comprehensive income (loss) (net of income tax) for the year ended December 31, 2019	-	-	-	(64,482)	-	-	-	-	(64,482)
BALANCE AT DECEMBER 31, 2019	<u>\$ 615,040</u>	<u>\$ 759,962</u>	<u>\$ (24,019)</u>	<u>\$ (178,006)</u>	<u>\$ (8,801)</u>	<u>\$ (29,950)</u>	<u>\$ 56,989</u>	<u>\$ 681,200</u>	<u>\$ 1,872,415</u>

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, 2019 AND 2018**  
(In Thousands)

	2019		2018	
	HK\$	NT\$	HK\$	NT\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before income tax	\$ 96,491	\$ 379,981	\$ 85,806	\$ 329,834
Adjustments for:				
Amortization - other intangible assets	16,992	66,926	13,007	50,046
Amortization - prepayment for land lease	-	-	553	2,128
Provision for impairment loss on bad debt	838	3,301	3,213	12,362
Impairment loss recognized on other receivables	3,297	12,986	2,348	9,034
Allowance for inventories provision and inventories write-off	11,066	43,586	13,465	51,808
Depreciation expenses of property, plant and equipments	40,221	158,418	45,228	174,019
Depreciation expenses of right-of-use assets	8,039	31,663	-	-
Loss on disposal of property, plant and equipment	2,784	10,965	2,571	9,892
Loss of write-off other intangible assets	1,057	4,163	3,288	12,651
Interest expense	9,118	35,913	9,939	38,241
Interest income	(1,734)	(6,830)	(950)	(3,655)
Dividend income	(1,698)	(6,688)	(1,739)	(6,691)
Gain on reversal of investment payable	-	-	-	-
Compensation of employees restricted shares	1,562	6,234	2,426	9,638
Compensation costs of employee stock options	2,449	9,752	148	582
Loss (gain) on fair value changes of financial instruments at fair value through profit or loss	6,547	25,787	(5)	(19)
Operating cash flows before working capital changes	197,029	776,157	179,298	689,870
Changes in operating assets and liabilities				
Notes and accounts receivable	99,031	390,053	(97,517)	(375,206)
Other receivable and prepayments	3,056	12,037	16,268	62,593
Inventories	(35,818)	(141,076)	9,527	36,659
Notes and accounts payable and other payables	131,385	517,486	12,446	47,887
Net defined benefit liabilities	(1,517)	(5,975)	(749)	(2,882)
Cash generated from operations	393,166	1,548,682	119,273	458,921
Interest paid	(9,118)	(35,913)	(9,939)	(38,241)
Interest received	1,734	6,830	950	3,655
Dividend received	1,698	6,688	1,739	6,691
Income tax paid	(20,626)	(81,240)	(11,830)	(45,517)
Net cash generated from operating activities	366,854	1,445,047	100,193	385,509
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments for acquiring right-of-use assets	(12,628)	(49,738)	-	-
Payments for acquiring property, plant and equipment	(55,197)	(217,404)	(33,347)	(128,306)
Increase in pledge deposits	(2,192)	(8,634)	(4,057)	(15,610)
Proceeds from disposal of property, plant and equipment	554	2,182	407	1,566
Increase in other intangible assets	(16,106)	(63,437)	(20,576)	(79,168)
Net cash used in investing activities	(85,569)	(337,031)	(57,573)	(221,518)

(Continued)

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
**(In Thousands)**

	<b>2019</b>		<b>2018</b>	
	<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceed from bank borrowings	\$ 758,574	\$ 2,926,578	\$ 1,095,333	\$ 4,214,402
Repayments of bank borrowings	(869,442)	(3,354,309)	(1,085,176)	(4,175,324)
Repayments of the principal portion of lease liabilities	(6,826)	(26,886)	-	-
Cash dividend	(19,990)	(80,000)	(11,421)	(43,377)
Cash dividend received from treasury shares	147	589	84	319
Net cash used in financing activities	(137,537)	(534,028)	(1,180)	(3,980)
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	(5,342)	(50,169)	(9,848)	(19,176)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	138,406	523,819	31,592	140,835
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	224,596	876,643	193,004	735,808
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 363,002</u>	<u>\$ 1,400,462</u>	<u>\$ 224,596</u>	<u>\$ 876,643</u>
<b>CASH AND CASH EQUIVALENTS AS FOLLOWS:</b>				
Cash and bank deposits	\$ 370,565	\$ 1,429,640	\$ 229,968	\$ 897,611
Pledge deposits	(7,563)	(29,178)	(5,372)	(20,968)
Cash and cash equivalents	<u>\$ 363,002</u>	<u>\$ 1,400,462</u>	<u>\$ 224,596</u>	<u>\$ 876,643</u>

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)**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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

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### **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.

For the best allocation of production resources and diversifying the risk of cost inflation and tariff on the current main production base, EAH established a wholly-owned subsidiary - Eastech (VN) Company Limited in Vietnam, as second production base, with the registered capital of US\$3.5 million on January 25, 2019.

In order to expand the sales of headphones, EAH established a wholly-owned subsidiary - Eastech Microacoustics (HK) Limited, with the registered capital of HK\$100,000 on August 30, 2019.

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 27, 2020.

### **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, 2019. 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 consolidated financial statements for the year ended December 31, 2019.

- IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

#### Definition of a lease

The Group elects 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 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

#### The Group as lessee

The Group recognizes 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 are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents 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 are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights in China were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheets for contracts classified as finance leases.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were 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 are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group applies IAS 36 to all right-of-use assets.

The weighted average lessee’s incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 3.87%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is as follows:

**Unit: H.K. Dollars**

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 37,162
Less: Recognition exemption for short-term leases	<u>(5,116)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 32,046</u>
Discounted amounts using the lessee’s incremental borrowing rate on January 1, 2019	<u>\$ 24,756</u>

**Unit: N.T. Dollars**

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 145,051
Less: Recognition exemption for short-term leases	<u>(19,969)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 125,082</u>
Discounted amounts using the lessee's incremental borrowing rate on January 1, 2019	<u>\$ 96,628</u>

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

**Unit: H.K. Dollars**

	<b>Carrying Amount Before January 1, 2019</b>	<b>Reclassifi- cation from Initial Application</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2019</b>
Prepayments for leases - current	\$ 367	\$ (367)	\$ -	\$ -
Prepayments for leases - non-current	16,769	(16,769)	-	-
Right-of-use assets	<u>-</u>	<u>17,136</u>	<u>24,756</u>	<u>41,892</u>
Total effect on assets	<u>\$ 17,136</u>	<u>\$ -</u>	<u>\$ 24,756</u>	<u>\$ 41,892</u>
Lease liabilities - current	\$ -	\$ -	\$ 6,422	\$ 6,422
Lease liabilities - non-current	<u>-</u>	<u>-</u>	<u>18,334</u>	<u>18,334</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,756</u>	<u>\$ 24,756</u>

**Unit: N.T. Dollars**

	<b>Carrying Amount Before January 1, 2019</b>	<b>Reclassifi- cation from Initial Application</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2019</b>
Prepayments for leases - current	\$ 1,432	\$ (1,432)	\$ -	\$ -
Prepayments for leases - non-current	65,453	(65,453)	-	-
Right-of-use assets	<u>-</u>	<u>66,885</u>	<u>96,628</u>	<u>163,513</u>
Total effect on assets	<u>\$ 66,885</u>	<u>\$ -</u>	<u>\$ 96,628</u>	<u>\$ 163,513</u>
Lease liabilities - current	\$ -	\$ -	\$ 25,066	\$ 25,066
Lease liabilities - non-current	<u>-</u>	<u>-</u>	<u>71,562</u>	<u>71,562</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,628</u>	<u>\$ 96,628</u>

b. Standards and interpretations issued but not yet effective

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 3)
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 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 4)
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 4: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact 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		Descriptions
			2019	2018	
The Company	Eastern Asia Technology (HK) Limited ("EAH")	Sales of speaker systems and headphones	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 headphones	100.00	100.00	"
EAH	Shenzhen MaliMaliBox Trading Corporation Limited ("MMSZ")	Import and export trading of audio and headphones products, machinery and equipment	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 (VN) Company Limited ("EAVN")	Production, assembly and sales of transducer speakers, Bluetooth speakers and headphones	100.00	-	EAVN was established by EAH on January 25, 2019.

(Continued)

Name of Investor	Name of Investee	Main Business	Percentage of Ownership Interest		Descriptions
			2019	2018	
EAH	Eastech Electronics (Taiwan) Inc. ("ETT")	Design and sales of smart speaker and AV electronics home entertainment systems	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.
EAH	Eastech Microacoustics (HK) Limited ("EMH")	Sales of headphones and AV products	100.00	-	EMH was established by EAH on August 30, 2019.
EAH	Eastech Electronics (SG) Pte. Ltd. ("ETS")	Research and development of system architecture/new product concept/state-of-the-art products/sound and acoustics advance technology	100.00	100.00	ETS was established by ETH in October 2017 and was transferred 100% ownership from ETH to EAH in July 2019.
		Sales of speakers, AV electronics home entertainment systems, smart speakers and headphones			
ETT	Eastech Electronics (HK) Limited ("ETH")	Sales of smart speaker and AV electronics home entertainment systems	100.00	100.00	"
ETH	Eastech Electronics (Huiyang) Co., Ltd. ("ETHY")	Production and sales of smart speaker and AV electronics home entertainment systems	100.00	100.00	"

(Concluded)

#### e. Revenue recognition

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.



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

For the lease land held for operation in 2018, 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. Prepayments for land lease were reclassified to right-of-use assets starting from 2019.

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

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

1) The Group as lessor

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.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

## 2018

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. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

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 plans were settled in 2019), 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

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 25.

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.

b) Impairment of financial assets and contract assets

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.

#### 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.

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

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. 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.

c. 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			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Cash on hand	\$ 215	\$ 829	\$ 194	\$ 757
Cash at bank	362,787	1,399,633	224,402	875,886
Fixed deposits	<u>7,563</u>	<u>29,178</u>	<u>5,372</u>	<u>20,968</u>
	370,565	1,429,640	229,968	897,611
Less: Pledged deposits	<u>(7,563)</u>	<u>(29,178)</u>	<u>(5,372)</u>	<u>(20,968)</u>
	<u>\$ 363,002</u>	<u>\$1,400,462</u>	<u>\$ 224,596</u>	<u>\$ 876,643</u>

Cash equivalents comprise term deposits within 3 months, which are highly liquid and are readily convertible into cash with low risk of changes in value. Pledged deposits are pledged to secure the loan facilities granted by bank to the Group (please refer to Note 23), and is recognized under restricted assets.

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
<u>Financial assets - current</u>				
Non-derivative financial assets				
Foreign-listed stocks	\$ 42	\$ 162	\$ 56	\$ 219
<u>Financial assets non - current</u>				
Non-derivative financial assets				
Domestic unlisted stocks	\$ 21,642	\$ 83,496	\$ 21,391	\$ 83,496
Embedded derivative financial assets mandatorily classified as at FVTPL (not under hedge accounting)				
Foreign convertible bond and call warrants	-	-	3,801	14,833
	<u>\$ 21,642</u>	<u>\$ 83,496</u>	<u>\$ 25,192</u>	<u>\$ 98,329</u>

## 8. NOTES AND ACCOUNTS RECEIVABLE

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Notes receivable	\$ 1,691	\$ 6,524	\$ 1,957	\$ 7,639
Accounts receivable	437,691	1,688,612	536,434	2,093,809
Less: Allowance for impairment loss	(4,030)	(15,548)	(3,170)	(12,373)
	<u>\$ 435,352</u>	<u>\$ 1,679,588</u>	<u>\$ 535,221</u>	<u>\$ 2,089,075</u>

The Group's average credit period of sales of goods was 66 days (75 days in 2018). No interest was charged on notes and accounts receivable. 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 risk management committee annually.

The Group measures the loss allowance for notes and accounts receivable at an amount equal to lifetime ECLs (excluding notes and accounts receivable that recognizes loss allowance at full amount). The expected credit losses on notes and accounts receivable are estimated using a provision matrix by reference to the 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 further distinguished according to the Group's different customer base.

The Group writes off the notes and accounts 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 notes and accounts receivable 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, 2019

**Unit: H.K. Dollars**

	<b>Not Past Due</b>	<b>1 to 180 Days</b>	<b>181 to 365 Days</b>	<b>Over One Year</b>	<b>Total</b>
Gross carrying amount	\$ 402,400	\$ 32,952	\$ -	\$ 4,030	\$ 439,382
Loss allowance (Lifetime ECLs)	-	-	-	(4,030)	(4,030)
Amortized cost	<u>\$ 402,400</u>	<u>\$ 32,952</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 435,352</u>

**Unit: N.T. Dollars**

	<b>Not Past Due</b>	<b>1 to 180 Days</b>	<b>181 to 365 Days</b>	<b>Over One Year</b>	<b>Total</b>
Gross carrying amount	\$ 1,552,459	\$ 127,129	\$ -	\$ 15,548	\$ 1,695,136
Loss allowance (Lifetime ECLs)	-	-	-	(15,548)	(15,548)
Amortized cost	<u>\$ 1,552,459</u>	<u>\$ 127,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,679,588</u>

December 31, 2018

**Unit: H.K. Dollars**

	<b>Not Past Due</b>	<b>1 to 180 Days</b>	<b>181 to 365 Days</b>	<b>Over One Year</b>	<b>Total</b>
Gross carrying amount	\$ 527,476	\$ 7,795	\$ 2,770	\$ 350	\$ 538,391
Loss allowance (Lifetime ECLs)	-	(50)	(2,770)	(350)	(3,170)
Amortized cost	<u>\$ 527,476</u>	<u>\$ 7,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 535,221</u>

**Unit: N.T. Dollars**

	<b>Not Past Due</b>	<b>1 to 180 Days</b>	<b>181 to 365 Days</b>	<b>Over One Year</b>	<b>Total</b>
Gross carrying amount	\$ 2,058,844	\$ 30,426	\$ 10,812	\$ 1,366	\$ 2,101,448
Loss allowance (Lifetime ECLs)	-	(195)	(10,812)	(1,366)	(12,373)
Amortized cost	<u>\$ 2,058,844</u>	<u>\$ 30,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,089,075</u>

The movements of the loss allowance of notes and accounts receivable were as follows:

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Balance at the beginning of the period	\$ 3,170	\$ 12,373	\$ -	\$ -
Add: Impairment losses recognized	838	3,301	3,213	12,362
Effect of foreign currency exchange differences	<u>22</u>	<u>(126)</u>	<u>(43)</u>	<u>11</u>
Balance at the end of the period	<u>\$ 4,030</u>	<u>\$ 15,548</u>	<u>\$ 3,170</u>	<u>\$ 12,373</u>

The notes and accounts receivable (with recourse) pledged as collateral for bank borrowings are set out in Note 23 and 25 (h).

## 9. OTHER RECEIVABLES AND PREPAYMENTS

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Other receivables	\$ 41,518	\$ 160,177	\$ 38,819	\$ 151,518
Allowance for impairment loss	<u>(19,607)</u>	<u>(75,645)</u>	<u>(16,310)</u>	<u>(63,661)</u>
Other receivables, net	21,911	84,532	22,509	87,857
Prepayments for purchases	5,351	20,644	9,718	37,931
Prepayments	6,903	26,632	5,830	22,757
Prepayments for purchases equipment and mold	3,019	11,647	3,239	12,642
Value-added tax recoverable and refundable	27,957	107,859	30,113	117,537
Guarantee deposits	<u>3,973</u>	<u>15,328</u>	<u>4,265</u>	<u>16,647</u>
	<u>\$ 69,114</u>	<u>\$ 266,642</u>	<u>\$ 75,674</u>	<u>\$ 295,371</u>

Other receivables of the Group mainly consist of the followings:

- a. Other receivables relating to litigations (including guarantee deposits) as described in Note 24(a) were as follows:

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Other receivables (including security deposits)	\$ 23,324	\$ 89,984	\$ 23,439	\$ 91,487
Less: Allowance for impairment loss	<u>(19,607)</u>	<u>(75,644)</u>	<u>(16,310)</u>	<u>(63,661)</u>
	<u>\$ 3,717</u>	<u>\$ 14,340</u>	<u>\$ 7,129</u>	<u>\$ 27,826</u>

- b. As of December 31, 2019 and 2018, the amounts of temporary payments as described in Note 16(b) were HK\$7,823 thousand and HK\$8,893 thousand (equivalent to approximately NT\$30,181 thousand and NT\$34,711 thousand).

## 10. INVENTORIES

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Raw materials	\$ 78,769	\$ 303,891	\$ 69,231	\$ 270,222
Work-in-process	59,116	228,070	46,876	182,966
Finished goods	21,076	81,311	19,784	77,221
Goods in transit	<u>10,055</u>	<u>38,792</u>	<u>8,373</u>	<u>32,682</u>
	<u>\$ 169,016</u>	<u>\$ 652,064</u>	<u>\$ 144,264</u>	<u>\$ 563,091</u>

The cost of inventories recognized as cost of goods sold in the years ended December 31, 2019 and 2018 was HK\$2,295,154 thousand and HK\$2,087,555 thousand (equivalent to approximately NT\$9,039,923 thousand and NT\$8,032,080 thousand), respectively, which included HK\$11,066 thousand and HK\$13,465 thousand (equivalent to approximately NT\$43,586 thousand and NT\$51,808 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			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Cost	\$ 461,288	\$ 1,779,649	\$ 464,156	\$ 1,811,694
Accumulated depreciation and impairment	<u>(266,609)</u>	<u>(1,028,578)</u>	<u>(273,657)</u>	<u>(1,068,138)</u>
Carrying amount	<u>\$ 194,679</u>	<u>\$ 751,071</u>	<u>\$ 190,499</u>	<u>\$ 743,556</u>
Land and buildings	\$ 23,873	\$ 92,102	\$ 33,683	\$ 131,471
Machineries and office equipment	142,914	551,362	155,919	608,584
Property under construction	<u>27,892</u>	<u>107,607</u>	<u>897</u>	<u>3,501</u>
Carrying amount	<u>\$ 194,679</u>	<u>\$ 751,071</u>	<u>\$ 190,499</u>	<u>\$ 743,556</u>

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

	Land and Buildings		Machinery Equipment and Office Equipment		Property under Construction		Total	
	HK\$	NT\$	HK\$	NT\$	HK\$	NT\$	HK\$	NT\$
Cost								
Balance at January 1, 2018	\$ 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	<u>(6,644)</u>	<u>(14,290)</u>	<u>(24,126)</u>	<u>(61,186)</u>	<u>(46)</u>	<u>(75)</u>	<u>(30,816)</u>	<u>(75,551)</u>
Balance at December 31, 2018	121,557	474,461	341,702	1,333,732	897	3,501	464,156	1,811,694
Additions	105	414	26,742	105,328	28,350	111,662	55,197	217,404
Disposals	(373)	(1,469)	(37,470)	(147,583)	(340)	(1,339)	(38,183)	(150,391)

(Continued)

	Land and Buildings		Machinery Equipment and Office Equipment		Property under Construction		Total	
	HK\$	NT\$	HK\$	NT\$	HK\$	NT\$	HK\$	NT\$
Reclassification	\$ -	\$ -	\$ 913	\$ 3,596	\$ (913)	\$ (3,596)	\$ -	\$ -
Effect of exchange rate changes	(4,225)	(21,773)	(15,555)	(74,664)	(102)	(2,621)	(19,882)	(99,058)
Balance at December 31, 2019	<u>\$ 117,064</u>	<u>\$ 451,633</u>	<u>\$ 316,332</u>	<u>\$ 1,220,409</u>	<u>\$ 27,892</u>	<u>\$ 107,607</u>	<u>\$ 461,288</u>	<u>\$ 1,779,649</u>
Accumulated depreciation and impairment								
Balance at January 1, 2018	\$ 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
Depreciation	9,571	37,697	30,650	120,721	-	-	40,221	158,418
Disposals	(332)	(1,308)	(34,513)	(135,936)	-	-	(34,845)	(137,244)
Effect of exchange rate changes	(3,922)	(19,848)	(8,502)	(40,886)	-	-	(12,424)	(60,734)
Balance at December 31, 2019	<u>\$ 93,191</u>	<u>\$ 359,531</u>	<u>\$ 173,418</u>	<u>\$ 669,047</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 266,609</u>	<u>\$ 1,028,578</u>

(Concluded)

The management assessed that there was no indicator of impairment for the years ended December 31, 2019 and 2018.

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

## 12. LEASE ARRANGEMENTS

- a. Right-of-use assets - 2019

	December 31, 2019	
	HK\$	NT\$
<u>Carrying amounts</u>		
Land and buildings	\$ 45,813	\$ 176,747
Machinery and office equipment	<u>1,357</u>	<u>5,235</u>
	<u>\$ 47,170</u>	<u>\$ 181,982</u>
	For the Year Ended December 31, 2019	
	HK\$	NT\$
Depreciation charge for right-of-use assets		
Land and buildings	\$ 7,386	\$ 29,091
Machinery and office equipment	<u>653</u>	<u>2,572</u>
	<u>\$ 8,039</u>	<u>\$ 31,663</u>



The management assessed that there was no indication of impairment for the year ended December 31, 2019.

b. Lease liabilities - 2019

	<b>December 31, 2019</b>	
	<b>HK\$</b>	<b>NT\$</b>
<u>Carrying amounts</u>		
Current	\$ 6,344	\$ 24,475
Non-current	<u>12,508</u>	<u>48,256</u>
	<u>\$ 18,852</u>	<u>\$ 72,731</u>

Range of discount rate for lease liabilities was as follows:

	<b>December 31, 2019</b>
Land and buildings	3.73%-4.63%
Machinery and office equipment	3.73%-4.63%

c. Material lease - activities and terms

The Group leases lands, office, and other operating assets for the operations and manufacturing purpose. The Group does not have bargain purchase options to acquire the leased assets at the end of the lease terms. In addition, since land use right in respect of lands at the PRC and Vietnam were obtained by way of lease as they could not be directly acquired subject to restrictions of laws, the Group's land use rights in the PRC and Vietnam have been paid in full at the inception of the lease. The details of land use right held by the Group were as follows:

December 31, 2019

<b>Company Name</b>	<b>Location</b>	<b>Description</b>	<b>Tenure/Unexpired Term</b>
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 right-of-use assets).	Lease for term of 50 years from December 14, 1995 to December 13, 2045.
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 right-of-use assets)	Lease for a term of 50 years from December 6, 2000 to December 6, 2050.
		1 factory building and 2 dormitories built on a 134,947 sq. ft. land (land use right is recognized under right-of-use assets)	Lease for a term of 50 years from June 19, 2002 to June 19, 2052.
EAVN	Cong Hoa Industrial Park, Cong Hoa Ward, Chi Linh City, Hai Duong Province, Vietnam	41,227.5 sq. ft. land (the land use right is recognized under right-of-use assets)	Lease for a term of 40 years from January 2019 to April 2058.

December 31, 2018

<u>Company Name</u>	<u>Location</u>	<u>Description</u>	<u>Tenure/Unexpired Term</u>
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.
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) 1 factory building 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 December 6, 2000 to December 6, 2050. Lease for a term of 50 years from June 19, 2002 to June 19, 2052.

d. Other lease information

2019

	<u>For the Year Ended December 31, 2019</u>	
	<u>HK\$</u>	<u>NT\$</u>
Expenses relating to short-term leases	<u>\$ 12,333</u>	<u>\$ 48,571</u>
Total cash outflow for leases	<u>\$ (32,645)</u>	<u>\$ (128,579)</u>

The Group leases certain motor vehicles, employee dormitories and etc. which qualify as short-term leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

2018

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	<u>December 31, 2018</u>	
	<u>HK\$</u>	<u>NT\$</u>
Not later than 1 year	\$ 11,883	\$ 46,382
Later than 1 year and not later than 5 years	11,878	46,362
Later than 5 years	<u>13,401</u>	<u>52,307</u>
	<u>\$ 37,162</u>	<u>\$ 145,051</u>

### 13. INTANGIBLE ASSETS

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Goodwill	\$ 28,722	\$ 110,809	\$ 28,919	\$ 112,877
Technical knowledge (including capitalized costs of (R&D)	31,375	121,045	33,099	129,192
Customer relationship	<u>3,453</u>	<u>13,321</u>	<u>4,835</u>	<u>18,872</u>
	<u>\$ 63,550</u>	<u>\$ 245,175</u>	<u>\$ 66,853</u>	<u>\$ 260,941</u>

a. Details of goodwill were as follows:

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Related to ScS	\$ 25,630	\$ 98,880	\$ 25,759	\$ 100,543
Related to EMHY	<u>3,092</u>	<u>11,929</u>	<u>3,160</u>	<u>12,334</u>
	<u>\$ 28,722</u>	<u>\$ 110,809</u>	<u>\$ 28,919</u>	<u>\$ 112,877</u>

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% per annum for the years ended December 31, 2019 and 2018, 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, 2019 and 2018.

The movements of goodwill were as follows:

	<b>2019</b>		<b>2018</b>	
	<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
Balance at January 1	\$ 28,919	\$ 112,877	\$ 29,683	\$ 113,163
Effect of exchange rate changes	<u>(197)</u>	<u>(2,068)</u>	<u>(764)</u>	<u>(286)</u>
Balance at December 31	<u>\$ 28,722</u>	<u>\$ 110,809</u>	<u>\$ 28,919</u>	<u>\$ 112,877</u>

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

	<b>2019</b>		<b>2018</b>	
	<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
Balance at January 1	\$ 37,934	\$ 148,064	\$ 35,530	\$ 135,455
Additions	16,106	63,437	20,576	79,168
Amortization	(16,992)	(66,926)	(13,007)	(50,046)
Reclassification from property, plant and equipment	-	-	239	919
Write-off	(1,057)	(4,163)	(3,288)	(12,651)
Effect of exchange rate changes	<u>(1,163)</u>	<u>(6,046)</u>	<u>(2,116)</u>	<u>(4,781)</u>
Balance at December 31	<u>\$ 34,828</u>	<u>\$ 134,366</u>	<u>\$ 37,934</u>	<u>\$ 148,064</u>

- 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 - 2018

	<b>December 31, 2018</b>	
	<b>HK\$</b>	<b>NT\$</b>
Prepayments for land lease - current	\$ 367	\$ 1,432
Prepayments for land lease - non-current	<u>16,769</u>	<u>65,453</u>
	<u>\$ 17,136</u>	<u>\$ 66,885</u>

Prepayments for land lease represent land use rights obtained by paying lease fees to local government of the Mainland China. The land is used for factory and employee dormitories. The details of the lease tenure refer to Note 12 (c). The aforementioned prepayments for land lease were reclassified to right-of-use assets under IFRS 16 starting from 2019. Please refer to Notes 3 and 12 for details.

## 15. BANK BORROWINGS

### a. Short-term bank borrowings:

	December 31					
	Interest Rate	2019		Interest Rate	2018	
		HK\$	NT\$		HK\$	NT\$
<u>Secured borrowings</u>						
Factoring	4.07%-7.35%	\$ 2,745	\$ 10,590	4.16%-7.37%	\$ 3,886	\$ 15,169
Bank borrowings	1.75%-4.5%	116,756	450,445	1.68%-4.81%	255,121	995,787
Commercial paper	1.99%	2,592	10,000	1.99%	7,686	30,000
Long-term borrowings due within 1 year	2.6%-4.63%	10,335	39,872	2.1%-4.63%	2,157	8,419
		<u>132,428</u>	<u>510,907</u>		<u>268,850</u>	<u>1,049,375</u>
<u>Unsecured borrowings</u>						
Bank borrowings	4.79%	<u>557</u>	<u>2,149</u>	-	<u>-</u>	<u>-</u>
		<u>\$ 132,985</u>	<u>\$ 513,056</u>		<u>\$ 268,850</u>	<u>\$ 1,049,375</u>

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, 2019

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.	<u>\$ 10,000</u>	<u>\$ 10,000</u>	1.99%	-	<u>\$ -</u>

#### 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.	<u>\$ 30,000</u>	<u>\$ 30,000</u>	1.99%	-	<u>\$ -</u>

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					
	Interest Rate	2019		Interest Rate	2018	
		HK	NT\$		HK\$	NT\$
Long-term bank borrowings	2.6%-4.63%	\$ 37,203	\$ 143,529	2.1%-4.63%	\$ 4,049	\$ 15,804
Less: Long-term bank borrowings due within 1 year		<u>(10,335)</u>	<u>(39,872)</u>		<u>(2,157)</u>	<u>(8,419)</u>
		<u>\$ 26,868</u>	<u>\$ 103,657</u>		<u>\$ 1,892</u>	<u>\$ 7,385</u>

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

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

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Due within 2 to 5 years	<u>\$ 26,868</u>	<u>\$ 103,657</u>	<u>\$ 1,892</u>	<u>\$ 7,385</u>

- 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 120 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			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Accrued salaries	\$ 67,428	\$ 260,137	\$ 44,353	\$ 173,119
Temporary receivables (remark)	18,949	73,105	16,713	65,234
Other payable	<u>53,857</u>	<u>207,781</u>	<u>38,550</u>	<u>150,468</u>
	<u>\$ 140,234</u>	<u>\$ 541,023</u>	<u>\$ 99,616</u>	<u>\$ 388,821</u>

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.

ETT had settled the aforementioned defined benefit plan in the year of 2019, hence, the disclosures of relevant movement and details were not required.

## 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, 2019 and 2018 were NT\$615,040 thousand and NT\$616,060 thousand (equivalent to approximately HK\$162,642 thousand and HK\$162,902 thousand), respectively, divided into 61,504 thousand shares and 61,606 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	
	2019	2018
January 1	61,606	61,986
Cancellation of treasury share	-	(300)
Write-off of restricted shares	<u>(102)</u>	<u>(80)</u>
December 31	<u>61,504</u>	<u>61,606</u>

b. Treasury shares

As of December 31 of 2019 and 2018, the detail of treasury shares are as follow:

Purpose of Buy-back	Number of Shares (In Thousands of Shares)
Shares held by its subsidiaries	<u>453</u>

For the purpose of short-term investment, related information regarding shares of the Company held by its subsidiaries on the balance sheet date was as follows:

December 31, 2019

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\$6,575 thousand (equivalent to approximately NT\$25,368 thousand)

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote. The subsidiaries holding treasury shares, however, are bestowed shareholders' rights, except the rights to participate in any share issuance for cash 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, 2019 and 2018, the capital surplus of the Company are as follows:

	December 31			
	2019		2018	
	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	\$ 189,745	\$ 714,815	\$ 189,745	\$ 714,815
Treasury share transactions	781	1,348	781	1,348
Cash dividend received from treasury stock	1,259	5,044	1,112	4,455
May not be used for any purpose				
Arising from employee restricted shares	7,129	28,421	7,725	30,762
Arising from employee share options	<u>2,597</u>	<u>10,334</u>	<u>148</u>	<u>582</u>
	<u>\$ 201,511</u>	<u>\$ 759,962</u>	<u>\$ 199,511</u>	<u>\$ 751,962</u>



d. Retained earnings and dividend policy

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

The dividends/bonus distribution to the shareholders under this clause shall not be less than 10% 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. However, if the Company only distributes cash dividend, it can be resolved by special resolution of the board of the directors. 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 2018 and 2017 were approved in the shareholders' meeting on June 10, 2019 and June 11, 2018, respectively. Details of the dividend per share of the earnings appropriations for 2018 and 2017 of the Company were as follows:

	<b>2018</b>
Ordinary share dividend - cash	NT\$1.3 per share, totaling NT\$80,000 thousand

	<b>2017</b>
Ordinary share dividend - cash	NT\$0.7 per share, totaling NT\$43,377 thousand

The appropriation of earnings for 2019 had been proposed by the Company's board of directors on February 27, 2020. The appropriation and dividends per share were as follows:

	<b>2019</b>
Ordinary share dividend - cash	NT\$0.51 per share, totaling NT\$31,343 thousand

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, 2019.

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:

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

- Employees, except for inheritance, should not sell, transfer, pledge, donate or dispose of the shares in any other way.
- The shares should be held in trust.
- 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.
- 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:

	<b>Number of Shares (In Thousands)</b>	
	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Balance at the beginning of the period	652	993
Vested	(224)	(261)
Forfeited	<u>(102)</u>	<u>(80)</u>
Balance at the end of the period	<u>326</u>	<u>652</u>

Information on cost of restricted shares plan for employees the company recognized as follows:

	<b>For the Years Ended December 31</b>			
	<b>2019</b>		<b>2018</b>	
	<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
Costs of restricted shares plans for employees	<u>\$ 1,562</u>	<u>\$ 6,234</u>	<u>\$ 2,426</u>	<u>\$ 9,638</u>

## 2) Employee share options

Information on issuance of employees share options was as follow:

<b>Grant Date</b>	<b>Issued Shares</b>	<b>Vesting Date</b>	<b>Exercisable Price</b>
2018.09.28	1,200 unit (equivalent to 1,000 outstanding shares per unit)	Within 4 years after the granted date	Remark
2019.06.10	4,747 unit (equivalent to 1,000 outstanding shares per unit)	Within 4 years after the granted date	Remark

Remark: The exercise price of the employee share options is equal to the closing price on the grant date. 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.

The Company granted the employee share options for the qualified employees of the Company or any of its subsidiaries. The options become exercisable after the three years from the grant date by subscribing new shares.

Information on outstanding employee share options was as follows:

	<b>For the Years Ended December 31</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Number of Options</b>	<b>Weighted-average Exercise Price (NT\$)</b>	<b>Number of Options</b>	<b>Weighted-average Exercise Price (NT\$)</b>
<b>Employee Share Options</b>				
Balance at the beginning of period	1,200	\$ 23.95	-	\$ -
Granted	4,747	33.05	1,200	23.95
Write-off	<u>(70)</u>	-	<u>-</u>	-
Balance at end period	<u>5,877</u>	30.03	<u>1,200</u>	23.95

(Continued)

	For the Years Ended December 31			
	2019		2018	
		Weighted-a verage Exercise Price (NT\$)		Weighted-a verage Exercise Price (NT\$)
Employee Share Options	Number of Options		Number of Options	
Options exercisable, end of period	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (NT\$)	<u>\$ 8.86</u>		<u>\$ 5.82</u>	
				(Concluded)

As of December 31, 2019 and December 31, 2108, the information of outstanding employee share options were as follows:

	Date of Grant	
	June 10, 2019	September 28, 2018
<u>December 31, 2019</u>		
Range of exercise price (NT\$)	\$31.70	\$23.00
Weighted-average remaining contractual life (years)	3.46 years	2.75 years
<u>December 31, 2018</u>		
Range of exercise price (NT\$)	-	\$23.95
Weighted-average remaining contractual life (years)	-	3.75 years

Employee share options granted on June 10, 2019 and September 28, 2018 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

Date of Grant	June 10, 2019	September 28, 2018
Grant-date share price (NT\$)	33.05	23.95
Exercise price (NT\$)	33.05	23.95
Expected volatility	35.61%	31.81%
Expected life (in years)	3.5 years	3.5 years
Expected dividend yield	-	-
Risk-free interest rate	0.56%	0.66%

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

The compensation costs for the years ended December 31, 2019 and 2018 are recognized at HK\$2,449 thousand and HK\$148 thousand (equivalent to approximately NT\$9,752 thousand and NT\$582 thousand).

### Other equity items

a. Exchange differences on translating the financial statements of 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.

b. Unrealized gain or loss on financial assets at FVTOCI

Unrealized gains or losses on financial assets at FVTOCI represent the cumulative gains and losses arising on the revaluation of financial assets at FVTOCI that have been recognized in other comprehensive income. The cumulative unrealized gains or losses will not be reclassified to profit or loss on disposal of the equity investments.

c. Unearned employee benefit

In the meetings of shareholders held on May 12, 2015, May 11, 2016 and June 8, 2017, the shareholders approved the restricted shares plans for employees respectively. Refer to Note 18(e) for the information of restricted shares issued.

## **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, 2019		December 31, 2018	
	HK\$	NT\$	HK\$	NT\$
Notes and accounts receivable, net (Note 8)	\$ 435,352	\$ 1,679,588	\$ 535,221	\$ 2,089,075

3) Disaggregation of revenue from customer contracts

	For the Years Ended December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Home audio	\$ 1,610,826	\$ 6,344,560	\$ 1,610,876	\$ 6,198,006
Personal audio	634,703	2,499,905	556,090	2,139,612
Transducer speaker	114,057	449,237	165,708	637,578
Others	<u>313,980</u>	<u>1,236,672</u>	<u>62,002</u>	<u>238,559</u>
	<u>\$ 2,673,566</u>	<u>\$ 10,530,374</u>	<u>\$ 2,394,676</u>	<u>\$ 9,213,755</u>

b. Depreciation and amortization expenses

	For the Years Ended December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Depreciation of property, plant and equipment	\$ 40,221	\$ 158,418	\$ 45,228	\$ 174,019
Amortization of other intangible assets	16,992	66,926	13,007	50,046
Depreciation of right-of-use assets	8,039	31,663	-	-
Amortization of prepayments for land lease	<u>-</u>	<u>-</u>	<u>553</u>	<u>2,128</u>
	<u>\$ 65,252</u>	<u>\$ 257,007</u>	<u>\$ 58,788</u>	<u>\$ 226,193</u>

Prepayments for land lease were reclassified to right-of-use assets under IFRS 16 starting from the beginning of 2019. Please refer to Notes 3, 12 and 14.

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

	For the Years Ended December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Remuneration of directors and key management				
Short-term benefits	\$ 40,961	\$ 161,333	\$ 36,327	\$ 139,772
Post-employment benefits	980	3,860	1,242	4,779
Share-based payments	3,262	12,952	1,917	7,555
Employee benefits				
Short-term benefits	452,830	1,783,562	408,697	1,572,503
Post-employment benefits	19,187	75,572	19,734	75,929
Share-based payments	<u>749</u>	<u>3,034</u>	<u>657</u>	<u>2,665</u>
	<u>\$ 517,969</u>	<u>\$ 2,040,313</u>	<u>\$ 468,574</u>	<u>\$ 1,803,203</u>

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 2019 and 2018 had been resolved by the board of directors on February 27, 2020 and February 22, 2019, respectively, were as below:

<b>2019</b>	
Directors' remuneration - cash	HK\$1,960 thousand (equivalent to approximately NT\$7,720 thousand)
Employees' remuneration - cash	HK\$2,095 thousand (equivalent to approximately NT\$8,255 thousand)
<b>2018</b>	
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)

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, 2019 and 2018.

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

	<b>For the Years Ended December 31</b>			
	<b>2019</b>		<b>2018</b>	
	<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
Project service income	\$ 6,504	\$ 25,617	\$ 8,470	\$ 32,589
Interest income	1,734	6,830	950	3,655
Rental revenue	461	1,816	335	1,289
Dividend income	1,698	6,688	1,739	6,691
Scrap income	994	3,915	3,039	11,693
Gains on disposal of property, plant and equipment	1	4	20	77
Net gain on financial instruments at fair value through profit or loss	-	-	5	19
Others	<u>2,565</u>	<u>10,102</u>	<u>3,580</u>	<u>13,775</u>
	<u>\$ 13,957</u>	<u>\$ 54,972</u>	<u>\$ 18,138</u>	<u>\$ 69,788</u>

f. Other losses

	For the Years Ended December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Losses on fair value change of financial instruments at FVTPL	\$ 6,547	\$ 25,787	\$	\$
Losses on scrap and disposal of property, plant and equipment	2,785	10,969	2,591	9,969
Others	<u>31</u>	<u>122</u>	<u>62</u>	<u>239</u>
	<u>\$ 9,363</u>	<u>\$ 36,878</u>	<u>\$ 2,653</u>	<u>\$ 10,208</u>

g. Finance costs

	For the Years Ended December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Interest expense arising from bank borrowings	\$ 8,260	\$ 32,534	\$ 9,939	\$ 38,241
Interest expense on lease liabilities	<u>858</u>	<u>3,379</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,118</u>	<u>\$ 35,913</u>	<u>\$ 9,939</u>	<u>\$ 38,241</u>

## 20. INCOME TAXES

a. Income tax expense recognized in profit or loss

	For the Years Ended December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Current tax				
In respect of the current year	\$ 16,896	\$ 66,549	\$ 17,549	\$ 67,521
Adjustments for prior years	(649)	(2,556)	(1,176)	(4,524)
Deferred tax				
Effect of tax rate changes	-	-	(127)	(472)
In respect of the current year	<u>1,989</u>	<u>7,833</u>	<u>5,099</u>	<u>19,602</u>
Income tax expenses recognized in profit or loss	<u>\$ 18,236</u>	<u>\$ 71,826</u>	<u>\$ 21,345</u>	<u>\$ 82,127</u>



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

	For the Years Ended December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Profit before tax	<u>\$ 96,491</u>	<u>\$ 379,981</u>	<u>\$ 85,806</u>	<u>\$ 329,834</u>
Income tax expense calculated at the statutory rate (16.5%)	\$ 15,921	\$ 62,708	\$ 14,158	\$ 54,474
Tax-exempt income and non-deductible expenses in determining taxable income	(2,637)	(10,387)	5,456	20,505
Income tax adjustment for prior years	(649)	(2,556)	(1,176)	(4,524)
Effect on deferred tax assets unrecognized in prior years	4,754	18,725	594	2,756
Effect of tax rate changes	-	-	(127)	(472)
Effect of different tax rate of foreign operations in other jurisdictions	<u>847</u>	<u>3,336</u>	<u>2,440</u>	<u>9,388</u>
Income tax expense recognized in profit or loss	<u>\$ 18,236</u>	<u>\$ 71,826</u>	<u>\$ 21,345</u>	<u>\$ 82,127</u>

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

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 2018 to 2020.

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 local tax rate for the subsidiary in Vietnam is 20%. EAVN can enjoy the income tax exemption for the first two years after making profit and proceed with fifty percent reduction for the four subsequent years.

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			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
<u>Deferred Tax</u>				
Effect of change in tax rate	\$ -	\$ -	\$ 77	\$ 294
In respect of the current year				
Remeasurement of defined benefit plan	-	-	(104)	(398)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (27)</u>	<u>\$ (104)</u>

c. Deferred tax assets

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Allowance of inventories provision	\$ 2,558	\$ 9,869	\$ 1,198	\$ 4,676
Defined benefit plan	-	-	719	2,806
Others	<u>685</u>	<u>2,642</u>	<u>965</u>	<u>3,767</u>
	<u>\$ 3,243</u>	<u>\$ 12,511</u>	<u>\$ 2,882</u>	<u>\$ 11,249</u>

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, 2018	\$ 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	<u>(64)</u>	<u>-</u>	<u>(40)</u>	<u>(104)</u>
Balance at December 31, 2018	1,198	719	965	2,882
Recognized in profit or loss	1,410	(719)	(273)	418
Effect of exchange rate changes	<u>(50)</u>	<u>-</u>	<u>(7)</u>	<u>(57)</u>
Balance at December 31, 2019	<u>\$ 2,558</u>	<u>\$ -</u>	<u>\$ 685</u>	<u>\$ 3,243</u>

Unit: N.T. Dollars

	Allowance of Inventories Provision	Defined Benefit Plan	Others	Total
Balance at January 1, 2018	\$ 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
Recognized in profit or loss	5,555	(2,832)	(1,075)	1,648
Effect of exchange rate changes	(362)	26	(50)	(386)
Balance at December 31, 2019	<u>\$ 9,869</u>	<u>\$ -</u>	<u>\$ 2,642</u>	<u>\$ 12,511</u>

d. Deferred tax liabilities

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Temporary differences on other intangible assets	\$ 8,356	\$ 32,237	\$ 8,287	\$ 32,346
Temporary differences on inventory and depreciation of property, plant and equipment	5,845	22,550	7,209	28,138
Unappropriated earnings of subsidiaries	<u>16,433</u>	<u>63,399</u>	<u>14,680</u>	<u>57,299</u>
	<u>\$ 30,634</u>	<u>\$ 118,186</u>	<u>\$ 30,176</u>	<u>\$ 117,783</u>

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	Unappro- priated Earnings of Subsidiaries	Total
Balance at January 1, 2018	\$ 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
Recognized in profit or loss	(308)	(785)	3,500	2,407
Decrease	-	(129)	(1,747)	(1,876)
Effect of exchange rate changes	<u>377</u>	<u>(450)</u>	<u>-</u>	<u>(73)</u>
Balance at December 31, 2019	<u>\$ 8,356</u>	<u>\$ 5,845</u>	<u>\$ 16,433</u>	<u>\$ 30,634</u>

Unit: N.T. Dollars

	Temporary Differences on Other Intangible Assets	Temporary Differences on Inventory and Depreciation of Property, Plant and Equipment	Unappro- priated Earnings of Subsidiaries	Total
Balance at January 1, 2018	\$ 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
Recognized in profit or loss	(1,213)	(3,091)	13,785	9,481
Decrease	-	(508)	(6,879)	(7,387)
Effect of exchange rate changes	1,104	(1,989)	(806)	(1,691)
Balance at December 31, 2019	<u>\$ 32,237</u>	<u>\$ 22,550</u>	<u>\$ 63,399</u>	<u>\$ 118,186</u>

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

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Loss carryforwards	<u>\$ 29,480</u>	<u>\$ 113,734</u>	<u>\$ 45,801</u>	<u>\$ 178,770</u>
Deductible temporary difference				
Investments in equity instruments at FVTOCI	<u>\$ 7,787</u>	<u>\$ 29,950</u>	<u>\$ 7,787</u>	<u>\$ 29,950</u>

- 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 2017.

## 21. EARNINGS PER SHARE

Unit: \$ Per Share

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Basic earnings per share	<u>\$ 1.28</u>	<u>\$ 5.04</u>	<u>\$ 1.05</u>	<u>\$ 4.05</u>
Diluted earnings per share	<u>\$ 1.25</u>	<u>\$ 4.92</u>	<u>\$ 1.05</u>	<u>\$ 4.05</u>

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			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Profit for the year attributable to owners of the Company	<u>\$ 78,255</u>	<u>\$ 308,155</u>	<u>\$ 64,461</u>	<u>\$ 247,707</u>

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

	For the Years Ended December 31	
	2019	2018
Weighted average number of ordinary shares used in the computation of basic earnings per share	61,087	61,237
Effect of potentially dilutive ordinary shares		
Employee share options	<u>1,501</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>62,588</u>	<u>61,237</u>

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 were provided as collateral for bank borrowings. Part of loan guarantees is provided by the Chairman of the Company.

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Other intangible assets	\$ 5,857	\$ 22,596	\$ 6,920	\$ 27,010
Accounts receivable with recourse	3,471	13,391	5,171	20,183
Machineries and office equipment	5,862	22,616	3,956	15,441
Inventories and other assets	16,272	62,777	15,214	59,384
Pledge deposits (recognized under restricted assets - current)	<u>7,563</u>	<u>29,178</u>	<u>5,372</u>	<u>20,968</u>
	<u>\$ 39,025</u>	<u>\$ 150,558</u>	<u>\$ 36,633</u>	<u>\$ 142,986</u>

## 24. 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, 2019 and 2018, the amounts sought for legal matters whereby EAH is the plaintiff are Brazilian Currency R\$13,700 thousand and R\$13,400 thousand (approximately NT\$102,200 thousand and NT\$105,800 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. EAH assessed other receivables relating to litigations and provided an additional impairment loss, totaling HK\$3,297 thousand and HK\$2,348 (equivalent to approximately NT\$12,986 thousand and NT\$9,034 thousand), respectively.

As of December 31, 2019 and 2018, amounts recorded as other receivables (net of impairment loss) are HK\$2,931 thousand and HK\$6,306 thousand (approximately NT\$11,308 thousand and NT\$24,614 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, 2019 and 2018, 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, 2019 and 2018, pledged deposit recorded as other receivables (net of impairment loss) are HK\$786 thousand and HK\$823 thousand (approximately NT\$3,032 thousand and NT\$3,212 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\$14,761 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\$33,052 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 27.

c. As of December 31, 2019, the commitment that EAVN has contracted for the plant construction were approximately HK\$4,211 thousand (equivalent to approximately NT\$16,246 thousand).

## 25. 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 2019.

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, 2019 and 2018, the cash and cash equivalents, restricted assets - current (pledged deposit) and bank borrowings were as follows:

	December 31			
	2019		2018	
	HK\$	NT\$	HK\$	NT\$
Debt (bank borrowing)	\$ (159,853)	\$ (616,713)	\$ (270,742)	\$ (1,056,760)
Cash and cash equivalents (including pledged deposit)	<u>370,565</u>	<u>1,429,640</u>	<u>229,968</u>	<u>897,611</u>
Net cash (debt)	<u>\$ 210,712</u>	<u>\$ 812,927</u>	<u>\$ (40,774)</u>	<u>\$ (159,149)</u>
Equity	<u>\$ 485,333</u>	<u>\$ 1,872,415</u>	<u>\$ 433,533</u>	<u>\$ 1,692,167</u>
Debt-equity ratio	<u>N/A</u>	<u>N/A</u>	<u>9%</u>	<u>9%</u>

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, 2019

**Unit: H.K. Dollars**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets at FVTPL</u>				
Foreign-listed stocks	\$ 42	\$ -	\$ -	\$ 42
Domestic-unlisted stocks	<u>-</u>	<u>-</u>	<u>21,642</u>	<u>21,642</u>
	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 21,642</u>	<u>\$ 21,684</u>

**Unit: N.T. Dollars**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets at FVTPL</u>				
Foreign-listed stocks	\$ 162	\$ -	\$ -	\$ 162
Domestic-unlisted stocks	<u>-</u>	<u>-</u>	<u>83,496</u>	<u>83,496</u>
	<u>\$ 162</u>	<u>\$ -</u>	<u>\$ 83,496</u>	<u>\$ 83,658</u>



December 31, 2018

**Unit: H.K. Dollars**

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

**Unit: N.T. Dollars**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets at FVTPL</u>				
Foreign-listed stocks	\$ 219	\$ -	\$ -	\$ 219
Domestic - unlisted stocks	-	-	83,496	83,496
Embedded derivative instrument	<u>-</u>	<u>-</u>	<u>14,833</u>	<u>14,833</u>
	<u>\$ 219</u>	<u>\$ -</u>	<u>\$ 98,329</u>	<u>\$ 98,548</u>

3) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2019

**Unit: H.K. Dollars**

<b>Financial Assets</b>	<b>Financial Assets at FVTPL</b>		<b>Total</b>
	<b>Embedded Derivatives Instruments</b>	<b>Equity Instruments</b>	
Balance at January 1, 2019	\$ 3,801	\$ 21,391	\$ 25,192
Recognized in profit or loss	(4,008)	-	(4,008)
Effect of foreign currency exchange differences	<u>207</u>	<u>251</u>	<u>458</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 21,642</u>	<u>\$ 21,642</u>
Recognized in other gains and losses - unrealized	<u>\$ 4,008</u>	<u>\$ -</u>	<u>\$ 4,008</u>

Unit: N.T. Dollars

Financial Assets	Financial Assets at FVTPL		Total
	Embedded Derivatives Instruments	Equity Instruments	
Balance at January 1, 2019	\$ 14,833	\$ 83,496	\$ 98,329
Recognized in profit or loss	(15,785)	-	(15,785)
Effect of foreign currency exchange differences	<u>952</u>	<u>-</u>	<u>952</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 83,496</u>	<u>\$ 83,496</u>
Recognized in other gains and losses - unrealized	<u>\$ 15,785</u>	<u>\$ -</u>	<u>\$ 15,785</u>

For the year ended December 31, 2018

Unit: H.K. Dollars

Financial Assets	Financial Assets at FVTPL		Financial Assets at FVTOCI	Total
	Embedded Derivatives Instrument	Equity Instruments	Equity Instruments	
Balance at January 1, 2018 (IAS 39)	\$ -	\$ -	\$ -	\$ -
Reclassification and remeasurements from available-for-sale (IAS 39)	<u>3,801</u>	<u>21,901</u>	<u>7,855</u>	<u>33,557</u>
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	<u>-</u>	<u>(510)</u>	<u>(68)</u>	<u>(578)</u>
Balance at December 31, 2018	<u>\$ 3,801</u>	<u>\$ 21,391</u>	<u>\$ -</u>	<u>\$ 25,192</u>
Recognized in other gains and losses - unrealized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Unit: N.T. Dollars

Financial Assets	Financial Assets at FVTPL		Financial Assets at FVTOCI	Total
	Derivatives Financial Assets	Equity Instruments	Equity Instruments	
Balance at January 1, 2018 (IAS 39)	\$ -	\$ -	\$ -	\$ -
Reclassification and remeasurements from available-for-sale (IAS 39)	<u>14,488</u>	<u>83,496</u>	<u>29,950</u>	<u>127,934</u>
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	<u>345</u>	<u>-</u>	<u>-</u>	<u>345</u>
Balance at December 31, 2018	<u>\$ 14,833</u>	<u>\$ 83,496</u>	<u>\$ -</u>	<u>\$ 98,329</u>
Recognized in other gains and losses - unrealized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

4) Valuation techniques and inputs applied for Level 3 fair value measurement

- a) The fair values of equity investments at FVTPL are originally determined by using the income approach. However, it is difficult to obtain important operation financial information and forecasts of the investment target in this period. Therefore, the market approach is using instead. Fair values are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities. The main assumptions are Price-Earnings (P/E) ratio of comparable listed companies and Price-Book (P/B) ratio of comparable listed companies and give different weights as the basis for estimate. The estimate has also adjusted the discount for lack of marketability.

The significant unobservable inputs as of December 31, 2019 are as follows:

Significant Unobservable Inputs	Relationship Between Inputs and Fair Value
P/E is 14.61; P/B is 1.87	The higher the ratios, the higher the fair value estimates
Discount rate for lack of marketability is 30%	The higher the discount rate for lack of marketability, the lower the fair value estimates

If the inputs to the valuation model change so as to reflect reasonably possible alternative assumptions while all the other variables remain constant, the fair value changes as follows:

If discount rate for lack of marketability increases by 5%, the fair value will decrease by NT\$6,000 thousand; if discount rate for lack of marketability decreases by 5%, the fair value will increase by NT\$6,000 thousand.

- b) The embedded derivative instruments are the convertible bond of the unlisted company and the call warrant. Since the Group does not expect to exercise the convertible right, the value of the conversion right is determined to be close to zero. Therefore, the substance of the aforementioned investment is closer to regular bonds. The Group, therefore, assessed the fair value of this investment by discounting the recoverable cash flows within the contract term using the market rate of the similar financial investment. As of December 31, 2019, the Group conservatively provided full impairment based on recoverability of the bond from its financial information of investee.

c. Categories of financial instruments

	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
	<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
<u>Financial assets</u>				
Financial assets at FVTPL				
Held for trading	\$ 42	\$ 162	\$ 56	\$ 219
Mandatorily at FVTPL	21,642	83,496	25,192	98,329
Amortized cost (Note 1)	<u>831,801</u>	<u>3,209,088</u>	<u>791,963</u>	<u>3,091,190</u>
	<u>\$ 853,485</u>	<u>\$ 3,292,746</u>	<u>\$ 817,211</u>	<u>\$ 3,189,738</u>

Financial liabilities

Financial liabilities at amortized cost (Note 2)	<u>\$ 834,921</u>	<u>\$ 3,221,125</u>	<u>\$ 814,425</u>	<u>\$ 3,178,863</u>
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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:

		<b>Assets</b>			
		<b>December 31</b>			
		<b>2019</b>		<b>2018</b>	
		<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
USD		\$ 441,566	\$ 1,703,561	\$ 482,905	\$ 1,884,875
HKD		<u>454</u>	<u>1,752</u>	<u>413</u>	<u>1,612</u>
		<u>\$ 442,020</u>	<u>\$ 1,705,313</u>	<u>\$ 483,318</u>	<u>\$ 1,886,487</u>
		<b>Liabilities</b>			
		<b>December 31</b>			
		<b>2019</b>		<b>2018</b>	
		<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
USD		\$ 228,098	\$ 880,001	\$ 296,665	\$ 1,157,943
HKD		<u>18,953</u>	<u>73,121</u>	<u>29,841</u>	<u>116,475</u>
		<u>\$ 247,051</u>	<u>\$ 953,122</u>	<u>\$ 326,506</u>	<u>\$ 1,274,418</u>

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

	<b>Currency USD Impact</b>		<b>Currency USD Impact</b>	
	<b>For the Year Ended</b>		<b>For the Year Ended</b>	
	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
	<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
Profit or loss	\$ 10,673	\$ 41,178	\$ 9,312	\$ 36,347

	<b>Currency H.K. Dollars Impact</b>		<b>Currency H.K. Dollars Impact</b>	
	<b>For the Year Ended</b>		<b>For the Year Ended</b>	
	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
	<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
Profit or loss	\$ (924)	\$ (3,566)	\$ (1,471)	\$ (5,743)

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 2019 and 2018 would have been increased (decreased) by HK\$1,052 thousand and HK\$(205) thousand (equivalent to approximately NT\$4,060 thousand and NT\$(800) 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, 2019				
	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	-	\$ 534,069	\$ -	\$ -	\$ 534,069
Other payables	-	140,234	765	-	140,999
<u>Interest bearing liabilities</u>					
Lease liabilities	3.73%-4.63%	6,742	5,986	12,302	25,030
Bank borrowings	3.15%	149,231	13,471	-	162,702

#### Additional information about the maturity analysis for lease liabilities

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	15-20 Years	20+ Years
Lease liabilities	\$ 6,742	\$ 5,986	\$ 1,872	\$ 2,023	\$ 2,185	\$ 6,222

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	3.29%	277,941	1,956	-	279,897

Unit: N.T. Dollars

December 31, 2019					
	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	-	\$ 2,060,438	\$ -	\$ -	\$ 2,060,438
Other payables	-	541,023	2,951	-	543,974
<u>Interest bearing liabilities</u>					
Lease liabilities	3.73%-4.63%	26,010	23,095	47,462	96,567
Bank borrowings	3.15%	575,733	51,971	-	627,704

Additional information about the maturity analysis for lease liabilities

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	15-20 Years	20+ Years
Lease liabilities	<u>\$ 26,010</u>	<u>\$ 23,095</u>	<u>\$ 7,223</u>	<u>\$ 7,805</u>	<u>\$ 8,430</u>	<u>\$ 24,004</u>

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	-	\$ 1,733,282	\$ -	\$ -	\$ 1,733,282
Other payables	-	388,821	-	-	388,821
<u>Interest bearing liabilities</u>					
Bank borrowings	3.38%	1,084,859	7,635	-	1,092,494



f. Financial facilities

Bank borrowings

	Liabilities			
	December 31, 2019		December 31, 2018	
	HK\$	NT\$	HK\$	NT\$
Secured borrowings				
Amount unused	\$ 324,648	\$ 1,252,492	\$ 157,088	\$ 613,146
Unsecured borrowings				
Amount unused	\$ 41,790	\$ 161,226	\$ -	\$ -

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, 2019

Unit: Foreign Currencies (In Thousands)

	Foreign Currencies	Function Currencies	Exchange Rate (Note)	Carrying Amount (NT\$)
<u>Financial assets</u>				
Monetary items				
USD	\$ 51,761	HKD	30.02	\$ 1,553,844
USD	3,713	NTD	30.02	111,477
USD	178	RMB	30.02	5,347
USD	213	DKK	30.02	6,397
USD	883	VDN	30.02	26,496
	<u>\$ 56,748</u>			<u>\$ 1,703,561</u>
<u>Financial liabilities</u>				
Monetary items				
USD	\$ 17,337	HKD	30.02	\$ 520,467
USD	10,917	RMB	30.02	327,714
USD	900	NTD	30.02	27,021
USD	160	DKK	30.02	4,799
	<u>\$ 29,314</u>			<u>\$ 880,001</u>
HKD	<u>\$ 18,953</u>	RMB	3.858	<u>\$ 73,121</u>

December 31, 2018

**Unit: Foreign Currencies (In Thousands)**

	<b>Foreign Currencies</b>	<b>Function Currencies</b>	<b>Exchange Rate (Note)</b>	<b>Carrying Amount (NT\$)</b>
<u>Financial assets</u>				
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	<u>313</u>	DKK	30.7150	<u>9,614</u>
	<u>\$ 61,367</u>			<u>\$ 1,884,875</u>
<u>Financial liabilities</u>				
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	<u>325</u>	DKK	30.7150	<u>9,996</u>
	<u>\$ 37,699</u>			<u>\$ 1,157,943</u>
HKD	\$ 29,815	RMB	3.9032	\$ 116,366
HKD	<u>28</u>	NTD	3.9032	<u>109</u>
	<u>\$ 29,843</u>			<u>\$ 116,475</u>

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

Information of foreign exchange gains and losses in 2019 and 2018 are as follow:

	<b>For the Years Ended December 31</b>			
	<b>2019</b>		<b>2018</b>	
	<b>HK\$</b>	<b>NT\$</b>	<b>HK\$</b>	<b>NT\$</b>
Realized foreign exchange gain	\$ 513	\$ 2,022	\$ 2,343	\$ 9,015
Unrealized foreign exchange gain	<u>9,621</u>	<u>37,893</u>	<u>2,573</u>	<u>9,900</u>
	<u>\$ 10,134</u>	<u>\$ 39,915</u>	<u>\$ 4,916</u>	<u>\$ 18,915</u>

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

h. Information of transferred financial assets

In 2019 and 2018, 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, 2019 and 2018, 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.

## 26. 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, 2019 and 2018, 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, 2019 and 2018. 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			
	2019		2018	
	Revenue from External Customers		Revenue from External Customers	
	HK\$	NT\$	HK\$	NT\$
China	\$ 1,117,670	\$ 4,402,166	\$ 1,524,277	\$ 5,864,807
Hong Kong	54,780	215,762	209,355	805,515
Japan	131,484	517,876	180,945	696,203
South Korea	786,916	3,099,426	147,779	568,596
Netherlands	133,222	524,721	91,239	351,052
Sweden	137,686	542,304	658	2,531
Others	311,808	1,228,119	240,423	925,051
	<u>\$ 2,673,566</u>	<u>\$ 10,530,374</u>	<u>\$ 2,394,676</u>	<u>\$ 9,213,755</u>

	December 31			
	2019		2018	
	Non-current Assets		Non-current Assets	
	HK\$	NT\$	HK\$	NT\$
China	\$ 210,032	\$ 810,302	\$ 219,631	\$ 857,264
Hong Kong	4,109	15,851	5,641	22,018
Taiwan	3,865	14,911	4,160	16,237
Denmark	48,578	187,415	44,689	174,431
Vietnam	38,601	148,924	-	-
Singapore	214	825	-	-
	<u>\$ 305,399</u>	<u>\$ 1,178,228</u>	<u>\$ 274,121</u>	<u>\$ 1,069,950</u>

c. Information of key customers

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

	For the Years Ended December 31					
	2019			2018		
	HK\$	NT\$	%	HK\$	NT\$	%
Company A	\$ 451,580	\$ 1,778,638	17	\$ 570,559	\$ 2,195,283	24
Company B	81,796	322,170	3	404,867	1,557,766	17
Company C	166,807	657,003	6	352,230	1,355,240	15
Company D (Note)	736,137	2,899,423	28	-	-	-

Note: Company D belong to the same group of Company B.

## 27. 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 25)
  - 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

TABLE 1

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

FINANCING PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(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		
1	EAH	ETH	Other receivables from related parties	Yes	\$ 126,198	\$ -	\$ -	-	The need for short-term financing	\$ -	Operating capital	\$ -	-	\$ -	\$ 1,287,745	\$ 1,287,745
		EAVN	Other receivables from related parties	Yes	90,150	90,150	90,150	-	The need for short-term financing	-	Operating capital	-	-	-	1,287,745	1,287,745

Note 1: EAH’s lending limits for any borrower are set forth below:

The individual financing amount provided to parent and a subsidiary that EAH holds, directly or indirectly, 100% of the voting shares shall not exceed 100% of the net worth of EAH.

Note 2: EAH’s financing limits on the Company's public announcement in December 2019 is different from the above amounts because the amount on the announcement is calculated based on EAH 2018 audited financial statements. Since 2019 year-end financial statements have not yet been audited, the amount on the December announcement is based on EAH 2018 audited financial statements.

**EASTECH HOLDING LIMITED AND SUBSIDIARIES**

(Formerly Known as Eastern Technologies Holding Limited)

**ENDORSEMENTS/GUARANTEES PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2019****(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	\$ 3,744,830	\$ 989,793	\$ 989,793	\$ 60,100	\$ -	53	\$ 3,744,830	Yes	No	No
		ETH	Subsidiary	3,744,830	691,712	664,868	78,065	-	36	3,744,830	Yes	No	No
		ETHY	Subsidiary	3,744,830	90,319	85,987	1,929	-	5	3,744,830	Yes	No	Yes
		EAVN	Subsidiary	3,744,830	274,294	270,450	-	-	14	3,744,830	Yes	No	No
1	EAH	ScS	Subsidiary	3,744,830	49,563	47,327	19,608	105,076	3	3,744,830	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) 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:

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.

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 2019 is different from the above amounts because the number on the announcement is calculated based on the 2019 Q3 reviewed financial statements. Since 2019 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, 2019.

**TABLE 3**

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

**MARKETABLE SECURITIES HELD**  
**DECEMBER 31, 2019**  
(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, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
ETH	<u>Oversea publicly traded stocks</u> Audio Pixels Holdings Limited	-	FVTPL - current	500	<u>\$ 162</u>	-	<u>\$ 162</u>	Note
ETT	<u>Taiwan publicly traded stocks</u> Eastech Holding Limited	Subsidiary	FVTPL	453,000	<u>\$ 25,368</u>	1	<u>\$ 25,368</u>	
	<u>Taiwan non-publicly traded stocks</u> HT Precision Technologies, Inc.	-	FVTPL - non-current	5,574,114	<u>\$ 83,496</u>	19	<u>\$ 83,496</u>	

Note: The stocks are held by the Company’s subsidiary, hence, the investment is accounted for treasury shares.



**TABLE 4****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, 2019****(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	ESHY	Parent and subsidiary	Purchase	\$ 2,663,983	51	90 days	\$ -	-	\$ (344,284)	(39)	Note
ESHY	EAH	Parent and subsidiary	Sale	(2,663,983)	(67)	90 days	-	-	344,284	41	Note
EAH	EAHY	Parent and subsidiary	Purchase	1,692,974	33	90 days	-	-	(364,788)	(41)	Note
EAHY	EAH	Parent and subsidiary	Sale	(1,692,974)	(84)	90 days	-	-	364,788	82	Note
	EAH	Parent and subsidiary	Purchase	456,964	25	90 days	-	-	364,788	82	Note
EAH	EAHY	Parent and subsidiary	Sale	(456,964)	(8)	90 days	-	-	(364,788)	(41)	Note
ETT	ETH	Parent and subsidiary	Purchase	382,649	74	90 days	-	-	(122,349)	(95)	Note
ETH	ETT	Parent and subsidiary	Sale	(382,649)	(14)	90 days	-	-	122,349	27	Note
	ETHY	Parent and subsidiary	Purchase	2,276,377	94	90 days	-	-	(419,627)	(99)	Note
ETHY	ETH	Parent and subsidiary	Sale	(2,276,377)	(49)	90 days	-	-	419,627	40	Note
EAH	EMHY	Parent and subsidiary	Purchase	482,116	9	90 days	-	-	(105,756)	(12)	Note
EMHY	EAH	Parent and subsidiary	Sale	(482,116)	(97)	90 days	-	-	105,756	91	Note
ESHY	EAHY	Fellow subsidiary	Purchase	273,222	7	90 days	-	-	(66,537)	(8)	Note
EAHY	ESHY	Fellow subsidiary	Sale	(273,222)	(14)	90 days	-	-	66,537	15	Note
ETHY	ETT	Parent and subsidiary	Purchase	134,713	3	90 days	-	-	-	-	Note
ETT	ETHY	Parent and subsidiary	Sale	(134,713)	(24)	90 days	-	-	-	-	Note
ESHY	ETHY	Fellow subsidiary	Purchase	1,391,570	36	90 days	-	-	(137,095)	(16)	Note
ETHY	ESHY	Fellow subsidiary	Sale	(1,391,570)	(30)	90 days	-	-	137,095	13	Note
	ESHY	Fellow subsidiary	Purchase	397,110	9	90 days	-	-	137,095	13	Note
ESHY	ETHY	Fellow subsidiary	Sale	(397,110)	(10)	90 days	-	-	(137,095)	(16)	Note

Note: 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, 2019  
(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	\$ 364,788	3.41	\$ -	-	\$ 132,664	\$ -
ETHY	ESHY	Fellow subsidiary	137,095	6.82	-	-	113,373	-
	ETH	Parent and subsidiary	419,627	5.44	-	-	181,501	-
EMHY	EAH	Parent and subsidiary	105,756	3.57	-	-	54,090	-
ESHY	EAH	Parent and subsidiary	344,284	15.47	-	-	173,962	-
ETH	ETT	Parent and subsidiary	122,349	5.18	-	-	-	-

**EASTECH HOLDING LIMITED AND SUBSIDIARIES**

(Formerly Known as Eastern Technologies Holding Limited)

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS****FOR THE YEAR ENDED DECEMBER 31, 2019****(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
1	2019						
	EAH EAH	ESHY EAHY	a, b a, b	Dividend Income Net revenue from sale of goods and purchases	\$ 82,684 456,964	Dividends Credit on transfer pricing policy	1 4
2	EAHY	EAH	a, b	Net revenue from sale of goods and purchases	1,692,974	Credit on transfer pricing policy	16
	EAHY	EAH	a, b	Receivables from and payables to related parties	364,788	90 days	7
	EAHY	ESHY	c	Net revenue from sale of goods and purchases	273,222	Credit on transfer pricing policy	3
	EAHY	ESHY	c	Receivables from and payables to related parties	66,537	90 days	1
3	EMHY	EAH	a, b	Net revenue from sale of goods and purchases	482,116	Credit on transfer pricing policy	5
	EMHY	EAH	a, b	Receivables from and payables to related parties	105,756	90 days	2
4	ESHY	EAH	a, b	Net revenue from sale of goods and purchases	2,663,983	Credit on transfer pricing policy	25
	ESHY	EAH	a, b	Receivables from and payables to related parties	344,284	90 days	6
	ESHY	ETHY	c	Net revenue from sale of goods and purchases	397,110	Credit on transfer pricing policy	4
5	ETT	ETHY	a, b	Net revenue from sale of goods and purchases	134,713	Credit on transfer pricing policy	1
6	ETHY	ETH	a, b	Net revenue from sale of goods and purchases	2,276,377	Credit on transfer pricing policy	22
	ETHY	ETH	a, b	Receivables from and payables to related parties	419,627	90 days	8
	ETHY	ESHY	c	Net revenue from sale of goods and purchases	1,391,570	Credit on transfer pricing policy	13
	ETHY	ESHY	c	Receivables from and payables to related parties	137,095	90 days	3
7	ETH	ETT	a, b	Net revenue from sale of goods and purchases	382,649	Credit on transfer pricing policy	4
	ETH	ETT	a, b	Receivables from and payables to related parties	122,349	90 days	2
8	MMSZ	EAH	a, b	Net revenue from sale of goods and purchases	71,225	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: ESHY; No. 5: ETT; No. 6: ETHY; No. 7: ETH; and No. 8: MMSZ.

(Continued)

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.

(Concluded)

**EASTECH HOLDING LIMITED AND SUBSIDIARIES**

(Formerly Known as Eastern Technologies Holding Limited)

**INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2019			Net Income (Loss) of the Investee	Share of Profit (Loss) (Note)	Note
				December 31, 2019	December 31, 2018	Number of Shares	%	Carrying Amount			
The Company	EAH	Hong Kong	Sales of speaker systems and headphones	\$ 1,341,546	\$ 1,341,546	80,000,000	100.00	\$ 1,341,546	\$ 257,080	\$ -	
EAH	ScS	Denmark	Research, development, production and sales of high-end speaker	225,530	225,530	1,320,045	100.00	225,530	5,824	-	
	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	8,539	-	
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	88,319	-	
EAH	ETS	Singapore	Research and development of system architecture/new product concept/state-of-the-art products/sound and acoustics advance technology	-	-	100	100.00	-	(1,179)	-	Note 3
			Sales of speaker, AV electronics home entertainment systems, smart speaker and headphones								
	EAVN	Vietnam	Production, assembly and sales of transducer speakers, Bluetooth speakers and headphones.	105,749	-	-	100.00	105,749	(12,501)	-	
	EMH	Hong Kong	Sales of headphones and AV products	386	-	100,000	100.00	386	(56)	-	

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.

Note 3: ETS was invested and established by ETH in October 2017, and has been directly held by EAH since July 2019.

**TABLE 8**

**EASTECH HOLDING LIMITED AND SUBSIDIARIES**

(Formerly Known as Eastern Technologies Holding Limited)

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

**(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, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 3)	Carrying Amount as of December 31, 2019 (Note 3)	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outward	Inward						
ESHY	Production and sales of speaker systems	HK\$ 9,000	c.	\$ -	\$ -	\$ -	\$ -	\$ 72,082	100	(3)	HK\$ 9,282 (NT\$ 35,810)	\$ -
EAHY	Production, assembly and sales of speaker systems and accessories	US\$ 6,500	c.	-	-	-	-	77,833	100	(3)	HK\$ 38,576 (NT\$ 148,826)	-
EMHY	Production and sales of headphones	US\$ 2,145	c.	-	-	-	-	10,454	100	(3)	HK\$ 17,018 (NT\$ 65,655)	-
MMSZ	Import and export trading of audio and headphones products, machinery and equipment	RMB 2,000	b.	-	-	-	-	880	100	(3)	HK\$ 2,528 (NT\$ 9,753)	-
ETHY	Production and sales of smart speaker and AV electronics home entertainment systems	HK\$ 58,000	c.	-	-	-	-	(12,238)	100	(3)	HK\$ 58,000 (NT\$ 223,764)	-

2. Upper Limit on the Amount of Investment in Mainland China:

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	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

(Continued)

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.)

(Concluded)

## 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; %

Account Items \ Year	2018	2019	Differences	
			Amount	%
Current assets	3,847,439	4,031,248	183,809	4.78
Fixed assets	7,43,556	751,071	7,515	1.01
Other assets	435,972	523,164	87,192	20.00
Total assets	5,026,967	5,305,483	278,516	5.54
Current liabilities	3,203,711	3,160,018	(43,693)	(1.36)
Long-term liabilities	13,306	154,864	141,558	1063.87
Other liabilities	117,783	118,186	403	0.34
Total liabilities	3,334,800	3,433,068	98,268	2.95
Share capitals	616,060	615,040	(1,020)	(0.17)
Capital reserves	751,962	759,962	8,000	1.06
Treasury shares	(24,019)	(24,019)	-	-
Unearned benefit of employees	(18,396)	(8,801)	9,595	(52.16)
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)	-	-
Retained earnings (including statutory surplus reserve)	510,034	738,189	228,155	44.73
Exchange differences on translation of foreign operations	(113,524)	(178,006)	(64,482)	56.80
Total shareholder's equity	1,692,167	1,872,415	180,248	10.65
Description of significant changes: (amount changed over 10% and reached 1% of the total assets of the year)				
1. Increase in other assets: mainly due to the addition of the right-of-use assets as a result of the initial application of IFRS 16 "Leases" in 2019, resulting in an increase in other assets as compared to the end of last year.				
2. Increase in long-term liabilities: mainly due to the addition of liabilities – non-current as a result of the initial application of IFRS 16 "Leases" in 2019 and also the increase in long-term bank borrowings as compared to the end of last year, resulting in an increase in long-term liabilities as compared to the end of last year.				
3. Decrease in exchange differences on translation of foreign operations: mainly due to the appreciation of the New Taiwan Dollars against Hong Kong Dollars and Renminbi at the end of the current period, resulting in a negative exchange difference on translation of the financial statements of foreign operating entities in 2019.				
4. Increase in retained earnings: mainly attributable to the net profit after tax for 2019 was higher than the cash dividends allocated this year.				
5. Increase in total shareholders' equity: as the increase in retained earnings was more than the decrease in 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. Operating results

1. The main reasons for and the impact of the significant changes in operating income, operating net profit and profit before tax in the last two years.

Unit: NT\$'000; %

Account Items \ Year	2018	2019	Differences	
			Amount	%
Operating income	9,220,523	10,546,696	1,326,173	14.38
Less: Sales returns and allowance	6,768	16,322	9,554	141.16
Net operating income	9,213,755	10,530,374	1,316,619	14.29
Operating costs	8,032,080	9,039,923	1,007,843	12.55
Operating gross profit	1,181,675	1,490,451	308,776	26.13
Operating expenses	892,095	1,132,566	240,471	26.96
Operating net profit	289,580	357,885	68,305	23.59
Non-operating income	88,703	94,887	6,184	6.97
Non-operating expenses and losses	48,449	72,791	24,342	50.24
Profit before tax	329,834	379,981	50,147	15.20
Less: income tax expenses	82,127	71,826	(10,301)	(12.54)
Net profit after tax	247,707	308,155	60,448	24.40
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 as compared to last year.				
2. Increase in operating gross profit: mainly benefited from a significant increase in sales revenue, the decrease in production cost as a result of RMB depreciation (the main production cost is mainly denominated in RMB) and the Company's gross margin for order development has gradually improved and the high-margin customer order development situation is good after the company's transformation, and the operating margin increased compared with the previous year.				
3. Increase in operating expenses: mainly due to the increase of staff cost and product quality assurance expenses as compared to the corresponding period of last year.				
4. Increase in operating net profit and net profit after tax: 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, which led to the increase in operating next profit and net profit after tax.				

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; %

Account Items \ Year	2018	2019	Differences	
			Amount	%
Operating activities	385,509	1,445,047	1,059,538	274.84
Investing activities	(221,518)	(337,031)	(115,513)	(52.15)
Financing activities	(3,980)	(534,028)	(530,048)	(13317.79)
Analysis of changes:				
1. Operating activities: mainly attributable to the increase of profit before tax in the current period compared with that of last year, and the net cash flow arising from operating activities was approximately NT\$1.55 billion 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\$ 1.09 billion in last year.				
2. Investing activities: mainly attributable to the establishment of a factory by a Vietnamese subsidiary in the current period, the investment for obtaining land use rights of approximately NT\$490 million and the addition of property, plant and equipment increase by approximately NT\$89 million a compared with the same period of last year, resulting the net cash outflow from investing activities increased by NT\$115 million as compared with the same period of last year.				
3. Financing activities: mainly attributable to the better profitability in the current period and more cash inflows were generated. Therefore, more bank borrowings were repaid in the current period, and the net cash outflow from financing activities increased by NT\$530 million over the same period 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 2020 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 2019 amounted to NT\$217,404 thousand 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

Investment business \ Item	Gain or (loss) recognized in 2019	Major reasons for the gain or loss	Improvement plan
Eastern Asia Technology (HK) Limited (“EAH”)	257,080	In good operating condition	N/A
Eastech Systems (Huiyang) Co., Ltd. (“ESHY”)	72,082	In good operating condition	N/A
Eastech (Huiyang) Co., Ltd. (“EAHY”)	77,833	In good operating condition	N/A
Eastech Microacoustics (Huiyang) Co., Ltd. (“EMHY”)	10,454	In good operating condition	N/A

Investment business \ Item	Gain or (loss) recognized in 2019	Major reasons for the gain or loss	Improvement plan
Shenzhen MaliMaliBox Trading Corporation Limited (“MMSZ”)	880	In good operating condition	N/A
Scan-Speak A/S (“ScS”)	5,824	In good operating condition	N/A
Eastech Electronics (Taiwan) Inc. (“ETT”)	8,539	In good operating condition	N/A
Eastech Electronics (HK) Limited (“ETH”)	88,319	In good operating condition	N/A
Eastech Electronics (Huiyang) Co., Ltd. (“ETHY”)	(12,238)	The operation did not reach the scale of economy, which resulting in a loss.	N/A
Eastech Electronics (SG) Pte. Ltd. (“ETS”)	(1,179)	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.
Eastech (VN) Company Limited (“EAVN”)	(12,501)	Opened in the first quarter of 2019, it is engaged in the production, assembly and sale of single speakers/Bluetooth speakers and headphones. Due to the start of business, the business did not reach the scale of economy, which resulting in a loss.	N/A
Eastech Microacoustics (HK) Limited (“EMH”)	(56)	Opened in the third quarter of 2019, it is engaged in the sale of headphones and audio-visual products, Due to the start of business, the business did not reach the scale of economy, which resulting in a loss.	N/A

(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 risk of tariff pass-through of products, the first phase of the Vietnam factory has been completed in December 2019. The second phase is estimated to be completed in 2020.

- (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) Build a R&D team for new products development of True Wireless Bluetooth Stereos (TWS) in the Taiwan office.
- (4) An instant message management system that optimizes data on production, warehouse, logistics, business and engineering, and especially strengthens hardware and software investment in IT which will be upgraded to a new SAP Hana system 2020 to improve management efficiency.
- (5) Scan-Speak, ScS, a Danish sub-subsidiary, plans to find another suitable location to build its own factory in response to the relocation plan for the lease of the factory, which expires in 2021.

## **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 2019 was NT\$35.913 million, accounting for about 0.3% of the net operating income, which was a minor ratio and interest rate changes have little effect on the Company.

#### Countermeasures:

- ① Designate 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.
- ② Evaluate the interest rate of bank borrowings from time to time and maintain a good relationship with the bank to obtain favorable interest rates.
- ③ Refer 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 2019 was NT\$39.915 million, accounting for about 0.4% 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 Participate in financial institution forecast, adherence to the principle of holding the same currency as the transaction currency for payment and take the net position to avoid risks, 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 profit or loss of the Company.
- ② Monitor 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 regulative measures such as the Company's "Handling Procedures for Engaging in Derivative Products Transaction", 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.
- ③ Due to the significant increase in the proportion of RMB procurement by factories in mainland China, in order to increase 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**

At present, the world is plagued by the COVID-19, as if it was the severe situation of combining SRAS, financial turmoil and 1929 Great Depression in the United States, the economy is in a depression and highly uncertain stage. The Company's products belong to consumer audio-visual brand customers, which the main sales markets are located in Europe and the United States. With the impact of China's supply chain breakage and double-breakage of market demand, the Company may face the increase in the raw material import cost and human resources cost in the future. Under each subsidiary's cooperation with the local government's anti-epidemic measures, it will not slow own the pace of adjusting the operating constitution. The original intention is to continue to transform and launch products that meet the market trend to enhance the quality and quantity of their products. At the same time, adjustments will be made to the sales strategy, cost structure and trading conditions at any time in the light of the changing market sentiment and international conditions, in order to cope with the changes in

freight traffic. As a result of the rapid changes in the overall economic environment, the Company has not had any material immediate impact as a result of the abovementioned tightening crisis.

**(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 2020, the Company did not engage in high-risk, high-leverage investments. In addition, based on the operation of each operating entity’s subsidiaries and the Group’s financial scheduling flexibility, the Company and its subsidiaries provide capital loans and endorsement guarantees to the 100% of the reinvested subsidiaries (or sub-subsidiaries) to reduce the Group’s uneven capital allocation and reduce capital borrowing or idle cost. Capital loan of EAH and EAVN amounted to US\$3 million (approximately NT\$90,600 thousand), the aforesaid loans and all are dealt in accordance with the relevant operating procedures regulations. Saved as the endorsement guarantees for bank borrowings provided by the Company to the Company’s subsidiaries, namely EAH, ETH, ETHY and EAVN, the Company has no other endorsement guarantees, and EAH, a subsidiary of the Company, has provided endorsement guarantees to Scan-Speak A/S, a subsidiary of the Company, for bank borrowings. The above endorsement guarantees are all carried out in accordance with the relevant operating procedures. Overall, the loans of subsidiaries and the guarantees of the parent company are the same amount while the risk is not doubled, and there is no adverse impact on the consolidated loss.

**(3) Future research and development plan and expected research and development expenses**

1. 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 2020 are as follows:

- (1) Cooperate with systematic single chip partners on the research and development of wireless speakers system (Bluetooth 5.0 version speaker and Wi-Fi speaker) and multi-room function system.

- (2) 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.
  - (3) Develop the Amazon Alexa and Google GVA modules of TV Sound Bar embedded standard to provide multiple choices of turn-key solution.
  - (4) Development of the Dolby Atmos and DTS system; continue to provide the latest Dolby Atmos of 1.6 version for the Sound Bar App.
  - (5) 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.
  - (6) 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.
  - (7) Seek cooperation or investment opportunities in advanced materials technology and processing flow of products and unit speakers to increase the breadth and depth of product differentiation.
  - (8) Establish long-term goals with suppliers, such as environmental protection, energy saving and carbon reduction, and recycling or natural decomposition of raw materials and 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.
2. Research and development plan, intellectual property rights acquisition plan and estimated investment costs

The research and development expenses of the Company in 2019 was NT\$290.889 million, representing approximately 2.76% of the operating income, which decreased NT\$4.053 million when compared with the research and development expenses in 2018 of NT\$294.942 million. In 2020, 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.

Regarding the Company's intellectual property rights acquisition plan, which is based on the Group's current intellectual property strategy and its corresponding built-up intellectual property management system, which further protects and acquires the intellectual property rights of the Company in a more comprehensive and effective



manner. At the same time, the relevant measures are taken in advance to reduce the intellectual property risk that may be encountered in the future.

- **Intellectual property strategy:**

The Company began to establish a patent committee in 2019, and drafted a patent layout from multiple aspects such as R&D, industry and marketing, resulting in the development of patent strategies to not only focus on patent quality, but also the global market as a secondary consideration, thus deducing development to “create value with patents” becomes the ultimate goal. Continuously creating the Group’s core technology value, expanding market competitiveness and enhancing overall operating income through patents.

- **Intellectual property management system:**

Through the implementation of patent proposal management and incentives, we ensure the implementation and executive quality of the Company’s intellectual property proposal application. To be precise, in order to encourage and enhance the Group’s R&D morale and innovation, and R&D personnel can actively propose patent proposals, the e-Patent “Patent Proposal Platform” is expected to be introduced to allow patent engineers and R&D personnel can effectively grasp the latest progress of the existing patents, and immediately retrieve the patentability analysis based on the patent data of various countries, so as to effectively arrange the protection of patent applications and strengthen and consolidate the core technology of the Group.

In addition, the Company also plans to gradually introduce the relevant verification of the Taiwan Intellectual Property Management System (TIPS) or other management systems in order to effectively use and manage the Company's intellectual property.

- **Possible intellectual property risks and countermeasures:**

With regard to the expansion of the Group's research and development base in overseas markets and manufacturing base, the risks of possible imitation or other infringement of intellectual property such as counterfeiting and other intellectual property are achieved through a thematic patent search seminar. This will enable R&D personnel to promptly grasp the emerging trends of R & D innovation in the industry and its development status, as well as the timely preparation of patent applications from various countries. In addition, the Group has designated protection targets for its core research and development manufacturing technologies, thereby promoting the protection of business secrets in its projects, so as to take corresponding measures such as point-to-point and management.

- **Intellectual property list/achievements**

In 2019, a total of eight new patents were approved and 16 of them were under review. More specifically, it is based on the Group's business development strategy and corresponds to patent applications from countries and regions including China, the United States, the European Union and Vietnam.

**(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”, and wired earphones were gradually replaced by wireless Bluetooth earphones. 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 providing one-stop full-service acoustic solutions. 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. 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 entered the field of top-tier speakers and premium audio brand OEM competition, as well as the provision of differentiated products of “Designed in Denmark and Made in China” to provide customers with a variety of customized choices.

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. Restructuring the enterprise with differentiated products and niche markets to replace price competition.

**(8) The expected benefits and potential risks of plant expansion and countermeasures**

Due to the impact of Sino-US Trade War, the operating environment in mainland China continues to deteriorate. In addition, the operating environment in Mainland China continues to deteriorate. The Company has established a plant in Hai Duong Province, northern Vietnam for best allocation of production resources. The first-phase project of the Vietnam factory is planned by a mainland plant outsourcing processing plant. The second-phase project operates in a continuous and one-stop manner, and operates independently and concurrently with the mainland plant. The two-track independent operation can optimize the

allocation of production resources and strengthen the order taking advantage, while providing customers with diverse choices.

**(9) Risks and countermeasures for purchasing or sales concentration**

1. The risks and countermeasures of concentration of purchasing:

In 2019, 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 international audiovisual brands and the Company is an important supplier of speaker/audio products for the above-mentioned audiovisual electronic 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 and the compete with each other for growth, 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.

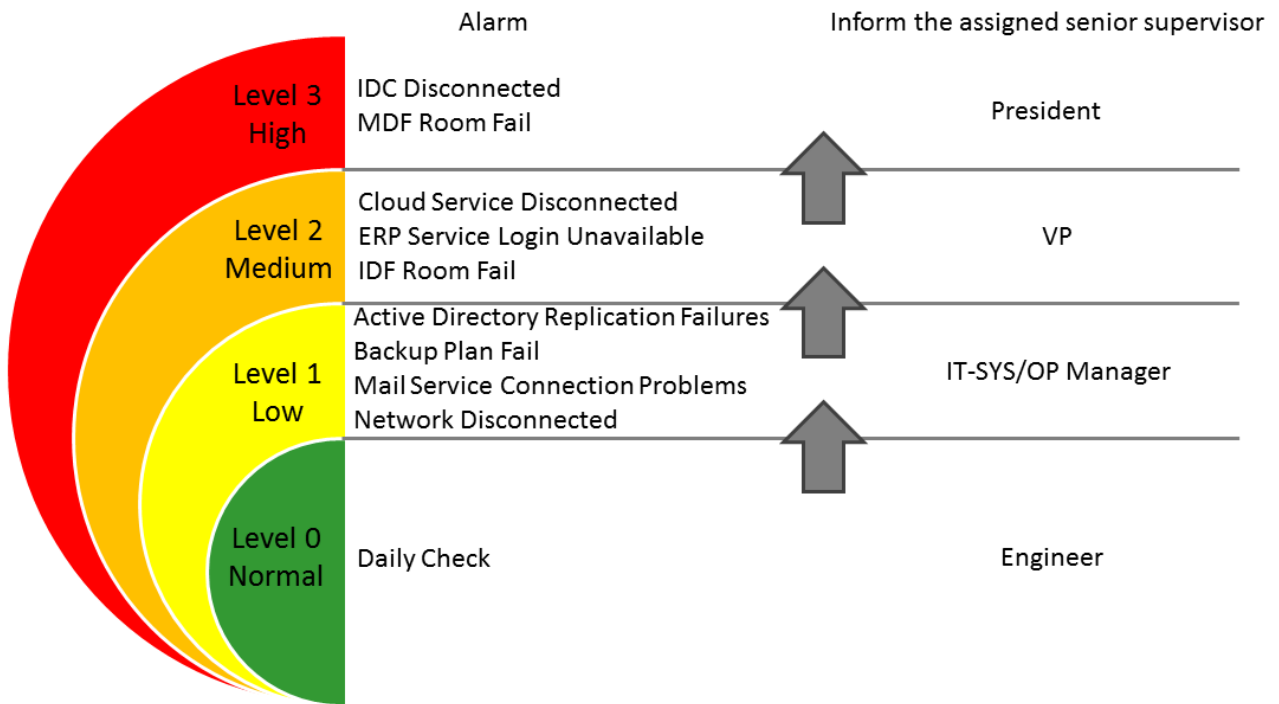
**(13) Other important risks and countermeasures:**

The Company has established an "Information Security Management Policy" and implemented information security management operations.

As a part of customer-centric, and deeply rooted it in orders, production, material management, financial cash flow and fundamental information systems, we have developed a diversified structure and derived four key systems from this structure, which are MES, PLM, SAP, and Mail System, respectively 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. 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. Since 2020, the IT information policy has been transformed into a cloud-based strategic layout that will gradually migrate critical systems to the cloud platform each year, with the characteristics of cloud services that prevent any company from being exposed to the risk of being unmanageable due to natural disasters, thus affecting the IT systems of a single node. It can also reduce APT, DDoS, Zero-day Vulnerability and other attacks from the Internet through the cloud platform. On the other hand, it can also avoid the risk of a single node IT service interruption caused by the shutdown of a specific operating location similar to the impact of the COVID-19 in 2019.



**7. Other significant matters:** Nil

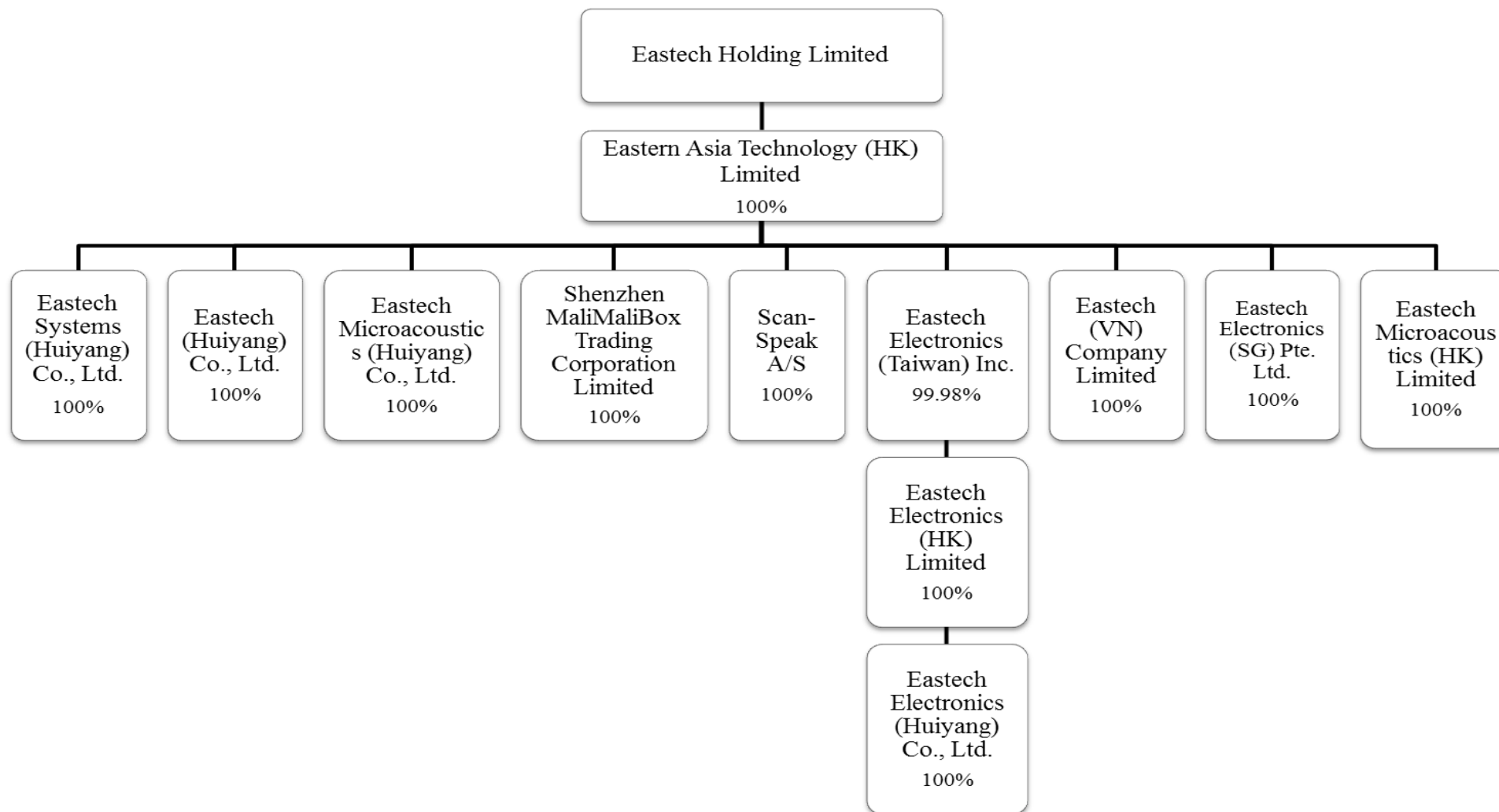
## VIII. Special Disclosure

### 1. Information on affiliates for the latest year

(a) Consolidated business reports of affiliated enterprises

1. Affiliated enterprises diagram

31 December 2019



## 2. Basic information of each affiliated enterprises

31 December 2019; Unit: dollar

Company	Date of Establishment	Contact Address	Paid-in capital	Principal Business or Products
EAH	12 January 1988	Unit 906, 9/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong	HKD 80,000,000	Sales of speaker systems and earphone products
EAHY	07 August 1995	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	07 November 2002	Dongfeng Administrative Area, Xinxu Town, Huiyang District, Huizhou, Guangdong province, the PRC	USD 2,144,900	Production and sales of earphones
ESHY	06 October 1995	Dongfeng Administrative Area, Xinxu Town, Huiyang District, Huizhou, Guangdong province, the PRC	HKD 9,000,000	Production and sales of speaker systems
MMSZ	13 November 2013	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, components and mechanical equipment
ScS	August 1983	N.C. Madsensvej 1, 6920 Videbaek, Denmark	DKK 1,320,045	Research and development, production and sales of high-end speakers
ETT	04 November 1992	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	14 March 1996	Unit 906, 9/F, Nanyang Plaza, 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	01 January 1997	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	04 October 2017	1Pemimpin Drive, #08-06 One Pemimpin, Singapore 576151	SGD 100	Research and development of system architecture/new product concepts/state-of-the-art products and sound and acoustic advanced technology
EAVN	25 January 2019	Lot B2-4, Cong Hoa Industrial Park, Cong Hoa Ward, Chi Linh City, Hai Duong Province, Vietnam	USD 3,500,000	Production, assembly and sales of unit speakers/ Bluetooth speakers and headphones
EMH	30 August 2019	Room 906, 9/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong	HKD 100,000	Sales of headphones and audiovisual products



3. Presumption of relationship of control or subordination, information of the shareholders in common: Nil
4. The industries covered by the business of the overall affiliated company
  - (1) The business operations of the Company and its affiliates include: manufacturing and sales of speaker systems and headphones 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 concept/state-of-the-art products and sound and acoustic advanced technology

(2) Details of segregation of functions:

Company Name	Principal business or production items	Details of segregation of functions
EAH	Investment holding, trading	Holding company, trading of audio products
EAHY	Audio products production	Production and sales of audio products to affiliated companies
EMHY	Headphones products production	Production of headphones and sales to the parent
ESHY	Audio products production	Audio products production and domestic sales in China
MMSZ	Import and export of audio products and materials	Audio products and materials import and export business
ScS	Transducer manufacturing and processing, sales of self-brand products	Transducer manufacturing and processing, sales of Danish self-brand products
ETT	Electronic products procurement, wholesale	Receiving trade orders for audio products, procurement of certain spare parts in Taiwan
ETH	Trading of Electronic products	Receiving trade orders and sales of audio products
ETHY	Production and sales of electronic products	Domestic sales in China and export sales to affiliated companies of audio products
ETS	Development and design of electronic products	Singapore R&D center
EAVN	Production of various audio products	Audio products production and its domestic and export sales
EMH	Sales of headphones products	Trading of headphones products

## 5. Operational results of each affiliate enterprise

31 December 2019; 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	HKD 80,000,000	2,348,160	1,060,415	1,287,745	5,631,525	163,804	257,080	3.21
EAHY	USD 6,500,000	1,194,365	334,317	860,048	2,012,378	86,808	77,833	N/A (Note)
EMHY	USD 2,144,900	278,428	98,999	179,429	498,420	3,656	10,454	N/A (Note)
ESHY	HKD 9,000,000	1,053,414	876,119	177,294	4,540,167	67,338	72,082	N/A (Note)
MMSZ	RMB 2,000,000	33,485	23,579	9,906	78,361	1,337	880	N/A (Note)
ScS	DKK 1,320,045	135,750	72,613	63,137	182,978	9,338	5,824	4.41
ETT	NTD 95,360,300	665,056	343,952	321,104	552,147	(29,275)	8,539	0.90
ETH	HKD 40,000,000	783,891	624,302	159,589	2,680,973	93,646	88,319	2.21
ETHY	HKD 58,000,000	1,814,249	1,226,134	588,115	4,641,906	(43,961)	(12,238)	N/A (Note)
ETS	SGD 100	5,513	5,248	265	-	(30,483)	(1,179)	(11,790)
EAVN	USD 3,500,000	225,447	132,490	92,957	-	(13,298)	(12,501)	N/A (Note)
EMH	HKD 100,000	386	55	331	-	(56)	(56)	(0.56)

Note: Limited company without shares

6. Information of directors, supervisors and general managers of each affiliate enterprise

Company	Position	Name or representative	Shareholding	
			No. of shares (shares)	Percentage of Shareholding (%)
Eastern Asia Technology (HK) Limited	Directors	Pai Chin Chang	0	0
	Directors	Wong Kar Sue	0	0
Eastech (Huiyang) Co., Ltd.	Directors	Liou Jenq Lin	0	0
	Directors	Lam Pui Man	0	0
	Directors	Low Weng Seet	0	0
Eastech Microacoustics (Huiyang) Co., Ltd.	Directors	Liou Jenq Lin	0	0
	Directors	Hui Man Wai	0	0
	Directors	Lin Ji Xiong	0	0
Eastech Systems (Huiyang) Co., Ltd.	Directors	Liou Jenq Lin	0	0
	Directors	Leung Hung Sun	0	0
	Directors	Low Weng Seet	0	0
Shenzhen MaliMaliBox Trading Corporation Limited	Directors	Lam Pui Man	0	0
	Directors	Leung Hung Sun	0	0
	Directors	Lin Ji Xiong	0	0
Scan-Speak A/S	Directors	Liou Jenq Lin	0	0
	Directors	Chang Tung I	0	0
	Directors	Teng Chiou Shiang	0	0
	Directors	Colleen Lois Hallam	0	0
Eastech Electronics (Taiwan) Inc.	Directors	Liou Jenq Lin	0	0
	Directors	Chang Tung I	0	0
	Directors	Teng Chiou Shiang	0	0
	Supervisor	Lam Pui Man	0	0
Eastech Electronics (HK) Limited	Directors	Liou Jenq Lin	0	0
	Directors	Lam Pui Man	0	0
Eastech Electronics (Huiyang) Co., Ltd.	Directors	Liou Jenq Lin	0	0
	Directors	Chang Tung I	0	0
	Directors	Teng Chiou Shiang	0	0
Eastech Electronics (SG) Pte. Ltd.	Directors	Lee Kheng Wee	0	0
Eastech Microacoustics (HK) Limited	Directors	Lam Pui Man	0	0
	Directors	Teng Chiou Shiang	0	0

(b) Consolidated financial statements of affiliated enterprises: same with the consolidated financial statements, please refer to pages 140 to 222.

(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: NT\$'000; shares; %

Subsidiary (Note 1)	Paid-in capital	Source of funds	Shareholding percentage of the Company	Date of acquisition or disposal	No. of shares acquired and amount	No. of shares disposed of and amount	Investment gains or losses	No. 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.	NT\$95,360	Self-owned funds	99.98%	Acquired in February 2013	453,000 shares NT\$27,617	0	0	453,000 shares NT\$10,170	0 share	0	0

Note 1: Acquired in January 2015.

Note 2: Based on the closing price of NT\$22.45 on 29 March 2020.

**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 latest Articles of Association of the Company were approved at the general meeting on 10 June 2019 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" (25 December 2019 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
The procedures for the Company to increase capital through the issuance of new shares and surplus or capital reserve or conversion of capital reserve into new shares.	<ol style="list-style-type: none"> <li>Articles 156 and 255 of the Company Act</li> <li>Articles 142 and 266(3) of the Company Act</li> </ol>	<p>The Company has adopted the above provisions in the Articles of Association.</p> <p>Upon the issuance of new shares by the Company, the subscribers shall not delay the payment of the shares payable. In the event that the subscriber has not paid within the period of one month after the deadline set by the Company, the subscriber will lose his/her rights, and the Company may separately additional funds for the subscribed shares and request compensation from the subscriber.</p>
<ol style="list-style-type: none"> <li>When the Company issues new shares by capital increase in cash, saved as the different resolutions of the shareholders, the original shareholders shall be announced and notified, and shall be identified according to the proportion of the original shares. Those who do not subscribe within the time limit shall be declared that they will lose their rights. If the shares held by the original shareholders are insufficient to subscribe for new shares, they may be merged for joint subscription or merged for one person to subscribe. Those who are not subscribed by the original shareholders may be issued publicly or negotiated for subscription by a specific person.</li> <li>When the Company handles new shares issuance by</li> </ol>	Article 8 of the Business Mergers and Acquisitions Act	<p>The Company has adopted the above provisions in the Articles of Association.</p> <p>If the Company has any of the following circumstances, it may not retain the issued new shares for employees to subscribe, notify the original shareholders for initial subscription or allocating a certain ratio to the external public offering, and not subject to the restriction of Articles 8, 9,11 and 11.1:</p> <p>(a) The surviving company issues new shares for the mergers, or the parent company issues new shares for the merger of the subsidiary and the other company.</p>

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<p>increasing capital in cash within the Republic of China, except for those that the competent authority of the Republic of China believes is unnecessary or unsuitable for external public issuance, it shall allocate 10% of the total amount of new shares to be issued to the public within the Republic of China. However, if the general meeting has a resolution with a higher proportion, the resolution shall be followed.</p>		<p>(b) All new shares issued are used for acquisition.  (c) All new shares issued are used to acquire the issued shares, business or property of other companies.  (d) Issuing new shares due to equity transfer.  (e) Issuing new shares as a result of the transfer.  (f) Matters stipulated by other laws.</p> <p>The new shares issued by the Company in accordance with the preceding paragraph can be funded with cash or properties required by the Company's business, and is not subject to the restriction of Article 272 of the Taiwan Company Act.</p>
<p>1. When one of the following matters is decided at the general meetings, the dissenting shareholders shall have the right to request the company to purchase shares:</p> <p>(1) Division, merger, acquisition or share conversion of the Company;  (2) The Company concludes, alters or terminates all leases of business, entrusted operations or contracts that are often co-operated with others, granting all or a major portion of business or property, or assigning all business or property of others to the Company's operations huge influence.</p> <p>2. The shareholder's request for the preceding paragraph shall be submitted in writing within 20 days from the date of the resolution at the general meeting and shall state the purchase price of the</p>	<p>1. Article 317 and 186 of the Company Act  2. Article 12 of the Business Mergers and Acquisitions Act</p>	<p>The Company has adopted the above provisions in the Articles of Association.</p> <p>(A) When one of the following matters are resolved at the general meeting, the dissenting shareholders may exercise the right to purchase shares of the Company and request the Company to buy its shares at a fair price at that time:</p> <p>(a) According to one of the matters stipulated in Article 185 of the Company Act, the shareholders have notified the Company in writing of their intention to object to the proposal before the general meeting, and raised the objections again at the general meeting. However, the general meeting shall make a resolution in accordance with Article 31(A)(b). After the transfer of the Company's business or assets and at the same time</p>

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<p>request. If an agreement is reached between the shareholders and the Company regarding the purchase price, the Company shall pay the price within ninety days from the resolution date of the general meeting. If no agreement is reached, the Company shall, within ninety days from the resolution date, pay the price to the shareholders who have not reached the agreement at the fair price they believe; if the Company fails to pay, it shall be deemed to have agreed to the price requested by the shareholders to purchase.</p> <p>3. If the shareholder requests the Company to buy all of his/her shares according to the reasons set out in item 1 of paragraph 1, the shareholder and the Company have not reached an agreement on the purchase price within 60 days from the resolution date of the shareholders' meeting, the Company shall, within 30 days after the lapse of this period, use all shareholders who have not reached an agreement as counterparts, and claim the court to determine the price, and may use the Taipei District Court in Taiwan as the court of first instance jurisdiction.</p>		<p>dissolving the Company, the shareholders shall not have the right to request the purchase of shares;</p> <p>(b) In one of the matters stipulated in Article 12 of the Business Mergers and Acquisitions Act, shareholders express their objections in writing before or during the general meeting, or verbally indicate that the objections have been recorded, and give up their voting rights.</p> <p>(B) The shareholder's request for the preceding paragraph shall be submitted in writing within 20 days from the date of the resolution at the general meeting and shall state the purchase price of the request. If an agreement is reached between the shareholders and the Company on the purchase price, the Company shall pay the price within ninety days from the date of the resolution at the general meeting. If no agreement is reached, the Company shall, within 90 days from the date of the resolution, pay the price to the shareholders who have not reached the agreement at the fair price in their opinion. If the Company has not paid, it shall be deemed as agreeing with the share price requested by the shareholders.</p> <p>(C) If a shareholder requests the company to buy all its shares due to the resolution listed in Article 32 (A)(a) of the general meeting, and the Company and shareholders fail to reach an agreement on the purchase price within 60 days from the date of the resolution of the general meeting, the shareholder may claim the price to the Taipei District Court of Taiwan within 30 days after the</p>

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		<p>60-day period. The court's ruling has final binding force on the purchase price between the Company and the requesting shareholder.</p> <p>(D) If a shareholder requests the Company to buy all his/her shares due to the resolution listed in Article 32 (A)(b) of the general meeting, the purchase price between the shareholders and the Company has not been reached within 60 days from the date of the shareholders' meeting. For the agreement, the Company shall, within 30 days after the 60-day period, take all the shareholders who have not reached an agreement as the counterpart, and claim the court as the price determination, and shall take the Taipei District Court of Taiwan as the court of first instance jurisdiction.</p>
<p>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 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:</p> <p>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</p>	<p>1. Article 185 of the Company Act  2. Article 277 of the Company Act  3. Article 159 of the Company Act  4. Article 240 of the Company Act  5. Article 316 of the Company Act  6. Article 29 of the Business Mergers and Acquisitions Act</p>	<p>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.</p> <p>2. The Articles of Association of the Company provide that:</p> <p>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</p>



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
<p>significance on the business operation of the company;</p> <p>2. Alteration of the Articles of Association;</p> <p>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;</p> <p>4. Distribution of dividends and bonuses in whole or part by way of issuing new shares;</p> <p>5. Resolution related to dissolution, merger, or demerger of shares of the company;</p> <p>6. Equity transfer</p>		<p>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".</p> <p>(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 currency denomination of the share capital; (c) reduction of 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.</p> <p>(2) Pursuant to Article 31 of the Articles of Association of the Company, the following matters shall be approved at the general</p>

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		<p>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.</p> <p>3. Explanation for discrepancy:</p> <p>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 by the</p>

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		<p>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 requirements 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".</p> <p>4. The impact on the shareholders in Taiwan:</p> <p>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".</p>

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		<p>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 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.</p>
<ol style="list-style-type: none"> <li>1. When the directors of the Company have their own interests in the matters of the board of directors, they should explain the material content of their own interests at the current board of directors. When the Company conducts mergers and acquisitions, the directors of the company should explain the material content in relation to their own interests and reasons for or against the mergers and acquisition resolutions to the board of directors and the general meeting.</li> <li>2. If the director's spouse, second-in-kin and other blood relatives, or a Company that has a controlling affiliation with the director, is interested in the matter of the preceding meeting, the director is deemed to have a personal interest in the matter.</li> <li>3. The directors of the Company shall not participate in</li> </ol>	<p>Articles 206 (2), (3) and (4) of the Company Act and Article 5 (3) of the Business Mergers and Acquisitions Act</p>	<p>The Company has adopted the above provisions in the Articles of Association.</p> <p>When the directors of the Company have their own interests in the matters of the board meeting, they shall explain the important contents of their own interests at the current board meeting. Directors shall not participate in voting on matters concerning the board of directors and have their own interests that may be harmful to the interest of the Company, and shall not act for other directors to exercise their voting rights. The resolutions of the board of directors shall not be included in the voting rights of directors who have been present (but shall still be included in the statutory number of directors) in accordance with the foregoing provisions. When a Company conducts a merger or acquisition, the Company's directors should explain to the board of directors and the shareholders'</p>

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<p>voting on matters related to the board of directors' meetings and cause harm to the interests of the Company when they are deemed to be interested, and shall not exercise the voting rights on behalf of other directors. The resolutions of the board of directors shall not be included in the voting rights of the directors present who have not exercised their voting rights in accordance with the foregoing provisions.</p>		<p>meeting the important content of its interest in the merger and acquisition transaction and the reasons for its approval or opposition to the merger decision.</p>
<ol style="list-style-type: none"> <li>1. Before the company convenes the resolution of the board of directors to decide on the merger and acquisition, the audit committee or special committee (applicable to the supervisor company) should review the fairness and rationality of the merger plan and transaction, and report the results to the board of directors and the general meeting. However, according to the laws and regulations of the country where the foreign issuer is registered, if it is not necessary to convene a general meeting to resolve the merger and acquisition, it may not be reported to the general meeting.</li> <li>2. During the deliberations of the audit committee (or special committee), independent experts should be invited to provide advice on the rationality of the share conversion ratio or the distribution of shareholders' cash or other properties.</li> <li>3. The deliberations of the audit committee (or special committee) and opinions of independent expert shall be sent to the shareholders together with the notice of the convening of the general meeting. Mergers and acquisitions will be reported on the general meeting.</li> </ol>	<p>Article 6, 7, 22 (3), 31 (7) and 38 (2) of the Business Mergers and Acquisitions Act</p>	<p>The Company has adopted the above provisions in the Articles of Association.</p> <ol style="list-style-type: none"> <li>(A) Before the board of directors decides the merger and acquisition, the audit committee should review the fairness and rationality of the merger plan and transaction, and report the results to the board of directors and general meeting. However, if it is not necessary to convene a general meeting to resolve the merger and acquisition in accordance with the provisions of the Taiwan Act or the Cayman Act, it may not be reported to the general meeting.</li> <li>(B) During the deliberations of the Audit Committee, independent experts should be invited to provide advice on the rationality of the share conversion ratio or the distribution of shareholders' cash or other properties.</li> <li>(C) The audit committee's deliberations and independent expert opinions should be sent to the shareholders together with the notice of the general meeting. However, if the merger and acquisition is exempted from the resolution of</li> </ol>

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<p>4. The documents to be sent to shareholders in the preceding paragraph shall be announced by the Company on the website designated by the securities regulatory authority of the Republic of China, and shall be kept in the venue of the general meeting for the shareholders to view.</p>		<p>the general meeting pursuant to the Taiwan Act or the Cayman Act, the merger and acquisition shall be reported at the most recent general meeting.</p> <p>(D) The documents to be sent to shareholders in the preceding paragraph shall be announced by the Company on the website designated by the securities regulatory authority of the Republic of China, and shall be kept in the venue of the general meeting for the shareholders to view.</p>