



MERRY ELECTRONICS CO.,LTD. 2018 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.

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Merry Electronics Co., Ltd.

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A. Letter to Shareholders

Dear Shareholders,

In 2018, the world was shrouded by the shadow of the US-China trade war, which in turn slowed down global economic growth. With a solid foundation having been established over a long period of time, Merry adheres to its firm spirit and follows the 2018 operating policy: “Organizational Optimization, Smart Innovation and Reaching New Heights”. Thanks to the enthusiasm and efforts of all our colleagues, the Group's operations in 2018 have once again achieved great success. We would like to thank our shareholders for their love and advice, our customers for trusting us, and our suppliers for their full support.

Looking ahead in 2019, the US-China trade war has yet to show signs of stopping in the short term. This has cast a veil of uncertainty on the global economic outlook. In the face of increasing risks and challenges, we have established the main operating focus of 2019: “Cross-Border Integration, Southbound Deployment and Navigation Towards the Blue Ocean” by considering the long-term development of the Group. A brief description is presented below:

Regarding cross-border integration, we will integrate the resources of each product division, the new subsidiaries of the group and external startups, with our competence in the electroacoustic field as the core. In terms of broadening our sources of income, we will carry out joint, integrated marketing operations and transform from an electroacoustic product supplier into a cross-disciplinary solution provider to meet the growing multi-modal interaction needs in the consumer electronics and hearing health industries. On cutting costs, we will integrate procurement, R&D and back office units, hoping to achieve synergy in cross-border integration through the horizontal integration of organizational functions.

The southbound deployment plan, in order to reduce the impact of international political and economic risks and in considering the long-term strategic deployment of the Group, continues to expand the production base in Thailand and plans to build capacity for flexible dispatching in Southeast Asia to actively develop the global manufacturing layout, diversify manufacturing risks, and strengthen overall competitiveness.

In terms of long-term development, with the rapid changes in the industry's global market, the primary conditions for sustainable business operations are continuous innovation and progress. Merry's use of the above-mentioned cross-border integration and southbound deployment lets the company continuously cultivate new application areas and serve potential customers, and continue to explore new markets in order to navigate to the blue ocean beyond the existing cost and differentiation competition with the red ocean to reach new heights for the enterprise.

In order to cope with the arduous challenges brought about by the ever-changing environment, we will implement the 2019 business policy. We strive to improve business

performance, sustain high-quality growth, strengthen overall competitiveness, and build the momentum and opportunities for expansion and growth in the next stage. Merry's employees are confident in the goals of 2019; we adhere to our culture and beliefs: "Fulfill our Mission". We hope that every shareholder, customer, supplier, and partner will continue to give their full support and recognition to Merry. Thank you!

Wishing you

Good health and happiness,

Chairman

Handwritten signature in Chinese characters, likely reading "李福立" (Li Fuli), the Chairman.

I. 2018 operating results

(I) Operational policy

1. 2018 operating focus: “Organizational Optimization, Smart Innovation and Reaching New Heights”.
2. By leveraging the strengths of our partners, we will implement the “Organizational Optimization” of internal and partner relationships to build a strong operational team.
3. With scale and advantages of front-end professionalism and back-end manufacturing capabilities: Through the core competencies of partners in production management, jointly plan and build the production scale required for growth. Merry focuses resources on the front end development and product expertise of the market and materials, developing towards the left end of the smile curve to complement back-end manufacturing capabilities.
4. Smart innovation in new business and new markets: Using the above-mentioned R&D and manufacturing scale, combined with external strategy growth and government resources, Merry will carry out “smart innovation” in new product lines, new services, and emerging markets, and rapidly expand the scope of operation to the right end of the smile curve.

(II) Implementation overview

In 2018, the overall growth momentum was affected by the unstable global political and economic situation and the unbalanced development in the pace of economic expansion. Taiwan’s economic momentum also showed a slowdown in growth. Although economic growth has slowed down, Merry has benefited from the long-term cultivation and accumulation of a solid foundation, supplemented by the concerted efforts of all colleagues, such that in 2018, the company's revenue once again achieved excellent results. In 2019, the continuous turmoil in the world's political and economic situation has added uncertainty to the economic outlook. In response to the volatile economy and in considering the overall long-term development plan of the Group, the company has adopted the operating policy of “Cross-Border Integration, Southbound Deployment and Navigation Towards the Blue Ocean” to continue to improve the integration benefits and promote Southeast Asia deployment to look to the future and reach new heights.

Last year, due to the continued boom in demand for popular consumer electronics and the result of long-term cultivation of new customers, the company's revenue has once again reached a record high; to strengthen the overall competitiveness, the continuous optimization of internal organizational functions and the adjustment of the division of labor greatly enhanced the team's execution ability; In terms of the factories, the successive introduction of automated production expanded the production scale and enhanced the advantages of receiving orders; at the same time, optimization of the management mode and continuous improvement of the production process improved production capacity and efficiency, enhancing the overall production efficiency. Merry has accumulated a solid foundation and rich experience through long-term cultivation. Under the joint efforts of the business units, the factories, the supply chain, and the back-office units, the business performance in 2018 was as great as that of the past.

Looking to the future, in 2019, the world is still affected by the political and economic situation; the economic outlook is facing a headwind, and the overall growth momentum is slowing down. With the rapid changes in the global industry sector, to flexibly respond to market changes and to continue to enhance competitiveness, the company's operating focus is established as “Cross-Border Integration, Southbound Deployment and Navigation

Towards the Blue Ocean”. With electroacoustics as the core and an excellent team, Merry continues to add partners to expand the territory. In response to the expansion of the organization, the company actively develops the vertical division of labor and horizontal integration of resources to achieve cross-border integration. Considering the company's long-term development strategy and global political and economic fluctuations, Merry will continue to build production bases in Southeast Asia, enhance the flexibility of capacity scheduling, and reduce the impact of international political and economic uncertainty with southbound deployment. The competitiveness of the company is maintained by continuous innovation and progress. In addition to continuing to take root in the existing electroacoustic industry, Merry will be more committed to exploring new markets and new areas in order to continuously discover new blue oceans and enhance long-term competitive advantages and corporate value to reach new heights.

(III) Business plan implementation results

The consolidated sales revenue of the company and its subsidiaries was NT\$35,494,808 thousand, representing an increase of NT\$8,815,998 thousand and an increase of 33.04% from the NT\$26,678,810 thousand of 2017; the consolidated net profit before tax was NT\$2,726,249 thousand, a decrease of NT\$1,531,011 thousand and a decrease of 35.96% from the NT\$4,257,260 thousand of 2017, mainly due to the decrease in non-operating income and expenses.

(IV) Financial income and expenditure and profitability analysis

1. Status of financial income and expenditure

Unit: NT\$1,000

Account	2018 consolidated numbers	2017 consolidated numbers
Other income	240,595	114,930
Other gains and losses	(32,952)	1,572,461
Financial cost	(48,453)	(26,831)
Share of profits/losses on equity-accounted associated companies and joint ventures	263,926	24,323
Total	423,116	1,684,883

2. Profitability analysis

Item		2018 consolidated numbers	2017 consolidated numbers
Capital structure analysis (%)	Debt-to-asset ratio	66.77%	48.01%
Liquidity analysis (%)	Current ratio	133.77%	142.55%
	Quick ratio	114.49%	124.24%
Earning power (%)	Return on assets ratio	7.15%	19.89%
	Rate of return on equity	17.44%	35.08%
	Operating income to capital ratio	136.54%	212.36%
	After-tax earnings per share (NT\$)	10.47	18.94

(V) Research and development status:

1. In 2018, a total of 110 new products and extension models were developed.
2. In 2018, 57 new patents have been approved and 79 are in review.
3. The 2018 annual combined research development cost was NT\$1,103,005 thousand, an increase of NT\$183,733 thousand from 2017's NT\$919,272 thousand, accounting for 3.11% of the combined sales revenue.

(VI) Implementation status of operating income and expenditure budget: No financial forecast is issued and therefore not applicable.

II. 2019 business plan summary and future development strategy

(I) Operational policy

1. 2019 operating focus: **“Cross-Border Integration, Southbound Deployment and Navigation Towards the Blue Ocean”**.
2. **Cross-Border Integration:** With electroacoustic competence as the core, Merry will integrate the resources of existing business units and newly acquired companies and participate in the development of related technologies. Transform from the role of an electroacoustic product supplier into a cross-disciplinary solution provider to meet the growing multi-modal interaction needs in the consumer electronics and hearing health industries, and echo the product trends of integrating multiple technologies.
3. **Southbound Deployment:** The company expanded its investment in Thailand in 2013 to reduce the immediate impact of the current US-China trade war on customers and the company. In the future, we will gradually transfer suitable products to the plant in Thailand for production and establish flexible dispatching capacity in Southeast Asia to reduce international political and economic risks.
4. **Navigation Towards the Blue Ocean:** Using the above-mentioned cross-border integration and southbound deployment to let the company continuously cultivate new application areas and serve potential customers, and continue to discover blue oceans beyond the existing cost and differentiation competition with the red ocean.

(II) Important production and marketing policies

1. Marketing policy

- (1) **Main headphones market:** Focus on headphone requirements in the context of audio, gaming, and sport. Let Merry's headphone hardware platform connect more physiological information and control signals to create a new user experience.
- (2) **Hearables, hearing aids:** From the need for human beings to sleep well and listen well, the company will focus on the markets of wellness, amplifying hearing, and hearing aids to step out of the existing consumer market.
- (3) **Wireless speakers/smart speakers:** Integrate China's voice assistant platforms as a strong support for European and American customers when they enter the Chinese market.
- (4) **Electroacoustic components:** Provide microphones and speaker units for smart speakers and miniaturized headphones.
- (5) **Batteries:** From the foundation as a mobile power supplier, extend to a TWS headset charging stand, wireless charger, and energy storage solution provider.
- (6) **An information and communication end product application market with large volume but slow growth:** Focus on major customers, develop miniature electroacoustic components, and work with partners to gain more market share.

2. Production policy

- (1) **Southbound Deployment:** Taking into account the electroacoustic industry settlement and reducing global political and economic risks, Merry will continue to invest in production bases in Southeast Asia.
- (2) **Medical product certification factory:** The important cornerstone for Merry Group to enter the medical products field.
- (3) **Refine manufacturing technology:** Establish a Process Development Engineering team to improve manufacturing process effectiveness and efficiency.
- (4) Develop the in-house development key components and external second source.
- (5) **Realized in daily management:** According to the company's objectives,

combined with the indicators set by the management and accounting, set the KPIs and targets of the components of manufacturing costs (such as the unit work time reduction target of each product, equipment utilization rate, space utilization, and other manufacturing costs), and track them monthly.

3. Research and development policy

- (1) **Software:** Integrate the software R&D team to develop software technologies such as acoustic sensing algorithms, wireless communication algorithms, artificial intelligence, and edge computing.
- (2) **Cross-domain, cross-generation:** Invest in or extend the proximity of emerging technology teams related to electroacoustics through corporate venture capital, startup accelerators, and incubators.
- (3) **Audio/Gaming/Sport headphones:** Acquire voice assistant platform certification and develop immersive visual experiences, heart rate sensing, and motion recognition algorithms to meet the requirements of users under various usage scenarios.
- (4) **Hearables:**
 - Academia and Industry collaboration; begin sleep-related research and optimal sleep cycle analysis.
 - Participate in the establishment of China's national standards for hearing aids, and cultivate and develop key technologies.
- (5) **Wireless speakers:** Integrate China's personal voice assistant platforms to provide solutions for entering China's market.
- (6) **Speaker components:** Integrate the research and development of large, medium, small and high-, middle-, and low-end speakers units in the Group, and divide the labor to respond to different end application requirements.
- (7) **MEMS microphones:** Develop sound hole designs that are more suitable for miniaturized products, flip-chip packaging with more cost advantages, and miniaturized packaging; and extend MEMS technology to other transducer components.
- (8) **Batteries and energy storage:** Accumulate research and development capabilities for battery core solutions, battery management systems, and inverters.

(III) The main factors expected to affect the continued growth or decline in sales in the coming year:

Overview of the end markets served by Merry:

Smartphones: According to IDC, shipments of global smartphones declined by 0.3% in 2017, and shipments in 2018 are expected to continue to decline by 0.2% to 1.462 billion units. It is expected that in 2022, due to the 5G stimulant for the need for new mobile phones, global smartphone shipments will reach 1.654 billion units, and the CAGR of these five years is 2.5%. The many years of low, single-digit growth and even the small decline prove that smartphones have entered a mature stage.

PC industry (including tablets, notebooks, and desktops): According to IDC, the shipment of notebooks and desktops in 2017 was approximately 260 million units, and by 2022, the CAGR will be -0.9%. In 2017, the number of tablets shipped was about 164 million units, and the CAGR by 2022 will be -3.4%. This shows that traditional IT products face a more severe outlook than smartphones.

Headphones market: The global headphones market will present a new horizon. In response to the demand for high-quality audio-visual entertainment, personalized listening, sports, and smart voice assistants, headphones will not only have additional waterproof

and active noise-reduction functions, but also transform from a simple sound transmission device into a personal assistant that can also be connected to smartphones and wearable devices.

According to statista, 432 million global shipments of wired and wireless headsets are expected in 2018 and will grow to 484 million by 2020. Among them, the growth momentum comes from the aforementioned so-called smart headphones. From 2016 to 2020, the CAGR will reach as high as 93%, reaching 71 million.

Smart speakers: Speakers with wireless networking capabilities, voice input capabilities, and artificial intelligence that can control home appliances. According to the Topology Research Institute, since the advent of smart speakers in late 2014, more and more brand manufacturers have joined the battle. It is estimated that global smart speaker shipments will grow by 66% in 2018 compared with 2017, exceeding 46 million units. According to FuBon Research, the active launch of smart speakers by the US and Chinese brands will act as a driver; it is estimated that the shipment of smart speakers will reach 61 to 101 million units in 2020.

Looking forward to 2019, in addition to maintaining the competitiveness of the miniature electroacoustic components used in IT and communication products, and in gaining more market share in markets with limited growth, Merry will focus more on the expansion of smart headphones, wireless speakers/smart speakers, as well as the hearing aids, hearables market that Merry has cultivated for many years. Growth potential in 2019 is expected.

B. Company profile

I. Date of establishment: December 24, 1975.

II. Company history:

1. In 1975, founders Lu-Lee Liao and Wen-Chieh Wei established Merry Electronics Co., Ltd. on Xi'an S. Ln of Taichung City with a capital of NT\$1.5 million.
2. In 1976, started the production of microphones for radio communication.
3. In 1977, increased cash capital by NT\$1,500,000; the capital after the capital increase was NT\$3,000,000.
4. In 1979, expanded equipment and production lines to produce microphones for stage use.
5. In 1980, started production of ultra-slim speakers.
6. In 1981, increased cash capital by NT\$6,000,000; the capital after the capital increase was NT\$9,000,000.
7. In 1983, started production of telephone receivers.
8. In 1983, was awarded the Value Added Award for Exports Processing by the Ministry of Economic Affairs.
9. In 1984, increased cash capital by NT\$10,000,000; the capital after the capital increase was NT\$19,000,000. Started the construction of a factory in the Industrial Park.
10. In 1985, increased cash capital by NT\$10,000,000; the capital after the capital increase was NT\$29,000,000.
11. In 1985, the new plant was completed and the site was moved to the Taichung Industrial Park with a total land area of 4,300 square meters and a total plant area of 4,405 square meters.
12. In 1987, increased cash capital by NT\$22,000,000; the capital after the capital increase was NT\$51,000,000.
13. In 1988, increased cash capital by NT\$20,000,000; the capital after the capital increase was NT\$71,000,000.
14. In 1989, increased cash capital by NT\$29,000,000; the capital after the capital increase was NT\$100,000,000.
15. In 1989, to meet the needs of business development and expand production capacity, established Merry Electronics (Thailand) Co., Ltd. to expand business in Southeast Asia and Central Asia.
16. In 1989, Mr. Lu-Lee Liao, the chairman of the board of directors, was awarded in the 12th Model of Entrepreneurs Awards.
17. In 1990, increased cash capital by NT\$21,000,000 and used surplus to increase capital by NT\$15,000,000; the capital after the capital increase was NT\$136,000,000.
18. In 1990, Merry Electronics (H.K.) Co., Ltd. was established. In the same year, re-invested in the Merry Shenzhen factory to expand production of microphones, handsets, speakers, and electronic components.
19. In 1991, established Merry Electronics (U.S.A) Co., Ltd. to actively expanding business in the Americas to serve customers in closer proximity and collect market information.
20. In 1991, used capital reserve to increase capital by NT\$30,400,000; the capital after the capital increase was NT\$166,400,000.
21. In 1991, approved as a public issued company by the Financial Supervisory Commission of the Ministry of Finance.
22. In 1991, increased cash capital by NT\$20,000,000 and used surplus to increase capital by NT\$13,600,000; the capital after the capital increase was NT\$200,000,000.
23. In 1993, increased cash capital by NT\$20,000,000, used surplus to increase capital by

- NT\$20,000,000, and used capital reserve to increase capital by NT\$20,000,000; the capital after the capital increase was NT\$260,000,000.
24. In 1993, used surplus to increase capital by NT\$13,000,000 and used capital reserve to increase capital by NT\$7,800,000; the capital after the capital increase was NT\$280,800,000.
 25. In 1993, won the 2nd National Award of Outstanding SMEs and received ISO-9001 international quality assurance certification.
 26. In 1994, Merry Electronics (Shenzhen) Co., Ltd. received ISO-9001 international quality assurance certification.
 27. In 1995, used surplus to increase capital by NT\$37,908,000 and used capital reserve to increase capital by NT\$18,252,000; the capital after the capital increase was NT\$336,960,000.
 28. In 1995, self-certified the CE MARKING for microphone products for communication.
 29. In 1996, Merry Electronics (Thailand) Co., Ltd. received ISO-9001 international quality assurance certification.
 30. In 1996, increased cash capital by NT\$49,900,000 and used surplus to increase capital by NT\$23,587,200; the capital after the capital increase was NT\$410,447,200.
 31. In 1997, increased cash capital by NT\$45,149,190; the capital after the capital increase was NT\$455,596,390.
 32. In January of 1993, received ISO-14001 international quality assurance certification.
 33. In 1998, used surplus to increase capital by NT\$91,119,280 and used capital reserve to increase capital by NT\$22,779,820; the capital after the capital increase was NT\$569,495,490.
 34. On August 18, 1998, became a TPex-listed company.
 35. Won the 2nd Rising Star Award.
 36. In 1999, used surplus to increase capital by NT\$48,842,920 and used capital reserve to increase capital by NT\$11,389,910; the capital after the capital increase was NT\$629,728,320.
 37. On May 16, 2000, revised the Company Charter. The number of directors were changed to six, and the number of supervisors were to three. One supervisor, Yun-Chung Hung (resigned from former director position), was added.
 38. On June 7, 2000, used surplus to increase capital by NT\$58,144,340 and used capital reserve to increase capital by NT\$8,816,200; the capital after the capital increase was NT\$696,688,860.
 39. On September 11, 2000, promoted from a TPex-listed company to a TWSE-listed company.
 40. On October 16, 2000, increased cash capital by NT\$67,000,000; the capital after the capital increase was NT\$763,688,860.
 41. On May 28, 2001, used surplus to increase capital by NT\$194,112,590; the capital after the capital increase was NT\$957,801,450.
 42. On June 19, 2002, used surplus to increase capital by NT\$39,779,020 and used capital reserve to increase capital by NT\$81,221,560; the capital after the capital increase was NT\$1,078,802,030.
 43. In 2002, Merrytech (Suzhou) Co. Ltd. was established.
 44. On July 1, 2003, used surplus to increase capital by NT\$23,230,270. Paid in capital increased to NT\$1,102,032,300 after capital increase.
 45. On June 15, 2004, used surplus to increase capital by NT\$72,112,020. Paid in capital increased to NT\$1,174,144,320 after capital increase.
 46. In 2004, issued new stocks by convertible bonds in the amount of NT\$55,893,250. Paid in

- capital increased to NT\$1,230,037,570 after the conversion.
47. On September 1, 2005, merged with Huges Hi-Tech Inc.
 48. In 2005, issued new stocks by convertible bonds in the amount of NT\$88,784,540. Paid in capital increased to NT\$1,318,822,110 after the conversion. °
 49. On April 27, 2006, issued new stocks by convertible bonds in the amount of NT\$5,030,300. Paid in capital increased to NT\$1,323,852,410 after the conversion.
 50. On August 18, 2006, used surplus to increase capital by NT\$115,594,280. Paid in capital increased to NT\$1,439,446,690 after capital increase.
 51. On September 6, 2007, used surplus to increase capital by NT\$151,449,560. Paid in capital increased to NT\$1,590,896,250 after capital increase.
 52. On December 13, 2007, approved the issuance of employee stock options in the amount of 2,000,000 shares.
 53. On May 2, 2008, approved the issuance of employee stock options in the amount of 1,500,000 shares.
 54. On August 22, 2008, approved the buyback of 1,500,000 shares of the company.
 55. In 2010, established Merry Electronics (Huizhou) Co., Ltd.
 56. On January 27, 2011, issued new stocks by employee stock options in the amount of NT\$140,000. Paid in capital increased to NT\$1,591,036,250 after the conversion.
 57. On April 6, 2011, issued new stocks by employee stock options in the amount of NT\$235,000. Paid in capital increased to NT\$1,591,271,250 after the conversion.
 58. In 2010, established Merry Electronics (Hebei) Co., Ltd.
 59. On September 14, 2011, reduced capital by stock buyback in the amount of NT\$11,920,420. Paid in capital decreased to NT\$1,579,350,830 after capital reduction.
 60. On August 15, 2012, used surplus to increase capital by NT\$78,967,550. Paid in capital increased to NT\$1,658,318,380 after capital increase.
 61. On January 15, 2013, issued new stocks by employee stock options in the amount of NT\$180,000. Paid in capital increased to NT\$1,658,498,380 after the conversion.
 62. On April 10, 2013, issued new stocks by employee stock options in the amount of NT\$70,000. Paid in capital increased to NT\$1,658,568,380 after the conversion.
 63. On May 10, 2013, issued new stocks by employee stock options in the amount of NT\$1,625,000. Paid in capital increased to NT\$1,660,193,380 after the conversion.
 64. On August 12, 2013, used surplus to increase capital by NT\$99,611,600. Paid in capital increased to NT\$1,759,804,980 after capital increase.
 65. On November 27, 2013, issued new stocks by employee stock options in the amount of NT\$2,360,000. Paid in capital increased to NT\$1,762,164,980 after the conversion.
 66. On August 20, 2014, used surplus to increase capital by NT\$88,108,250. Paid in capital increased to NT\$1,850,273,230 after capital increase.
 67. On January 26, 2015, TPEx approved the issuance of the first unsecured convertible bonds in Taiwan in the amount of NT\$1.5 billion, and trading began on OTC markets on January 29, 2015.
 68. In 2015, revoked Merry Electronics (Hebei) Co., Ltd.
 69. On August 24, 2015, the Financial Supervisory Commission approved the buyback of 2,269,000 company shares.
 70. On January 22, 2016, revised the Company Charter to increase the number of supervisors to four supervisors and added a supervisor, Tung Chien Investment Co., Ltd.
 71. On August 17, 2016, the Financial Supervisory Commission approved the issuance of restricted stock awards in the amount of 2,000,000 shares.
 72. In August 2016, the board of directors approved the cash capital increase by subscription of Merrytech (Suzhou) Co. Ltd. by strategic investor Kunshan United Tao Electronics Co.,

- Ltd., obtaining 51% equity of Merrytech (Suzhou) Co. Ltd.
73. In February 2017, the board of directors approved the disposal of 51% equity of Merry Electronics (Shanghai) Co., Ltd. of subsidiary Merry Electronics (H.K.) Co., Ltd. to Dongguan Lixun Precision Industry Co., Ltd.
 74. In February 2017, the board of directors approved the disposal of 44.95% equity of Merry Electronics (Shanghai) Co., Ltd. of subsidiary Merry Electronics (Huizhou) Co., Ltd. to Dongguan Lixun Precision Industry Co., Ltd.
 75. In February 2017, the board of directors approved the cash capital increase by subscription of Merry Electronics (Huizhou) Co., Ltd. by strategic investor Dongguan Lixun Precision Industry Co., Ltd., accumulating a 51% stake in Merry Electronics (Huizhou) Co., Ltd.
 76. In February 2017, the board of directors approved the institutional director and supervisor representatives of subsidiaries Merry Electronics (Shanghai) Co., Ltd. and Merry Electronics (Huizhou) Co., Ltd. appointed by Merry Electronics (H.K.) Co., Ltd.
 77. In April 2017, issued restricted stock awards in the amount of 1,542,000 shares, and the holders of the first unsecured convertible bonds in Taiwan have applied for a conversion in the amount of NT\$3,900,000; the total number of ordinary shares converted is 35,165 shares, and the paid-in capital is NT\$1,866,044,880.
 78. In May 2017, the holders of the first unsecured convertible bonds in Taiwan have applied for a conversion in the amount of NT\$864,900,000; the total number of ordinary shares converted is 7,798,821 shares, and the paid-in capital is NT\$1,994,033,090 after the conversion.
 79. In April 2017, issued restricted stock awards in the amount of 458,000 shares and revoked restricted stock awards in the amount of 17,000 shares; the paid-in capital is NT\$1,948,443,090.
 80. In August 2017, the holders of the first unsecured convertible bonds in Taiwan have applied for a conversion in the amount of NT\$320,400,000; the total number of ordinary shares converted is 2,889,057 shares, and the paid-in capital is NT\$1,977,333,660 after the conversion.
 81. In September 2017, the board of directors approved the establishment of a new company through investment in China, and signed a joint venture contract with Dongguan Lixun Precision Industry Co., Ltd.
 82. In September 2017, the board of directors approved the matters pertaining to the appointment of one director, one supervisor, and one manager in the establishment of a new company through investment in China - Dongguan Luxshare & Merry Electronics Co., Ltd. (temporary name).
 83. In November 2017, the name of the original company was changed from Dongguan Luxshare & Merry Electronics Co., Ltd. to Guangdong Luxshare & Merry Electronics Co., Ltd. by the Investment Board of the Ministry of Economic Affairs.
 84. In November 2017, the board of directors approved a cash increase of US\$4,800 thousand by investment in subsidiary MERRY Healthcare CO., LTD. and reinvestment in Fulicare CO., LTD.
 85. In November 2017, the board of directors approved the cash increase of US\$100,000 of Fulicare Co., Ltd. and Fulicare Medical Technology (Suzhou) Co., Ltd.
 86. In November 2017, the board of directors approved the investment of Fulicare Co., Ltd. and Fulicare Medical Technology (Suzhou) Co., Ltd. in the China region with a total investment of RMB30,590 thousand, and signed a joint venture contract and equity transfer agreement.
 87. In November 2017, the board of directors approved the investment of Fulicare Co., Ltd. in Austar Hearing Science and Technology (Xiamen) Co., Ltd. in the China region and

- appointed four directors, and an appointed director served as the chairman.
88. In November 2017, the board of directors approved the investment of Fulicare Medical Technology (Suzhou) Co., Ltd. in Xiamen Etimbre Hearing Technology Co. Ltd. in the China region and appointed one director, one supervisor, and one general manager, and the appointed director served as the chairman.
 89. In November 2017, the board of directors approved the investment and partnership with Sonavox Group and signed the Term Sheet for Equity Investment.
 90. In December 2017, the board of directors ratified the appointment of directors, supervisors, and a general manager of second-tier subsidiary Fulicare Medical Instruments Technical Services (Suzhou) Co.,Ltd.
 91. In December 2017, revoked restricted stock awards in the amount of NT\$410,000, and the holders of the first unsecured convertible bonds in Taiwan have applied for a conversion in the amount of NT\$275,300,000; the total number of ordinary shares converted is 2,604,511 shares, and the paid-in capital is NT\$2,002,968,770 after the conversion.
 92. In February 2018, issued restricted stock awards in the amount of NT\$1,960,000; the paid-in capital is NT\$1,948,443,090.
 93. In February 2018, the board of directors approved a cash investment of US\$5,700 thousand in subsidiary Merry Healthcare Co., Ltd. And in turn its reinvestment entity Fulicare Co., Ltd.
 94. In February 2018, the board of directors approved the cash investment of US\$8,400 thousand in Fulicare Medical Technology (Suzhou) Co., Ltd. by second-tier subsidiary Fulicare Co., Ltd.
 95. In February 2018, the board of directors approved the investment of second-tier subsidiary Fulicare Co., Ltd. and third-tier subsidiary Fulicare Medical Technology (Suzhou) Co., Ltd. in the China region with a total investment of RMB31,510 thousand, and signed a joint venture contract and equity transfer agreement.
 96. In February 2018, the board of directors approved the investment of Fulicare Co., Ltd. in Austar Hearing Science and Technology (Xiamen) Co., Ltd. in the China region and changed the appointment to one director.
 97. In February 2018, the board of directors approved the investment of Fulicare Medical Technology (Suzhou) Co., Ltd. in Austar Hearing Science and Technology (Xiamen) Co., Ltd. in the China region and appointed four additional directors and one supervisor.
 98. In February 2018, the board of directors approved the acquisition of real estate.
 99. In February 2018, the board of directors approved an investment not exceeding US\$45,800 thousand to obtained 100% equity in Suzhou Meisheng Electronic Co., Ltd., and Sonavox Canada Inc. and its subsidiary SEAS FABRIKKER.
 100. In February 2018, the board of directors approved the investment in Linsation Intelligent Technology Limited.
 101. In February 2018, the board of directors approved the appointment of the directors, the Chief Executive, the Treasurer, and the Secretary of subsidiary Merry Electronics (USA) Co., Ltd.
 102. In April 2018, revoked restricted stock awards in the amount of NT\$197,000, and the holders of the first unsecured convertible bonds in Taiwan have applied for a conversion in the amount of NT\$35,500,000; the total number of ordinary shares converted is 335,846 shares, and the paid-in capital is NT\$2,008,090,230 after the conversion.
 103. In April 2018, the board of directors passed the investment in Suzhou Meisheng Electronic Co., Ltd. (established in China) and the investment in Sonavox Canada Inc. (established in Canada) which is a reinvestment of Indigo Enterprises Inc. (established in Samoa) and its subsidiary company SEAS FABRIKKER (established in Norway)

- contributed a total of US\$44,000 to obtain 100% equity and signed an equity transfer agreement.
104. In April 2018, the board of directors approved the investment and appointment of four directors and one supervisor of Suzhou Meisheng Electronic Co., Ltd.
 105. In April 2018, the board of directors approved the investment and appointment of two directors of Indigo Enterprises Inc.
 106. In April 2018, the board of directors approved the investment in Donpon Precision Inc. through a capital contribution not exceeding NT\$100,000 thousand.
 107. In May 2018, revoked restricted stock awards in the amount of NT\$420,000 and reported the change in shareholding of the supervisors; the paid-in capital is NT\$2,007,670,230 after the revocation.
 108. In June 2018, the board of directors approved the investment in Austar Hearing Science and Technology (Xiamen) Co., Ltd. with an amount of RMB13,600 thousand and signed an equity transfer agreement.
 109. In June 2018, the board of directors approved a cash investment of US\$2,870 thousand in subsidiary Merry Healthcare Co., Ltd. and in turn its reinvestment entity Fulicare Co., Ltd.
 110. In June 2018, applied for manager registration change.
 111. In July 2018, the board of directors approved the investment of second-tier subsidiary Fulicare Co., Ltd. in Austar Hearing Science and Technology (Xiamen) Co., Ltd. and appointed an additional director.
 112. In July 2018, the company applied for a change in the registration of the business scope, the amended Company Charter, and the shareholding of directors and supervisors.
 113. In July 2018, applied for manager removal registration change.
 114. In October 2018, the board of directors approved the capital increase by cash and issuance of new shares and issued unsecured convertible bonds for the second time in Taiwan.
 115. In October 2018, the board of directors approved the appointment of two directors of Sonavox Canada Inc. through its investment in Indigo Enterprises Inc..
 116. In October 2018, the board of directors approved the appointment of two directors of SEAS FABRIKKER through its investment in Sonavox Canada Inc.
 117. In October 2018, the board of directors approved the appointment of a manager in Suzhou Meisheng Electronic Co., Ltd..
 118. In May 2018, revoked treasury stock in the amount of NT\$18,670,000 and revoked restricted stock awards in the amount of NT\$216,000 and reported the change in shareholding of the directors and supervisors; the paid-in capital is NT\$1,988,784,230 after the revocation.
 119. In November 2018, revoked and repurchased restricted stock awards in the amount of NT\$552,000 and applied for capital reduction, issued restricted stock awards in the amount of NT\$8,780,000 and applied for registration change for the issuance of new stock, and reported the change in shareholding of the directors; the paid-in capital is NT\$1,997,012,230 after the revocation.
 120. In December 2018, the board of directors approved the appointment of the legal representatives, directors, supervisors, and managers of subsidiary Fulicare Medical Instruments (Suzhou) Co., Ltd.
 121. In December 2018, the board of directors approved the organizational adjustment of second-tier subsidiary Fulicare Co., Ltd. and revoked its subsidiaries: Fulicare Medical Technology (Suzhou) Co., Ltd., Main Street East Branch; Fulicare Medical Instruments Technical Services (Suzhou) Co., Ltd.; and Fulicare Medical Instruments (Suzhou) Co., Ltd.
 122. In December 2018, the board of directors approved the investment in Biotest Medical

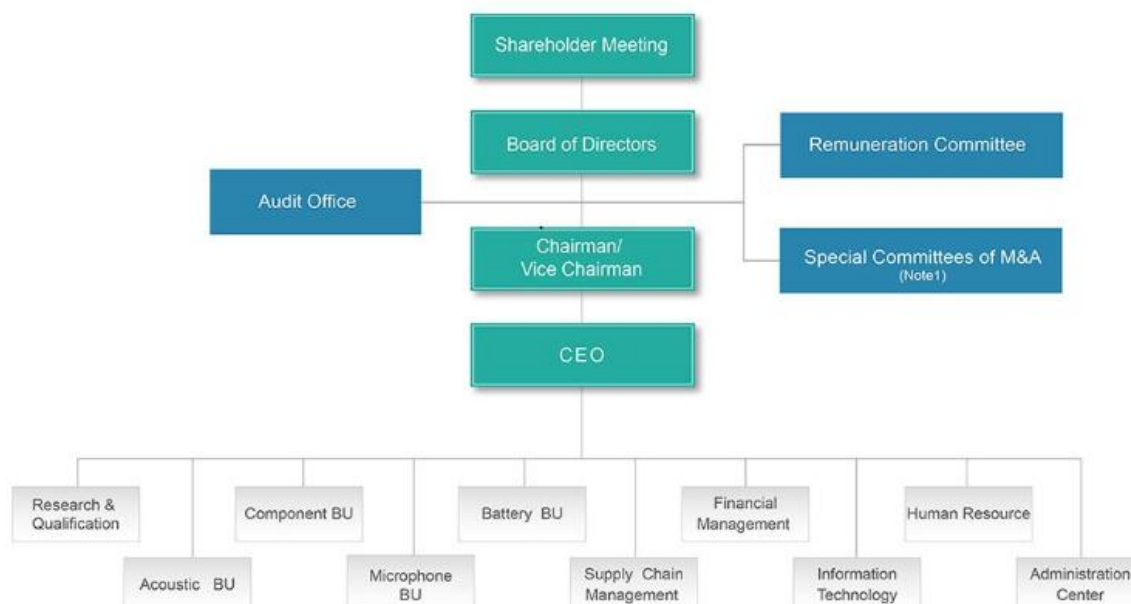
- Corp.
123. In December 2018, the board of directors approved the partnership for software development and the signing of an agreement between second-tier subsidiary Fulicare Co., Ltd. and Courtyard ML Limited.
 124. In December 2018, the board of directors approved the capital increase by the issuance of new shares of second-tier Fulicare Co., Ltd.
 125. In December 2018, the board of directors approved the abandonment of MERRY Healthcare Co., Ltd. acquiring new shares issued by Fulicare Co., Ltd. to increase capital.
 126. In December 2018, the board of directors approved the capital contribution of US\$10,000 thousand for the investment in and establishment of Fulicare (Xiamen) Co., Ltd. (temporary name) by second-tier subsidiary Fulicare Co., Ltd.
 127. In December 2018, the board of directors approved a cash capital increase of US\$10,000 thousand by subsidiary Merry Healthcare Co., Ltd. and its reinvestment entity Fulicare Co., Ltd.
 128. In February 2019, the board of directors approved a share conversion in the amount of NT\$9.42 million with Biotest Medical Corp.
 129. In February 2019, the board of directors approved the purchase of real estate in Taichung Export Processing Zone from Neocene for NT\$72,016,800.
 130. In February 2019, the board of directors approved the appointment of a General Manager in Austar Hearing Science and Technology (Xiamen) Co., Ltd. and its subsidiary companies Xiamen LA&A Medical Devices Co., Ltd. and Zhangzhou Austar Hearing Science and Technology Co., Ltd. through its second-tier subsidiary Fulicare Co., Ltd..
 131. In February 2019, the board of directors approved the appointment of general manager in Xiamen Etimbre Hearing Technology Co., Ltd. through its second-tier subsidiary Fulicare Medical Technology (Suzhou) Co., Ltd.
 132. In February 2019, applied for the change registration for the issuance of new shares in the amount of of NT\$40,000,000 and the declaration of changes in shares held by directors and supervisors; the paid-in capital after the change was NT\$2,037,012,230.
 133. In March 2019, applied for the change in registration for the revocation of the capital reduction of restricted stock awards by the amount of NT\$387,000 and the declaration of changes in shares held by directors; the paid-in capital after the change was NT\$2,036,625,230.

C. Corporate governance report

I. Organization system

(I) Organization structure

Effective date: March 31, 2019



(II) Major operation units and their key businesses

1. CEO, CTO, and core management team: Establish the Group's short-, medium-, and long-term development strategy; expand the business scope and the Group's business direction.
2. Key Account: The cross-BU organizational function, responsible for the management of high-level relationships with key customers, assisting the business units develop opportunities with key customers, and understanding the latest developments of customers to facilitate the establishment and development of the company's management strategy.
3. Administration Management: Includes Investor Relations Department, Strategic Planning Department, Legal Affairs Department, Public Relations Section, and Document Control Center.
 - (1). Investor Relations Department: Responsible for maintaining investor relations.
 - (2). Strategic Planning Department: Responsible for formulating the Group's strategic plans, integrating the strategies of each business unit, recommending and maintaining the strategic planning mechanism, and supervising and managing the strategic planning of the Group and each business unit.
 - (3). Legal Affairs Department: Responsible for legal affairs and patent related matters.
 - (4). Document Control Center: Responsible for the planning and implementation of work related to document integration and specification, process optimization, and knowledge management of the Group.
 - (5). Public Relations Section: Responsible for planning, contacting, and executing public affairs.
4. Battery BU: Responsible for battery products related business development and product development, and through the management of research and development, project management, design verification, and operational functions, achieve customer service targets.

5. Microphone BU: Responsible for microphone products related business development and product development, and through the management of research and development, project management, design verification, and operational functions, achieve customer service targets.
6. Acoustic BU: Responsible for electroacoustic products (ACC, SPK, and HPS) related business development and product development, and through the management of research and development, project management, design verification, and operational functions, achieve customer service targets.
7. Supply Chain Management: Responsible for supply chain development, management, and integration of the Group's product lines, the establishment and implementation of the supply chain strategy, the raw material strategic procurement and cost management, and through VAVE analysis, actively achieve cost-effectiveness.
8. Financial Management: The Accounting Department, Finance Department, and Management Accounting Department are established under Financial Management. Mainly responsible for finance, accounting, and taxation, including management efficiency analysis of each business unit, internal management analysis, cost analysis, fund management, tax management, asset management, accounting management, investment planning, stock affairs management, and risk management.
9. Research & Qualification: Lead the Group in research and development technology integration. Responsible for the improvement and optimization of the new product development process, and the research on technological developments important for the future. Design Quality Engineer, the Basic Research Department, the Component RD (Merrytech), and the Design Center are under the jurisdiction of Research & Qualification.
 - (1). Design Quality Engineer:
Assist each business unit in product verification, parts approval, global electronic safety regulations confirmation or certification application, and simulation function implementation, and promote the establishment and implementation of environmental protection mechanisms for each product line, maintain the company's quality assurance system certification, audit suppliers in the Taiwan region, and integrate the communication between the different departments and factories regarding design verification work.
 - (2). Basic Research Department:
Responsible for the research and development of the Group's new technologies, new materials, and new manufacturing processes, the technical exchanges and cooperation with the academic community, and providing relevant research and development to support the development of the new products of each business unit. Supporting the company's research/academic related activities.
 - (3). Component RD (Merrytech):
Support the component BUI of Merrytech Suzhou.
 - (4). Design Center (MDC):
The User Experience Section and Industrial Design Department are established under the Design Center. Main work: User research
10. Human Resources and Employee Safety and Health: Responsible for the planning and implementing policies related to selection, employment, dismissal, and resignation of employees, human resource and organizational development, and management and implementation of work related to general affairs and labor safety and health.
11. Information Technology: Establish, maintain, and manage IT systems and policies to ensure the immediacy, correctness, and security of information to achieve the purpose of resource sharing, effectively improve the operational efficiency of the organization through IT functions, and ensure the protection of information.
12. Audit Office: To assist the board of directors in facilitating the management to examine and review the deficiency of internal controls and evaluate the effectiveness and efficiency of operation, to provide timely recommendations to ensure the continuous effective implementation on internal controls so as to provide a basis for review and modification of the internal controls system.

II. Information on Directors, Supervisors, President, Vice Presidents, Assistant Vice Presidents, and Department and Branch Directors:

(I) Directors and Supervisors

1. Information on Directors and Supervisors

As of May 1, 2019; unit: Shares

Title	Nationality or place of registration	Name	Gender	Date of election (inauguration)	Term	First elected date	Shares held during election		Current shareholding		Current shares held by spouse and underage children		Shareholding by nominee arrangement		Main experience and education	Other current positions within the company	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads		
							Shares	Percent age of shares	Shares	Percent age of shares	Shares	Percent age of shares	Shares	Percent age of shares			Title	Name	Relationship
Chairman	Taiwan	Lu-Lee Liao	Male	2016/6/29	3 years	1975/12/23	3,465,975	1.87%	6,141,243 (Note 1)	2.97%	648,215	0.31%	—	—	Education: Department of Electrical Engineering, Tatung University Experience: Engineer, Tatung Company Technology Section Manager, Taishing Electric Co., Ltd. Founder and Chairman, Merry Electronics Co. Ltd.	The company: None Other companies: (Note 1)	—	—	—
Vice Chairman	Taiwan	Wen-Chieh Wei	Male	2016/6/29	3 years	1975/12/23	9,568,067	5.17%	9,318,523	4.51%	139,426	0.07%	150,000	0.07%	Education: Department of Mechanical Engineering, Tatung University Experience: Equipment Section Manager, Taishing Electric Co., Ltd.	The company: None Other companies: (Note 2)	—	—	—
Director	Taiwan	Shu-Chun Lin	Female	2016/6/29	3 years	2007/6/13	346,204	0.19%	305,672	0.15%	—	—	—	—	Education: Department of International Business, Overseas Chinese University Experience: President, Merrytech (Suzhou) Co. Ltd.	The company: Group VP, electroacoustic supply chain management Other companies: (Note 3)	Director	Shih-Chieh Lin	Sibling
Director	Taiwan	Shih-Chieh Lin	Male	2016/6/29	3 years	2007/06/13	307,576	0.17%	332,17	0.16%	14,003	0.01%	—	—	Education: MBA, Wisconsin International Academy Experience: President, Merry Electronics (Shenzhen) Co., Ltd.	The company: None Other companies: (Note 4)	Director	Shu-Chun Lin	Sibling

Director	Taiwan	Chao-Li Huang	Male	2016/6/29	3 years	2016/6/29	915	0.00%	38,190	0.02%	58,020	0.03%	100,000	0.05%	Education: MBA, Feng Chia University Experience: VP, Wealth Management and Trust BU, Mega Securities	The company: CEO Other companies: (Note 5)	—	—	—
Independent Director	Taiwan	Lin-Ming Huang	Male	2016/6/29	3 years	2016/6/29	—	—	—	—	—	—	—	—	Education: MBA, University of Kansas Experience: Part-time Associate Professor, Department of Business Administration and Master of Business Administration, THU	The company: None Other companies: (Note 6)	—	—	—
Independent Director		Edward Shaw-Yau Duh		2016/6/29		2016/6/29	—	—	—	—	—	—	—	—	Education: College of Management, National Chung Hsing University University of Southern California M.S. Experience: Orient Semiconductor Electronics, Ltd. Chairman	The company: None Other companies: (Note 7)	—	—	—
Supervisor	Taiwan	Yun-Chung Hung	Male	2016/6/29	3 years	1996/07/26 (Note 2)	754,571	0.41%	549,713	0.27%	—	—	—	—	Education: Department of Accounting, Shih Chien University Experience: Chairman, De Song Co., Ltd.	The company: None Other companies: Chairman, De Song Co., Ltd.	—	—	—
Supervisor	Taiwan	Sheng-Chung Cho	Male	2016/6/29	3 years	2003/06/05	450,280	0.24%	235,118	0.11%	—	—	—	—	Education: Department of Business Management, National Sun Yat-sen University Experience: Director of Shin Lian Cheng Investment Co., Ltd.	The company: None Other companies: (Note 8)	Chairman	Lu-Lee Liao	Brother in law
Supervisor	Taiwan	Ben-Lin Liao	Male	2016/6/29	3 years	2006/07/26 (Note 3)	105,729	0.06%	56,626	0.03%	—	—	—	—	Education: Master's Degree, Tulane University Experience: Chairman, Excel Cell Electronic Co. Ltd.	The company: None Other companies: (Note 9)	—	—	—
Supervisor	Taiwan	Tung Chien Investment Co., Ltd.		2016/6/29	3 years	2016/1/22	1,308,931	0.71%	3,486,179	1.69%	—	—	—	—	—	—	—	—	—

Institutional Representative of Supervisor	Taiwan	Keng-Pin Liao	Male	—	—	—	—	—	30,534	0.01%	98,063	0.05%	—	—	Education: Tunghai University; USA Woodbury University MBA Experience: President, Diarex	The company: None Other companies: (Note 10)	—	—	—

Note 1: The listed shareholdings includes 2,600,000 shares under trust with discretion reserved

Note 2: Elected as a Director for the first time on July 26, 1996 and served until June 14, 2000; re-elected as a Supervisor.

Note 3: Elected as a Director for the first time on July 26, 1996 and served until May 15, 1998; re-elected as a Supervisor.

- Note 1: Mr. Lu-Lee Liao, Chairman, serves as Chairman of Taichung City Cheng Chueh Tang; Chairman of the Taiwan Reading and Culture Foundation; Director of WK Technology Fund (8th Fund); Director of Diarex; Director of Sward Crystal Technology Co., Ltd.; Representative of Institutional Director (the company) of Leohab Enterprise Co., Ltd.; Institutional Director of Universal Capital Investment Ltd. (designated by Danny Dynamics Ltd.); legal representative; and Representative of Institutional Director of Fulicare Medical Instruments (Suzhou) Co., Ltd. (Fulicare Medical Technology (Suzhou) Co., Ltd.).
- Note 2: Mr. Wen-Chieh Wei, Vice Chairman, serves as Chairman of Shu Cheng Investment Co., Ltd.; Supervisor of Biotest Medical Corp., Institutional Director of Universal Capital Investment Ltd. (designated by Danny Dynamics Ltd.); and Representative of Institutional Director of Fulicare Medical Instruments (Suzhou) Co., Ltd. (Fulicare Medical Technology (Suzhou) Co., Ltd.).
- Note 3: Ms. Shu-Chun Lin, Director, serves as Electroacoustic Supply Chain Management Group VP of Merry Electronics Co. Ltd.; Director of Merry Electronics (Thailand) Co. Ltd.; Director of Merry Electronics (Singapore) Pte., Ltd. (designated by Merry Electronics Co. Ltd.); Representative of Institutional Director of Merry Healthcare Co., Ltd.; Representative of Institutional Director of Fulicare Co., Ltd.; Legal Representative, Executive Director, and President of Fulicare Medical Technology (Suzhou) Co., Ltd.; Director of Indigo Enterprise Inc.(Samoa); Chairman of Suzhou Meisheng Electronic Co., Ltd.; Chairman of Austar Hearing Science and Technology (Xiamen) Co., Ltd.; Executive Director of Xiamen Etimbre Hearing Technology Co., Ltd.; Legal Representative and Executive Director of Fulicare Medical Technology (Xiamen) Co., Ltd.; Director of Xiamen LA&A Medical Devices Co., Ltd.; Director of Zhangzhou Austar Hearing Science and Technology Co., Ltd.; Director of Merry Electronics (Shanghai) Co., Ltd.; Vice Chairman of Merrytech (Suzhou) Co. Ltd.; Director of Merry Fuling Co., Ltd., Chairman of Fu Eih Li Co., Ltd.; and Representative of Institutional Director of Fulicare Medical Instruments (Suzhou) Co., Ltd. (Fulicare Medical Technology (Suzhou) Co., Ltd.).
- Note 4: Mr. Shih-Chieh Lin, Director, serves as Director and Company Secretary of Merry Electronics (H.K.) Co., Ltd.; Legal Representative, Executive Director (designated by Merry Electronics (H.K.) Co., Ltd.), and President of Merry Electronics (Shenzhen) Co., Ltd.; Director and Company Secretary of Merrytech (HK) Co., Ltd.; Director of Suzhou Meisheng Electronic Co., Ltd.; Vice Chairman Merry Electronics (Huizhou) Co., Ltd.; Director of Merrytech (Suzhou) Co. Ltd.; and Vice Chairman and Vice President of Guangdong Luxshare & Merry Electronics Co., Ltd.
- Note 5: Mr. Chao-Li Huang, Director, serves as Chairman of Shande Investment Co., Ltd.; Supervisor of Leading Jet Turbine Co., Ltd.; Representative of Institutional Director (Shande Investment Co., Ltd.) of Amulaire Thermal Technology Inc.; Representative of Institutional Supervisor (Shande Investment Co., Ltd.) of Maxecho Technology Corp.; Representative of Institutional Supervisor (Shande Investment Co., Ltd.) of Leohab Enterprise Co., Ltd.; CEO and Director of Merry Electronics (U.S.A.) Co., Ltd.; Director of Merry Electronics (H.K.) Co., Ltd.; Legal Representative and Director of Merry Electronics (Thailand) Co. Ltd.; Director of Danny Dynamics Limited; Legal Representative and Director of Merrytech (HK) Co., Ltd.; Director of Austar Hearing Science and Technology (Xiamen) Co., Ltd.; Supervisor of Merry Electronics (Shanghai) Co., Ltd.
- Note 6: Mr. Lin-Ming Huang, Independent Director, serves as President of GTM Management Consultant Ltd.
- Note 7: Mr. Edward Shaw-Yau Duh, Independent Director, serves as Chairman of InfoFab, Inc.; Chairman of Orient Semiconductor Electronics, Ltd.; and Chairman of Orient Semiconductor Electronics Philippines, Inc. He also serves concurrently as Director of Orient Semiconductor Electronics, Ltd.; Director of InfoFab, Inc.; Director of Orient Semiconductor Electronics Philippines, Inc.; Director of Act iontec Electronics, Inc.; Director of Golfware Inc.; and Director of Fuchuang Information Technology, Co., Ltd.
- Note 8: Mr. Sheng-Chung Cho, Supervisor, serves as Director of Known-You Seed Co., Ltd.; Chairman of Shin Lian Cheng Investment Co., Ltd.; Chairman of Hsin Chuang Investment Co., Ltd.; Chairman of Hsin Li Investment Co., Ltd.; and Director of Hsin Cheng Investment Co., Ltd.
- Note 9: Mr. Ben-Lin Liao, Supervisor, serves as Chairman of Excel Cell Electronic Co., Ltd.; Director of P-DUKE Technology Co., Ltd.; Director of Securitag Assembly Group Co., Ltd.; Director of Sward Crystal Technology Co., Ltd.; Director of K.S. Terminals Inc.; and Representative of Institutional Director (Excel Cell Electronic Co., Ltd.) of Maxecho Technology Corp.
- Note 10: Tung Chien Investment Co., Ltd. Serves as Director of Sunben Technology Inc. Mr. Keng-Pin Liao, Legal Representative, serves as Chairman of Tung Chien Investment Co., Ltd.; Director and President of Diarex; and Representative of Institutional Director (Tung Chien Investment Co., Ltd.) of Leohab Enterprise Co., Ltd.

2. Major shareholders of institutional shareholders

As of April 21, 2019 as recorded on the shareholders list; unit: Shares

Name of institutional shareholder (Note 1)	Major shareholders of institutional shareholders (Note 2)
Tung Chien Investment Co., Ltd.	Keng-Pin Liao, shareholding percentage of 45.6% Geng-Guo Liao, shareholding percentage of 45.6% Xiu-Yi Lin, shareholding percentage of 2.4% Xian-Gui Lai, shareholding percentage of 2.4%

Note 1: The names of the institutional shareholders shall be listed for Directors and Supervisors who are representatives of institutional shareholders.

Note 2: Fill in the names of the major institutional shareholders (with shareholding percentages ranking in the top ten) and their shareholding percentage. If the major shareholder is a legal person, then fill in the table below.

As of April 21, 2019 as recorded on the shareholders list; unit: Shares

Name of Institution (Note 1)	Major shareholders of institution (Note 2)
None	None

Note 1: If the major shareholder in the above table is a legal person, the name of the legal person shall be filled in.

Note 2: Fill in the names of the major shareholders (with shareholding percentages ranking in the top ten) of the institutions and their shareholding percentage.

3. Information on Directors and Supervisors

April 21, 2019

Name	Qualifications	Has at least 5 years of work experience and meet one of the following professional qualifications			Meets the independence criteria (Note)										Number of other Taiwanese public companies concurrently serving as an independent Director
		A lecturer or higher position in a Department of Commerce, Law, Finance, Accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10	
Lu-Lee Liao	—	—	V						V	V	V		V	V	0
Wen-Chieh Wei	—	—	V					V	V	V	V	V	V	V	0
Shu-Chun Lin	—	—	V				V		V	V	V		V	V	0
Shih-Chieh Lin	—	—	V				V		V	V	V		V	V	0
Chao-Li Huang	—	—	V				V	V	V	V	V	V	V	V	0
Lin-Ming Huang	V	—	—		V	V	V	V	V	V	V	V	V	V	0
Edward Shaw-Yau Duh	—	—	V		V	V	V	V	V	V	V	V	V	V	0
Yun-Chung Hung	—	—	V		V	V	V	V	V	V	V	V	V	V	0
Sheng-Chung Cho	—	—	V		V	V	V		V	V	V		V	V	0
Ben-Lin Liao	—	—	V		V	V	V	V	V	V	V	V	V	V	0
Tung Chien Investment Co., Ltd. Institutional Representative Keng-Pin Liao	—	—	V		V	V	V		V	V	V		V		0

Note: If the Director or Supervisor meets any of the following criteria in the two years before being elected or during the term of office, please check, "v", the corresponding boxes:

- (1) Not an employee of the company or any of its affiliates.
- (2) Not a Director or Supervisor of the company or any of its affiliates. (The same does not apply, however, in cases where the person is an independent Director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares.)
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
- (4) A spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a Director, Supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as one of its top five shareholders;
- (6) Not a Director, Supervisor, managerial officer, or a shareholder that holds more than 5% of shares at a company or institution that has financial or business exchanges with the company.
- (7) Not a professional person, business owner, partner, Director, Supervisor, or managerial officer any sole-proprietorship, partnership, company, or institution providing commercial, legal, financial, or accounting services or consultations to the Company or any of its affiliated companies; nor a spouse of anyone listed herein. Excluding members of compensation committee who exercise power in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
- (8) Not having a marital relationship, or a relative within the second degree of kinship to any other Director of the company.
- (9) Not been a person of any conditions defined in Article 30 of the Company Act.
- (10) Not a governmental, juridical person or its representative as defined under Article 27 of the Company Act.

(II) President, Vice Presidents, Assistant Vice Presidents, and Department and Branch Directors

As of May 1, 2019; unit: Shares

Title (Note 1)	Nationality	Name	Gender	Date of election (inauguration)	Shares held		Shares held by spouse and underage children		Shareholding by nominee arrangement		Main experience and education (Note 2)	Current job position in other companies	Managerial officer who is a spouse or a relative within second degree		
					Shares	Percentage of shares	Shares	Percentage of shares	Shares	Percentage of shares			Title	Name	Relationship
CEO	Taiwan	Chao-Li Huang	Male	2018.06.01	38,190	0.02%	58,020	0.03%	100,000	0.05%	Education: MBA, Feng Chia University Experience: VP, Wealth Management and Trust BU, Mega Securities	Note 1	None	None	None
Group VP, electroacoustic supply chain management	Taiwan	Shu-Chun Lin	Female	2009.09.01	305,672	0.15%	—	—	—	—	Education: Department of International Business, Overseas Chinese University Experience: President, Merrytech (Suzhou) Co. Ltd.	Note 2:	None	None	None
VP, Sales	Taiwan	Chester Chiang	Male	1999.02.08	31,038	0.02%	—	—	—	—	Education: EMBA, National Chiao Tung University Experience: IPO Manager, Philips	None	None	None	None
VP, Sales	Taiwan	Steven Su	Male	2010.04.01	19,527	0.01	—	—	—	—	Education: Department of Management Science, Graduate Institute, National Chiao Tung University Experience: BU Director, Hon Hai Precision; VP of Sales, Tripod Technology Corporation; VP of Marketing, Ichia Technologies, Inc.; VP, Universal Scientific Industrial Co., Ltd.	None	None	None	None
Special Assistant to Chairman	Taiwan	Steven Her	Male	2017.10.12	30,221	0.01%	7,373	0.00%	—	—	Education: PhD, Mechanical and Aeronautical Engineering, Feng Chia University Experience: Senior Vice President, Merry Electronics (Shenzhen/Huizhou) Co., Ltd.; Vice President, FITOP Machinery Co., Ltd.	Note 3	None	None	None
CTO	Taiwan	Sam Chang	Male	2018.07.01	25,495	0.01%	—	—	—	—	Education: Master's in Electro-Acoustics, Feng Chia University Experience: Vice President, Merry Electronics Co. Ltd.	None	None	None	None
Vice GM; Finance	Taiwan	Joyce Lam	Female	2018.09.17	—	—	—	—	—	—	Education: MSc. Accounting & Finance at London School of Economics and Political Science, University of London Experience: Finance Controller, Asia Pacific, Raritan (of Legrand Group)	None	None	None	None

Note 1: It shall include Information on President, Vice Presidents, Assistant Vice Presidents, and Department and Branch Directors, and if the position is equivalent to the President, Vice Presidents, and Assistant Vice Presidents, regardless of the title, it shall also be disclosed.

Note 2: If there is experience related to the current position, such as employment at an auditing firm or related company during the aforementioned disclosed period, the title and responsible position shall be stated.

Note 3: The above managers have no term limits.

Note 1: Mr. Chao-Li Huang, CEO, serves as Chairman of Shande Investment Co., Ltd.; Supervisor of Leading Jet Turbine Co., Ltd.; Representative of Institutional Director (Shande Investment Co., Ltd.) of Amulair Thermal Technology Inc.; Representative of Institutional Supervisor (Shande Investment Co., Ltd.) of Maxecho Technology

Corp.; Representative of Institutional Supervisor (Shande Investment Co., Ltd.) of Leohab Enterprise Co., Ltd.; CEO and Director of Merry Electronics (U.S.A.) Co., Ltd.; Director of Merry Electronics (H.K.) Co., Ltd.; Legal Representative and Director of Merry Electronics (Thailand) Co. Ltd.; Director of Danny Dynamics Limited; Legal Representative and Director of Merrytech (HK) Co., Ltd.; Director of Austar Hearing Science and Technology (Xiamen) Co., Ltd.; Supervisor of Merry Electronics (Shanghai) Co., Ltd.

Note II: Ms. Shu-Chun Lin, Electroacoustic Supply Chain Management Group VP of Merry Electronics Co. Ltd., serves as Director of Merry Electronics (Thailand) Co. Ltd.; Director of Merry Electronics (Singapore) Pte., Ltd. (designated by Merry Electronics Co. Ltd.); Representative of Institutional Director of Merry Healthcare Co., Ltd.; Representative of Institutional Director of Fulicare Co., Ltd.; Legal Representative, Executive Director, and President of Fulicare Medical Technology (Suzhou) Co., Ltd.; Director of Indigo Enterprise Inc.(Samoa); Chairman of Suzhou Meisheng Electronic Co., Ltd.; Chairman of Austar Hearing Science and Technology (Xiamen) Co., Ltd.; Executive Director of Xiamen Etimbre Hearing Technology Co., Ltd.; Legal Representative and Executive Director of Fulicare Medical Technology (Xiamen) Co.,Ltd.; Director of Xiamen LA&A Medical Devices Co., Ltd.; Director of Zhangzhou Austar Hearing Science and Technology Co., Ltd.; Director of Merry Electronics (Shanghai) Co., Ltd.; Vice Chairman of Merrytech (Suzhou) Co. Ltd.; Director of Merry Fuling Co., Ltd., Chairman of Fu Erh LI Co., Ltd.; and Representative of Institutional Director of Fulicare Medical Instruments (Suzhou) Co., Ltd. (Fulicare Medical Technology (Suzhou) Co., Ltd.).

Note III: Mr. Steven Her serves concurrently as President of Leohab Group.

III. Remunerations to Directors, Supervisors, President, and Vice Presidents in the most recent year

1. Remuneration of Directors

May 1, 2018 Unit: NT\$1,000

[illegible]

Independent Director	Edward Shaw-Yau Duh																			

Remuneration scale applicable to the company's Directors	Name of Director			
	Total amount for the 4 preceding remunerations (A+B+C+D)		Total amount for the 7 preceding remunerations (A+B+C+D+E+F+G)	
	The company (Note 8)	All companies in the financial statements (Note 9) H	The company (Note 8)	All companies in the financial statements (Note 9) I
Below NT\$2,000,000	Lin-Ming Huang, Edward Shaw-Yau Duh	Lin-Ming Huang, Edward Shaw-Yau Duh	Lin-Ming Huang, Edward Shaw-Yau Duh	Lin-Ming Huang, Edward Shaw-Yau Duh
NT\$2,000,000 (inclusive) to NT\$5,000,000 (exclusive)	—	—	—	—
NT\$5,000,000 (inclusive) to NT\$10,000,000 (exclusive)	Lu-Lee Liao, Wen-Chieh Wei, Shih-Chieh Lin, Chao-Li Huang Shu-Chun Lin	Lu-Lee Liao, Wen-Chieh Wei, Shih-Chieh Lin, Chao-Li Huang Shu-Chun Lin	—	—
NT\$10,000,000 (inclusive) to NT\$15,000,000 (exclusive)	-	-	Lu-Lee Liao, Wen-Chieh Wei, Shih-Chieh Lin, Chao-Li Huang	Lu-Lee Liao, Wen-Chieh Wei, Shih-Chieh Lin, Chao-Li Huang
NT\$15,000,000 (inclusive) to NT\$30,000,000 (exclusive)	-	-	Shu-Chun Lin	Shu-Chun Lin
NT\$30,000,000 (inclusive) to NT\$50,000,000 (exclusive)	—	—	—	—
NT\$50,000,000 (inclusive) to NT\$100,000,000 (exclusive)	—	—	—	—
Greater than NT\$100,000,000	—	—	—	—
Total	7 people	7 people	7 people	7 people

Note 1: The names of the Directors shall be separately listed (the institutional shareholder shall list the names of the institutional shareholders and the representatives separately), and the amount of each payment shall be disclosed in a summary manner. Directors who are also concurrently a President or Vice President are listed in this table and the following Table 3.

Note 2: Remuneration to Directors in 2018 (include Director salary, additional duty payments, severance pay, various bonuses, or incentive payments).

Note 3: The amount of remuneration for the Directors proposed by the Board of Directors for the 2018 year is approved by the Board of Directors in 2019 (without the resolution of the shareholders' meeting).

Note 4: Refers to the related business expenses of Directors in 2018 (including transportation allowance, special allowance, stipends, dormitory, and car).

Note 5: Refers to benefits received by Directors who are also employees of the company, including bonuses, additional pay, stipends, car, etc. Chairman Lu-Lee Liao's car was acquired in 2014 and cost NT\$2,290 thousand; Vice Chairman Wen-Chieh Wei's car was acquired in 2005 and cost NT\$3,017 thousand; the book values are NT\$1,963 thousand and NT\$0 respectively.

Note 6: Refers to the Directors who are concurrent employees (including those concurrently serving as Presidents, Vice Presidents, other managers, and employees) who received employee remuneration (including stocks and cash), which is the 2018 employee remuneration distribution proposed by the Board of Directors (without the resolution of the shareholders' meeting) in 2019; the proposed distribution amount is calculated based on the actual distribution ratio in 2017, and has been filled out in Table 5.

Note 7: Total pay to Directors from all companies in the consolidated statements (including the company).

Note 8: Total paid and range of remuneration paid by the company to each Director and name of Director.

Note 9: Shall disclose total paid and range of remuneration paid to each Director and their names from all companies in the consolidated statements (including the Company).

Note 10: Calculated based on the after-tax net income and the NT\$2,064,265 thousand after-tax net income of the individual financial statements of 2018.

Note 11: This field should clearly state whether the Directors of the company have received remuneration from investees other than subsidiaries with "Yes" or "None".

* The remuneration disclosed in this table is different from the income concept of the Income Tax Act. Thus, the purpose of this table is for information disclosure, not for tax purposes.

2. Remuneration to Supervisors

May 1, 2018 Unit: NT\$1,000

Title	Name (Note 1)	Remuneration to Supervisors						Ratio of total (A), (B), and (C) to after-tax income (Note 8)		Compensation from investments other than subsidiaries (Note 9)
		Remuneration (A) (Note 2)		Remuneration (B) (Note 3)		Fees for conducting business (C) (Note 4)				
		The company	All companies in the financial statements (Note 5)	The company	All companies in the financial statements (Note 5)	The company	All companies in the financial statements (Note 5)	The company	All companies in the financial statements (Note 5)	
Supervisor	Yun-Chung Hung	-	-	24,389	24,389	85	85	1.19%	1.19%	None
Supervisor	Sheng-Chung Cho									
Supervisor	Ben-Lin Liao									
Supervisor	Tung Chien Investment Co., Ltd. Representative : Keng-Pin Liao									

Range of remuneration paid to each Supervisor	Names of Supervisors	
	Total amount for the 3 preceding remunerations (A+B+C)	
	The company (Note 6)	All companies in the financial statements (Note 7) D
Below NT\$2,000,000	—	—
NT\$2,000,000 (inclusive) to NT\$5,000,000 (exclusive)	—	—
NT\$5,000,000 (inclusive) to NT\$10,000,000 (exclusive)	Yun-Chung Hung, Sheng-Chung Cho, Ben-Lin Liao Tung Chien Investment Co., Ltd.; Representative: Keng-Pin Liao	Yun-Chung Hung, Sheng-Chung Cho, Ben-Lin Liao Tung Chien Investment Co., Ltd.; Representative: Keng-Pin Liao
NT\$10,000,000 (inclusive) to NT\$15,000,000 (exclusive)	—	—
NT\$15,000,000 (inclusive) to NT\$30,000,000 (exclusive)	—	—
NT\$30,000,000 (inclusive) to NT\$50,000,000 (exclusive)	—	—
NT\$50,000,000 (inclusive) to NT\$100,000,000 (exclusive)	—	—
Greater than NT\$100,000,000	—	—

Total	4 people	4 people

Note 1: The names of the Supervisors have been presented separately and the payment amount to each Supervisor has been disclosed in a summary manner.

Note 2: Means remuneration of the Supervisors for 2018 (including Director salary, additional duty payments, resignation and retirement pension, severance pay, various bonuses, and incentive payments).

Note 3: The amount of remuneration for the Supervisors proposed by the Board of Directors for the 2018 year is approved by the Board of Directors in 2019 (without the resolution of the shareholders' meeting).

Note 4: The business expense of Supervisors in 2018 (including transportation allowance, special allowance, stipends, dormitory, and car).

Note 5: The total pay to Supervisors from all companies in the consolidated statements have been disclosed.

Note 6: Total paid and range of remuneration paid by the company to each Supervisor and name of Supervisor.

Note 7: Total paid and range of remuneration paid to each Supervisor from all companies in the consolidated statements) and their names.

Note 8: Calculated based on the after-tax net income and the NT\$2,064,265 thousand after-tax net income of the individual financial statements of 2018.

Note 9: This field should clearly state whether the Supervisors of the company have received remuneration from investees other than subsidiaries with "Yes" or "None".

3. Remunerations to President and Vice Presidents

May 1, 2018 Unit: NT\$1,000

Title	Name	Salary (A) (Note 2)		Retirement pension (B)		Bonuses and allowances, etc. (C) (Note 3)		Employee remuneration (D) (Note 4)				Ratio of total remuneration (A+B+C+D) to net income (%) (Note)		Compensation from investments other than subsidiaries (Note 9)
		The company	All companies in the financial statements (Note 5)	The company	All companies in the financial statements (Note 5)	The company	All companies in the financial statements (Note 5)	The company		All companies in the financial statements (Note 5)		The company	All companies in the financial statements (Note 5)	
								Cash value	Share value	Cash Amount	Share value			
Chairman and CEO (resigned from CEO position on June 1, 2018)	Lu-Lee Liao	23,111	27,223	626	626	9,463	9,463	17,389	-	17,389	-	2.45%	2.65%	None
Vice Chairman and CTO (resigned from CTO position on July 1, 2018)	Wen-Chieh Wei													
Director and CEO (assumed CEO position on June 1, 2018)	Chao-Li Huang													
CTO (assumed CTO position on July 1, 2018)	Sam Chang													
VGM, Finance (assumed VGM of Finance position on September 17, 2018)	Joyce Lam													
VP, Sales	Chester Chiang													
VP, Sales	Steven Su													
VP, Sales	Ken Soh													

VP, Supply Chain Management	Shu-Chun Lin													
Special Assistant, Administration Center (assumed position on October 1, 2017)	Steven Her													

Range of remuneration paid to President and Vice Presidents	Name of President and Vice Presidents	
	The company (Note 7)	All companies in the financial statements (Note 8)
Below NT\$2,000,000	Joyce Lam	Joyce Lam
NT\$2,000,000 (inclusive) to NT\$5,000,000 (exclusive)	Lu-Lee Liao, Wen-Chieh Wei, Chester Chiang, Steven Her, Sam Chang	Lu-Lee Liao, Wen-Chieh Wei, Chester Chiang, Steven Her
NT\$5,000,000 (inclusive) to NT\$10,000,000 (exclusive)	Steven Su, Ken Soh, Shu-Chun Lin, Chao-Li Huang	Steven Su, Chao-Li Huang, Shu-Chun Lin, Sam Chang
NT\$10,000,000 (inclusive) to NT\$15,000,000 (exclusive)		Ken Soh
NT\$15,000,000 (inclusive) to NT\$30,000,000 (exclusive)	—	—
NT\$30,000,000 (inclusive) to NT\$50,000,000 (exclusive)	—	—
NT\$50,000,000 (inclusive) to NT\$100,000,000 (exclusive)	—	—
Greater than NT\$100,000,000	—	—
Total	10 people	10 people

Note 1: The names of the President and Vice Presidents have been presented separately and the payment amount has been disclosed in summary manner. Directors who are also concurrently a President or Vice President shall be listed in this table and the above Table 1.

Note 2: Salary, additional pay, and severance pay received by the President or Vice President in 2018.

Note 3: Indicates the benefits received by the President and Vice Presidents, including bonuses, additional pay, stipends, car, etc. Chairman Lu-Lee Liao's car was acquired in 2014 and cost NT\$2,290 thousand; Vice Chairman Wen-Chieh Wei's car was acquired in 2005 and cost NT\$3,017 thousand; CEO Steven Su's car was acquired in 2010 and cost NT\$300 thousand; the book values are NT\$1,963 thousand, NT\$0, and NT\$85 thousand respectively. Vice President Jin-Tang Zeng retired in June 2015 and stopped using the car after retiring; Vice President Chester Chiang and CEO Steven Su (since July 2015) have been renting cars for NT\$16,667 a month. The salary expenses recognized in accordance with IFRS 2 Share-based payment, including obtaining employee stock options, restricted stock awards, and participating in capital increase by cash by acquiring shares, shall also be included in the remuneration. The salary expenses recognized in accordance with IFRS 2 Share-based payment, including obtaining employee stock options, restricted stock awards, and participating in capital increase by cash by acquiring shares, shall also be included in the remuneration.

Note 4: Refers to the employee remuneration received by the President and Vice Presidents (including stocks and cash), which is the 2018 employee remuneration distribution proposed by the Board of Directors (without the resolution of the shareholders' meeting) in 2019; the proposed distribution amount is calculated based on the actual distribution ratio in 2017, and has been filled out in the table

Note 5: The total pay to the company's President or Vice President from all companies in the consolidated statements shall be disclosed.

Note 6: Range of remuneration paid to the President and Vice Presidents, and their names.

Note 7: The number of people, names of, and total paid and range of remuneration paid to each President and Vice President from all companies in the consolidated statements).

Note 8: Calculated based on the after-tax net income and the consolidated net income of NT\$2,064,265 of the consolidated statement of 2018.

Note 9: a. The amount of remuneration the president or vice president of the Company receives from investees other than subsidiaries of the company shall be clearly indicated in this field. b. If the President and Vice Presidents of the company receive the remuneration related investees other than subsidiaries, the remuneration received by the President and Vice Presidents from the investees other than subsidiaries shall be incorporated into the column in the remuneration range table and the column's name shall be changed to "All reinvestment entities". Remuneration refers to pay, compensation (including compensation distributed to employees, Directors, Supervisors) and remuneration for conducting business received by the company's President and Vice Presidents who serve as Directors, Supervisors or managerial officers at investee companies other than subsidiaries.

* The remuneration disclosed in this table is different from the income concept of the Income Tax Act. Thus, the purpose of this table is for information disclosure, not for tax purposes.

4. Names of managers that received remuneration for employees and amount

May 1, 2019 Unit: NT\$ Thousand

Managerial Officers	Title	Name	Amount of stock bonus (Note)	Amount of cash bonus (Note)	Total	Ratio (%) accounted compared to the total net income
	Chairperson and President (Relieved of the position of president on 2018/6/1)	Liao, Lu-Lee	—	14,859	14,859	0.72%
	Vice Chairman and CTO (Relieved of the position of CTO on 2018/7/1)	Wei, Wen-Chieh				
	Director and President (Assumed the position of president on 2018/6/1)	Huang, Chao-Feng				
	CTO (Assumed the position of CTO on 2018/7/1)	Sam Chang				
	VGM of the Financial Management Division (Assumed the position of VP of the Financial Management Division on 2018/9/17)	Joyce Lam				
	VP of Sales	Chester Chiang				
	VP of Sales	Steven Su				
	Supply Chain Management Division Vice President	Lin, Shu-Chun				
	Special assistant at the Administration Center (Assumed the position on 2017/10/1)	Steven Her				

Note: The 2018 employee remuneration for the president and vice presidents (including stock and cash) is the amount approved by the Board of Directors in 2019(not yet resolved by the shareholders' meeting). The amount to be distributed was calculated based on the ratio of the actual amount distributed in 2017.

5. The names, positions, and total number of shares received by the top ten employees who received employee bonuses

Name	Title	Cash dividend (NT\$ Thousands)	Stock dividends (Shares)
Liao, Lu-Lee	Chairman	47,421	-
Wei, Wen-Chieh	Vice Chairman		
Lin, Shu-Chun	Vice President		
Ken Soh	Vice President		
Steven Su	Vice President		
Huang, Chao-Li	General Manager		
Lin, Shih-Chieh	General Manager		
Sam Chang	Vice GM		
Chester Chiang	Vice President		
Steven Her	Senior GM		

Note: Cash dividends and stock dividends in 2018 are distributed from 2017 earnings.

6. The Company shall disclose the remuneration to individual directors and supervisors in the event of any one of the following conditions:

- (1). If a net loss appeared in financial statements in the most recent two years, disclose the remuneration to individual directors and supervisors: None.
- (2). If the shareholding ratio of directors was insufficient for three consecutive months

in the most recent year, disclose the remuneration to individual directors. If the shareholding ratio of supervisors was insufficient for three consecutive months in the most recent year, disclose the remuneration to individual supervisors: None.

- (3). If the average pledging ratio of directors and supervisors was greater than 50% in any three months in the most recent year, disclose the remuneration to directors and supervisors with pledging ratio greater than 50% in each month: See page 17 of the annual report.
- (4). If the total remuneration to all directors and supervisors on the financial report exceeds 2% of after-tax net profit, and the remuneration to individual directors or supervisors exceeds NT\$15 million, disclose the remuneration to individual directors or supervisors: None.

7. Compare the percentage of after-tax net profit distributed by the Company and all companies on the consolidated financial statements as remuneration to the Company's directors, supervisors, president, and vice presidents in the most recent two years, and describe the policy, standard, and composition of remuneration, procedures to determining remuneration, and the connection to business performance and future risks.

- (1). Amount of remuneration to the Company's directors, supervisors, president, and vice presidents in the most recent two years as a percentage of after-tax net profit

Title	2018 The amount of remuneration to the Company's directors, supervisors, president, and vice presidents from the Company and all companies on the consolidated financial statements as a percentage of after-tax net profit		2017 The amount of remuneration to the Company's directors, supervisors, president, and vice presidents from the Company and all companies on the consolidated financial statements as a percentage of after-tax net profit	
	The Company	All companies on the consolidated financial statements	The Company	All companies on the consolidated financial statements
Director	3.98%	4.00%	4.64%	4.87%
Supervisor				
President and Vice Presidents				

Note 1: The proposed 2018 earnings distribution was approved by the Board of Directors. The percentage of remuneration to after-tax net profit in this field is only an estimate.

- (2). Remuneration of directors and supervisors is handled in accordance with the Company's Articles of Incorporation. We established a Remuneration Committee on December 28, 2011, and the Remuneration Committee established the Directors and Supervisors' Remuneration Management Regulations on January 1, 2014, which was submitted to the Board of Directors and approved after discussion. The regulations are used to evaluate and distribute reasonable remuneration to directors and supervisors. The policy for remuneration to the president and vice president sets forth a salary structure with a base pay, meal allowance, supervisory differential pay, and no company car benefits. Procedures for determining remuneration are based on academic background, experience, performance, and seniority, and also take into consideration the standards of peers in the industry, as well as the Company's

overall business performance, the industry's future business risks, and development trends.

IV. Corporate Governance Status

(I) Status of Board Operations

There were 6 Board meetings (A) in the most recent year (2018), attendance of directors is as follows:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) [B / A]	Remarks
Chairman	Liao, Lu-Lee	6	0	100%	
Vice Chairman	Wei, Wen-Chieh	6	0	100%	
Director	Lin, Shu-Chun	6	0	100%	
Director	Lin, Shih-Chieh	6	0	100%	
Director	Huang, Chao-Li	6	0	100%	
Independent Director	Huang, Lin-Ming	5	1	100%	
Independent Director	Duh, Edward Shaw-Yau	5	1	100%	

Other important matters to be recorded:

- I. If independent directors have a dissenting or qualified opinion on matters listed in Article 14-3 of the Securities and Exchange Act, and there are records or a written statement of the Board of Directors' resolutions, specify the date of the Board meeting, session, contents of the agenda item, the opinions of all independent directors, and the Company's response to independent directors' opinions: The contents of resolutions are provided in pages 51-56 of the Annual Report. All matters listed in Article 14-3 of the Securities and Exchange Act were passed as proposed by all independent directors without objection.
- II. Specify the name of the director, agenda item, reason for recusal, and participation in voting of directors who recused themselves from agenda items they have a conflict of interest:
 - (1) 16th Meeting of the 18th-term Board of Directors on April 26, 2018
 Agenda: Proposal to change managers of the Company.
 Directors who recused themselves due to conflict of interest: Director Huang, Chao-Li
 Reason for recusal and participation in voting:
 The new President Huang, Chao-Li (managerial officer) had a conflict of interest and recused himself and did not participate in the vote in accordance with Article 206 of the Company Act.
 Voting results: Passed as proposed without objection from all directors and independent directors in attendance with voting rights.
 - (2) 17th Special Meeting of the 18th-term Board of Directors on June 13, 2018
 Agenda: Pension of Manager Liao, Lu-Lee.
 Directors who recused themselves due to conflict of interest: Chairperson Liao, Lu-Lee.
 Reason for recusal and participation in voting:
 Chairperson Liao, Lu-Lee (managerial officer) had a conflict of interest and recused himself and did not participate in the vote in accordance with Article 206 of the Company Act.
 Voting results: Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance with voting rights.
 - (3) 17th Special Meeting of the 18th-term Board of Directors on June 13, 2018
 Agenda: Promotion and salary of Manager Huang, Chao-Li.
 Directors who recused themselves due to conflict of interest: Director Huang, Chao-Li
 Reason for recusal and participation in voting:
 Director Huang, Chao-Li (managerial officer) had a conflict of interest in the promotion and salary adjustment proposal, and recused himself and did not participate in the vote in accordance with Article 206 of the Company Act.

Voting results: Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance with voting rights.

(4) 17th Special Meeting of the 18th-term Board of Directors on June 13, 2018

Agenda: Proposed amount of remuneration to directors, supervisors, and managers in 2017

Directors who recused themselves due to conflict of interest: Chairperson Liao, Lu-Lee, Vice Chairperson Wei, Wen-Chieh, Director Lin, Shu-Chun, Director Lin, Shih-Chieh, and Director Huang, Chao-Li.

Reason for recusal and participation in voting:

Directors Liao, Lu-Lee, Wei, Wen-Chieh, Lin, Shu-Chun, Lin, Shih-Chieh, and Huang, Chao-Li (managerial officers) had a conflict of interest with the proposed amount of remuneration to directors, supervisors, and managers, and recused themselves and did not participate in the vote in accordance with Article 206 of the Company Act.

Voting results: Passed as proposed without objection after the chairperson inquired all directors in attendance with voting rights.

(5) 18th Meeting of the 18th-term Board of Directors on July 26, 2018

Agenda: Pension of Manager Wei, Wen-Chieh.

Directors who recused themselves due to conflict of interest: Vice Chairperson Wei, Wen-Chieh.

Reason for recusal and participation in voting:

Vice Chairperson Wei, Wen-Chieh (managerial officer) had a conflict of interest and recused himself and did not participate in the vote in accordance with Article 206 of the Company Act.

Voting results: Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance with voting rights.

(6) 19th Meeting of the 18th-term Board of Directors on October 25, 2018

Agenda: Proposed list of employees eligible for the second batch of restricted stock awards issued in 2017, number of shares, and issuance related affairs.

Directors who recused themselves due to conflict of interest: Directors Lin, Shu-Chun, Lin, Shih-Chieh, and Huang, Chao-Li.

Reason for recusal and participation in voting:

Directors Lin, Shu-Chun, Lin, Shih-Chieh, and Huang, Chao-Li (managerial officers) had a conflict of interest and recused themselves and did not participate in the vote in accordance with Article 206 of the Company Act.

Voting results: Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance with voting rights.

(7) 20th Meeting of the 18th-term Board of Directors on December 27, 2018

Agenda: Proposed adjustment to the amount of manager and employee remuneration in 2017.

Directors who recused themselves due to conflict of interest: Chairperson Liao, Lu-Lee, Vice Chairperson Wei, Wen-Chieh, Director Huang, Chao-Li, Director Lin, Shu-Chun, and Director Lin, Shih-Chieh.

Reason for recusal and participation in voting:

Managerial officers Liao, Lu-Lee, Wei, Wen-Chieh, Huang, Chao-Li, Lin, Shu-Chun, and Lin, Shih-Chieh in 2017 had a conflict of interest, and recused themselves and did not participate in the vote in accordance with Article 206 of the Company Act.

Voting results: Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance with voting rights.

(8) 20th Meeting of the 18th-term Board of Directors on December 27, 2018

Agenda: Proposal to donate NT\$1,280,000 to Taiwan Reading and Culture Foundation in 2019.

Directors who recused themselves due to conflict of interest: Chairperson Liao, Lu-Lee and Vice Chairperson Wei, Wen-Chieh.

Chairperson Liao, Lu-Lee and Vice Chairperson Wei, Wen-Chieh had a conflict of interest as directors of Taiwan Reading and Culture Foundation, and recused themselves and did not participate in the vote in accordance with Article 206 of the Company Act.

Voting results: Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance with voting rights.

(9) 20th Meeting of the 18th-term Board of Directors on December 27, 2018

Agenda: Proposal to invest in Biotest Medical Corp.

Directors who recused themselves due to conflict of interest: Vice Chairperson Wei, Wen-Chieh, Director Lin, Shu-Chun, Director Lin, Shih-Chieh, and Director Huang, Chao-Li.

Directors Lin, Shu-Chun, Lin, Shih-Chieh, and Huang, Chao-Li had a conflict of interest due to being shareholders of Biotest Medical Corp., and recused themselves and did not participate in the vote in accordance with Article 206 of the Company Act.

Voting results: Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance with voting rights.

(10) 20th Meeting of the 18th-term Board of Directors on December 27, 2018

Agenda: List of employees and managers that subscribed to ordinary shares in the cash capital increase in 2018 and number of shares

Directors who recused themselves due to conflict of interest: Directors Lin, Shu-Chun and Huang, Chao-Li.

Directors Lin, Shu-Chun and Huang, Chao-Li had a conflict of interest and recused themselves and did not participate in the vote in accordance with Article 206 of the Company Act.

Voting results: Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance with voting rights.

III. Goals for enhancing Board functions in the current year and most recent year (such as establishing an Audit Committee and increasing information transparency) and evaluation of implementation status:

(1) We established the Regulation and Procedure for Board of Directors Meetings in accordance with the Regulations Governing Procedure for Board of Directors Meetings of Public Companies, and disclosed information on attendance of directors in Board meetings on the MOPS, as well as major resolutions of the Board of Directors on the Company website.

(2) Directors received 82.5 hours of continuing education in 2018.

Note 1: If the director or supervisor is a legal person, disclose the name of shareholders and its representative.

Note 2:

1. If a director or supervisor is separated before the end of the year, specify the date of separation in the remarks, and calculate actual attendance rate (%) based on the number of Board meetings convened during the director or supervisor's term and actual attendance.
2. If directors or supervisors are reelected before the end of the year, list new and old directors and supervisors, and specify if the director or supervisor is old, new, or reelected and the reelection date in the remarks. Actual attendance rate (%) is calculated based on the number of Board meetings convened during the director or supervisor's term and actual attendance.

(II) Operations of the Audit Committee or participation of supervisors in Board operations

1. Operations of the Audit Committee

Not applicable because the Company does not have an Audit Committee.

2. Participation of supervisors in Board operations

There were 6 Board meetings (A) in the most recent year (2018), attendance is as follows:

There were 6 Board meetings (71) in the most recent year (2018), attendance is as follows:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A)	Remarks
Supervisor	Hung, Yun-Chung	6	-	100%	
Supervisor	Cho, Sheng-Chung	6	-	100%	
Supervisor	Liao, Ben-Lin	4	-	66.66%	On leave during the 16th meeting of the 18th-term Board of Directors On leave during the 17th special meeting of the 18th-term Board of Directors
Supervisor	Tong Qian Investment Co.,Ltd.	6	-	100%	
Representative of Supervisor	Liao, Keng-Pin		-		
Other important matters to be recorded:					
Other important matters to be recorded: 甲、Composition and duties of supervisors:					

甲、Communication between supervisors and the Company's employees and shareholders (such as communication channels and methods). The Company website provides e-mails, such as the spokesperson, for employees and shareholders to communicate through the channel. Supervisors also participate in shareholders' meetings to achieve direct communication.
乙、Communication between supervisors and the chief internal auditor and accountants (such as matters, methods, and results of communication regarding the Company's financial position and business operations). 1. The Company's chief internal auditor communicates with supervisors via telephone or e-mail on a monthly basis, reports audit results and improvements, and periodically communicates with directors and supervisors during meetings, so that directors and supervisors stay up-to-date on corporate governance and the Company's operating risks. 2. The accountant summarizes information on governance matters audited in the Company's financial statements and consolidated financial statements for communication with supervisors in writing or face-to-face.
乙、If supervisors provided their opinion during Board meetings, specify the date of the Board meeting, session, contents of the agenda item, resolution of the Board of Directors, and the Company's response to supervisors' opinions: NONE.
Note: * If a supervisor is separated before the end of the year, specify the date of separation in the remarks, and calculate actual attendance rate (%) based on the supervisor's actual attendance. * If supervisors are reelected before the end of the year, list new and old supervisors, and specify if the supervisor is old, new, or reelected and the reelection date in the remarks. Actual attendance rate (%) is calculated based on actual attendance during the supervisor's term.

(III) Board of Directors Performance Evaluation:

- I. The Board of Directors passed the "Merry Electronics Co., Ltd. Director Performance Evaluation Regulations" in 2017. Director performance evaluations are conducted at the end of the year, and must be conducted by an external unit at least once every three years.
Subjects evaluated include the overall performance of the Board of Directors (functional committees) and individual Board members. Internal Board performance evaluation items are divided into five aspects:
(1).Extent of participation in company operations
(2).Improves the quality of decisions made by the Board of Directors.
(3).Composition and structure of the board of directors.
(4).The selection and continuing education of directors.
(5).Internal control.
- II. Self-evaluation items for the performance of Board members are divided into six aspects:
(1).Understanding of the Company's goals and mission.
(2).Understanding of directors' duties.
(3).Extent of participation in company operations.
(4).Maintaining internal relationships and communication.
(5).The professional and continuing education of directors.
(6).Internal control.

Suitable indicators for the two types of performance evaluations above shall be established based on the Company's operations and requirements.

III. 2018 Board Performance Self-Evaluation Results

(1).Year evaluated: 2018

(2).Director performance self-evaluation:

Self-evaluation of directors	Achieving rate	Results
Duh, Edward Shaw-Yau	96.00%	Exceeds standards
Huang, Lin-Ming	92.00%	Exceeds standards
Liao, Lu-Lee	100.00%	Exceeds standards
Wei, Wen-Chieh	100.00%	Exceeds standards
Lin, Shu-Chun	96.00%	Exceeds standards
Lin, Shih-Chieh	96.00%	Exceeds standards
Huang, Chao-Li	100.00%	Exceeds standards

(3).Board of Directors performance self-evaluation:

Self-evaluation of directors	Achieving rate	Results
Board of Directors	100.00%	Exceeds standards

Note:

- (1).If the achieving rate of all indicators averages 90% or above (inclusive), the director "Exceeds standards".

- (2).If the achieving rate of all indicators averages 80% or above (inclusive), the director "Meets standards".
- (3).If the achieving rate of all indicators averages under 80%, the director "Requires improvement".
- (4).Board member self-evaluation results: All results were "Exceeds standards".

(III).Status of corporate governance and deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description	
I. Has the Company set and disclosed principles for practicing corporate governance according to the "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?"	Yes		The Board of Directors passed the "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" November 12, 2014 and provides access to it on the Company website.	Complies with the Corporate Governance Best-Practice Principles. No discrepancy.
II. The Company's equity structure and shareholders' equity Does the Company have internal operating procedures for handling shareholders' recommendations, questions, disputes, and litigation, and does it follow the procedures? Does the Company have the list of the major shareholders and ultimate controller of major shareholders of its controlling company? Did the Company establish and implement risk management and firewall mechanisms for affiliated enterprises? Did the Company establish internal regulations to prohibit insiders from using information not yet disclosed in the market to trade negotiable securities?	Yes Yes Yes Yes		(I) The Company established the "Procedures for Handling Internal Material Information", provides dedicated personnel such as the spokesperson and vice-spokesperson and their e-mails, and also provides communication channels on the Company website for communication with shareholders and stakeholders. There is also an exclusive website for shareholders with dedicated personnel to handle shareholders' recommendations, questions, disputes, and litigation. (II) The Company has a list of the major shareholders and ultimate controller of major shareholders of its controlling company, and reports changes in shareholding of insiders (directors, supervisors, managers, and shareholders with over 10% shares) on the MOPS, which was designated by the Securities and Futures Institute, in accordance with Article 25 of the Securities and Exchange Act. (III) The personnel, assets, and financial management authority are clearly separated between the Company and affiliated enterprises. We established the "Insider Trading Regulations" and specified subsidiary supervision operations with auditors that periodically supervise the implementation status. (IV) The Company established a "Code of Ethical Conduct" and "Procedures for Handling Internal Material Information" applicable to directors, supervisors, managers, and employees; information is irregularly updated and promoted.	Complies with the Corporate Governance Best-Practice Principles. No discrepancy.
III. Composition and duties of the board of directors (I) Was a Board diversity policy formulated and implemented for the composition of the board of directors? (II) Besides the Remuneration Committee and Audit Committee, did the Company voluntarily establish other similar functional committees?	Yes Yes		(I) Gender equality is emphasized in the composition of Board members, who have the knowledge, skills, and literacy required for performing their duties. Furthermore, two Board members are female. (II) We established a Remuneration Committee on 2011/12/28 and established a Merger and Acquisition Special Committee on 2017/7/26. Other corporate governance operations are handled by their respective	Complies with the Corporate Governance Best-Practice Principles. No discrepancy.

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description	
(III) Did the Company establish Board Performance Evaluation Regulations and evaluation method, and does it conduct annual performance evaluations?	Yes		departments. We currently do not have any other functional committees, but will establish them when needed.	
(IV) Does the Company periodically assess the independence of the certified public accountant(s)?	Yes		(III) We periodically review Board functions and are gradually raising the degree of corporate governance. We established Board Performance Evaluation Regulations and evaluation methods on 2017/12/28. (IV) Our Financial Management Division evaluates the independence of the CPA each year, and submits results to the Board of Directors. Please refer to Note 3 for evaluation items.	

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description	
IV. Does the TWSE/TPEX listed company have a corporate governance unit and personnel to handle corporate governance related affairs (including but not limited to providing data needed by directors and supervisors to perform their duties, handling Board meetings and shareholders' meetings in accordance with the law, handling company registration and change of registration, and preparing proceedings for Board meetings and shareholders' meetings)?	Yes		1. We have a dedicated corporate governance unit: (1) Financial Management Division: Conducts self-evaluations in accordance with articles containing the word "shall" in the "Corporate Governance Evaluations and Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" according to the instructions of the competent authority, and assists departments in implementing corporate governance evaluation indicators announced by the competent authority and complying with related laws and regulations. Prepares the agenda and related materials for the Company's shareholders' meetings, Board meetings, and functional committee meetings, compiles meeting minutes, and handles announcements, reporting, and change of registration within the specified period in accordance with the law. Upload and maintain information on the Company's Chinese website, and disclose information on the Company's financial position, business operations, and corporate governance results. Handles shareholder communication and services in a timely manner (including explaining the Company's issues and providing data). (2) Human Resources Division: Response for the Remuneration Committee and related affairs. (3) Public Relations Section: Responsible for the overall CSR policy, system, or related management guidelines, and proposes and implements action plans. The Board of Directors passed the Corporate Social Responsibility Best Practice Principles in December 2014. Implementation status is irregularly reported to the chairperson through different channels each year. (4) Chairperson's Office: The Chairperson's Office is responsible for formulating the ethical corporate management policy and prevention plans to achieve sound ethical corporate management. The Board of Directors passed the "Ethical Corporate Management Best Practice Principles" in December 2014. Auditing units supervise and audit ethical corporate management at any time, and the Chairperson's Office reports the implementation status to the Board of Directors on an annual basis. 2. Implementation status: Responsible units carry out corporate governance related affairs in accordance with related laws and regulations. Responsible units are operating normally and comply related laws and Company regulations.	Complies with the Corporate Governance Best-Practice Principles. No discrepancy.

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description	
V. Does the Company have communication channels with stakeholders (including but not limited to shareholders, employees, customers, and suppliers), a stakeholder section on the Company website, and properly respond to important CSR issues of concern to stakeholders?	Yes		We established an official website and have a "Stakeholder Communication Section" under "Corporate Social Responsibility"; e-mails are provided for stakeholder communication; we also have a hotline and mailbox for employees, suppliers, or other stakeholders to file reports or complaints of unethical conduct or violations of the law. Information on stakeholder communication is as follows: 1. Media related: Section Chief Li E-mail: merry_pr@merry.com.tw Tel: 04-23590811#111223 2. Investor related: Miss Chien E-mail: investor@merry.com.tw Tel: 04-23590811#112251 3. Employee/Recruitment related: Miss Liu E-mail: merry_resume_db@merry.com.tw Tel: 04-23590811 4. Community (EHS related): Miss Su E-mail: jesmin_su@merry.com.tw Tel: 04-23590811#111277	Complies with the Corporate Governance Best-Practice Principles. No discrepancy.
VI. Did the Company hire a professional stock transfer agency to handle affairs related to holding the shareholder's meeting?	Yes		The Company hired a professional stock transfer agency to handle affairs related to holding the shareholder's meeting, information on the agency is provided below: Name: KGI Securities Stock Affairs Department Address: 5F, No. 2, Sec. 1, Chongqing S. Rd., Taipei City Tel: 02-23892999 Website: http://www.kgiworld.com.tw	Complies with the Corporate Governance Best-Practice Principles. No discrepancy.
VII. Information Disclosure				
(I) Does the Company have a website to disclose information on its financial position, business operations, and corporate governance?	Yes		(一) The Company website (http://www.merry.com.tw/page/investor/index.aspx) has an "Investor Relations" section that discloses information on the Company's financial position, business operations, and corporate governance.	Complies with the Corporate Governance Best-Practice Principles. No discrepancy.
(II) Does the Company use other methods for information disclosure (such as constructing an English website, appointing designated personnel to collect and disclose Company information, implementing the spokesperson system, and providing the process of investor conferences on the	Yes		(二) Other information disclosure methods used by the Company: 1. The Company website has a Chinese and English version investors section. 2. We established the Procedures for Handling Internal Material Information and have a spokesperson or acting spokesperson to	

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description	
Company website)?			handle disclosures. We have an "Investors Section" on the Company website where contact information of the spokesperson and acting spokesperson is provided. 3. The Financial Management Division is responsible for collecting and disclosing Company information. 4. Information on investor conferences we organized or were invited to attend can be accessed on our website, and is also uploaded to the MOPS in accordance with regulations of the Taiwan Stock Exchange.	
VIII. Does the Company have any other material information that will benefit the understanding of its corporate governance implementation status (including but not limited to employee rights, employee care, investor relations, supplier relations, stakeholder rights, continuing education of directors and supervisors, risk management policy and risk measurement standards, implementation of customer policies, and purchase of liability insurance for directors and supervisors)?	Yes		1. With regard to employee rights and employee care, we established an Employee Welfare Committee in accordance with the law, established a pension scheme, enroll employees in group insurance, provide employees with numerous benefits measures, established the Employee Suggestion Box Management Regulations, and organize new employee forums each quarter for two-way communication and opinion exchange with the chairperson, helping employees more quickly identify with Merry Electronics and our culture. We hope to let them quickly assimilate into our corporate culture, guide their learning and growth, let employees like the Company and build a career here. See pages 123-127 of the annual report. 2. We not only focus on the development of our core business, but have also made a long-term commitment to CSR, such as consumer rights and social welfare, and give back to society at appropriate times. Please see pages 128-131 for details. 3. Relationship with investors: We disclose information in accordance with the law and set up an "Investors Section" on the Company website where contact information, such as telephone number and e-mail, of the spokesperson, acting spokesperson, and IR personnel is provided. 4. Customer and supplier relationship: We actively maintain close relationships with customers and suppliers, and continue to invest in customer-oriented R&D of advanced technologies, so as to meet the needs of customers for innovation and change. We also encourage suppliers to meet environmental requirements, sign a commitment to integrity, and provide feedback for quality issues, actively fulfilling CSR for a green planet. 5. Stakeholders' rights: The Company maintains various forms of interaction	Complies with the Corporate Governance Best-Practice Principles. No discrepancy.

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons								
	Yes	No	Brief description									
			with stakeholders in daily operations. The official website provides e-mails to establish effective and diverse communication channels with all stakeholders. Information is disclosed in accordance with regulations of the competent authority to achieve full transparency, and financial statement related information is periodically updated. 6. We established Risk Management Regulations to create a risk management culture and provide access to the regulations on the Company website. 7. The Company's directors and supervisors continue to participate in corporate governance seminars organized by the competent authority, and we will continue to arrange continuing education. The Company discloses continuing education of directors and supervisors on the MOPS. Please refer to Note 4 for details. 8. Directors and supervisors all actively attended Board meetings and signed in. If there was concern that a conflict of interest in an agenda item would damage the Company's interests, directors did not participate in the vote. 9. The Company purchases liability insurance for directors and supervisors, and prevents the risk of negligence from severely damaging the Company and shareholders' interests. The Board of Directors approved the extension of liability insurance for directors on October 25, 2018. Insurance enrollment is as follows: <table><tr><th>Insuree</th><th>Insurance company</th><th>Insurance amount</th><th>Policy period</th></tr><tr><td>All directors and supervisors</td><td>AIG Singapore</td><td>US\$10,000,000</td><td>October 17, 2018 to October 17, 2019</td></tr></table> 10. Please refer to Note 5 for continuing education and training of managers related to corporate governance. 11. Domestic and overseas certifications obtained by financial and auditing personnel of the Company: Certificates obtained by the Financial Management Division: CPA; Taiwan (CPA ; Taiwan) : 1 person; CPA; USA (CPA ; USA) : 1 person; CISA: 1 person; CFM: 1 person; CMA: 1 person; CFP: 1 person; QIA: 1 person; CIA: 1 person.	Insuree	Insurance company	Insurance amount	Policy period	All directors and supervisors	AIG Singapore	US\$10,000,000	October 17, 2018 to October 17, 2019	
Insuree	Insurance company	Insurance amount	Policy period									
All directors and supervisors	AIG Singapore	US\$10,000,000	October 17, 2018 to October 17, 2019									

Evaluation item	Implementation status(Note 1)					Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons			
	Yes	No	Brief description						
			12. Director diversity The Board of Directors has 7 members, including 1 female director. In addition to gender equality and diversity, the management ability, leadership and decision-making of Board members is also considered when selecting Board members, so as to implement the policy of Board member diversity.						
			Name of director	Gender	Business management		Leadership and decision-making	Knowledge of the industry	Finance/Accounting
			Liao, Lu-Lee	Male	V		V	V	
			Wei, Wen-Chieh	Male	V		V	V	
			Lin, Shih-Chieh	Male	V		V	V	
			Lin, Shu-Chun	Female	V		V	V	V
			Huang, Chao-Li	Male	V		V	V	V
			Duh, Edward Shaw-Yau	Male	V		V		V
			Huang, Lin-Ming	Male					V
			13. We take information disclosure very seriously and disclose information, both regularly and irregularly, on the MOPS or Company website. Material information (revenue) is announced in both Chinese and English, so that investors can gain immediate access to important information on the Company's business condition.						
14. We established an information security framework to manage information									

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description	
			security risks: (1) Information security risk structure: a. We have installed firewall equipment and specified the port of servers providing external services. All other ports are blocked to strengthen the security of servers providing external services. b. We have installed an IPS and all incoming network packets must be filtered and verified by the IPS before entering the intranet, ensuring the security of internal servers. c. Each quarter, we commission an information security company to analyze IPS events and propose solutions for abnormal events. d. Every six months, we commission an information security company to Conduct vulnerability scans of servers that provide external services (such as: Company website, etc.), and immediately patch any vulnerabilities in the servers. e. In the future, we will continue to strengthen our information security, establish a joint security mechanism, and cultivate excellent information security talent. (2). Information security policy: a. All employees comply with the Company's Information Security Management Regulations, which is periodically reviewed and revised to comply with current information security regulations. b. The anti-virus software on employees' computers is updated on a daily basis, and the operating system is patched on a monthly basis to ensure the security of Company servers. (3). Specific management plans: Every year, we actively evaluate and purchase information security insurance, so that an information security company will be immediately available when a major information security event occurs to reduce our losses.	

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description	
IX. Please describe improvements made based on corporate governance evaluation results announced by the TWSE Corporate Governance Center in the most recent year, and specify matters that are prioritized for improvement and measures. (Not required for companies not included in the evaluation)	Yes		1. Evaluation and self-evaluation results: (1) We received ratings of A and above in the Public Listed Company Information Disclosure Evaluation between 2005 and 2014, and ranked in the top 35% of companies in the Corporate Governance Evaluation System between 2015 and 2018. (2) Every year we conduct a self-evaluation to determine the cause of our corporate governance not reaching standards. 2. Main deficiencies: We make improvements on deficiencies in various aspects of implementation each period. 3. Improvement status: We established the Corporate Governance Best Practice Principles, Ethical Corporate Management Best Practice Principles, and Corporate Social Responsibility Best Practice Principles, and make improvements on any deficiencies. We currently have not found any major deficiencies that require improvement.	Complies with the Corporate Governance Best-Practice Principles. No discrepancy.

Note 1: Provide a brief description regardless of whether "Yes" or "No" was selected.

Note 2: The corporate governance self-evaluation report is a report on the Company's corporate governance self-evaluation items that were evaluated by the Company.

Note 3: Checklist for assessing the independence of the CPA and Joint CPA Firm.

Item	Independence
1	Do the services provided by the CPA, members of the Joint CPA Firm, and members of other alliances comply with independence requirements?
2	Is the Company paying any audit fees, referral fees, or commission to the CPA or the Joint CPA Firm?
3	Is the CPA a director or independent director at the Company or an affiliated enterprise?
4	Is the CPA a shareholder of the Company or an affiliated enterprise?
5	Is the CPA receiving any wages from the Company or an affiliated enterprise?
6	Has the CPA provided auditing services to the Company for five consecutive years?
7	Did the CPA verify that the Joint CPA Firm complies with independence regulations?
8	Did partners of the Joint CPA Firm or members of the audit team (within one year after being relieved of the position) hold the position of director, manager, or other position at the Company that has significant influence on audits?
9	Does the CPA's Joint CPA Firm have a business relationship with the Company?
10	Does the CPA's Joint CPA Firm have any ongoing or potential lawsuits with the Company?
11	Does the Company have any unpaid audit fees from the previous year?

Note 4: Continuing education of directors and supervisors is shown in the table below:

Start and end of the current term of directors and supervisors: 2016/06/29-2019/06/28

Title	Name	Date of appointment	Date of first appointment	Date of continuing education		Organizer	Course name	Hours	Does continuing education comply with regulations (Note 1)	Remarks
				Start	End					
Director	Liao, Lu-Lee	2016/06/29	2000/09/11	2016/04/28	2016/04/28	Taiwan Institute of Directors	Platform Revolution Challenges of a New Economy and Response Measures	3.0	Yes	
				2016/09/06	2016/09/06	Taiwan Institute of Directors	International Competition and Decisions of the Board of Directors	6.0	Yes	
				2017/02/22	2017/02/22	Taiwan Institute of Directors	2017 Global Economic Trends and the Impact of Black Swans	3.0	Yes	
				2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
				2017/07/26	2017/07/26	Taiwan Institute of Directors	2017 Annual Meeting of Taiwan Institute of Directors Major Decisions Made by the Board of Directors Over the Past Decade and Outlooks	3.0	Yes	
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
				2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
Director	Wei, Wen-Chieh	2016/06/29	2000/09/11	2016/02/26	2016/02/26	Taiwan Corporate Governance Association	Strategy and Execution	3.0	Yes	
				2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
				2017/04/28	2017/04/28	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Family Business Successors	3.0	Yes	
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
				2018/09/06	2018/09/06	Business Council for Sustainable Development of Taiwan	Connection between Corporate Social Responsibility and Trade - Sustainable Supply Chain Management	3.0	Yes	
				2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
Director	Lai, Wen-Chen	2013/06/11	2000/09/11	2016/02/26	2016/02/26	Taiwan Corporate Governance Association	Strategy and Execution	3.0	Yes	
				2016/04/22	2016/04/22	Securities and Futures Institute	2016 Corporate Governance Forums - Insider Trading and Corporate Social Responsibility	3.0	Yes	
Supervisor	Liao, Ben-Lin	2016/06/29	2000/09/11	2016/02/26	2016/02/26	Taiwan Corporate Governance Association	Strategy and Execution	3.0	Yes	
				2016/07/01	2016/07/01	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
				2016/12/23	2016/12/23	Taiwan Corporate Governance Association	Corporate governance, Securities and Exchange Act, protection of trade secrets, and non-compete	3.0	Yes	
				2017/09/27	2017/09/27	Taiwan Academy of Banking and Finance	Corporate Governance Lectures (3 sessions)	3.0	Yes	
				2017/09/29	2017/09/29	Taiwan Institute of Directors	Major Board Strategy Five - Merger and Acquisition Strategies for Corporate Growth and Practices Sharing	3.0	Yes	
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/01/10	2018/01/10	Securities and Futures Institute	Regulatory compliance of insiders when trading stock of public and non-public listed companies	3.0	Yes	
				2018/01/24	2018/01/24	National Innovation and Entrepreneurship Association	Corporate Merger and Acquisition Practices Course	7.5	Yes	
Director	Lin, Shih-Chieh	2016/06/29	2007/06/13	2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
				2017/09/15	2017/09/15	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Corporate Sustainability	3.0	Yes	

Title	Name	Date of appointment	Date of first appointment	Date of continuing education		Organizer	Course name	Hours	Does continuing education comply with regulations (Note 1)	Remarks
				Start	End					
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
				2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
Director	Lin, Shu-Chun	2016/06/29	2007/06/13	2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
				2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
Director	Huang, Chao-Li	2016/06/29	2016/06/29	2016/01/22	2016/01/22	Taiwan Development & Research Academia of Economic & Technology	Director and Supervisor Corporate Governance and Securities and Exchange Act Practices	3.0	Yes	
				2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
Director	Huang, Chao-Li	2016/06/29	2016/06/29	2017/04/28	2017/04/28	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Family Business Successors	3.0	Yes	
				2017/10/13	2017/10/13	Taiwan Stock Exchange Corporation	2017 Mr. Hsu Yuen-Tung Memorial Financial and Economic Forum	6.0	Yes	
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
				2018/09/19	2018/09/19	Taiwan Corporate Governance Association	[Summit] 14th International Forum on Corporate Governance	6.0	Yes	
				2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
Supervisor	Cho, Sheng-Chung	2016/06/29	2000/09/11	2016/09/01	2016/09/01	Securities and Futures Institute	Ethical Corporate Management and Corporate Social Responsibility Forum	3.0	Yes	
				2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
				2017/09/14	2017/09/14	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Corporate Sustainability	3.0	Yes	
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
				2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
Supervisor	Hung, Yun-Chung	2016/06/29	2000/09/11	2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
				2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
Representative of Institutional Supervisor	Liao, Keng-Pin	2016/06/29	2016/01/22	2016/04/22	2016/04/22	Securities and Futures Institute	2016 Corporate Governance Forums - Insider Trading and Corporate Social Responsibility	3.0	Yes	
				2016/05/21	2016/05/21	Taiwan Academy of Banking and Finance	Financial Management Experience Sharing Course Session 6	3.0	Yes	
				2016/05/21	2016/05/21	Taiwan Academy of Banking and Finance	Financial Management Experience Sharing Course Session 5	3.0	Yes	
				2016/09/02	2016/09/02	Securities and Futures Institute	Ethical Corporate Management and Corporate Social Responsibility Forum	3.0	Yes	
				2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance	3.0	Yes	

Title	Name	Date of appointment	Date of first appointment	Date of continuing education		Organizer	Course name	Hours	Does continuing education comply with regulations (Note 1)	Remarks
				Start	End					
				2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
Independent Director	Huang, Lin-Ming	2016/06/29	2007/08/21	2016/07/14	2016/07/14	Taiwan Corporate Governance Association	Legal Responsibility of Independent Directors	3.0	Yes	
				2016/07/29	2016/07/29	Taiwan Corporate Governance Association	Practices of Independent Directors and Functional Committees	3.0	Yes	
				2016/08/05	2016/08/05	Taiwan Corporate Governance Association	Risk Management, Internal Control, and Information Management Practices	3.0	Yes	
				2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
				2018/10/04	2018/10/04	Business Council for Sustainable Development of Taiwan	Connection between Corporate Social Responsibility and Trade - Sustainable Supply Chain Management	3.0	Yes	
				2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
Independent Director	Duh, Edward Shaw-Yau	2016/06/29	1995/01/18	2016/10/20	2016/10/20	Financial Supervisory Commission	The 11th Taipei Corporate Governance Forum	6.0	Yes	
				2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
				2017/09/15	2017/09/15	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Corporate Sustainability	3.0	Yes	
				2017/09/29	2017/09/29	Taiwan Institute of Directors	Major Board Decisions Five - Merger and Acquisition Strategies for Corporate Growth and Practices Sharing	3.0	Yes	
				2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
				2018/09/27	2018/09/27	Taiwan Academy of Banking and Finance	Corporate Governance and Corporate Sustainability Workshop	3.0	Yes	
				2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	

Note 1: Refers to whether it complies with the number of hours, scope of continuing education, continuing education system, arrangement of continuing education, and disclosures specified in the Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies.

Note 5: Continuing education of managerial officers

Title	Name	Date of continuing education		Organizer	Course name	Hours	Does continuing education comply with regulations (Note 1)	Remarks
		Start	End					
Chairman	Liao, Lu-Lee	2016/04/28	2016/04/28	Taiwan Institute of Directors	Platform Revolution Challenges of a New Economy and Response Measures	3.0	Yes	
		2016/09/06	2016/09/06	Taiwan Institute of Directors	International Competition and Decisions of the Board of Directors	3.0	Yes	
		2017/02/22	2017/02/22	Taiwan Institute of Directors	2017 Global Economic Trends and the Impact of Black Swans	3.0	Yes	
		2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
		2017/07/26	2017/07/26	Taiwan Institute of Directors	2017 Annual Meeting of Taiwan Institute of Directors Major Decisions Made by the Board of Directors Over the Past Decade and Outlooks	3.0	Yes	
		2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
		2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
		2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
Vice Chairperson	Wei, Wen-Chieh	2016/02/26	2016/02/26	Taiwan Corporate Governance Association	Strategy and Execution	3.0	Yes	
		2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
		2017/04/28	2017/04/28	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Family Business Successors	3.0	Yes	
		2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
		2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
		2018/09/06	2018/09/06	Business Council for Sustainable Development of Taiwan	Connection between Corporate Social Responsibility and Trade - Sustainable Supply Chain Management	3.0	Yes	
		2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration and Tools	3.0	Yes	
VP of Supply Chain Management	Lin, Shu-Chun	2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	
		2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
		2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
		2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	
President	Huang, Chao-Li	2016/01/22	2016/01/22	Taiwan Development & Research Academia of Economic & Technology	Director and Supervisor Corporate Governance and Securities and Exchange Act Practices	3.0	Yes	
		2017/04/27	2017/04/27	Taiwan Corporate Governance Association	The Impact of Five Global Trends on Taiwan and Companies	3.0	Yes	

Title	Name	Date of continuing education		Organizer	Course name	Hours	Does continuing education comply with regulations (Note 1)	Remarks
		Start	End					
		2017/04/28	2017/04/28	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Family Business Successors	3.0	Yes	
		2017/10/13	2017/10/13	Taiwan Stock Exchange Corporation	2017 Mr. Hsu Yuen-Tung Memorial Financial and Economic Forum	6.0	Yes	
		2017/10/26	2017/10/26	Taiwan Corporate Governance Association	Corporate Merger and Acquisition Practices and Case Analysis	3.0	Yes	
		2018/04/26	2018/04/26	Taiwan Corporate Governance Association	Strategies and Key Performance Indicators	3.0	Yes	
		2018/09/19	2018/09/19	Taiwan Corporate Governance Association	[Summit] 14th International Forum on Corporate Governance	6.0	Yes	
		2018/10/25	2018/10/25	Taiwan Corporate Governance Association	Application of Employee Remuneration Strategies and Tools	3.0	Yes	

(IV) If the Company established an Remuneration Committee, disclose its composition, duties, and operations:

To strengthen corporate governance and the Company's remuneration system for directors, supervisors, and managers, we established a Remuneration Committee in accordance with Article 14-6 of the Securities and Exchange Act and the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter, and also established a Remuneration Committee Charter.

The Committee performs the following duties in accordance with the law and loyalty, and submits proposals to the Board of Directors for discussion:

- A. To establish and conduct regular review of the policies, systems, standards, and structures for performance appraisal and remuneration of the Company's directors, supervisors and managers.
- B. Periodically evaluate and establish the remuneration of directors, supervisors, and managers.
- C. Other cases submitted to the Board of Directors for resolution.

1. Information on members of the Remuneration Committee:

Identity (Note 1)	Criteria	Has at least five years work experience and the following professional qualifications			Compliance with independence (Note 2)								Concurrently serves as a member of the Remuneration Committee of other public listed companies Number of companies	Remarks (Note 3)
	Name	Lecturer or above at the department of business administration, law, finance, accounting, or a field required by the Company's business at a public or private college	Judge, prosecutor, lawyer, accountant, or other profession or technician that needs to pass a national examination and obtain a certificate necessary for the Company's business	Has work experience in business administration, law, finance, accounting, or a field required by the Company's business	1	2	3	4	5	6	7	8		
Others	Wu, Hui-Huang			✓	✓	✓	✓	✓	✓	✓	✓	✓	2	-
Independent Director	Duh, Edward Shaw-Yau			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-
Independent Director	Huang, Lin-Ming			✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-

Note 1: Please fill in director, independent director, or other in identity.

Note 2: If members meet the following criteria in the two years before being appointed or during their term, please check "v" in the blank below.

- (1) Not an employee of the Company or its affiliated enterprise.
- (2) Not a director or supervisor of the Company or its affiliated enterprise. This does not apply to an independent director of the Company, its parent company, or a subsidiary that the Company directly and indirectly holds over 50% voting rights.
- (3) Not a natural person shareholder who owns 1% or more of the Company's shares or is a top ten shareholder of the Company, and not the shareholder's spouse, minor children, or others whose name is used to hold the shares.
- (4) Not the spouse, kinship within the second degree, or direct blood relative with the third degree of persons listed in the preceding three subparagraphs.
- (5) Not the director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of the Company's outstanding shares, or the director, supervisor, or employee of the Company's top five institutional shareholders.
- (6) Not the director, supervisor, manager, or shareholder with 5% or more shares of specific companies or institutions with financial or business dealings with the Company.
- (7) Not a professional, the owner of a sole proprietorship, a partner in the partnership, or the director, supervisor, or manager of a company that provides commerce, legal, financial, or accounting services to the Company or an affiliated enterprise, or their spouse.
- (8) There have been no conditions specified in subparagraphs of Article 30 of the Company Act.

Note 3: If the member's identity is a director, please describe whether if the member complies with Paragraph 5, Article 6 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

2. Information on operations of the Remuneration Committee:

- (1) The Remuneration Committee was established on December 28, 2011 with three members.
- (2) Term of current committee members: From June 29, 2016 to June 28, 2019. The Remuneration Committee convened 6 meetings (A) in the most recent year, qualifications and attendance of committee members are as follows:

The current Remuneration Committee convened 6 meetings (A) in the most recent year, qualifications and attendance of committee members are as follows:

Title	Name	Actual attendance (B)	Attendance by proxy Number of times	Actual attendance rate (%) (B/A)(Note)	Remarks
3Rd-term Committee Member	Wu, Hui-Huang	6	0	100%	
3Rd-term Committee Member	Huang, Lin-Ming	6	0	100%	
3rd-term Convener	Duh, Edward Shaw-Yau	6	0	100%	
Other important matters to be recorded: 一、 If the Board of Directors does not accept or revises the Remuneration Committee's recommendation, specify the date of the Board meeting, session, contents of the agenda item, resolution of the Board of Directors, and the Company's response to the Remuneration Committee's opinions (if the remuneration passed by the Board of Directors is higher than the recommendation of the Remuneration Committee, specify the discrepancy and reason): None. 二、 If there are records or a written statement of dissenting or qualified opinions of Remuneration Committee members, specify the date of the meeting, session, agenda item, opinions of all members, and how the opinions were handled: None.					

Note:(1) If a Remuneration Committee member is separated before the end of the year, specify the date of separation in the remarks, and calculate actual attendance rate (%) based on the number of meetings convened during the Remuneration Committee's term and actual attendance.

(2) If the Remuneration Committee is reelected before the end of the year, list new and old Remuneration Committee members, and specify if the member is old, new, or reelected and the reelection date in the remarks. Actual attendance rate (%) is calculated based on the number of Remuneration Committee meetings convened during the member's term and actual attendance.

(V) Fulfillment of Corporate Social Responsibility

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description(Note 2)	
Implementation of corporate governance				
(I) Did the Company establish a CSR policy or system and does it review implementation results?	Yes		(一) We established Corporate Social Responsibility Best Practice Principles after referencing the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies, and announced the principles on the Company website. The spirit of CSR has been incorporated in overall business activities, and implementation results are reviewed when necessary for continuous improvement.	Complies with the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. No discrepancy.
(II) Does the Company regularly organize CSR training?	Yes		(二) We regularly organize CSR related seminars on ethical corporate management, charity and welfare, and promoting physical and mental health of employees. New employees received CSR training, and we organized volunteer training for volunteers to participate in science education and charity activities, building a consensus among employees regarding CSR.	
(III) Did the Company establish a CSR unit, and did the Board of Directors authorize senior executives to handle CSR and report implementation to the Board of Directors?	Yes		(三) The CSR Committee was made subordinate to the president. The Public Relations Section is responsible for the overall CSR policy, system, and related management guidelines, and proposes and implements action plans. Committee members include the Administration Center, Financial Management Division, Human Resources Division, Supply Chain Management Division, and business departments for each product, and implement different projects for corporate governance, employee care, environmental sustainability, and charity and welfare. Committee members maintain communication and interaction with stakeholders, and periodically report to the Board of Directors. Annual implementation plans and results are submitted to the Board of Directors each year.	
(IV) Did the Company establish a reasonable remuneration policy, integrate the employee performance evaluation system with the CSR policy, and establish a clear and effective reward and penalty system?	Yes		(四) We established a well-rounded remuneration and benefits system, and provide employees with reasonable treatment and rewards. The reward and penalty system is specified in the Company's current management regulations. See pages 69-73 of the annual report.	

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description(Note 2)	
(I) Developing a Sustainable Environment Does the Company strive to increase the utilization efficiency of resources and use recycled materials with low impact on environmental load?	Yes		甲、 We are actively implementing the 3R policy (Reduce, Reuse, Recycle) to improve resource utilization. We have implemented suitable environmental management to reduce operating cost and slow global warming. We are recycling and reusing paper and wastewater, installed LED lights in factories, and installed a time in air conditioning equipment, so that it shuts off when no one is using it or the temperature is lower than 26℃ .	Complies with the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. No discrepancy.
(II) Did the Company establish a suitable environmental management system based on industry characteristics?	Yes		乙、 To achieve corporate sustainability and fulfill our commitment to energy conservation, Merry requires green concepts to be applied in initial design, procurement, and manufacturing, which is necessary to comply with international regulations and customer requirements. This also reduces the environmental impact of products. The green product platform management system is used to reduce the environmental load created by production, circulation, use, and disposal. We use XRF for incoming inspection to fully monitor product materials, in hopes of slowing oil consumption. We boldly use large amounts of recyclable and recycled plastics in our products, and our packaging materials are 100% recyclable to contribute to protecting Earth's environment.	
(三) Does the Company monitor the impact of climate change on business activities, and did it compile a GHG inventory and establish strategies for energy conservation, carbon reduction, and GHG reduction?	Yes		丙、 The greenhouse effect changed Earth's landscape and ecology, and climate anomalies have increased the frequency of typhoons, floods, and droughts, which will increase our operating risks, such as: security investments, insurance, and accommodation evaluation costs. The Company compiles a report on its GHG inventory each year. The process and results of compiling the report allow us to accurately determine our GHG emissions. We hope to dedicate future efforts to reducing GHG emissions and slow global warming, fulfilling our responsibility as a member of the global village. Both companies and Earth can achieve sustainability. Strategy for responding to climate change or managing GHG: 1.R&D or integrate water conservation technology to lower the demand on water resources. 2.Strive to reduce GHG, label carbon footprint, and develop carbon neutralization and reduction technologies.	

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description(Note 2)	
III. Upholding public interests (I) Did the Company establish related management policies and procedures in accordance with related laws and regulations and the International Bill of Human Rights?	Yes		(一) We established the following human rights policy in accordance with labor laws and regulations and the International Bill of Human Rights: 甲、 Equal employment opportunities (1) The Company provides equal employment opportunities at all of its workplaces. (2) The Company strives to provide all people with equal employment opportunities, regardless of: race; skin color; religion; gender; age; marital status; sexual orientation; nationality; citizenship; disability; retired veteran; any other group protected by R.O.C. or local laws. (3) The policy above is applicable to all terms and conditions of employment, including but not limited to hiring, placement, promotion, termination, lay off, recall, transfer, leave, remuneration, and training. Merry Electronics Co., Ltd. and its subsidiaries and all business locations comply with the code of conduct to prohibit discrimination. 乙、 Discrimination and harassment (1) Discrimination and harassment is not tolerated in the workplace. (2) We ensure that all employees work in a safe, equal, fair, dignified, and highly respected environment. We do not tolerate any discrimination or harassment. Discrimination and harassment is usually in the form of offensive speech or physical actions against individuals, and hurt or is offensive to the individual. This includes but is not limited to direct requests for sex, insults, offensive jokes, slander, and creating an unfriendly work environment. (3) We try to maintain confidentiality and immediately conduct thorough investigations into discrimination and harassment incidents. If an act of discrimination or harassment is verified, we will immediately take appropriate action. Furthermore, we prohibit any one from retaliating or punishing employees who file complaints. 丙、 Safe working conditions. (1) We are committed to ensuring the health and safety of all employees (2) We ensure that all employees work in a safe and healthy environment. It is necessary to strictly abide by applicable professional, health, and safety laws and the wording and spirit of public policy that it represents. Comply with health and safety laws, regulations, and risk management	Complies with the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. No discrepancy.

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description(Note 2)	
(II) Does the Company have employee grievance mechanisms and channels, and does it properly handle grievances?	Yes		work instructions or procedures. Ensure the safety of the Company's work environment. (3) The Company does not allow any act of violence, threat of violence, act of making threats, and hostility against another individual or group, and has established related management methods. With regard to work environment safety and health, we implemented related management systems in our management activities according to EICC requirements, and obtained ISO14001, OHSAS18001, and TOSHMS certifications. (二) We established electronic and physical employee suggestion boxes in the Company. Employees can use the two type of employee suggestion boxes to report issues or provide opinions on Company policy, regulations and systems, employee benefits, and other issues. Human Resources receive the reports and determine the responsible (response) unit to open a case. The head of the responsible unit formulates a response/improvement measure/immediate improvement plan in response to opinions or issues, and then sends the response to Human Resources within seven days after receiving the case.	
(III) Does the Company provide employees with a safe and healthy work environment, and does it regularly provide employees with safety and health education?	Yes		(三) For labor safety and health related systems and management systems, besides establishing the scope of implementation in accordance with the Labor Safety and Health Act of the local government, we established a safety and health management system and EHS related management procedures in compliance with OHSAS 18001, including EHS management manual, operating procedures, and related manuals. These provide a direction for compliance with EHS plans, and we ensure the safety and health of employees in the work environment through clear regulations and requirements of the management system. All employees are required to complete safety and health related training courses in accordance with regulations. 1. The implementation status in 2018 is as follows: - Carried out and passed OHSAS 18001 and TOSHMS certifications. - We perform regular "operating environment inspection," "medical check-up," and "special medical check-up" to maintain employee health. - We regularly organize disaster prevention drills to properly take precautionary measures and the correct safety protection measures in the event of an emergency.	

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description(Note 2)	
			2. Factories have full-time occupational health personnel, physicians visit factories each month to provide on-site services and provide employees with the convenience of health consultation and referral, examining environmental safety and providing improvement recommendations. 3. We regularly organize health promotion activities and blood donations and care for employees' physical and mental health. 4. We have sufficient first aid kits to ensure personnel receive first aid when there is an accident. 5. We regularly mail health information and information on epidemics, and announce it on the employee website for employees to irregularly access the information.	
(IV) Does the Company have mechanisms for regular communication with employees, and does it notify employees in a reasonable way of changes in operations that may have a material impact on them?	Yes		(四) We established the Employee Suggestion Box Management Regulations, and organize new employee forums each quarter for two-way communication and opinion exchange with the chairperson, helping employees more quickly identify with Merry Electronics and our culture. We hope to let them quickly assimilate into our corporate culture, guide their learning and growth, let employees like the Company and build a career here. We also understand employees' opinions and recommendations to jointly seek a better future for the Company.	
(V) Does the Company have an effective career development and ability training program for employees?	Yes		(五) The Company has a Human Resource Development Section in the Human Resources Division, which is a dedicated unit with dedicated personnel to plan the development of employees' abilities over their career. The head of each unit meets with employees face to face each year to discuss their career plans and development.	
(VI) Did the Company establish consumer rights protection policies and grievance procedures for R&D, procurement, production, operations, and services?	Yes		(六) We have personnel in specialized departments to handle the process to ensure compliance with relevant laws and regulations, and compliant procedures for stakeholders were announced on the Company website.	
(VII) Does the Company comply with related laws and regulations and	Yes		(七) The Company strictly controls product design and manufacturing, and has a dedicated department to ensure compliance with international standards and the	

Evaluation item	Implementation status(Note 1)			Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description(Note 2)	
international standards in the marketing and labeling of products and services? (VIII) Does the Company evaluate whether if suppliers have any previous records of impacting the environment and society before doing business with a new supplier? (IX) Does the Company's contract with main suppliers include a clause that allows the Company to terminate or cancel the contract at any time if the supplier vendor is found to be in violation of its CSR policy?	Yes		local laws and regulations of customers in different regions. (八) We require suppliers to sign a commitment to integrity to ensure the raw materials and products they provide comply with environmental regulations, and that they comply with professional ethics. (九) Raw materials suppliers must have documents to prove that the raw materials meet customers and regulatory requirements, and must accept auditing by customers. We periodically audit suppliers and require suppliers to audit and require their suppliers to comply with CSR.	
IV. Enhances information disclosure (I) Does the Company disclose material and reliable information on CSR on its website and the MOPS?	Yes		(I) The information can be accessed on the Company website, annual report, and MOPS. We were evaluated by the Securities and Futures Institute as being in the top 35% of companies in terms of information transparency over the years. Please refer to the Company website for related information http://www.merry.com.tw/CSR/Overview	Complies with the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. No discrepancy.
V. If the Company established Corporate Social Responsibility Best Practice Principles in accordance with the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies, describe its operations and discrepancies: There are no significant differences, please refer to pages 38-40 of the annual report for implementation status.				
VI. Other material information to help understand the Company's corporate social responsibility implementation status: Please refer to page 70 (to be updated) of the annual report for the Company's spirit of CSR. Several important activities of the Company to fulfill its CSR are briefly described below: 1.Cultivation of electroacoustics talent: As the leading electroacoustics company in Taiwan, Merry has shouldered the responsibility of enhancing Taiwan's competitiveness in the global electroacoustics industry. In light of the lack of electroacoustics education resources in Taiwan, which has made it difficult to cultivate talent, Merry began investing resources in 2016, sparing no effort in talent cultivation for the industry's sustainability. (1)Industry-academia collaboration mechanism: Collaboration with domestic universities include establishing an electroacoustics masters program at Feng Chia University and electroacoustics laboratories in Feng Chia University and Da-Yeh University				

Evaluation item	Implementation status(Note 1)		Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	
(2)Rewards for outstanding talent: We provide technology talent cultivation allowances and organized the Electroacoustics Paper Award to encourage outstanding students to enter the field of electroacoustics. See pages 70-71 (to be updated) of the annual report for details. (3)Merry electroacoustics technology forum: To let more people understand the electroacoustics industry and future trends, we held the electroacoustics technology forum for the third consecutive year. This year's theme was the gaming industry and attracted over a hundred students and members of the industry to participate. Lecturers came from companies in all parts of the gaming industrial chain, including Twitch, Blizzard Entertainment, and professional MS teams, discussing gaming trends and the industry's demand in interdisciplinary talent with Merry's Manager Wu Meng-Fan. The event outlined the industrial chain and career opportunities, providing a direction for students who want to enter the gaming industry. 2.Promoting the culture of reading: We are long-term sponsors of Taiwan Reading and Culture Foundation, and promote in-depth reading in groups through the "Library of Love", getting children into the habit of reading to broaden their horizons. We organize dozens of teacher workshops each year to guide junior high school and elementary school teachers to learn from the best formats for book clubs, training them into reading mentors to promote the culture of reading. 3.Promotion of popular science education: (1)We began organizing engineer week science education activities with IBM in 2014, and led corporate volunteers in to campuses to engage in DIY creative science contest with high school students. Besides organizing activities at Taichung Municipal Taichung First Senior High School and Taichung Municipal Wen-Hua Senior High School, this year we organized a cross-school contest for the first time. We invited 14 winning teams from senior high (vocational) schools from northern, central, and southern Taiwan to compete in a cross-school contest at Taichung Municipal Taichung First Senior High School. (2)We extended activities of engineer week and shared creative science teaching plans with teachers of Taichung Municipal Wen-Hua Senior High School. The teachers led high school freshmen and taught them physics knowledge after the contest to gain greater learning effects. Each year over 600 students benefit. 4.Local care: (1)Taiwan's March of Blessing: We sponsored the production of "Taiwan's March of Blessing" by a classical music station, and interviewed extraordinary people around Taiwan to transfer positive energy. We have published 1 to 2 audio books to spread touching stories with text and audio, inspiring more good in society. (2)We organize 2 blood donation events every year and encouraged employees to donate blood. 5.Participation in charity and welfare: (1)Corporate volunteer system: We provide employees with 2 days of paid volunteer leave each year, encouraging them to actively participation in charity and welfare. We help match them with organizations that need volunteers to provide employees with service opportunities. (2)Promotion of volunteer activities: Head Office in Taiwan: We collaborated with Hondao Senior Citizen's Welfare Foundation in recruiting volunteers for a croquet contest for the elderly, and accompanying the elderly in New Year's shopping. Shenzhen volunteer team: The volunteer team coordinates with local governments in providing community services, such as directing traffic, cleaning the environment, and planting trees. Volunteers also help clean nursing homes and care for the elderly. (3)The volunteer team actively participates in community activities and assist the operations of community development associations. 6.Supporting art and culture activities: We sponsored multiple arts and culture performances and charity concerts to make society better and more beautiful.			

Evaluation item	Implementation status(Note 1)		Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	
VII. Specify if the Company's CSR Report met the certification standard of certification agencies: We completed our 2017 CSR Report, please refer to http://www.merry.com.tw/page/about/index.aspx?kind=50# . Our 2018 report is currently being prepared. The performance in the report is based on 2017 (from January 1, 2017 to December 31, 2017) figures and data and prepared according to the Global Reporting Initiative (GRI) 4.0 version Core Options. The report discloses the implementation results, response strategies, goals, and plans of Merry Electronics Co., Ltd. For key issues.			

Note 1: Provide a brief description regardless of whether "Yes" or "No" was selected.

Note 2: If the Company has prepared a CSR report, summaries may be replaced by how to find the information and the page number on the CSR report.

(VI)The Company's implementation of ethical corporate management and measures adopted:

Evaluation item	Implementation status			Deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description	
I. Established the ethical corporate management policy and plans (I) Does the Company specify its ethical corporate management policy and practices in regulations and public documents, and does the Board of Directors and management actively comply with the ethical corporate management policy? (II) Does the Company formulate and implement plans to prevent unethical behavior, and specify operating procedures, code of conduct, penalties for violations, and grievance mechanisms in the plans? (III) Does the Company take precautionary measures for business activities with relatively high risk of unethical conduct specified in subparagraphs of Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles and other activities within its scope of business?	Yes Yes Yes		(I) We have established Ethical Corporate Management Best Practice Principles, and incorporated the ethical corporate management policy into regulations and systems during the first phase to implement the ethical corporate management concepts of sincerity, integrity, diligence, thrift, and endurance. (II) On this basis, we established the Merry Business Practice and Professional Ethics Code based on the Ethical Corporate Management Best Practice Principles, providing a guideline for the conduct of employees, directors, and supervisors. We also established Ethical Corporate Management Operating Procedures, which specifies the operating procedures of plans to prevent unethical conduct, penalties for violations, and grievance mechanisms, and carry out the procedures accordingly. (III) We periodically promote the corporate culture of ethical corporate management to employees. According to the Merry Business Practice and Professional Ethics Code, when there is concern about a conflict of interests between employees and external personnel in business activities, the conflict is reported. We also require external vendors to sign a commitment to CSR to prevent the risk of unethical conduct. Furthermore, taking into consideration characteristics of the ODM industry and Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles, we established and implemented the Intellectual Property Rights Management Regulations to prevent unethical conduct with relatively high risk of infringing on trade secrets, trademark rights, patent rights, copyright, and other intellectual property rights.	Complies with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies. No discrepancy.
II. Implementation of ethical corporate management (I) Does the Company evaluate the ethical conduct record of counterparts, and does it include an ethical conduct clause in contracts signed with the counterpart?	Yes		(I) We require suppliers to sign a commitment to integrity, which states that the raw materials and products they provide comply with environmental regulations. We also require suppliers to comply with the EICC and fulfill their	Complies with the Ethical

Evaluation item	Implementation status			Deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description	
(II) Does the Company have a ethical corporate management unit under the Board of Directors, and does it periodically report its implementation status to the Board of Directors? (III) Did the Company establish and implement the policy to prevent conflict of interest and provide suitable communication channels? (IV) Did the Company implement ethical corporate management and establish an effective accounting system and internal control system, and is it periodically audited by an internal audit unit or accountant? (V) Does the Company regularly organize internal and external ethical corporate management training?	Yes		CSR, such as anti-corruption, anti-bribery, and prohibition of child labor. We periodically audit suppliers and require suppliers to audit and require their suppliers to comply with ethical corporate management. (II) The Administration Center is responsible for carrying out ethical corporate management work, and audit units supervise and report implementation results to the Board of Directors. (III) We set forth the policy to prevent conflict of interest in the Merry Business Practice and Professional Ethics Code, and provide suitable communication channels. (IV) Our accounting system was established and implemented in accordance with the Company Act, Securities and Exchange Act, Business Entity Accounting Act, and Regulations Governing the Preparation of Financial Reports by Securities Issuers. Our internal control system was established and implemented in accordance with the Regulations Governing the Establishment of Internal Control Systems by Public Companies. Our internal audit unit periodically audits the accounting system and internal control system and reports to the Board of Directors. (V) The Merry Business Practice and Professional Ethics Code, EICC, and ethical corporate management policies and plans are introduced during new employee orientation, so that employees will fully understand our determination and policy to implement ethical corporate management and prevent unethical conduct.	Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies. No discrepancy.
III. Implementation status of the Company's whistleblower system (I) Does the Company have a whistleblower and incentives system, does it have convenient whistleblowing channels, and does it assign suitable personnel to handle persons who are reported? (II) Does the Company have standard operating procedures for investigating whistleblowing cases and related confidentiality mechanisms?	Yes		(一) We set up the e-mail rlttrpts@merry.com.tw and whistleblower hotline according to the Ethical Corporate Management Operating Procedures, and assigned the Chairperson's Office to handle reports from stakeholders regarding unethical or illegal conduct. (二) Our Ethical Corporate Management Operating Procedures specifies investigation procedures for whistleblower cases and related confidentiality mechanisms.	Complies with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies. No discrepancy.

Evaluation item	Implementation status			Deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Brief description	
(III) Does the Company take any measures to protect whistleblowers from being improperly treated?	Yes		(三) Our Ethical Corporate Management Operating Procedures specifies that personnel responsible for handling whistleblower cases must produce a written statement of maintaining the whistleblower's identity and contents of the report confidential. We are also committed to protecting whistleblowers from being mistreated.	
IV. Enhances information disclosure (I) Does the Company disclose the contents and implementation results of its Ethical Corporate Management Best Practice Principles on its website and MOPS?	Yes		(一) We have disclosed our Ethical Corporate Management Best Practice Principles and related regulations on our website to achieve information transparency for corporate governance. We periodically promote the information and maintain smooth whistleblower channels. However, we have not yet received any reports on violation of ethical corporate management.	Complies with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies. No discrepancy.
V. If the Company established Ethical Corporate Management Best Practice Principles in accordance with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, describe its operations and discrepancies: Our Ethical Corporate Management Best Practice Principles and Ethical Corporate Management Operating Procedures were established in accordance with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies. There are no discrepancies with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.				
VI. Other material information to help understand the Company's ethical corporate management implementation status:(such as review and revision of the Ethical Corporate Management Best Practice Principles) (I) Merry and Shareholders Merry has always attached great importance to shareholders equity. Merry continues to develop its core business in electroacoustics to maintain its competitiveness, and has always maintained a sound financial constitution. Thanks to the collective efforts of our employees, we have maintained steadily good business performance, despite the impact from the financial crisis and pressure from rapidly rising raw material prices, significant fluctuations in the international exchange market, and rising interest rates. Our goal is to build a high yield company and comply with the announcements of the Taiwan Stock Exchange. Merry's website has an investor section that provides business information, financial reports, corporate governance information, information on stock prices and dividends, and investor conferences for investors to reference. We strive to provide complete, immediate, accurate, and transparent information to protect shareholders equity and create company value. (II) Merry and Customers (1) We provide products, quality, and services that meet customers' needs through source management. (2) We invest in R&D every year to encourage innovation, and also consider the connection with customers' products to create new business opportunities. (3) Being customer-oriented has enabled to gain the trust of our customers and build long-term relationships. (4) Hazardous substances are prohibited in our product design and manufacturing process, and our products must meet national requirements on hazardous substance restrictions.				

Evaluation item	Implementation status			Deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Brief description	
(5) Raw materials suppliers must have documents to prove that the raw materials meet customers and regulatory requirements, and must accept auditing by customers. (III) Merry and Suppliers (1) Our goal is to work together with suppliers in business. (2) Suppliers sign a commitment to integrity to ensure the raw materials and products they provide comply with environmental regulations, and that they comply with professional ethics, such as anti-corruption, anti-bribery, and prohibition of child labor. (3) We periodically audit suppliers and require suppliers to audit and require their suppliers to comply with CSR. (4) Chemicals and hazardous substances are processed by a licensed supplier in accordance with the law, and we periodically audit the legitimacy of suppliers, requiring suppliers to provide qualification documents as proof. Please refer to the Company website for related informationhttp://www.merry.com.tw/				

(VII) If the Company established Corporate Governance Best Practice Principles and related regulations, disclose how the information can be access: Please refer to the MOPS [http://mops.twse.com.tw/mops/web/index/corporate governance](http://mops.twse.com.tw/mops/web/index/corporate_governance), or the Company website <http://www.merry.com.tw/Investor/Rules>.

(VIII) Disclose other material information that will benefit understanding of the Company's corporate governance status:

1. We established a corporate governance section on the Company website to disclose corporate governance regulations and information.
2. To establish good mechanisms for handling and disclosing internal material information, we established the Procedures for Handling Internal Material Information, promoted the procedures to directors, managers, and employees, and announced it on the Company website for access by directors, managers, employees, investors, and stakeholders.

See the Company website for details <http://www.merry.com.tw/Investor/Rules>

(IX) Status of implementation of internal control system

2. Statement of Declaration on Internal Control

3.

Merry Electronics Co., Ltd.
Internal Control System Statement

Date: February 26, 2019

This Statement of Internal Control System is issued based on the self-assessment results of the Company for 2018.

- 一、The Company is fully aware that the establishment, implementation and maintenance of its internal control system is the responsibility of the Board of Directors and managerial officers. In this regard the Company has already established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguard of asset security), reliability of reporting, and compliance with applicable laws and regulations.
- 二、There are inherent limitations to even the most well designed internal control system. As such, an effective internal control system can only reasonably ensure the achievement of the aforementioned goals. Moreover, the operating environment and situation may change and impact the effectiveness of the internal control system. However, self-supervision measures were implemented within the Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.
- 三、The Company judges 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 (hereinafter referred to as the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. Control environment, 2. Risk assessment, 3. Control operation, 4. Information and communication, and 5. Monitoring. Each element further contains several items. For more information on the abovementioned items, please refer to the Regulations.
- 四、The Company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
- 五、Based on the findings of the evaluation mentioned in the preceding paragraph, the Company believes that as of December 31, 2017 its internal control system (including its supervision and management of subsidiaries), encompassing internal controls for knowledge of the degree of achievement of operational effectiveness and efficiency objectives, reliability of reporting, and compliance with applicable laws and regulations, is effectively designed and operating, and reasonably assures the achievement of the above-stated objectives.
- 六、This Statement will become a major part of the content 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 Act.
- 七、This Statement has been passed by the Board of Directors Meeting of the Company held on February 26, 2019, where 0 of the 7 attending Directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

Merry Electronics Co., Ltd.



Chairperson: Liao, Lu-Lee



President: Huang, Chao-Li



2. Accountant engaged by the Company to examine its internal control system: None.
- (X)Penalty on the Company and its personnel or punishment imposed by the Company on personnel in violation of internal control system regulations, major deficiencies and improvement in the past year and up to the date of report: None
- (XI)Important resolutions adopted in shareholders meetings and Board of Directors' meetings and implementation status in the past year and up to the date of report:

1. Shareholder meetings: The annual general meeting was held on June 13, 2018.

Type of meeting	Date	Important resolutions	Results of resolutions	Implementation status
Annual General Meeting	2018/6/13	1. Acknowledged the 2017 business report, financial statements, and consolidated financial statements.	Agenda items 1-5: Passed as proposed by all shareholders in attendance without objection.	Implemented according to resolutions.
		2. Acknowledged the proposed distribution of 2017 earnings.		Implemented according to resolutions. Record date: 2018/08/18. Cash dividend payment date: 2018/08/31.
		3. Discussed the proposed amendment to the Articles of Incorporation.		Implemented according to resolutions.

2. Board of Directors

Type of meeting	Date	Important resolutions	Results of resolutions	Implementation status
Board of Directors	2018/02/26	1. Proposal to amend the Subsidiaries Management Regulations.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		2. Proposal to abolish the Subsidiary Operations Management Regulations.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		3. Proposal to invest in subsidiary MHCH and invest in the cash capital increase of NHFC in the amount of US\$5,700,000.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		4. Proposal for second-layer subsidiary MHFC to invest NT\$8,400,000 in the cash capital increase of MHFM.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

	5. Proposal for second-layer subsidiary MHFC and third-layer subsidiary MHFM to invest a total of RMB31,510,000 in a company in China, and to sign a joint venture agreement and equity transfer agreement.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	6. Proposal to change the director appointed by MHFC for its investment in Austar Hearing Science & Technology (Xiamen) Co., Ltd. in China	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	7. Proposal to change the director appointed by MHFM for its investment in Austar Hearing Science & Technology (Xiamen) Co., Ltd. in China	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	8. Proposal to invest no more than US\$45,800,000 to obtain 100% shares of Suzhou Meisheng Electronic Co., Ltd., Sonavox Canada Inc., and its subsidiary Seas Fabrikker.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	9. Proposal to invest in Linsation Intelligent Technology Limited.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	10. Proposal to provide loan to MECE.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	11. Proposal to appoint directors, Chief Executive Officer (CEO), treasurer, and secretary of subsidiary MECA.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	12. Proposed 2017 Statement of Internal Control System.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	13. Proposed 2017 business report, financial statements, and consolidated financial statements.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	14. Proposed distribution of 2017 earnings.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	15. Proposed amendment to the Articles of Incorporation.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

		16. Proposal to amend the Sales and Receipt Cycle Internal Control System	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		17. Proposal of the time, place, and agenda of the 2018 annual general meeting, and the use of electronic voting	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		18. Proposed assessment of the independence of the CPA and Joint CPA Firm.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		19. Proposal to set the record date for the Company to buy back new shares from restricted stock awards for capital reduction.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions. Change approved by the MOEA on April 2, 2018.
		20. Proposal to set the record date for capital increase from new shares converted from the first batch of unsecured corporate bonds in Taiwan	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions. Change approved by the MOEA on April 2, 2018.
		21. Proposal to amend the Company's Rules for the Responsibility of Independent Directors	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		22. Proposal to abolish the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		23. Proposal to purchase real estate in Taichung Industrial Park	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		24. Proposal to provide managers with company cars (purchase or lease)	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		25. Proposed total remuneration to directors, supervisors, and employees in 2017.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		26. Proposal to amend the Company's Remuneration Committee Charter	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

		27. Director, supervisor, and manager performance evaluation results and the contents and amount of salary and remuneration	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
Board of Directors	2018/04/26	1. Proposal to set the record date for the Company to buy back new shares from restricted stock awards for capital reduction.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions. Change approved by the MOEA on 5/30/2018.
		2. Financial institution credit limit	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		3. Proposal to invest US\$44,000,000 to obtain 100% shares of Suzhou Meisheng Electronic Co., Ltd. (established in China), Sonavox Canada Inc. (established in Canada), which is a subsidiary of Indigo Enterprises Inc. (established in Samoa), and its subsidiary Seas Fabrikker, and to sign an equity transfer agreement	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		4. Proposal to appoint four directors and one supervisor at Suzhou Meisheng Electronic Co., Ltd.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		5. Proposal to appoint two directors for Indigo Enterprise Inc.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		6. Proposal to add new agenda of the 2018 shareholders' meeting	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		7. Proposal to change managers of the Company	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions. Change approved by the MOEA on 6/14/2018.
		8. Proposal to establish Employee Shareholding Trust Management Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		9. Proposal to revise the Employee Remuneration Distribution Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

		10. Proposal to invest no more than NT\$100,000,000 in Donpon Precision Inc.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
Special board meeting	2018/6/13	1. Proposal to amend the Regulations for Authorization Operations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		2. Proposal to amend the Seal Management Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		3. Proposal to change the custodian of the seal for endorsements and guarantees	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		4. Proposal to invest RMB13,600,000 in Austar Hearing Science & Technology (Xiamen) Co., Ltd. And to sign an equity transfer agreement	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		5. Proposal for cash capital increase of subsidiary MHCH and its subsidiary MHFC in the amount of US\$2,870,000	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		6. Proposal to apply for financial institution loan limit and financial derivative trading limit.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		7. Retirement of manager OOO	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		8. Proposal to promote manager OOO	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		9. Proposal to dismiss manager OOO	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		10. Proposal to appoint OOO as CTO	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

		11. Proposal for treasury share buyback and list of employees and managers for share transfer and number of shares	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		12. Proposed amount of manager and employee remuneration in 2017	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance with voting rights.	Implemented according to resolutions.
		13. Proposal to revise the Employee Shareholding Trust Management Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
Board of Directors	2018/7/26	1. Proposal to set August 6, 2018 as the record date for the Company to buy back new shares from restricted stock awards for capital reduction	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions. Change approved by the MOEA on 10/22/2018.
		2. Proposal to retire treasury stock upon reaching three years and to set August 6, 2018 as the record date for capital reduction	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions. The record date for capital reduction by treasury stock was changed to September 28, 2018 after going through internal procedures and gaining approval from the chairperson; the change was approved by the MOEA on October 22, 2018.
		3. Proposal to set August 18, 2018 as the record date for distribution of 2017 earnings for cash dividends and adjustment of dividend payout ratio	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		4. Proposal for an additional director to be appointed by MHFC for its investment in Austar Hearing Science & Technology (Xiamen) Co., Ltd.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		5. Proposal to establish the Seal Use and Management Regulations and abolish the Seal Management Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		6. Proposal to apply for financial institution loan limit and financial derivative trading limit.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		7. Proposal to establish the Employee Shareholding Trust Committee Charter	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

		8. Proposal to amend the Director, Supervisor, and Manager Management Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		9. Retirement of manager OOO	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		10. Proposed salary for manager OOO	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
Board of Directors	2018/10/25	1. Proposal to establish the 2019 audit plan	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		2. Proposal to appoint Vice President Joyce Lam of the Financial Management Division as the Chief Accounting Office and Chief Financial Officer	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		3. Proposal to change the custodian of the seal for endorsements and guarantees	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		4. Proposal to issue new shares for cash capital increase and issue the second batch of unsecured subordinated corporate bonds	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions. Change approved by the MOEA on February 13, 2019.
		5. Proposal to apply for financial institution loan limit and financial derivative trading limit.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		6. Proposal for Indigo Enterprise Inc. to appoint two directors for Sonavox Canada Inc. (SCI).	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		7. Proposal for Indigo Enterprise Inc. to appoint two directors for Proposal for Sonavox Canada Inc. to appoint two directors for Seas Fabrikker AS (SEAS)	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		8. Proposal to appoint a manager at Suzhou Meisheng Electronic Co., Ltd.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

	9. Proposal to amend the Financial Statement Preparation Regulations and abolish the "Regulations for the Management of International Accounting Standards Application" and the Regulations for Accounting Judgment Procedures, Accounting Policies, and Estimate Changes"	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	10. Proposal to establish Liability Commitments and Contingencies Management Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	11. Proposal to establish Computer Information System Internal Control Operations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	12. Proposal to amend the Regulations for Substitute Staff Operations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	13. Proposal to amend the Merger and Acquisition Special Committee Charter	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	14. Proposal to set the record date for the Company to buy back new shares from restricted stock awards for capital reduction.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions. Change approved by the MOEA on 11/15/2018.
	15. Proposed list of managers and number of shares in the second batch of restricted stock awards issued in 2017	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions. Change approved by the MOEA on 11/15/2018.
	16. Proposed salary for new manager OOO	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	17. Proposal to amend the Employee Shareholding Trust Committee Charter	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
	18. Proposal to establish Personal Information Protection Management Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

		19. Proposal to adjust the amount of manager and employee remuneration in 2017 (this proposal will be reviewed in the next meeting)	This proposal will be discussed in the next Board meeting. This proposal originally planned to make a special deposit of employee shareholdings in trust in coordination with the talent retention mechanism. The accountant raised concern about regulatory compliance. Hence, the contents will need to be reviewed and replanned. The proposal was not discussed and Appendix 19 was blank, so it will be discussed in the next Board meeting.	This proposal will be discussed in the next Board meeting.
Board of Directors	2018/12/27	1. (Proposal from the previous meeting) Proposal to adjust amount of manager and employee remuneration in 2017	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance with voting rights.	Implemented according to resolutions.
		2. Formulation of the 2019 business plan	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		3. Preparation of the 2019 budget	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		4. Proposal to donate NT\$1,280,000 to OOOOOOOOOOOO in 2019	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		5. Proposal to appoint the legal representative, directors, supervisors, and managers of subsidiary Fulicare Medical Instruments (Suzhou) Co., Ltd.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		6. Proposed organizational restructuring of second-layer subsidiary MHFC to cancel subsidiaries Fulicare Medical Technology (Suzhou) Co., Ltd. Dongdajie Branch, Fulicare Medical Instruments Technical Services (Suzhou) Co., Ltd. (MHTS), and Fulicare Medical Instruments (Suzhou) Co., Ltd. (MHMI)	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		7. Proposal to apply for financial institution loan limit and financial derivative trading limit.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

		8. Proposal to invest in OOOOOOOO Co., Ltd.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		9. Proposal for joint software development by second-layer subsidiary Fulicare Co., Ltd. (MHFC) and Courtyard ML Limited and to sign an agreement	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		10. Proposal for second-layer subsidiary Fulicare Co., Ltd. (MHFC) to issue 1,113,225 new shares	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		11. Proposal for subsidiary Merry Healthcare Co., Ltd. (MHCH) to give up subscription to new shares issued by Fulicare Co., Ltd. (MHFC)	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		12. Proposal for second-layer subsidiary MHFC to invest US\$10,000,000 to establish Fulicare (Xiamen) Co., Ltd. (Provisional name)	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		13. Proposal to invest in subsidiary MHCH and invest in the cash capital increase of NHFC in the amount of US\$10,000,000.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		14. List of employees and managers that subscribed to new shares in the cash capital increase in 2018 and number of shares	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		15. Proposal to review the 2018 year-end bonus for managers	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		16. Proposal to review the fixed salary adjustment for managers of the Company in 2019	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		17. Proposal to establish the appropriation ratio of remuneration for employees, directors, and supervisors for preparing monthly financial statements in 2019	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		18. Proposal to amend the Employee Shareholding Trust Committee Charter	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

		19. Abolishment of the Employee Stock Warrant Issuance and Subscription Regulations and the 2008 Employee Stock Warrant Issuance and Subscription Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		20. Proposal to review the Remuneration Committee's 2019 work plan	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
Board of Directors	2019/02/26	1. Proposed 2018 Statement of Internal Control System.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		2. Proposal to swap shares in the amount of NT\$9,420,000 with OOOOOOOOOO and to sign a share swap agreement	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		3. Proposal to purchase property in Taichung Export Processing Zone from OOOOOOOO at the price of NT\$72,016,800	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		4. Proposed 2018 business report, financial statements, and consolidated financial statements.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		5. Proposed distribution of 2018 earnings.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		6. Proposed assessment of the independence of the CPA and Joint CPA Firm.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		7. Proposal to set 3/3/2019 (Sunday) as the record date for the Company to buy back new shares from restricted stock awards for capital reduction	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		8. Proposal for second-layer subsidiary MHFC to appoint the president of Austar Hearing Science & Technology (Xiamen) Co., Ltd. and its subsidiaries LA&A and Austar Hearing Science & Technology (Zhangzhou) Co., Ltd.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		9. Proposal to change the president appointed by third-layer subsidiary MHFM for its investment in Xiamen Etimbre Hearing Technology Co., Ltd.	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

		10. Proposal to amend the MES Seal Use and Management Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		11. Proposal to revise the R&D Cycle Internal Control in the MES Regulations	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		12. Proposal to adjust the 2018 year-end bonus for managers	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		13. Proposal to adjust the fixed salary of managers of the Company in 2019	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		14. Proposed total remuneration to directors, supervisors, and employees in 2018.	Passed as proposed without objection after the chairperson inquired all directors and independent directors (5 in total) in attendance with voting rights.	Implemented according to resolutions.
		15. Director, supervisor, and manager 2018 performance evaluation results and the contents and amount of salary and remuneration	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		16. Proposal to elect the 19th-term directors	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		17. Proposal to remove non-compete clause for new directors (including independent directors) of the Company	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.
		18. Proposal of the time, place, and agenda of the 2019 annual general meeting, and the use of electronic voting	Passed as proposed without objection after the chairperson inquired all directors and independent directors in attendance.	Implemented according to resolutions.

(XII) Dissenting or qualified opinion of Directors or Supervisors against an important resolution passed by the Board of Directors that is on record or stated in a written statement in the past year and up to the date of report: None.

(XIII) Resignation and dismissal of professional managerial officers related to the financial report including Chairman, President, Chief Accounting Officer, Chief Financial Officer, Chief R&D Officer and Chief Internal Auditor, in the past year and up to the date of report: None.

(XIV) Procedures for handling internal material information:

The Company established these procedures in 2008 for compliance by all employees and

insiders when handling internal material information, so as to avoid information leakage and ensure the consistency and correctness of information disclosed to the public. These Procedures are available on the Company website.

<http://www.merry.com.tw/Investor/Rules>

V. Information on Fees to CPA

Fees to CPA

Information on Brackets of Fees to CPA

Name of accounting firm	Name of Accountants:	Duration of audit	Remarks
PwC Taiwan	Wang, Yu-Juan	2018.01.01-2018.12.31	
	Xu, Jian-Ye		

Amount: NT\$ thousand

Amount bracket	Service	Audit fee	Non-audit fee	Total
1	Less than NT\$2,000,000	-	1,717	1,717
2	NT\$2,000,000 (inclusive) - NT\$4,000,000	-	-	-
3	NT\$4,000,000 (inclusive) - NT\$6,000,000	8,567	-	8,567
4	NT\$6,000,000 (inclusive) - NT\$8,000,000	-	-	-
5	NT\$8,000,000 (inclusive) - NT\$10,000,000	-	-	-
6	NT\$100,000,000 (inclusive) or more	-	-	-

1. If non-audit fees account for one fourth or more of audit fees paid to certifying accountants, the accounting firm, and its affiliates, disclose the amount of audit and non-audit fees and the contents of non-audit services.

Information on Fees to CPA

Unit: NT\$ thousand

Name of accounting firm	Name of Accountants:	Audit fee	Non-audit fee					Accountant's duration of audit	Notes
			System design	Business registration	Human Resources	Others (Note 2)	Subtotal		
PwC Taiwan	Wang, Yu-Juan	8,567	0	291	-	1,426	10,284	2018.01.01-2018.12.31	
	Xu, Jian-Ye								

Note 1: If the Company replaced the accountant or accounting firm in the current year, separately list the audit period and provide the reason for replacement in the remarks, and disclose the audit and non-audit fees paid.

Note 2: Please list non-audit fees by services. If "Other" non-audit fees reaches 25% of total non-audit fees, specify the services in the remarks.

2. If the Company changes accounting firm and the amount of audit fee paid in the year of change is less than that in the year before, disclose the amount before and after the change and reason: Not applicable.

3. If the audit fee is more than 15% less than that paid in the previous year, disclose the amount and percentage of decrease and reason: Not applicable.

VI. Information on change of CPA:

Not applicable.

VII. If the Chairperson, President and Financial or Accounting Managerial Officer of the Company had worked for the CPA's accounting firm or the affiliate in the past year, disclose the name, title, and duration at the CPA's accounting firm or affiliate:
None.

八、Share transfer by directors, supervisors, managerial officers and shareholders holding more than 10% equity and changes to share pledging by them in the past year and up to the date of report:

Changes in shareholding of directors, supervisors managers, and major shareholders

Wednesday, May 1, 2019 Unit: shares

Title	Name	2018		The current year up to May 1	
		Increase (decrease) in shares held	Increase (decrease) in pledged shares	Increase (decrease) in shares held	Increase (decrease) in pledged shares
Chairman	Liao, Lu-Lee	100,000	—	75,268	—
Vice Chairman	Wei, Wen-Chieh	27,000	—	147,756	—
Director and Vice President	Lin, Shu-Chun	13,500	—	21,468	—
Director	Lin, Shih-Chieh	12,900	—	4,500	—
Director and President	Huang, Chao-Li	12,300	—	18,075	—
Independent Director	Huang, Lin-Ming	—	—	—	—
Independent Director	Duh, Edward Shaw-Yau	—	—	—	—
Supervisor	Cho, Sheng-Chung	(50,000)	—	(65,162)	—
Supervisor	Liao, Ben-Lin	—	—	897	—
Supervisor	Hung, Yun-Chung	(112,000)	—	8,716	—
Supervisor	Tong Qian Investment Co.,Ltd.	1,755,000	—	212,248	—
Institutional representative of supervisor	Liao, Keng-Pin	—	—	484	—
Vice President	Chester Chiang	(4,700)	—	14,575	—
Vice President	Steven Su	6,000	—	5,427	—
VP (Note 1)	Steven Her	4,800	—	9,000	—
CTO (Note 2)	Sam Chang	10,500	—	9,482	—
VP of the Financial Management Division (Note 3)	Joyce Lam	—	—	—	—

Note: The Company does not have any shareholders with more than 10% shares.

Note 1: Steven Her assumed the position of vice president on October 12, 2017.

Note 2: Sam Chang assumed the position of CTO on July 1, 2018.

Note 3: Joyce Lam assumed the position of VP of the Financial Management Division on September 17, 2018.

Share transfer information

May 1, 2019, Unit: shares

Name (Note 1)	Reason for share transfer (Note 2)	Transaction Date	Trading counterpart	Relationship between trading counterpart and the Company, directors, supervisors, managers, and shareholders with more than 10% shares	Number of shares	Trans action Price
Lin, Shu-Chun	Disposal (Trust)	2018/11/26	CTBC Bank Co., Ltd. Trust Account	None	22,000	—
Lin, Shih-Chieh	Disposal (Trust)	2018/11/26		None	21,000	—
Huang, Chao-Li	Disposal (Trust)	2018/11/26		None	25,000	—
Chester Chiang	Disposal (Trust)	2018/11/26		None	14,000	—
Steven Su	Disposal (Trust)	2018/11/26		None	15,000	—
Sam Chang	Disposal (Trust)	2018/11/26		None	20,000	—
Joyce Lam	Disposal (Trust)	2018/11/26		None	14,000	—

Note 1: Fill in the names of Company directors, supervisors, managers, and shareholders with more than 10% shares.

Note 2: Fill in acquisition or disposal.

Share pledge information:

None

IX. Information on the relationship between any of the top ten shareholders (related party, spouse, or kinship within the second degree):

Shareholder register as of April 21, 2019, Unit: shares

Name (Note 1)	Shareholding		Shares held by spouse and underage children		Total shareholding by nominee arrangement		Titles, names and relationships between top 10 shareholders (related party, spouse, or kinship within the second degree). (Note 3)		Remarks
	Number of shares	Percentage of shares (Note 2)	Number of shares	Percentage of shares (Note 2)	Number of shares	Percentage of shares (Note 2)	Name (or name)	Relationship	
Wei, Wen-Chieh	9,318,523	4.51%	139,426	0.07	150,000	0.07	None	None	None
BlackRock Global Funds Asian Growth Leaders Fund under the custody of HSBC	7,891,226	3.82%	—	—	—	—	None	None	None
Cathay Life Insurance Co., Ltd.	7,181,748	3.47%	—	—	—	—	None	None	None
BlackRock Global Funds Asian Dragon Fund under the custody	5,958,772	2.88%	—	—	—	—	None	None	None

Name (Note 1)	Shareholding		Shares held by spouse and underage children		Total shareholding by nominee arrangement		Titles, names and relationships between top 10 shareholders (related party, spouse, or kinship within the second degree). (Note 3)		Remarks
	Number of shares	Percentage of shares (Note 2)	Number of shares	Percentage of shares (Note 2)	Number of shares	Percentage of shares (Note 2)	Name (or name)	Relationship	
of HSBC									
New Labor Pension Fund	4,969,369	2.4%	—	—	—	—	None	None	None
Public Service Pension Fund Supervisory Board	4,579,927	2.22%	—	—	—	—	None	None	None
Liao, Li-Mei	3,823,929	1.85%	3,520,459	1.7%	—	—	Liao, Lu-Yin	Spouse	Spouse
Liao, Lu-Lee	3,541,243	1.71%	648,215	0.31%	—	—	Liao, Lu-Yin	Brother	Kinship within the second degree
Liao, Lu-Yin	3,520,459	1.7%	3,823,929	1.85%	—	—	Liao, Li-Mei	Spouse	Spouse
Tong Qian Investment Co.,Ltd.	3,486,179	1.69%	—	—	—	—	None	None	None

Note: The number of shares listed include the number of shares under trust with discretion reserved.

Note 1: List all of the top ten shareholders. For institutional shareholders, list the name of institutional shareholders and their representatives

(Not applicable because other top ten shareholders are not companies).

Note 2: Shareholding percentage refers to the total percentage of shares held under own name or the name of spouse, minor children, or others.

Note 3: Shareholders listed above include legal persons and natural persons, and their relationships must be disclosed in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

X. The shareholding of the Company, Director, Supervisor, Managerial Officers and an enterprise that is directly or indirectly controlled by the Company in the invested company, and total shareholding percentage.

Total shareholding percentage

Wednesday, May 1, 2019 Unit: 1,000 shares %

Reinvestment Entities (Note 1)	Investment by the Company		Investments by Directors, Supervisors, managerial officers and directly or indirectly controlled enterprises		Comprehensive investment	
	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage
MERRY ELECTRONICS (HK) CO., LTD.	25,658	100.00	-	-	25,658	100.00
MERRY ELECTRONICS (THAILAND) CO., LTD.	5,060	99.99	-	-	5,060	99.99
MERRY ELECTRONICS (U.S.A.) CO., LTD.	999	99.90	-	-	999	99.90
Leohab Enterprise Co., Ltd. (Note 2)	13,395	30.91	3,451	7.96	16,846	38.87
DANNYDYNAMICS LIMITED	48,005	100.00	-	-	48,005	100.00
MERRY ELECTRONICS (SINGAPORE) PTE.LTD.	800	100.00	-	-	800	100.00
MERRY HEALTHCARE CO., LTD.	20,500	100.00	-	-	20,500	100.00
Universal Capital Investment Limited	5	100.00	-	-	5	100.00
MERRYTECH(HK)CO., LIMITED	48,000	100.00	-	-	48,000	100.00
FULICARE CO.,LTD.	-	100.00	-	-	-	100.00
INDIGO ENTERPRISE INC.	-	70.00	-	-	-	70.00
SONAVOX CANADA INC.	-	70.00	-	-	-	70.00
SONAVOX CANADA HOLDING	-	70.00	-	-	-	70.00
SEAS FABRIKKER AS	-	70.00	-	-	-	70.00
Merry Electronics (Shenzhen) Co., Ltd.	-	100.00	-	-	-	100.00
Perfect Fortune Electric Wire & Cable (Shenzhen) Co., Ltd.	-	18.33	-	-	-	18.33
Youshun Electric Wire & Cable Co., Ltd.	-	18.33	-	-	-	18.33
Fulicare Medical Technology (Suzhou) Co., Ltd.	-	100.00	-	-	-	100.00
Fulicare Medical Instruments Technical Services (Suzhou) Co., Ltd.	-	100.00	-	-	-	100.00
Guangdong Luxshare & Merry Electronics Co., Ltd	-	49.00	-	-	-	49.00
Fulicare Medical Instruments (Suzhou) Co., Ltd	-	100.00	-	-	-	100.00
Suzhou Meisheng Electronic Co., Ltd.	-	70.00	-	-	-	70.00
Xiamen Etimbre Hearing Technology Co., Ltd.	-	100.00	-	-	-	100.00
Austar Hearing Science & Technology (Xiamen) Co., Ltd.	-	100.00	-	-	-	100.00

LA&A	-	99.50	-	-	-	99.50
Austar Hearing Science & Technology (Zhangzhou) Co., Ltd.	-	99.50	-	-	-	99.50

Note 1: Equity method is employed.

Note 2: Includes shareholding by representatives of institutional shareholders Tong Qian Investment Co.,Ltd. and Shande Investment Co., Ltd.

D. Fundraising

ii. Capital and Shareholding

(I) Source of capital and process

Types of shares issued by the Company in the past year and up to the date of report

As of April 21, 2018, Unit: shares

Type of Shares	Authorized capital			Remarks
	Outstanding shares (Note)	Unissued shares	Total	
Ordinary shares	206,662,523	96,337,477	300,000,000	Listed stock

Note: The Company issues ordinary shares and does not have any preferred shares.

The most recent registration of capital increase was approved by the MOEA on March 5, 2019.

The number of ordinary shares is 203,662,523 and number of outstanding shares is 206,749,824.

(yyyy) (mm)	Issue price (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Shares (thousands)	Amount (NT\$ Thousands)	Shares (thousands)	Amount (NT\$ Thousands)	Sources of capital	Shares acquired by non-cash assets	Others
1975.12	200	15	3,000	7.5	1,500	Cash investment, Establishment	None	None
1977.01	200	15	3,000	15	3,000	Cash capital increase in the amount of NT\$1,500,000	None	None
1981.12	200	45	9,000	45	9,000	Cash capital increase in the amount of NT\$6,000,000	None	None
1984.12	100	190	19,000	190	19,000	Cash capital increase in the amount of NT\$10,000,000	None	None
1985.12	100	290	29,000	290	29,000	Cash capital increase in the amount of NT\$10,000,000	None	None
1987.09	100	510	51,000	510	51,000	Cash capital increase in the amount of NT\$22,000,000	None	None
1988.12	100	710	71,000	710	71,000	Cash capital increase in the amount of NT\$20,000,000	None	None
1989.11	10	10,000	100,000	10,000	100,000	Cash capital increase in the amount of NT\$29,000,000	None	None
1990.06	10	13,600	136,000	13,600	136,000	Cash capital increase in the amount of NT\$21,000,000, capital increase by undistributed earnings in the amount of NT\$15,000,000	None	None
1991.03	10	16,640	166,400	16,640	166,400	Capital increase by capital surplus in the amount of NT\$30,400,000	None	None
1991.07	10	30,080	300,800	20,000	200,000	Cash capital increase in the amount of NT\$20,000,000, capital increase by undistributed earnings in the amount of NT\$13,600,000	None	Note 1
1993.01	10	30,080	300,800	26,000	260,000	Cash capital increase in the amount of NT\$20,000,000, capital increase by undistributed earnings in the amount of NT\$20,000,000, capital increase by capital surplus in the amount of NT\$20,000,000	None	Note 2
1993.07	10	30,080	300,800	28,080	280,800	Capital increase by undistributed earnings in the amount of NT\$13,000,000, and capital increase by capital surplus in the amount of NT\$7,800,000	None	Note 3
1995.07	10	44,544	445,440	33,696	336,960	Capital increase by undistributed earnings in the amount of NT\$37,908,000, and capital increase by capital surplus in the amount of NT\$18,252,000	None	Note 4
1996.11	10	44,544	445,440	41,044	410,447	Capital increase by undistributed earnings in the amount of NT\$23,587,200, and cash capital increase in the amount of NT\$49,900,000	None	Note 5
1997.07	10	48,600	486,000	45,560	455,596	Capital increase by undistributed earnings in the amount of NT\$45,149,190	None	Note 6
1998.01	10	81,998	819,981	56,950	569,495	Capital increase by undistributed earnings in the amount of NT\$91,119,280, and capital increase by capital surplus in the amount of NT\$22,779,820	None	Note 7
1999.07	10	81,998	819,981	62,973	629,728	Capital increase by undistributed earnings in the amount of NT\$48,842,920, and capital increase by capital surplus in the amount of NT\$11,389,910	None	Note 8
2000.06	10	101,998	1,019,981	69,668	696,688	Authorized capital changed to 1,019,981,000, and capital increase by undistributed earnings in the amount of NT\$58,144,340 Capital increase by capital surplus in the amount of NT\$8,816,200	None	Note 9
2000.10	10	101,998	1,019,981	76,369	763,689	Cash capital increase in the amount of NT\$67,000,000	None	Note 10
2001.05	10	157,126	1,571,262	95,780	957,801	Capital increase by undistributed earnings in the amount of NT\$194,112,590 (including employee bonuses in the amount of NT\$10,827,230)	None	Note 11

2002.06	10	157,126	1,571,262	107,880	1,078,802	Capital increase by undistributed earnings in the amount of NT\$39,779,020 (including employee bonuses in the amount of NT\$6,064,410) Capital increase by capital surplus in the amount of NT\$81,221,560	None	Note 12
2003.07	10	157,126	1,571,262	110,203	1,102,031	2,323,027 shares increased from earnings (includes 165,423 shares in employee benefits)	None	Note 13
2004.06	10	157,126	1,571,262	119,281	1,192,813	7,211,202 shares increased from earnings (includes 599,008 shares in employee benefits), and 1,866,907 shares from overseas convertible corporate bonds	None	Note 14
2004.11	10	157,126	1,571,262	123,003	1,230,037	3,722,418 shares from overseas convertible corporate bonds	None	Note 15
2005.01	10	157,126	1,571,262	126,550	1,265,501	3,546,347 shares from overseas convertible corporate bonds	None	Note 16
2005.05	10	157,126	1,571,262	129,367	1,293,670	2,816,959 shares from overseas convertible corporate bonds	None	Note 17
2005.08	10	157,126	1,571,262	131,781	1,317,816	2,414,544 shares from overseas convertible corporate bonds	None	Note 18
2005.11	10	157,126	1,571,262	131,882	1,318,822	100,604 shares from overseas convertible corporate bonds	None	Note 19
2006.04	10	157,126	1,571,262	132,385	1,323,852	503,030 shares from overseas convertible corporate bonds	None	Note 20
2006.08	10	300,000	3,000,000	143,944	1,439,447	11,559,428 shares increased from earnings (includes 637,646 shares in employee benefits)	None	Note 21
2007.09	10	300,000	3,000,000	159,089	1,590,896	15,144,956 shares increased from earnings (includes 847,967 shares in employee benefits)	None	Note 22
2011.01	10	300,000	3,000,000	159,103	1,591,036	14,000 new shares issued from employee stock options	None	Note 23
2011.04	10	300,000	3,000,000	159,127	1,591,272	23,500 new shares issued from employee stock options	None	Note 24
2011.09	10	300,000	3,000,000	157,935	1,579,350	Capital reduction by 1,192,042 treasury shares	None	Note 25
2012.08	10	300,000	3,000,000	165,831	1,658,318	7,896,755 shares increased from earnings	None	Note 26
2013.01	10	300,000	3,000,000	165,849	1,658,498	18,000 new shares issued from employee stock options	None	Note 27
2013.04	10	300,000	3,000,000	165,856	1,658,568	7,000 new shares issued from employee stock options	None	Note 28
2013.05	10	300,000	3,000,000	166,019	1,660,193	162,500 new shares issued from employee stock options	None	Note 29
2013.08	10	300,000	3,000,000	175,980	1,759,805	9,961,160 shares increased from earnings	None	Note 30
2013.11	10	300,000	3,000,000	176,216	1,762,165	236,000 new shares issued from employee stock options	None	Note 31
2014.08	10	300,000	3,000,000	185,027	1,850,273	8,810,825 shares increased from earnings	None	Note 32

2017.04	10	300,000	3,000,000	186,604	1,866,044	Issued 1,542,000 shares in restricted stock awards and unsecured corporate bonds	None	Note 33

						issued in Taiwan for the first time were converted to 35,165 new shares		
2017.05	10	300,000	3,000,000	194,403	1,944,033	Unsecured corporate bonds issued in Taiwan for the first time were converted to 7,798,821 new shares	None	Note 34
2017.07	10	300,000	3,000,000	194,844	1,948,443	Issued 458,000 shares in restricted stock awards and canceled 17,000 new shares converted from restricted stock awards	None	Note 35
2017.08	10	300,000	3,000,000	197,733	1,977,334	Unsecured corporate bonds issued in Taiwan for the first time were converted to 2,889,057 new shares	None	Note 36
2017.12	10	300,000	3,000,000	200,297	2,002,969	Canceled 41,000 new shares converted from restricted stock awards Unsecured corporate bonds issued in Taiwan for the first time were converted to 2,604,511 new shares	None	Note 37
2018.02	10	300,000	3,000,000	200,493	2,004,929	Issued 1,542,000 shares in restricted stock awards	None	Note 38
2018.04	10	300,000	3,000,000	200,809	2,008,090	Canceled 19,700 new shares converted from restricted stock awards Unsecured corporate bonds issued in Taiwan for the first time were converted to 335,846 new shares	None	Note 39
2018.05	10	300,000	3,000,000	200,767	2,007,670	Canceled 42,000 new shares converted from restricted stock awards	None	Note 40
2018.10	10	300,000	3,000,000	198,878	1,988,784	Retired 1,867,000 treasury shares Canceled 21,600 new shares converted from restricted stock awards	None	Note 41
2018.11	10	300,000	3,000,000	199,701	1,997,012	Canceled 55,220 new shares converted from restricted stock awards Issued 878,000 shares in restricted stock awards	None	Note 42
2019.02	10	300,000	3,000,000	203,701	2,037,012	Issued 4,000,000 new shares	None	Note 43
2019.03	10	300,000	3,000,000	203,662	2,036,625	Canceled 38,700 new shares converted from restricted stock awards	None	Note 44

Note 1: Approved in letter (80) Tai-Cai-Zeng (1) No. 01078 from the Securities and Futures Commission, Ministry of Finance dated May 31, 1991.

Note 2: Approved in letter (81) Tai-Cai-Zeng (1) No. 02385 from the Securities and Futures Commission, Ministry of Finance dated November 2, 1992.

Note 3: Approved in letter (82) Tai-Cai-Zeng (1) No. 30792 from the Securities and Futures Commission, Ministry of Finance dated July 24, 1993.

Note 4: Approved in letter (84) Tai-Cai-Zeng (1) No. 38515 from the Securities and Futures Commission, Ministry of Finance dated June 30, 1995.

Note 5: Approved in letter (85) Tai-Cai-Zeng (1) No. 65041 from the Securities and Futures Commission, Ministry of Finance dated November 4, 1996.

Note 6: Approved in letter (86) Tai-Cai-Zeng (1) No. 46434 from the Securities and Futures Commission, Ministry of Finance dated June 16, 1997.

Note 7: Approved in letter (87) Tai-Cai-Zeng (1) No. 45774 from the Securities and Futures Commission, Ministry of Finance dated May 25, 1998.

Note 8: Approved in letter (88) Tai-Cai-Zeng (1) No. 54020 from the Securities and Futures Commission, Ministry of Finance dated June 11, 1999.

Note 9: Approved in letter (89) Tai-Cai-Zeng (1) No. 48800 from the Securities and Futures Commission, Ministry of Finance dated June 7, 2000.

Note 10: Approved in letter (89) Tai-Cai-Zeng (1) No. 83422 from the Securities and Futures Commission, Ministry of Finance dated October 16, 2000.

Note 11: Approved in letter (90) Tai-Cai-Zeng (1) No. 132515 from the Securities and Futures Commission, Ministry of Finance dated May 28, 2001.

Note 12: Approved in letter (90) Tai-Cai-Zeng (1) No. 0910133087 from the Securities and Futures Commission, Ministry of Finance dated June 19, 2002.

Note 13: Approved in letter (01) Tai-Cai-Zeng (1) No. 0920129202 from the Securities and Futures Commission, Ministry of Finance dated July 1, 2003.

Note 14: Approved in letter Tai-Cai-Zeng-Di-Yi No. 0930126460 from the Securities and Futures Commission dated June 15, 2004 and letter Jing-Shou-Shang-Zi No. 09301147350 from the Ministry of Economic Affairs dated August 17, 2004.

Note 15: Approved in letter Jing-Shou-Shang-Zi No. 09301202250 from the Ministry of Economic Affairs dated November 4, 2004.

Note 16: Approved in letter Jing-Shou-Shang-Zi No. 09401017770 from the Ministry of Economic Affairs dated January 31, 2005.

Note 17: Approved in letter Jing-Shou-Shang-Zi No. 09401075910 from the Ministry of Economic Affairs dated May 2, 2005.

Note 18: Approved in letter Jing-Shou-Shang-Zi No. 09401158890 from the Ministry of Economic Affairs dated August 16, 2005.

Note 19: Approved in letter Jing-Shou-Shang-Zi No. 09401227580 from the Ministry of Economic Affairs dated November 21, 2005.

Note 20: Approved in letter Jing-Shou-Shang-Zi No. 09501075860 from the Ministry of Economic Affairs dated April 27, 2006.

Note 21: Approved in letter Jing-Shou-Shang-Zi No. 09501181980 from the Ministry of Economic Affairs dated August 18, 2006.

Note 22: Approved in letter Jing-Shou-Shang-Zi No. 09601220240 from the Ministry of Economic Affairs dated September 6, 2007.

Note 23: Approved in letter Jing-Shou-Shang-Zi No. 10001017690 from the Ministry of Economic Affairs dated January 27, 2011.

Note 24: Approved in letter Jing-Shou-Shang-Zi No. 10001061910 from the Ministry of Economic Affairs dated April 6, 2011.

Note 25: Approved in letter Jing-Shou-Shang-Zi No. 10001214470 from the Ministry of Economic Affairs dated September 14, 2011.

Note 26: Approved in letter Jin-Guan-Zheng-Fa-Zi No. 1010031057 from the Financial Supervisory Commission dated July 12, 2012 and letter Jing-Shou-Shang-Zi No. 10101169110 from the Ministry of Economic Affairs dated August 15, 2012.

Note 27: Approved in letter Tai-Zheng-Shang-Yi-Zi No. 10200013881 from the Taiwan Stock Exchange dated January 22, 2013 and letter Jing-Shou-Shang-Zi No. 10201008590 from the Ministry of Economic Affairs dated January 15, 2013.

Note 28: Approved in letter Tai-Zheng-Shang-Yi-Zi No. 1020007064 from the Taiwan Stock Exchange dated April 18, 2013 and letter Jing-Shou-Shang-Zi No. 10201062870 from the Ministry of Economic Affairs dated April 10, 2013.

Note 29: Approved in letter Tai-Zheng-Shang-Yi-Zi No. 1020010350 from the Taiwan Stock Exchange dated May 31, 2013 and letter Jing-Shou-Shang-Zi No. 10201096500 from the Ministry of Economic Affairs dated May 24, 2013.

Note 30: Approved in letter Jin-Guan-Zheng-Fa-Zi No. 1020025121 from the Financial Supervisory Commission dated June 28, 2013 and letter Jing-Shou-Shang-Zi No. 10201162920 from the Ministry of Economic Affairs dated August 12, 2013.

Note 31: Approved in letter Tai-Zheng-Shang-Yi-Zi No. 1020025089 from the Taiwan Stock Exchange dated December 4, 2013 and letter Jing-Shou-Shang-Zi No. 10201240710 from the Ministry of Economic Affairs dated November 27, 2013.

Note 32: Approved in letter Jin-Guan-Zheng-Fa-Zi No. 1030025686 from the Financial Supervisory Commission dated July 7, 2014 and letter Jing-Shou-Shang-Zi No. 10301167070 from the Ministry of Economic Affairs dated August 20, 2014.

Note 33: Approved in letter Jing-Shou-Shang-Zi No. 10601032740 from the Ministry of Economic Affairs dated April 11, 2017.

Note 34: Approved in letter Jing-Shou-Shang-Zi No. 10601063720 from the Ministry of Economic Affairs dated May 20, 2017.

Note 35: Approved in letter Jing-Shou-Shang-Zi No. 10601098600 from the Ministry of Economic Affairs dated July 17, 2017.

Note 36: Approved in letter Jing-Shou-Shang-Zi No. 10601119010 from the Ministry of Economic Affairs dated August 21, 2017.

Note 37: Approved in letter Jing-Shou-Shang-Zi No. 10601162830 from the Ministry of Economic Affairs dated December 6, 2017.

Note 38: Approved in letter Jing-Shou-Shang-Zi No. 10701013730 from the Ministry of Economic Affairs dated February 8, 2018.

Note 39: Approved in letter Jing-Shou-Shang-Zi No. 10701033830 from the Ministry of Economic Affairs dated April 2, 2018.

Note 40: Approved in letter Jing-Shou-Shang-Zi No. 10701057780 from the Ministry of Economic Affairs dated May 30, 2018.

Note 41: Approved in letter Jing-Shou-Shang-Zi No. 10701129790 from the Ministry of Economic Affairs dated October 22, 2018.

Note 42: Approved in letter Jing-Shou-Shang-Zi No. 10701142290 from the Ministry of Economic Affairs dated November 15, 2018.

Note 43: Approved in letter Jing-Shou-Shang-Zi No. 10801014680 from the Ministry of Economic Affairs dated February 13, 2019.

Note 44: Approved in letter Jing-Shou-Shang-Zi No. 10801029990 from the Ministry of Economic Affairs dated March 25, 2019.

(II) Shareholders

Shareholders

Shareholder register as of April 21, 2019 Unit: shares

Shareholders Quantity	Government institution	Financial institutions	Other corporations	Individuals	Foreign institutions and foreigners	Total
Number of Shareholders	-	96	178	28,566	250	29,090
Number of shares held	-	30,101,897	21,387,790	80,372,422	74,887,715	206,749,824
Shareholding percentage	-	14.56%	10.34%	38.88%	36.22%	100%

Note: Primary TWSE/TPEX-listed companies shall disclose the shareholding percentage of Chinese shareholders. Chinese shareholders refer to individuals, legal persons, organizations, and other institutions in China and any branches created outside China specified in Article 3 of the Measures Governing Investment Permit to the People of the Mainland Area.

(III) Shareholding Distribution Status

Shareholding Distribution Status

Shareholder register as of April 21, 2019 Unit: shares

Shareholding range	Number of shareholders	Shares held (shares)	Shareholding percentage
1 to 999	11,924	709,357	0.34
1,000 to 5,000	14,815	25,538,489	12.35
5,001 to 10,000	1,194	8,877,487	4.29
10,001 to 15,000	383	4,647,600	2.25
15,001 to 20,000	206	3,737,625	1.81
20,001 to 30,000	158	3,933,752	1.90
30,001 to 40,000	83	2,901,146	1.40
40,001 to 50,000	38	1,744,049	0.84
50,001 to 100,000	99	6,968,318	3.37
100,001 to 200,000	67	9,849,337	4.76
200,001 to 400,000	49	13,350,554	6.46
400,001 to 600,000	22	10,952,033	5.30
600,001 to 800,000	11	7,767,885	3.76
800,001 to 1,000,000	10	9,022,993	4.36
Over 1,000,001	31	96,749,199	46.81
Total	29,090	206,749,824	100

Note: The Company issues ordinary shares and does not have any preferred shares.

(IV) List of major shareholders: Top ten shareholders

List of major shareholders

Shareholder register as of April 21, 2019 Unit: shares

Name of major shareholder	Shares	Shares held (shares)	Shareholding percentage
Wei, Wen-Chieh		9,318,523	4.51%
BlackRock Global Funds Asian Growth Leaders Fund under the custody of HSBC		7,891,226	3.82%
Cathay Life Insurance Co., Ltd.		7,181,748	3.47%
BlackRock Global Funds Asian Dragon Fund under the custody of HSBC		5,958,772	2.88%
New Labor Pension Fund		4,969,369	2.4%
Public Service Pension Fund Supervisory Board		4,579,927	2.22%
Liao, Li-Mei		3,823,929	1.85%
Liao, Lu-Lee		3,541,243	1.71%
Liao, Lu-Yin		3,520,459	1.7%
Tong Qian Investment Co., Ltd.		3,486,179	1.69%

Note: The number of shares listed include the number of shares under trust with discretion reserved.

(V) Market price per share, net worth, earnings, dividends, and the related information for the last 2 years:

Unit: NT\$

Item		Year	2017	2018	The current year up to March 31, 2019 (Note 8)
Stock price (Note 1)	Highest		255.00	206.50	180.50
	Lowest		117.50	112.00	120.00
	Average (Note 1)		188.45	150.19	158.98
Net worth per share (Note 2)	Before distribution		69.11	49.49	58.45
	After distribution		53.25	Undistributed	Undistributed
Earnings per share	Weighted average shares		191,208,000 shares	197,147,000 shares	200,710,000 shares
	Earnings per share (Note 3)		18.94	10.47	2.07
Dividends per share	Cash dividends (Note 9)		15.8246	8.6	-
	Stock dividend	Earnings	-	-	-
		Capital surplus	-	-	-
	Accumulated unpaid dividend (Note 4)		-	-	-
Return analysis	PE ratio (Note 5)		9.95	14.34	-
	Price-dividend ratio (Note 6)		11.91	17.46	-
	Cash dividend yield (Note 7)		8.40%	5.73%	-

* If stock dividends are distributed from earnings or capital surplus, disclose the market price and cash dividends adjusted based on the number of shares distributed.

Note 1: List the highest and lowest price of ordinary shares each year, and calculate the average market price based on the transaction volume and transaction amount.

Note 2: Please use the number of outstanding shares at the end of the year and distribution decided by the shareholders' meeting in the following year.

Note 3: If adjustments must be made due to stock dividends, list the EPS before and after adjustment.

Note 4: If the conditions of securities issuance stipulate that dividends not distributed in the current year may be distributed when there is a profit, disclose the cumulative amount of dividends not distributed up to the current year.

Note 5: Price-earnings (P/E) ratio = Average market price / Earnings per share.

Note 6: Price-dividend (P/D) ratio = Average market price / Cash dividends per share.

Note 7: Cash dividend yield rate = Cash dividend per share / Average market price.

Note 8: Fill in net worth per share and EPS data for the most recent quarter that was already audited by the accountant. Fill in data for the current year up to the date of report for remaining fields.

Note 9: Our 2017 earnings distribution was discussed and approved in the shareholders' meeting on November 13, 2018. Cash dividends in the amount of NT\$3,143,838,000, i.e., NT\$16.442 per share will be distributed to shareholders. However, when dividends were being distributed in 2017, the number of outstanding shares was affected by the first batch of unsecured convertible corporate bonds issued in Taiwan, buyback and cancellation of new shares from restricted stock awards, and transfer of treasury shares to employees. Hence, the cash dividend was adjusted to NT\$15.8246 per share.

Note 1: The average market price is calculated based on the transaction volume and transaction amount.

Note 2: The amount of 2018 earnings to be distributed was reviewed by the Board of Directors, but has not yet been resolved by the shareholders' meeting.

(VI) Dividend policy and implementation status:

1. We are in a volatile industry environment and are currently in the stable growth phase of the corporate life cycle. We consider our future capital expenditure budget or capital requirements, as well as the need to use earnings for capital requirements, when deciding the amount of earnings retained or distributed and the amount of cash dividends.
2. The Company's net profit, if any, shall first be allocated for paying business tax and making up the deficit of previous years. Ten percent of the remaining profit shall be allocated as legal reserve. Special reserve may be allocated to meet the operational requirements. The remaining profit, along with the accumulated undistributed earnings for the previous year, shall be booked as the accumulated distributable earnings. The Board of Directors of shall propose an earnings distribution for resolution by the shareholders' meeting.
3. In the earnings distribution proposed by the Board of Directors, the total amount of dividends shall be 30-80% of cumulative distributable earnings, in which cash dividends shall be at least 5% of the total amount of dividends.
4. To encourage employees and the management team, if the Company makes a profit that year, the Company shall appropriate: 1. 5-10% for employee remuneration; 2. No more than 2% for directors' remuneration. However, a sum shall be set aside in advance to pay down any outstanding cumulative losses.

Whether employee remuneration is paid in stock or cash shall be decided by a majority vote in a Board meeting with at least two thirds of directors in attendance, and the decision shall be reported during a shareholders' meeting.

Employee remuneration paid in stock or cash may also be distributed to employees of subsidiaries.

5. Dividend distribution to be proposed to the shareholders' meeting:

Proposal for the distribution of Merry Electronics Co., Ltd. 2018 earnings

Item	Amount (NT\$)
Undistributed retained earning from previous years	785,959,464
Adjusted undistributed retained earning from previous years	785,959,464
Plus: Beginning figures adjusted for IFRS (recognized as retained earnings due to disposal)	3,766,017
Less: Adjusted retained earnings in 2018 (pension actuarial costs)	(11,153,256)
Plus: Adjusted retained earnings in 2018 – Through other comprehensive income	346,725,861
Adjusted undistributed earnings	1,125,298,086

Plus: 2018 after-tax net profit (1)	2,064,265,198
Less: 10% allocated to statutory reserve 〈 1 〉 *10%	(206,426,520)
Plus (Minus): Reversal (Provision) of special reserve	0
Cumulative distributable earnings (2)	2,983,136,764
Distribution Items:	
Less: Cash dividend to shareholders (2017 earnings)	(1,751,418,578)
Undistributed retained earning from previous years	1,231,718,186

Note: The proposed distribution of 2018 earnings was only reviewed by the Board of Directors and still needs to be approved in the annual general meeting.

6. Provide an explanation when a material change to the dividend policy is expected:
None.

(VII) The effects of the stock dividends proposed by the annual general meeting on the Company's business performances and earnings per share: Not applicable because there are no stock dividends

Unit: NT\$ Thousands (only EPS is in NT\$)

Item		Year	2018 (Estimate)
Beginning paid-in capital			2,002,969
Stock and cash dividends for the current year	Cash dividend per share		NT\$8.6 (Note 1)
	Stock dividend per share from capital increase by earnings		None
	Stock dividend per share from capital increase by capital surplus		None
Changes in business performance	Operating profits		Not applicable (Note 2)
	Percentage of increase (decrease) in operating profits compared with the same period last year		
	After-tax net profit		
	Percentage of increase (decrease) in after-tax net profit compared with the same period last year		
	Earnings per share		
	Percentage of increase (decrease) in EPS compared with the same period last year		
	Annual average rate of return (reciprocal of annual average PE ratio)		
Pro forma EPS and PE ratio	If capital increase by earnings is distributed as cash dividends	Pro forma EPS	Not applicable (Note 2)
		Pro forma annualized average rate of return	
	If capital increase by capital surplus is not carried out	Pro forma EPS	
		Pro forma annualized average rate of return	
	If capital increase by capital surplus and earnings is distributed as cash dividends	Pro forma EPS	
		Pro forma annualized average rate of return	

Note 1: The amount distributed in 2018 has not yet been resolved by the shareholders' meeting

Note 2: According to the Regulations Governing the Publication of Financial Forecasts of Public Companies, we are not required to disclose and have not prepared 2018 financial forecasts. Hence, the information was not disclosed.

(VIII) Remuneration of employees, directors and supervisors

1. Percentages or ranges of remuneration of employees, directors, and supervisors under the Articles of Incorporation.

The Company's net profit, if any, shall first be allocated for paying business tax and making up the deficit of previous years. Ten percent of the remaining profit shall be allocated as legal reserve. Special reserve may be allocated to meet the operational requirements. The remaining profit, along with the accumulated undistributed earnings for the previous year, shall be booked as the accumulated distributable earnings. The Board of Directors shall propose an earnings distribution for resolution by the shareholders' meeting. In the earnings distribution proposed by the Board of Directors, the total amount of dividends shall be 30-80% of cumulative

distributable earnings, in which cash dividends shall be at least 5% of the total amount of dividends.

To encourage employees and the management team, if the Company makes a profit that year, the Company shall appropriate: 1. 5-10% for employee remuneration; 2. No more than 2% for directors' remuneration. However, a sum shall be set aside in advance to pay down any outstanding cumulative losses.

Whether employee remuneration is paid in stock or cash shall be decided by a majority vote in a Board meeting with at least two thirds of directors in attendance, and the decision shall be reported during a shareholders' meeting. Employee remuneration paid in stock or cash may also be distributed to employees of subsidiaries.

2. Basis for estimating the amount of remuneration of employees, directors and supervisors, basis for calculating the number of shares to be distributed as employee remuneration, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated amount, for the current period.
Not applicable.
3. Remuneration distribution proposed by the board of directors:
 - (1) Employee, director and supervisor remuneration will be distributed in cash or stocks. In case of any discrepancy between the amounts and the amortized estimates for the year, the differences, reasons, and responses should be disclosed.
 - A. Employee remuneration proposed to be distributed in cash: NT\$162,732,723.
 - B. Employee remuneration proposed to be distributed in stock: NT\$0.
 - C. Proposed director and supervisor remuneration: NT\$54,244,242.
 - D. There was no difference in the proposed remuneration of employees, directors, and supervisors and the expenses recognized in 2017.
 - (2) The proposed amount of employee bonus to be paid in stocks out of the current company-level financial report in terms of the sum of net profit after tax and employee bonus.
 - A. Proposed employee stock bonus: 0 shares.
 - B. The proposed employee stock bonus represented 0% of the current year's after-tax profit.
 - C. The proposed employee stock bonus represented 0% of the current year's employee bonus.
 - (3) EPS after taking into consideration the proposed distribution of employee, director and supervisor remuneration
 - A. NT\$8.6 per share
 - (4) EPS after taking into consideration the proposed distribution of employee remuneration (calculated using market price)
Not applicable.
4. Distribution of employee, director, and supervisor remuneration from earnings in the previous year
Related information on the distribution of employee bonuses and director and supervisor remuneration from earnings in the previous year (2017) is provided below:

Unit: NT\$ Thousand; Thousand shares

	Resolutions of shareholder meetings Actual distributed amount	Originally approved by the Board of Directors Proposed distribution	Difference	Reason for difference

I. Distribution:				
1. Employees' cash bonus	272,251	272,251	—	—
2. Employee stock bonus	—	—		
(1) Number of shares	—	—	—	—
(2) Amount	—	—	—	—
(3) as a percentage of closing outstanding shares	—	—	—	—
3. Director and supervisor remuneration	90,750	90,750	—	—
II. EPS related information:				
1. Earnings per share	18.94	18.94	—	—

(IX) Share buyback by the Company in the past year and up to the date of report:

Wednesday, May 1, 2019

Batch of buyback	First (Batch) (Note)	Second (period)
Purpose of buyback	Encourage employees and increase employee engagement	Encourage employees and increase employee engagement
Duration of buyback	From 2008/7/10 to 2008/9/8	From 2015/6/15 to 2015/8/14
Price range of buyback	No more than NT\$90 and no less than NT\$41 per share	No more than NT\$98 and no less than NT\$41 per share
Type and number of shares bought back	1,500,000 ordinary shares	2,269,000 ordinary shares
Amount of shares bought back	NT\$76,938,000	NT\$103,058,000
Number of shares retired and transferred	Transferred 307,958 shares Retired 1,192,042 shares	Transferred 402,000 shares Retired 1,867,000 shares
Cumulative number of the Company's shares held	0	0
Cumulative number of the Company's shares held as a percentage of current outstanding shares (%)	0%	0%

Note: Registration of capital reduction approved in letter Jing-Shou-Shang-Zi No. 10001214470 from the Ministry of Economic Affairs dated September 14, 2011.

Note: Registration of capital reduction approved in letter Jing-Shou-Shang-Zi No. 10701129790 from the Ministry of Economic Affairs dated Monday, October 22, 2018.

iii. Corporate bond issuance status

Corporate bond issuance status

Type of corporate bond (Note 2)	First (batch) of unsecured corporate bonds issued overseas	Second (batch) of unsecured corporate bonds issued in Taiwan	Second (batch) of unsecured corporate bonds issued in Taiwan
Date of issuance	2004/01/06	2015/01/29	2018/12/11
Denomination	US\$1,000	NT\$100,000 each	NT\$100,000 each
Place of issuance and trading (Note 3)	Issued overseas and listed and traded in Luxembourg	Taipei Exchange	Taipei Exchange
Issue price	101%	100.5%	100.5%
Total	US\$30,000,000	NT\$1,500,000,000	NT\$3,000,000,000
Interest Rate	0%	0%	0%
Term	5 years Maturity date: 2009/1/6	3 years Maturity date: 2018/1/29	3 years Maturity date: 2021/12/11
Guarantee institution	—	—	—

Trustee	J.P. Morgan	Mega International Commercial Bank Trust Department	JihSun Bank
Underwriter	Polaris Securities (Hong Kong) Limited, Polaris Capital (Asia) Limited	KGI Securities	Fubon Securities Co., Ltd.
Certifying lawyer	Minfu Attorneys-at-Law Chang, Shu-Hsuan, Attorney-at-law	Handsome Attorneys-at-Law Chiu, Ya-Wen, Attorney at Law	Handsome Attorneys-at-Law Chiu, Ya-Wen, Attorney at Law
Certifying accountant	PwC Taiwan Yang, Ming-Chin and Hung, Shu-Hua, CPA	PwC Taiwan Yang, Ming-Chin and Hung, Shu-Hua, CPA	PwC Taiwan Xu, Jian-Ye and Wang, Yu-Chuan, CPA
Repayment method	Redeemed at face value upon maturity	Repaid in cash at 100.5% of face value (real rate of return is 0.165%)	Repaid in cash at face value upon maturity
Outstanding Principal	USD\$0 (All converted to ordinary shares on 2006/3/13)	NT\$0 (All converted on 2018/1/26)	NT\$2,544,000,000 (As of April 21, 2019)
Terms and conditions for redemption or early repayment	a. After corporate bonds are issued for one full year, if the closing price of ordinary shares at the Taiwan Stock Exchange converted to USD is above 130% of the conversion price (converted at the fixed rate of 34.03 to USD based on negotiations on the pricing day) for 20 consecutive business days, the issuer may issue a redemption notice to bond holders within 10 days, and redeem all or a portion of bonds at face value within 80 days after giving notice. b. When over 90% of corporate bonds are redeemed, bought back, or conversion right is exercised, the issuer may redeem all or a portion of bonds at face value. c. If the issuer must pay additional interest expense or cost increases due to changes in tax laws of the R.O.C., the issuer may redeem all bonds in circulation at face value.	(I) From the following day after this convertible bond is issued for one full month (March 1, 2015) to 40 days before its maturity (December 20, 2017), if the closing price of ordinary shares at the stock exchange reaches 30% (inclusive) or above of the conversion price for 30 consecutive business days, the Company may send a "bond recall notice" with a one-month deadline (the period is calculated starting on the date the notice is mailed, and the deadline is the bond recall record date) via registered mail to creditors (based on the list of creditors five business days before the bond recall notice is mailed, an announcement will be made for other investors who obtain this bond through trading or other methods afterwards) within 30 business days. The Company will send a request to Taipei Exchange to make an announcement, and will recall this convertible bond from the holder at face value in cash within five days after the bond recall record date. The bond recall record date may not be within the period when conversion is	(I) From the following day after this convertible bond is issued for three full month (March 12, 2019) to 40 days before its maturity (November 1, 2021), if the closing price of ordinary shares reaches 30% (inclusive) or above of the conversion price for 30 consecutive business days, the Company may send a "bond recall notice" with a one-month deadline (the period is calculated starting on the date the notice is mailed, and the deadline is the bond recall record date; the period may not be within the period conversion is suspended according to Article 9) via registered mail to creditors (based on the list of creditors five business days before the bond recall notice is mailed, an announcement will be made for other investors who obtain this bond through trading or other methods afterwards) within 30 business days. The redemption price is the face value of this bond, which will be redeemed in cash. The Company will send a request to Taipei Exchange to make an announcement. When executing the recall request, the Company shall

		suspended. (II) From the following day after this convertible bond is issued for one full month (March 1, 2015) to 40 days before its maturity (December 20, 2017), if the amount of convertible bonds still in circulation is lower than 10% of the total amount issued, the Company may send a "bond recall notice" with a one-month deadline (the period is calculated starting on the date the notice is mailed, and the deadline is the bond recall record date) via registered mail to creditors (based on the list of creditors five business days before the bond recall notice is mailed, an announcement will be made for other investors who obtain this bond through trading or other methods afterwards). The Company will send a request to Taipei Exchange to make an announcement, and will recall this convertible bond from the holder at face value in cash within five days after the bond recall record date. The bond recall record date may not be within the period when conversion is suspended. (III) If creditors do not send a written response to the Company's stock transfer agency (effective upon delivery, or based on the postmark date if it is mailed) before the bond recall record date specified on the "bond recall notice", the Company will redeem the bonds at face value in cash on the maturity date.	recall this convertible bond from the holder at face value in cash within five days after the bond recall record date. (II) From the following day after this convertible bond is issued for three full months (March 12, 2019) to 40 days before its maturity (November 1, 2021), if the amount of convertible bonds still in circulation is lower than 10% of the total amount issued, the Company may send a "bond recall notice" with a one-month deadline (the period is calculated starting on the date the notice is mailed, and the deadline is the bond recall record date) via registered mail to creditors (based on the list of creditors five business days before the bond recall notice is mailed, an announcement will be made for other investors who obtain this bond through trading or other methods afterwards). The redemption price is the face value of this bond, which will be redeemed in cash. The Company will send a request to Taipei Exchange to make an announcement and exercise its redemption right. When executing the recall request, the Company shall recall this convertible bond from the holder at face value in cash within five days after the bond recall record date. (III) If creditors do not send a written response to the Company's stock transfer agency (effective upon delivery, or based on the postmark date if it is mailed) before the bond recall record date specified on the "bond recall notice", the Company will redeem the bonds at face value in cash within five business days after the bond recall record date.
Restriction clauses (Note 4)	—	—	—

Name of credit rating agency, date rated, and corporate bond rating result		—	—	—
Other rights	Amount converted (exchanged or subscribed) to ordinary shares, GDRs, or other negotiable securities up to the date of annual report publication	Holders of the first batch of unsecured corporate bonds issued overseas have converted US\$30,000,000 to 14,970,809 ordinary shares.	Holders of the first batch of unsecured corporate bonds issued in Taiwan have converted NT\$1,500,000,000 to 13,663,400 ordinary shares.	Holders of the second batch of unsecured corporate bonds issued in Taiwan have converted NT\$456,000,000 to 3,087,301 ordinary shares.
	Issuance and conversion (Exchange or Subscription) Regulations	Refer to the Issuance and Conversion Regulations.	Regulations for Issuance and Conversion of the First Batch of Unsecured Corporate Bonds in Taiwan.	Regulations for Issuance and Conversion of the Second Batch of Unsecured Corporate Bonds in Taiwan.
Issuance and conversion, exchange or subscription regulations, potential dilution caused by issuance conditions, and impact on shareholders' equity		—	—	—
Name of custodial institution		—	—	—

Note 1: Corporate bond issuance includes corporate bonds offered to the public and through private placement. Corporate bonds offered to the public refer to those that are already effective (approved). Corporate bonds offered through private placement refer to those that were already approved by the Board of Directors.

Note 2: The number of fields adjusted based on the actual number of times.

Note 3: Fill in overseas corporate bonds.

Note 4: If the distribution of cash dividends and external investments are restricted, or if a certain asset ratio must be maintained.

Information on Convertible Corporate Bond

Type of corporate bond (Note 1)		First (batch) Unsecured corporate bonds issued overseas			First (batch) Unsecured corporate bonds issued in Taiwan			Second (batch) Unsecured corporate bonds issued in Taiwan	
Item	Year	2005	2006	The current year up to Monday, May 1, 2017	2015	2016	2017	2018	The current year up to May 1, 2019 (Note 4)
	Market price of convertible corporate bond (Note 2)	—	—	—	—	—	—	—	—
		—	—	—	—	—	—	—	—
		—	—	—	—	—	—	—	—

Conversion price	NT\$67.65	NT\$67.65	—	NT\$116.10 Effective Date: 2015/7/18	NT\$110.9 Effective Date: 2016/8/13	NT\$105.7 Effective Date: 2017/7/17	NT\$147.7 Effective Date: 2019/1/18	NT\$147.7 Effective Date 2019/1/18
Date of issuance and conversion price	2004/1/6 and NT\$72	2004/1/6 and NT\$72	—	2015/01/29 and NT\$125	2015/01/29 and NT\$125	2015/01/29 and NT\$125	2018/12/11 NT\$148	2018/12/11 NT\$148
Method for fulfilling conversion obligation (Note 3)	Request conversion to new ordinary shares in accordance with relevant laws and regulations.							

Note 1: The number of fields adjusted based on the actual number of times.

Note 2: If overseas corporate bonds are traded in multiple places, separately list the place where they are traded.

Note 3: Deliver current shares or issue new shares.

Note 4: Fill in data for the current year up to the date of report.

Information on Exchangeable Corporate Bond:

The Company has not issued any exchangeable corporate bonds.

Summary Report on Issuance of Corporate Bonds

Tuesday, April 30, 2019

Expected Fundraising and Issuance Amount	US\$30,000,000	NT\$1,500,000,000	NT\$3,000,000,000
Total amount issued (Include date of issuance and issuance amount)	Date of issuance: 2004/1/6; Issuance amount: US\$30,000,000	Date of issuance: 2015/1/29; Issuance amount: NT\$1,500,000,000	Date of issuance: 2018/12/11; Issuance amount: NT\$3,000,000,000
Shelf registration balance	USD\$0 (All converted to ordinary shares on 2006/3/13)	NT\$631,200,000	NT\$2,544,000,000 (As of April 21, 2019)
Bonds were not issued on some of the dates	None	None	None

IV. Information on Warrant Bonds None

V. Issuance of preferred shares and preferred shares with warrants by the Company in the past year and up to the date of report: None.

VI. Issuance of global depositary receipts (GDR) in the past year and up to the date of report: None.

VII. Exercise of employee stock option plan (ESOP):

(I) Exercise of employee stock option plan (ESOP)

April 30, 2019

Type of employee stock option certificate (Note 1)	First (Batch) Employee stock option (Note 4)	Second (period) Employee stock option (Note 4)
Effective Date on Report	2007/12/13	2008/05/02
Date of issuance (Note 3)	2007/12/26	2008/08/29

No. of units issued	2,000,000	750,000 (Note 6)
Number of shares subscribable as a percentage of current outstanding shares	1.25715%	0.45175%
Duration of stock option	2009/12/26~2012/12/25	2010/08/29~2013/08/28
Method of performance (Note 2)	Issuance of new shares.	Issuance of new shares.
Duration and percentage of restricted shares (%)	50% subscribable after two years; 75% subscribable after three years; 100% subscribable after four years;	50% subscribable after two years; 75% subscribable after three years; 100% subscribable after four years;
Number of shares from exercised stock options	0	461,000 shares
Amount of exercised stock options	0	NT\$18,232,950
Amount of unexercised stock options	1,140,000 Expired	289,000 (Note 6) Expired
Price per share of unexercised stock options	62.5	37.2
Number of shares in unexercised stock options as a percentage of current outstanding shares (%)	0.687 %	0.262%
Impact on Stockholders' Equity	These employee stock options may be exercised in batches two years after issuance, and dilution of shareholders' equity is limited at only 0.687% of current ordinary shares.	These employee stock options may be exercised in batches two years after issuance, and dilution of shareholders' equity is limited at only 0.1487% of current ordinary shares. (Note 5)

Note 1: Employee stock option certificates include public offering and private placement of employee stock option certificates. Publicly offered employee stock option certifications refer to those that are already effective (approved). Employee stock option certificates offered through private placement refer to those that were already approved by the Board of Directors.

Note 2: The number of fields adjusted based on the actual number of times.

Note 3: Specify if current shares are delivered or new shares are issued.

Note 4: Separately list different dates of issuance.

Note 5: Clearly indicate if private placement was used.

(II) The names of managers and top ten employees that obtained employee stock options: Not applicable.

VI. Restricted stock awards:

(I) Restricted stock awards

April 30, 2018

Types of restricted stock awards (Note 1)	First (batch) of restricted stock awards in 2016		First (batch) of restricted stock awards in 2017	
Effective Date on Report	Thursday, August 18, 2016		Wednesday, November 29, 2017	
Date of issuance (Note 2)	Friday, February 24, 2017	Monday, June 26, 2017	Monday, January 22, 2018	Wednesday, November 28, 2018
Number of shares from restricted stock awards	1,542,000 shares	458,000 shares	196,000 shares	878,000 shares
Issue price	NT\$10 per share		NT\$10 per share (bonus shares)	
Number of restricted shares issued as a percentage of current outstanding shares	1.09%		0.43%	
Vesting conditions of restricted stock awards	5.6.1. Employees' personal performance must reach a B rating (inclusive) or above after receiving restricted stock awards; Employees do not meet vesting conditions if their performance rating is lower than B.		5.6.1. Employees' personal performance must reach a B rating (inclusive) or above after receiving restricted stock awards; Employees do not meet vesting conditions if their performance rating is lower than B.	

	5.6.2. The Company will use operating revenue or net operating profit on the consolidated financial statements for the most recent year after the vesting period expires as the basis for determining Company performance: (1) Year 1: The Company's operating revenue grows 8% or more (inclusive) compared with the previous year. (2) Year 2: The Company's after tax net profit grows 10% or more (inclusive) compared with the previous year. (3) Year 3: The Company's after tax net profit grows 10% or more (inclusive) compared with the previous year. (4) After-tax net profit refers to the "net income attributable to owners of the parent in the current period" on financial statements certified by a CPA. (5) Vesting conditions are deemed as not met if the Company's performance does not meet the conditions above. 5.6.3. The highest percentage employees are eligible for based on their years of service when the individual performance conditions in 5.6.1. and company performance conditions in 5.6.2. are both met are as follows: (1) 30% of shares one year after receiving restricted stock awards; (2) 30% of shares two years after receiving restricted stock awards; (3) 40% of shares three years after receiving restricted stock awards.		5.6.2. The Company will use operating revenue and net operating profit on the consolidated financial statements for the most recent year after the vesting period expires as the basis for determining Company performance: (1). Year 1: The Company's operating revenue grows 10% or more (inclusive) compared with the previous year. (2). Year 2: The Company's adjusted operating profit grows 10% or more (inclusive) compared with the previous year. (3). Year 3: The Company's adjusted operating profit grows 10% or more (inclusive) compared with the previous year. (4). The adjusted operating profit refers to the operating profit on financial statements certified by a CPA plus non-operating profits related to the Company's business. (5). Vesting conditions are deemed as not met if the Company's performance does not meet the conditions above. 5.6.3. The highest percentage employees are eligible for based on their years of service when the individual performance conditions in 5.6.1. and company performance conditions in 5.6.2. are both met are as follows: (1). 30% of shares one year after receiving restricted stock awards; (2). 30% of shares two years after receiving restricted stock awards; (3). 40% of shares three years after receiving restricted stock awards.	
Restricted rights of restricted stock awards	5.9.1. Employees shall immediately put restricted stock awards issued by the Company into the custody of the trust company designated by the Company. Employees may not request the restricted stock awards be returned for any reason or in any way. 5.9.2. Restricted stock awards may not be sold, pledged, transferred, given to others, or disposed of in any way before the vesting conditions are met. 5.9.3. The trust company shall attend, make proposals, comment, vote, and exercise other shareholder rights on behalf of employees at shareholders' meetings before the vesting conditions are met.		5.9.1. Employees shall immediately put restricted stock awards issued by the Company into the custody of the trust company designated by the Company. Employees may not request the restricted stock awards be returned for any reason or in any way. 5.9.2. Before vesting conditions are met, restricted shares are not eligible for stock and cash dividends or subscription to cash capital increase. 5.9.3. Restricted stock awards may not be sold, pledged, transferred, given to others, or disposed of in any way before the vesting conditions are met. 5.9.4. The trust company shall attend, make proposals, comment, vote, and exercise other shareholder rights on behalf of employees at shareholders' meetings before the vesting conditions are met.	
Custody of restricted stock awards	Restricted stock awards subscribed to by employees in accordance with these Regulations are placed in a trust until vesting conditions are met. Shares will be transferred from the trust account to employees' personal account within 1 month after meeting vesting conditions.		Restricted stock awards allocated to employees in accordance with these Regulations are placed in a trust until vesting conditions are met. Shares will be transferred from the trust account to employees' personal account within 1 month after meeting vesting conditions.	
Handling restricted stock awards allocated or subscribed to by employees who fail to meet vesting conditions	If employees who subscribe to restricted stock awards in accordance with these Regulations fail to meet vesting conditions, the shares will be bought back at the issue price and retired.		If employees who are allocated restricted stock awards in accordance with these Regulations fail to meet vesting conditions, the shares will be taken back without compensation and retired.	
Number of restricted shares	162,300 shares	45,100 shares	34,800 shares	16,000 shares

taken back or bought back				
Number of shares with restrictions lifted	850,200 shares	128,700 shares	49,200 shares	0 shares
Number of shares with restrictions not yet lifted	691,800 shares	329,300 shares	146,800 shares	878,000 shares
Number of shares with restrictions not yet lifted as a percentage of current outstanding shares (%)	1%			
Impact on Stockholders' Equity	Dilution of the Company's future EPS is limited, so there is no material impact on shareholder equity.			

Note 1: The number of fields adjusted based on the actual number of times.

Note 2: Separately list different dates of issuance.

(二) The names of managers and top ten employees that obtained restricted stock awards

(1) Issued on February 24, 2017

	Title (Note 1)	Name	Shares obtained through restricted stock awards	Shares obtained through restricted stock awards as a percentage of current outstanding shares (Note 4)	Restrictions that were lifted (Note 2)				Number of restricted shares as a percentage of current outstanding shares (Note 4)			
					Number of unrestricted shares	Issue price	Issuance amount (NT\$ Thousands)	Number of unrestricted shares as a percentage of current outstanding shares (Note 4)	Number of restricted shares	Issue price	Issue Amount (NT\$ Thousands)	Number of restricted shares as a percentage of current outstanding shares (Note 4)
Managerial Officers	President	Huang, Chao-Li	139,000	9.01%	83,400	NT\$10 per share	834	5.41%	55,600	NT\$10 per share	556	3.61%
	VP of Supply Chain Management	Lin, Shu-Chun										
	VP of Sales	Chester Chiang										
	VP of Sales/Chief Strategy Officer	Steven Su										
	Special assistant at the Administration Center	Steven Her										
	VP/Chief Technology Officer	Sam Chang										
Employees (Note 3)	President of subsidiary	Lin, Shih-Chieh	205,000	13.29%	123,000	NT\$10 per share	1,230	7.98%	82,000	NT\$10 per share	820	5.32%
	VP of affiliate	Chiang, Yong-Le										
	Director	Zhong, Hua-Xue										
	Director	Chen, Wen-Chuan										
	Director	Liu, Shu-Chen										
	Deputy Director	Jin, Jing-Guo										
	Deputy Director	Li, Kuo-Hsu										
	Senior Manager	Lin, Hsing-Ju										
	Manager	Zhang,										

		Chao-Sen										
	Manager	Chen, Chen-I										

Note 1: Disclose the names and titles of managers and employees (specify if the individual was separated or deceased), but the number of restricted stock awards they received or subscribed to may be disclosed in the form of a summary.

Note 2: The number of fields adjusted based on the actual number of issuances.

Note 3: The top ten employees that received the most restricted stock units refers to employees other than managers.

Note 4: The number of current outstanding shares refers to the data registered with the Ministry of Economic Affairs.

(2) Issued on Monday, June 26, 2017

	Title (Note 1)	Name	Shares obtained through restricted stock awards	Shares obtained through restricted stock awards as a percentage of current outstanding shares (Note 4)	Restrictions that were lifted (Note 2)				Number of restricted shares as a percentage of current outstanding shares (Note 4)			
					Number of unrestricted shares	Issue price	Issuance amount (NT\$ Thousands)	Number of unrestricted shares as a percentage of current outstanding shares (Note 4)	Number of restricted shares	Issue price	Issuance amount (NT\$ Thousands)	Number of restricted shares as a percentage of current outstanding shares (Note 4)
Managerial Officers	President	Huang, Chao-Li	66,000	14.41%	19,800	NT\$10 per share	198	4.32%	46,200	NT\$10 per share	462	10.09%
	VP of Supply Chain Management	Lin, Shu-Chun										
	VP of Sales	Chester Chiang										
	VP of Sales/Chief Strategy Officer	Steven Su										
Employees (Note 3)	President of subsidiary	Lin, Shih-Chieh	136,000	29.69%	40,800	NT\$10 per share	408	8.91%	95,200	NT\$10 per share	952	20.79%
	Director	Liu, I-Chang										
	Deputy Director	Liao, Chong-Xi										
	Deputy Director	Liao, Yu-Fang										
	Deputy Director	Wang, Tzu-Jung										
	Senior Manager	Tseng, Yao-Hui										
	Deputy Manager	Chen, Chun-Pin										
	Deputy Manager	Hsu, Yung-Tsun g										

	Deputy Manager	Chao, Chih-Feng										
	Deputy Manager	Chen, Yu-Hsiang										
	Senior Officer	Huang, Lan-Ting										

Note 1: Disclose the names and titles of managers and employees (specify if the individual was separated or deceased), but the number of restricted stock awards they received or subscribed to may be disclosed in the form of a summary.

Note 2: The number of fields adjusted based on the actual number of issuances.

Note 3: The top ten employees that received the most restricted stock units refers to employees other than managers.

Note 4: The number of current outstanding shares refers to the data registered with the Ministry of Economic Affairs.

Issued on June 26, 2017 (Retired)

	Title (Note 1)	Name	Shares obtained through restricted stock awards	Shares obtained through restricted stock awards as a percentage of current outstanding shares (Note 4)	Restrictions that were lifted (Note 2)				Number of restricted shares as a percentage of current outstanding shares (Note 4)			
					Number of unrestricted shares	Issue price	Issuance amount (NT\$ Thousands)	Number of unrestricted shares as a percentage of current outstanding shares (Note 4)	Number of restricted shares	Issue price	Issuance amount (NT\$ Thousands)	Number of restricted shares as a percentage of current outstanding shares (Note 4)
Managerial Officers	Chairman	Liao, Lu-Lee	32,000	6.99%	6,900	NT\$10 per share	69	1.51%	25,100	NT\$10 per share	251	5.48%
	Vice Chairman	Wei, Wen-Chieh										
Employees	Senior Manager	Huang, Kuo-Tai										

Note: Chairperson Liao, Lu-Lee was relieved of the position of president on June 1, 2018, and Vice Chairperson Wei, Wen-Chieh was appointed as CTO on July 1, 2018.

(3) Issued on Monday, January 22, 2018

	Title (Note 1)	Name	Shares obtained through restricted stock awards	Shares obtained through restricted stock awards as a percentage of current outstanding shares (Note 4)	Restrictions that were lifted (Note 2)				Number of restricted shares as a percentage of current outstanding shares (Note 4)			
					Number of unrestricted shares	Issue price	Issuance amount (NT\$ Thousand s)	Number of unrestricted shares as a percentage of current outstanding shares (Note 4)	Number of restricted shares	Issue price	Issuance amount (NT\$ Thousands)	Number of restricted shares as a percentage of current outstanding shares (Note 4)
Managerial Officers	President	Huang, Chao-Li	56,000	28.57%	16,800	NT\$ 0 per share	0	8.57%	39,200	NT\$ 0 per share	0	20%
	VP of Supply Chain Management	Lin, Shu-Chun										
	VP of Sales	Chester Chiang										
	VP of Sales/Chief Strategy Officer	Steven Su										
Employees (Note 3)	President of subsidiary	Lin, Shih-Chieh	74,000	37.76%	22,200	NT\$ 0 per share	0	11.33%	51,800	NT\$ 0 per share	0	26.43%
	Director	Liu, Shu-Chen										
	Deputy Director	Liu, Yung-Hsia ng										
	Deputy Director	Jin, Jing-Guo										
	Senior Manager	Chung, Wen-Hao										
	Senior Manager	Wu, Chun-Kuan										
	Manager	Yuen, Shih-Man										
	Manager	Chen, Jui-Lung										
	Senior Engineer	Chiang, Kai-Yu										
	Senior Engineer	Yang, Chi-Chang										

Note 1: Disclose the names and titles of managers and employees (specify if the individual was separated or deceased), but the number of restricted stock awards they received or subscribed to may be disclosed in the form of a summary.

Note 2: The number of fields adjusted based on the actual number of issuances.

Note 3: The top ten employees that received the most restricted stock units refers to employees other than managers.

Note 4: The number of current outstanding shares refers to the data registered with the Ministry of Economic Affairs.

Issued on January 22, 2018 (retired)

	Title (Note 1)	Name	Shares obtained through restricted stock awards	Shares obtained through restricted stock awards as a percentage of current outstanding shares (Note 4)	Restrictions that were lifted (Note 2)				Number of restricted shares as a percentage of current outstanding shares (Note 4)			
					Number of unrestricted shares	Issue price	Issuance amount (NT\$ Thousand s)	Number of unrestricted shares as a percentage of current outstanding shares (Note 4)	Number of restricted shares	Issue price	Issuance amount (NT\$ Thousands)	Number of restricted shares as a percentage of current outstanding shares (Note 4)
Employees	President of subsidiary	Hsu, Chang-Fu	27,000	13.78%	0	NT\$ 0 per share	0	0	27,000	NT\$ 0 per share	27	13.78%
	Deputy Director	Wang, Chih-Shan										

(4) Issued on Wednesday, November 28, 2018

	Title (Note 1)	Name	Shares obtained through restricted stock awards	Shares obtained through restricted stock awards as a percentage of current outstanding shares (Note 4)	Restrictions that were lifted (Note 2)				Number of restricted shares as a percentage of current outstanding shares (Note 4)			
					Number of unrestricted shares	Issue price	Issuance amount (NT\$ Thousands)	Number of unrestricted shares as a percentage of current outstanding shares (Note 4)	Number of restricted shares	Issue price	Issuance amount (NT\$ Thousands)	Number of restricted shares as a percentage of current outstanding shares (Note 4)
Managerial Officers	President	Huang, Chao-Li	110,000	12.53%	0	NT\$ 0 per share	0	0	110,000	NT\$ 0 per share	0	0
	VP of Supply Chain Management	Lin, Shu-Chun										
	VP of Sales	Chester Chiang										
	VP of Sales/Chief Strategy Officer	Steven Su										
	VP/Chief Technology Officer	Sam Chang										
	Vice President/Chief Financial Officer	Joyce Lam										

Employees (Note 3)	President of subsidiary	Lin, Shih-Chieh	159,000	18.11%	0	NT\$ 0 per share	0	0	159,000	NT\$ 0 per share	0	0
	VP of affiliate	Chiang, Yong-Le										
	Director	Zhong, Hua-Xue										
	Deputy Director	Lin, Chun-Ta										
	Deputy Director	Liao, Chong-Xi										
	Deputy Director	Jin, Jing-Guo										
	Senior Manager	Wang, Yung-Feng										
	Senior Manager	Tseng, Yao-Hui										
	Manager	Zhang, Chao-Sen										
	Deputy Manager	Lin, Chia-Chung										

Note 1: Disclose the names and titles of managers and employees (specify if the individual was separated or deceased), but the number of restricted stock awards they received or subscribed to may be disclosed in the form of a summary.

Note 2: The number of fields adjusted based on the actual number of issuances.

Note 3: The top ten employees that received the most restricted stock units refers to employees other than managers.

Note 4: The number of current outstanding shares refers to the data registered with the Ministry of Economic Affairs.

VII. Mergers, acquisitions or issuance of new shares due to acquisition of shares of other companies in the past year and up to the date of report: None.

VIII. Implementation of capital allocation plan:

丙、 Contents of the original plan to issue the first batch of unsecured corporate bonds in Taiwan:

1. Date of approval and document number of the Financial Supervisory Commission, Executive Yuan: Jin-Guan-Zheng-Fa-Zi No. 10300495811 dated December 15, 2014.
2. Date of approval and document number of Taipei Exchange: Zheng-Gui-Zai-Zi No. 1040400043 dated January 28, 2015.
3. Capital required for project NT\$1,500,000,000
4. Source of funds: The first batch of unsecured convertible corporate bonds issued in Taiwan has a face value of NT\$100,000, 3-year maturity, coupon rate of 0%, and issued at 100.5% of face value. Total amount issued is NT\$1,507,500,000, and bonds can be converted to ordinary shares of the Company after one full month until maturity. All payments were received as of January 27, 2015. The Company's own funds will be used if the capital allocation plan has insufficient funding.
5. Original fund utilization plan, expected progress, and potential benefits:
 - (1). Fund utilization plan and expected progress

Unit: NT\$ Thousand

Project Item	Expected Completion Date	Total funding required (Note 1)	Expected fund use progress			
			2015			
			Q1	Q2	Q3	Q4
Increase working capital	2015 Q1	1,379,500	1,379,500	-	-	-
Reinvestment – Merry Huizhou	2015 Q4	153,000	134,700	2,452	6,079	9,769
Reinvestment – Merry Thailand	2015 Q2	475,000	434,323	40,677	-	-
Total		2,007,500	1,948,523	43,129	6,079	9,769

(2). Expected benefits before change of plan:

A. Increase working capital

We plan to use NT\$1,379,500,000 to increase our working capital, which will not only increase the stability of our long-term funds, but also prevent increasing interest expenses from taking out a loan from the bank. Using an interest rate of 1.45% for calculations, we plan to use the funds raised in the first quarter of 2015 to increase our working capital. Hence, we expect to reduce interest expenses by NT\$18,336,000 in 2015, and will reduce interest expenses by NT\$20,003,000 each year thereafter.

B. Reinvestment – Merry Huizhou

We plan to invest the NT\$153,000,000 in Merry Huizhou, which we indirectly hold 100% shares of. The funds will be used to make the final payment of NT\$39,600,000 for factory construction, and NT\$113,400,000 will be used to increase working capital. Total funding required for factory construction is estimated at NT\$364,150,000, in which NT\$324,550,000 was obtained through a cash capital increase and the funds of Merry Huizhou. The total amount of funding required for factory construction and to increase working capital is NT\$477,550,000. Furthermore, we use the triangle trade approach to marketing. Hence, this investment in Merry Huizhou will have a positive effect on our overall net profit. As of 2014, no benefits have been obtained from the investment in the new factory because construction began in September 2012.

The new factory is expected to begin production in 2015 and begin providing benefits. The payback period is expected be 6.71 years to 2019.

C. Reinvestment – Merry Thailand

We plan to invest NT\$475,000,000 in Merry Thailand, which we indirectly hold 99.99% shares of. The funds will be used to make the final payment of NT\$393,647,000 for factory construction, and NT\$81,353,000 will be used to purchase machinery and equipment. Total funding required for factory construction is estimated at NT\$598,786,000, in which NT\$205,139,000 was obtained through a cash capital increase. The total amount of funding required for factory construction and to purchase machinery and equipment for Merry Thailand is NT\$680,139,000. Furthermore, we use the triangle trade approach to marketing. Hence, this investment in Merry Thailand will have a positive effect on our overall net profit. The new factory is expected to begin mass production in April 2015 and begin providing benefits. The balance sheet for the investment in 2015-2022 is shown in the table below. If depreciation is considered and investments begin in March 2014, the payback period is expected be 7.96 years to 2022.

丁、 Contents of the revised plan to issue the first batch of unsecured corporate bonds in Taiwan:

1. Capital required for project NT\$1,753,561,000.
2. Source of funds:
 - A. The first batch of unsecured convertible corporate bonds issued in Taiwan has a face value of NT\$100,000, 3-year maturity, coupon rate of 0%, and issued at 100.5% of face value. Total amount issued is NT\$1,507,500,000, and bonds can be converted to ordinary shares of the Company after one full month until maturity. All payments were received as of January 27, 2015.
 - B. The original fund utilization plan was NT\$2,007,500,000, in which NT\$1,507,500,000 will be raised externally and NT\$500,000,000 will be provided from self-owned funds. The change was a reduction of NT\$253,939,000 from self-owned funds.
3. Approved by the Board of Directors on: February 25, 2016.
4. Reported to the shareholders' meeting on: Not required to be reported to the shareholders' meeting because the amount of change did not reach 20% or above.
5. Information provided on the reporting website designated by the Financial Supervisory Commission on: February 25, 2016.
6. Reason for change:

Merry Huizhou used its own funds and bank loan to pay for the factory construction and provide working capital, resulting in lower demand on capital increase. Merry Thailand's purchase orders and business condition has not meet expectations, and we will reevaluate whether to continue contracting out factory construction based on its purchase orders. Machinery and equipment were purchased from an affiliate, and reduced the amount of funds needed to purchase machinery and equipment. Based on the reasons above, we changed our plan to issue the first batch of unsecured convertible corporate bonds in Taiwan in 2014, and reduced the capital increase plan not yet completed by subsidiaries. In the future, we will propose capital increases to the Board of Directors based on the business condition and funding requirements of subsidiaries.
7. Revised fund utilization plan, implementation status, and potential benefits:
 - (1). Implementation of the revised fund utilization plan

Unit: NT\$ Thousand

Project Item	Total funding of original plan	Total funding of revised plan	Implementation status in the quarter before the report date	
			Actual amount used	Progress (%)
Increase working capital	1,379,500	1,379,500	1,379,500	100.00%
Reinvestment – Merry Huizhou	153,000	126,907	126,907	100.00%
Reinvestment – Merry Thailand	475,000	247,154	247,154	100.00%
Total	2,007,500	1,753,561	1,753,561	100.00%

(2). Reason for differences in expected benefits before and after the change and comparison:

A. Increase working capital

Completed according to the original plan and there were no changes in expected benefits.

B. Reinvestment – Merry Huizhou

This investment plan was already concluded, so there was no change in expected benefits.

C. Reinvestment – Merry Thailand: This investment plan was already concluded.

a. Before change of plan: Total loss from the investment in 2015-2022 is estimated at NT\$512,155,000 plus depreciation. If investments are made starting in March 2014, then the payback period is expected to be 7.96 years to 2022.

b. After change of plan: Total loss from the investment in 2015-2022 is estimated at NT\$278,802,000 plus depreciation. If investments are made starting in March 2014, then the payback period is expected to be 8.25 years to 2022.

戊、 If the progress or benefits from the change do not meet expectations, explain the reason, effect on shareholders' equity, and improvement plan.

1. Implementation status: Completed in 2016 Q1

2. Actual benefits obtained

(1) Increase working capital

We increased our working capital by NT\$1,379,500,000 as planned in the first quarter of 2015. Using an interest rate of 1.45% for calculations, we expect to reduce interest expenses by NT\$20,003,000 each year.

(2) Reinvestment – Merry Huizhou

Actual production and sales of headset products by Merry Huizhou in the first quarter of 2016 were both 2,054,000 pcs, reaching 6.13% of the expected volume in 2016. Consolidated after-tax net profit of Merry Huizhou and the Company increased NT\$12,296,000 due to triangle trade, achieving 15.33% of the consolidated after-tax net profit of NT\$80,185,000 originally expected in 2016. With regard to achieving the expected volume, actual production and sales were both relatively low mainly due headsets being impacted by the saturation of the smartphone market; smartphone sales of the end customers affected purchase orders for products; new products of some customers are still in the pilot production phase. Production and sales of entertainment headsets at Merry Huizhou did not meet expectations, resulting in overall production and sales being lower than expectations. With regard to profits, the rate of achievement of actual consolidated after-tax net profit was relatively low. This was mainly due to production and sales of Merry Huizhou not meeting

expectations, relatively low utilization, and new product pilot production expenses, which resulted in a negative gross margin. Merry Huizhou also recognized year-end bonus expenses, which resulted in relatively high net operating loss.

(3) Reinvestment – Merry Thailand

Actual production and sales of headset products by Merry Thailand in the first quarter of 2016 were both 1,170,000 pcs, reaching 21.65% of the revised expected volume in 2016. Consolidated after-tax net profit of Merry Thailand and the Company increased NT\$1,625,000 due to triangle trade, achieving 9.62% of the consolidated after-tax net profit of NT\$16,899,000 expected in 2016. With regard to achieving the expected volume, actual production and sales were both relatively low mainly due current headset products of customers being impacted by the business cycle and competition, resulting in sales not meeting expectations. With regard to profits, the rate of achievement of actual consolidated after-tax net profit was relatively low. This was mainly due to operating expenses of Merry Thailand and operating expenses shared by Merry Electronics being higher than expectations, which resulted in relatively low consolidated after-tax net profit.

己、 Contents of the plan to issue the second batch of unsecured corporate bonds in Taiwan:

1. Date of approval and document number of the Financial Supervisory Commission, Executive Yuan: Jin-Guan-Zheng-Fa-Zi No. 10703414091 dated Monday, November 26, 2018.
2. Date of approval and document number of Taipei Exchange: Zheng-Gui-Zai-Zi No. 10700324962 dated December 6, 2018.
3. Capital required for project NT\$3,000,000,000.
4. Source of funds:
 - (1) 4,000,000 new shares will be issued with face value of NT\$10 per share and an issue price temporarily set at NT\$122 per share to raise NT\$488,000,000 in a cash capital increase.
 - (2) The second batch of 30,000 unsecured convertible corporate bonds issued in Taiwan has a face value of NT\$100,000, will be issued at 100.5%-101.00% of face value, 3-year maturity, and coupon rate of 0%. Total amount issued is NT\$3,030,000,000.
 - (3) Method for handling insufficient or additional funds raised: The Company's own funds or a bank loan will be used if amount of funds raised is insufficient. If the amount of funds raised exceeds the plan, the additional amount will be used to increase working capital.
5. Original fund utilization plan, expected progress, and potential benefits:
 - (1). Fund utilization plan and expected progress

Unit: NT\$ Thousand

Project Item	Expected Completion Date	Total funding required	Expected fund use progress
			2019 Q1
Repayment of bank loans	2019 Q1	3,518,500	3,518,000
Total		3,518,500	3,518,000

(2). Expected benefit:

In the fundraising plan, NT\$3,518,000,000 will be used to repay bank loans, which will reduce interest expenses. Using an interest rate of 0.67%-0.83% on the bank loan, this is expected to reduce interest expenses by NT\$26,466,000 each year, preventing interest on loans from reducing profits. Furthermore, it will

improve the company's financial structure, lower its dependence on banks, and increase the flexibility of capital allocation. As holders of corporate bonds begin to convert their bonds into ordinary shares, it will benefit the company's financial structure and liquidity, enhance the company's growth competitiveness, and benefit the company's overall business development.

3. Impact on shareholders' equity and improvement plan:

From the perspective of diluting shareholders' equity, financing through bank loans does not increase capital stock, so there are no concerns about dilution. Before creditors make a request to exercise their conversion right, convertible corporate bonds do not dilute shareholders' equity. Creditors may choose to exercise their conversion right at a more favorable time point in the period available for conversion. Hence, it defers the dilution of shareholders' equity. In terms of the dilution effect resulting from different financing tools (assuming that current shareholders do not participate in cash capital increase or purchase convertible corporate bonds), the effect from small to large is bank loans, convertible corporate bonds, and cash capital increase. For the current cash capital increase 10% is first allocated for employee subscription and 10% is allocated for public offering in accordance with the law. The remaining shares are provided for subscription by shareholders on the shareholders register on the ex-dividend date according to their shareholding percentage, and the remaining amount is offered to the public. If external investors convert these to ordinary shares, it will have a greater dilution effect. Financing through cash capital increase and issuance of convertible corporate bonds will effectively reduce and defer the dilution of shareholders' equity, so there should not be a material effect on shareholders' equity.

4. Analysis of changes in our current assets, current liabilities, and total liabilities, interest expenses, operating revenue, and EPS is as follows:

Unit: NT\$ Thousand
(only EPS is in NT\$)

Item \ Year		2018	2017	Percentage of change (%)
Current assets		21,640,870	17,156,216	26.14%
Current liabilities		16,177,542	12,035,053	34.42%
Total liabilities		20,252,149	12,654,703	60.04%
Interest expenses		48,453	26,831	80.59%
Operating revenue		35,494,808	26,678,810	33.04%
Earnings per share		10.47	18.94	-44.72%
Financial structure	Debts Ratio (%)	66.77	48.01	39.08%
	Long-term fund to fixed assets ratio (%)	704.43	898.89	-21.63%

Analysis data is as follows:

- (1) Current assets, current liabilities, and total liabilities: Mainly due to the significant increase in revenue in 2018, which led to the increase in cash and accounts receivable; accounts payable also increased as well.
- (2) Decrease in earnings per share: The decrease in net profit compared with last year was mainly due to the change in product structure, which led to an increase in operating costs and R&D expenses, and resulted in the decrease in earnings per share.
- (3) Increase in debt ratio: Mainly due to the amount of corporate bonds issued in 2018 was higher than the previous year, and a decrease in the valuation of other comprehensive income at the end of the period led to the increase in debt ratio.
- (4) Decrease in long-term fund to fixed assets ratio: Mainly due to the decrease in financial assets at fair value through profit and loss - non-current and financial assets at fair value through other comprehensive profit and loss - non-current value adjustment, which resulted in the decrease in long-term fund to fixed assets ratio.

E.Business Overview

丁、Business Activities

(I) Business scope

1. Content: Our scope of business is as follows:

- (1) CC01030 Electric Appliance and Audiovisual Electric Products Manufacturing
- (2) CC01070 Telecommunication Equipment and Apparatus Manufacturing
- (3) CC01080 Electronic Parts and Components Manufacturing
- (4) CC01110 Computers and Computing Peripheral Equipments Manufacturing
- (5) CC01101 Restrained Telecom Radio Frequency Equipments and Materials Manufacturing
- (6) CF01011 Medical Materials and Equipment Manufacturing
- (7) F108031 Wholesale of Drugs, Medical Goods
- (8) F401021 Restrained Telecom Radio Frequency Equipments and Materials Import
- (9) I103060 Management Consulting Services
- (10) ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

2. Revenue distribution: The Company's main products and revenue distribution in 2017:

Main products and services	Merry Taiwan (%)
Headset	0.32
Speakers	26.35
Entertainment Products	67.01
Other Electronics Products	6.33
Total	100.00

3. The Company's current products: Headphone, wireless earphone, speaker, microphone and assistive listening device, power bank, wireless charger, and portable storage system.

4. New products under development: Our future direction for technological development is as follows

甲、Speakers: Headsets, smart speakers, and speakers required for high-end audiovisual systems.

乙、MEM microphone: Packaging technology.

丙、Accessories:

A. Audio headset

B. Gaming headset

C. Sports headset

D. Smart headsets for sleeping and healthcare

丁、Smart power storage system

(7) Medical/Healthcare

(II) Industry Overview

The Company mainly manufactures speakers, handfree headsets, power banks, assistive listening devices, entertainment headsets, portable speakers, and bluetooth earphones. These products are extensively applied in the consumer market, including laptops, tablet PCs, mobile phones, TVs, wearable devices, and smart home appliances.



1. Current trends and outlook of the industry:

Overview of the terminal market served by Merry: First, global smartphone shipments declined 0.3% in 2017 according to the IDC, which expects shipments in 2018 to continue to decline by 0.2% to 1.462 billion smartphones. The demand on new smartphones is expected to be driven by 5G and global shipments will reach 1.654 billion smartphones in 2022; CAGR over the five years will be 2.5%. Multiple years of low single digit growth and even slight decline proves that the smartphone market has matured.

With regard to the PC industry (including tablet PCs, notebooks, and desktops), approximately 260 million notebooks and desktops were shipped in 2017 according to the IDC, and CAGR to 2022 will be -0.9%. Approximately 164 million tablet PCs were shipped in 2017, and CAGR to 2022 will be -3.4%. This shows that conventional information terminal products will face an even more dire future than smartphones.

Yet, the global headset market faces a whole different situation. Headsets not only need to be waterproof and have a noise reduction function, but have also transformed from a tool for transmitting sound into a personal assistant, and can also be connected to smartphones and wearable devices. This is necessary to meet users' demand on high quality audiovisual entertainment, personalized audio, sports, and smart voice assistant. According to statista, global wireless headset shipments is estimated at 432 million in 2018, and is expected to grow to 484 million by 2020. The growth momentum will come from smart headsets, which is projected to have a CAGR reaching 93% between 2016 and 2020 to 71 million headsets.

Smart speakers, which have emerged in recent years, have wireless Internet connection, audio input functions, artificial intelligence, and are able to control home appliances. According to Topology Research Institute, smart speakers were first introduced at the end of 2014, and an increasing number of brands have entered the market since then. Shipments of smart speakers worldwide in 2018 is projected to grow 66% compared with 2017 and exceed 46 million smart speakers. According to Fubon

Investment Services, smart speaker shipments are expected to reach 61-101 million smart speakers by 2020 with American and Chinese brands launching new smart speakers.

Looking towards 2019, Merry will not only maintain its competitiveness in micro electroacoustics components used in ICT products to gain greater market share in a market with limited growth, but also focus on smart headsets, wireless speakers/smart speakers, and assistive listening devices, growing with the trend.

2. Product Trends

- i. Receiver: Thin, low Fo.
- ii. Speakers: Thin, high sensitivity, broadband, high power.
- iii. Microphone: Low current, micro.
- iv. Headset: High quality stereo headset, metallic design, multiple colors, bluetooth stereo headset, Wi-Fi stereo headset, physiological sensing ability, and smart.
- v. External portable speaker: Focus on the development of wired, bluetooth, and Wi-Fi smart speakers.

3. Relationships with suppliers in the industry's supply chain

The electroacoustics industry consists of downstream terminal brand companies, electroacoustics accessories and components OEM, and mid and up-stream IC, plastics, metal, and wire manufacturers.

Upstream	Midstream	Downstream
Magnets	Wires	ICT manufacturers
Communications passive components	Metal stamping	Entertainment accessories manufacturers
Communications IC	Plastic injection	
Plastic	Surface treatment	
Metal		

4. Competition

Unlike the ICT industry dominated by only a few oligopolists, the electroacoustics industry many competitors. Some competitors are public listed companies while others a small and medium enterprises. Merry is an electroacoustics accessories and components design and manufacturing company that has been in the industry for four decades. We are among the industry's leaders with a few Japanese and Chinese competitors. In the future, we will establish a more stable development platform for the electroacoustics industry through strategic alliances and vertical integration.

(III) Overview of Technology and R&D

1. R&D expenses in the past year and up to the date of report: R&D expenses in 2018 and the first quarter of 2019 were NT\$1,103,005,000 and NT\$309,098,000, accounting for 3% and 4% of revenue, respectively.
2. Technologies and products successfully developed in the past year and up to the date of report:
 - (1) Modification of current products: Active noise cancellation, micro, MEM microphone packaging structure, and wired/wireless charging technology platform.
 - (2) New product and technology development:
 - A. Bluetooth headset.
 - B. Development of advanced touch sensor functions.
 - C. Integrated pulse sensor.
 - D. Wireless charging and fast charging.

- E. Portable power storage system.
- 3. Future research and development plan:
 - (1) Head motion tracking and immersive experience.
 - (2) Integrated voice assistant in accessories.
 - (3) Artificial intelligence algorithm.
 - (4) Industry-academia collaboration in sleep research.
 - (5) Comply with laws and regulations on healthcare products and product registration.
 - (6) Smart power storage system for smart homes.
 - (7) Micro multi-sensor module.

(IV) Long- and Short-Term Business Development Plans

1. Short-term plan

- (1) Headset market: Focus on audio, gaming, and sports headset requirements. Let the hardware platform of Merry headsets become linked to more physiological information and control signals to create a new user experience.
- (2) Develop large potential customers other than major customers in the ICT terminal product applications market, which has large volume but slowing growth rate, so as to maintain R&D and production at a superior scale.
- (3) For wireless speakers/smart speakers, we will integrate high-end European and American speaker components, system design, and Asian manufacturing efficiency, and propose solutions that combine components, assembly, and system integration for different types of customers.

2. Long-term plan

(1) Marketing policy

- A. Hearables, assistive listening devices: We will focus on wellness and assistive listening devices based on the need to sleep well and be able to hear clearly, and use this to cross over to new consumer markets.
- B. Wireless speakers/Smart speakers: Integrate China's voice assistant platform to provide strong support for European and American customers to enter China's market.
- C. Batteries: Expand to TWS earphone chargers, wireless chargers, and power storage solutions provider on the basis of being a power bank supplier.

(2) Production policy

- A. Southbound strategy: Continue to invest in production bases in Southeast Asia to give consideration to both electroacoustics industrial cluster and international political and economic risk.
- B. Plan the flexible decision-making ability necessary for smart manufacturing, so as to reduce the fluctuation in demand on human resources, and increase the flexibility of customer services.
- C. Healthcare product certification factory: Serves as an important foundation stone for Merry to enter the field of healthcare products.

(3) Research and development policy

- A. Software: Integrate the software R&D team to develop acoustic sensing algorithms, wireless communications algorithms, artificial intelligence, and edge computing technologies.

- B. Cross-discipline, cross-generation: Invest in or recruit electroacoustics related emerging technology teams through Corporate Venture Capital, startup accelerators and incubators.
- C. Audio/Gaming/Sport headsets: Obtain voice assistant platform certification and develop immersive audio experience, pulse sensor, and motion recognition algorithms to satisfy users' needs on headsets in different use situations.
- D. Battery power storage: Cumulative battery cell solutions, battery management system, and inverter R&D capabilities.

戊、Market, production and sales

(I) Market analysis

1. Main sales regions and market share of products

Our products are mainly exported to Asia, Europe, and America, and we collaborate with major companies worldwide in product development. Among our main products, we are the global leader in entertainment headsets, and major smartphone manufacturers and entertainment accessories manufacturers around the world are all among our important customers. Only a few competitors are public listed companies in China and Japan. Merry has secured a stable place in the industry.

2. Future Market Supply and Demand and Future Growth

As described above, the terminal market served by Merry includes the headset market with growing demand, especially smart headsets, which are projected to have a CAGR reaching 93% between 2016 and 2020. Furthermore, smart speaker shipments are expected to reach 61-101 million smart speakers by 2020 with American and Chinese brands launching new products. With speech interface expected to be commonly applied in consumer electronics and home appliances, the overall consumer market's demand on electroacoustics products will only increase.

Progress in the OTC Hearing Aids Bill will help electroacoustics companies expand from consumer products to healthcare products. In addition to recreation and entertainment, electroacoustics products can also be found in wellness applications.

However, from a supply perspective, besides competitors from Taiwan, Japan, and China, more and more large consumer electronics manufacturers are also entering the electroacoustics industry, driving both supply and demand in the industry.

3. Competitive niches:

- (1) Provide customers with one-stop service to strengthen partnerships with customers

Merry has a complete product system and products with diverse specifications. Our product line covers receivers, speakers, headsets, microphones, bluetooth headsets, external portable speakers, and battery packs. This enables us to meet customers' diverse demands, so they can purchase everything they need in one stop. We have technologies and experience in the R&D of electroacoustics products and process modification. Facing the diverse and immediate demands of customers, this allows us to release products with corresponding specifications in a timely manner and seize market opportunities.

- (2) A wealth of R&D and manufacturing experience, technology and talent-oriented business philosophy

Merry has accumulated years of experience in the R&D and production of electroacoustics products. We independently cultivate talent and also actively engage in academic exchanges with domestic colleges in the field of electroacoustics, in hopes of attracting outstanding talent. The product development and production process involves meticulous and complicated procedures, which create high demand on highly experienced specialists. Hence, we have attached great importance to independent talent cultivation over the years, and also attract outstanding talent to join us. We hope to secure our competitiveness and leadership by improving the quality and increasing the quantity of talent.

(3) Vertical integration, high self-sufficiency, and fast delivery

To provide products with the specifications needed by downstream customers, we begin development at the same time customers beginning designing their product, which increases the compatibility with customers' products. We also assist customers with acoustic space design to achieve the optimal sound effects and meet customers' needs.

We have carried out the vertical integration of our material production capabilities, which has shortened the lead time and lowered the cost of products. We use simulation software in the development of products, and estimate the required scale for mass production based on design, tooling, and process. This allows us to quickly respond to customers' needs and provide a sample for verification in the design process, shortening the product development period.

4. SWOT analysis of the electroacoustics industry's long-term development and response measures

Opportunities	Threats
(1) Smartphones and tablet PCs increased the demand on thin high functioning speakers (2) Increased demand in emerging markets (3) The arrival of an aging society in Taiwan has expanded the assistive listening device market (4) Rise of wearable products (5) Growing maturity of cloud, big data, and artificial intelligence technologies	甲、Price competition from Chinese and Korean companies has created growingly severe market competition 乙、Major companies entering the electroacoustics industry through merger and acquisition have further increased competition 丙、Slowing growth of China's market 丁、Labor shortage and rising wages and raw material prices in China
Strengths	Weaknesses
(1) Our main customers are major smartphone manufacturers and entertainment accessories manufacturers around the world Our brand is recognized by major multinational companies (2) Global logistics provide VMI service to strategic customers (3) Sound financial structure and steady financial policy lower operating risks (4) Provide customers with one-stop service (5) Capacity of multiple factories (including Southeast Asia) lowers global political and economic risks (6) Business partner in China is rapidly expanding	甲、Insufficient supply of electroacoustics talent from the education system, and technological development is independently carried out 乙、Learning curve when entering the wearable products market

capacity and has strong management ability	

5. Response measures:

- (1) Develop electroacoustics products that determine mainstream specifications in emerging applications markets.
- (2) Continue to improve supply chain management performance and improve cost structure.
- (3) Increase production efficiency through automation.
- (4) Work together with complementary companies to expand product lines and increase the level of vertical and horizontal integration.
- (5) Work together with renowned domestic and foreign universities in strengthening talent cultivation for the electroacoustics industry.
- (6) Continue to develop IoT products, such as wearable devices and smart home appliances.
- (7) Utilize the strengths of business partners and work together in build a strong management team.

(II) Important applications and manufacturing processes of major products

1. Important applications of major products

Main Product	Purpose or function
Headset	Handfree headset, earphones, wireless stereo headsets, and bluetooth headsets for mobile phones, tablet PC, smartphones, multimedia computers, etc.
Speakers	Speakers for mobile phones, smartphones, multimedia computers, mobile phone earphone, NB, tablet PC, e-books, etc.
Medical/Healthcare	People with hearing impairment can use wired or wireless assistive listening devices to help them communicate.
Power bank	Provides an external power source for smartphones, tablet PCs, and other 3C devices.
Entertainment headset Portable speakers	Provides excellent acoustic performance through wired or wireless connection to smartphones, tablet PCs, notebooks, and other audio input devices.

2. Production process

Our main product is speakers. The product assembly process is summarized below:

(1) Speakers

Bind the top plate and plastic frame → Bind the magnet and plastic frame → Bind the lower plate and plastic frame → Bind the PC plate → Bind the cloth skin → Bind the coil and diaphragm → Bind the coil and diaphragm with the plastic frame → Weld the coil's output line → Short circuit, broken line test → Glue output line → Affix period stamp → Complete

(2) Handfree headset

Plastic case + Speaker + Wires (and plug molding) assembly → Complete

(III) Supply status of primary raw materials

Our main raw materials are electronics, metal, and plastics. Our main suppliers have grown steadily over the past three years, and we purchase main raw materials from several suppliers with stable supply. Hence, we have an abundant supply of raw materials.

(IV) List of key clients:

- Names of customers who accounted for more than 10% of the Merry Electronics' sales in the last two years, sales as a percentage of total sales, and reason for changes:

Item	2018				2017				2018 up to Q1			
	Name	Amount	As a percentage of net sales for the entire year (%)	Relationship with issuer	Name	Amount	As a percentage of net sales for the entire year (%)	Relationship with issuer	Name	Amount	As a percentage of net sales for the entire year (%)	Relationship with issuer
1	A26	14,116,651	39.77%	None	A26	12,468,619	46.74%	None	A26	2,831,861	37.11	None
2	A30	8,300,890	23.39%	None	A30	6,361,604	23.85%	None	A30	1,569,512	20.57	None
3	A6	3,000,101	8.45%	None	A6	1,908,001	7.15%	None	A35	641,990	8.41	None
	Others	10,077,166			Others	5,940,586			Others	2,588,088		
	Net sales	35,494,808			Net sales	26,678,810			Net sales	7,631,451		

- Names of customers who accounted for more than 10% of the Merry Electronics' purchase in the last two years, purchase as a percentage of total purchases, and reason for changes:

None of our suppliers accounted for more than 101% of our purchase in 2017 and 2018.

(V) Output volume and value for the last two years

Unit: NT\$ Thousand/Thousand products

Year		2018			2017		
		Production capacity	Output volume	Output value	Production capacity	Output volume	Output value
Main Product							
Headset		1,790	1,790	112,012	4,701	4,701	242,227
Speakers		119,627	119,627	9,353,033	79,725	79,725	6,746,798
Entertainment Products		28,355	28,355	23,783,920	22,656	22,656	17,973,489
Other Electronics Products		47,882	47,882	2,245,843	32,913	32,913	1,716,297
Total		197,654	197,654	35,494,808	139,995	139,995	26,678,810

(VI) Sales volume and value for the last 2 years:

Unit: NT\$ Thousand/Thousand products

Year		2018				2017			
		Domestic sales		Exports		Domestic sales		Exports	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Main Product									
Headset		0	4	1,790	112,008	70	4,918	4,631	237,309
Speakers		7	192	119,619	9,352,841	6	(2,080)	79,719	6,748,878
Entertainment Products		8	8,400	28,347	23,775,520	23	23,977	22,633	17,949,512

Other Electronics Products	176	27,437	47,707	2,218,406	961	20,210	31,951	1,696,087
Total	191	36,033	197,463	35,458,775	1,061	47,025	138,934	26,631,785

己、Information of employees in last two years and up to the date of report (including number of employees, average number of years with the company, average age, and education)

		Sunday, March 31, 2019		
Year		2018	2017	Sunday, March 31, 2019
Employees Number of Shareholders	Direct labor	8,247	9,313	8,564
	Indirect labor	4,497	4,191	4,525
	Total	12,744	13,504	13,089
Average age (year)		34.84	34.39	34.87
Average years of service		3.95	3.83	4.07
Academic qualification (%)	Ph.D	0.10%	0.10%	0.10%
	Masters Degree	2.60%	2.00%	2.50%
	Bachelors Degree	16.60%	16.50%	16.50%
	Senior High School	14.7%	15.80%	13.00%
	Senior High School and below	66.00%	65.60%	67.90%

庚、Environmental protection expenditure information

Losses due to environmental pollution (including compensation) and total fines during the most recent year and up to the annual report publication date, and explain response measures (including improvement measures) and potential expenses (including the amount of potential losses, fines, and compensation if response measures are not taken; if the amount cannot be reasonably estimated, describe the facts that cannot be reasonably estimated):

We did not sustain any losses due to environmental pollution in the most recent year and up to the annual report publication date.

辛、Labor-management relations

(I) The implementation status of employee benefit measures, continuing education, training, retirement system, labor-management agreements, and employee rights protection measures:

1. Employee benefits measures and implementation status:

(1) Benefits measures implemented by the Company:

- A. Remuneration of employees: Remuneration for employees is allocated based on the Company's business condition according to each employee's position, performance, and seniority.
- B. Year-end bonus: Year-end bonuses are allocated based on the Company's business condition according to the performance evaluation of each employee.
- C. Annual salary adjustment: The margin of salary adjustment takes into consideration the Company's business condition, economic growth rate, price index, salary adjustments in the industry, and individual performance. Salary adjustments are made in February each year.
- D. Labor Insurance: Employees are enrolled in labor insurance from their on-board date in accordance with the law. We also purchase travel insurance for employees when they go on business trips.
- E. National Health Insurance: Employees are enrolled in the National Health Insurance from their on-board date in accordance with the law.

- F. Group insurance: Employees are enrolled in group insurance from their on-board date, and we also provide accident insurance.
 - G. Regular medical check-up: We provide employees with annual medical check-ups free of charge, which is better than regulatory requirements.
 - H. Labor Day gifts: We give each employee a gift on Labor Day, and also give seniority rewards to employees who have been at the company for 5, 10, 15, 20, 25, 30, 35 years or longer (inclusive) and model employee awards to outstanding employees.
 - I. Employees are given special leave days after serving at the company for six months.
 - J. Employee health center: Provides employees with recreational, exercise, and fitness facilities.
 - K. Employee recreation center: Provides employees with a place to eat, rest, attend seminars, receive training, and release stress.
 - L. Employee breastfeeding room: Provides a warm and comfortable environment for female employees.
 - M. Our factories provide an excellent work environment with central air conditioning.
 - N. We hire visually impaired masseuses to provide employees with massage services, providing disabled persons with work opportunities and a channel for employees to relax their body and mind.
 - O. Employees and their children are eligible to apply for Merry's employee/children scholarships as an encouragement for good academic performance and conduct performance.
 - P. Family day: We used our creativity in offering measures and systems that are better than the regulatory requirement, creating a friendly work environment for employees to work efficiently with peace of mind, taking care of employees and their families, and attracting and retaining outstanding talent. We hope to thus bring out their potential at work, increase their engagement and satisfaction, and increase our overall productivity. Activities organized in 2018 include: Six sessions of baking courses and four sessions of leather and needle felting DIY courses for parents and children. Activities were held in Taipei, Hsinchu, and Taichung. A total of 219 participants (including employees' family members).
- (2) Benefits measures implemented by the Employee Welfare Committee:
- A. Annual company trip: The Employee Welfare Committee organizes annual company trips in Taiwan or flexibly allows employees to organize annual company trips by themselves for greater diversity and abundance of activities.
 - B. Marriage and funeral subsidies and birthday gift certificates.
 - C. Club activities: To encourage employees to exercise, we provided guidance to and subsidized the badminton club, basketball club, dance club, and yoga club.
 - D. A variety of entertainment activities are regularly organized each year, such as: Chinese New Year greetings, Mid-autumn Festival barbecue, factory anniversary, year-end party, and department gatherings.
2. Employee education and training:
- The Company provides employees with necessary education and training based on the business policy and business development requirements, and established the Education and Training Implementation Regulations. Training is provided based the Company, department, and employee's requirements, and employees are required to

provide training for others or reports after receiving training, so as to improve the Company and employees' work capacity or abilities.

- (1) Classroom course: Regularly organized by the Company
 - A. New employee training: Besides introducing work contents, this training provides employees with the necessary work awareness and attitude at the Company, and helps them understand the Company's business philosophy and related systems.
 - B. Level-specific training: Level-specific training plans are formulated for job levels and positions to develop required management abilities, perception, communication, and leadership ability. Training methods include internal training and participating in courses offered by external training institutions.
 - C. Specialized training: Enhances specialized knowledge, skills and standards required by employees of each department to improve their work performance and organizational functions. Training methods include internal training and participating in courses offered by external training institutions.
 - D. Language training plan: Language training plans and online language training plans are implemented for R&D personnel based on needs for the Company's business growth, so as to improve the ability of R&D personnel to communicate with foreign customers.
 - E. Teacher training courses: To strengthen the promotion and implementation of internal education and training courses, personnel with development potential or expertise are selected within the Company to receive internal teacher training, which allow us to expand internal education and training and improve the professional competencies of employees.
 - F. General education courses: To improve employees' ability in the work process, HR organizes general education courses based on the annual training plans proposed by each department, e.g. organizational communication, problem analysis, and problem solving courses.
- (2) Online learning:
 - A. We prepared teaching materials for online learning courses, providing employees with learning opportunities that are not constrained by time and place.
 - B. Overseas factories work together with external training institutions in providing the flexible learning channel of online courses.
- (3) We commissioned an academic research institute to conduct a preliminary study and jointly develop and cultivate talent, forming a strategic alliance with industries related to the technology. We also provide employees with the opportunity to participate in courses of the academic research institute, which allow them to combine their practical experience with theoretical knowledge.
- (4) Employee training in 2018:

Unit: NT\$

Course contents	Time of training	Hours	Outgoing Amount
Internal and External Training Courses	2018.01~2018.12	156,954	2,828,759
Total			2,828,759

- (5) Further education on financial information and related certificates obtained from the competent authority:

Department	Name	Organizer	Certificate obtained
Financial Management Division	Lin, Shu-Hui	Accounting Research and Development Foundation	Continuing education course for accounting officers of issuers, securities firms, and securities exchanges
Financial Management Division	Ke, Shu-Chen	Accounting Research and Development Foundation	Continuing education course for accounting officers of issuers, securities firms, and securities exchanges.

Auditing	Zheng, Shu-Fei	Accounting Research and Development Foundation	Internal auditing VS cost control & competition strategy_Corporate cost reduction.
	Zheng, Shu-Fei	Accounting Research and Development Foundation	Internal auditing and internal control practices in response to IFRS Revenue from Contracts with Customers.

PS. The personnel listed above obtained qualification certificates from the courses

3. Pension scheme and its implementation status:

- (1) We established a pension scheme in accordance with the Labor Standards Act and related regulations in 1987, and also established a Labor Retirement Reserve Supervisory Committee, which was approved by Taichung City Government. We contribute 5.1% of employees' monthly salary to their Labor Pension Fund account at the Bank of Taiwan Trust Department. Labor Retirement Reserve Supervisory Committee meetings are held on a quarterly basis to further institutionalize labor pension operations.
- (2) Starting in July 2005, we began contributing 6% of employees' monthly salary to their personal account at the Bureau of Labor Insurance in accordance with the Labor Pension Act.

4. Employee code of conduct and ethics: Regulates employee conduct and ethics

- (1) The tasks and responsibilities of each department, regulations for the management of appointment, human resources management procedures, regulations for attendance management, employee reward and punishment regulations, employee performance evaluation regulations, trade secrets control regulations, regulations on subsidies for company clubs and workshops, and sexual harassment prevention regulations regulate employee conduct.
- (2) We established the "Merry Business Practice and Professional Ethics Code" for all managers and employees of Merry and subsidiaries. It mainly stipulates that when there is any conflict, violation or incompatibility between local laws, the Company's (or subsidiaries) Article of Incorporation, work rules, or any form of contract or agreement signed by the Company, the provision that takes precedent in the code will be followed and that the Company is obligated to comply. Its main points are as follows:
 - i. To protect the Company's assets and resources.
 - ii. How to use e-mail, Internet, intranet, telephone, and other forms of communication.
 - iii. Avoidance of conflicting interests.
 - iv. Serving as the director of another company.
 - v. Confidential data.
 - vi. Accurate records and disclosures.
 - vii. Concern about accounting, auditing, and data disclosures.
 - viii. The retention and handling of Company documents and records.
 - ix. Media, public, and government inquiries.
 - x. Political behavior and donations.
 - xi. Equal employment opportunities.
 - xii. Discrimination and harassment.
 - xiii. Safe working conditions.
 - xiv. Drugs and alcohol.
 - xv. Compliance with the law, regulations, and rules.
 - xvi. The Securities and Exchange Act and trading with insiders.
 - xvii. Protection of intellectual property.
 - xviii. Authorization to sign contracts.
 - xix. Gifts, meals, services, and entertainment.
 - xx. Punishments for violations.

- xxi. Problems and how to report matters of concern and violations.
 - xxii. Legal notices.
- (II) We did not sustain any losses due to labor-management disputes in the most recent year and up to the annual report publication date.
- (III) Protection measures taken to ensure a safe working environment and maintain employees' personal safety:
1. We established management regulations for various environmental protection measures such as waste storage management, occupational safety and health, and occupational accident prevention and handling, so as to maintain employees' personal safety and prevent environmental pollution.
 2. Establishment of management procedures for preparations and emergency response measures for major disasters and emergencies:
We are prepared for any matters that may impact the environment or are safety hazards, so that we may immediately respond when a disaster occurs. We also established an emergency response team, and established the tasks and responsibilities of organizations and employees, operating standards, and handling procedures.
 3. We regularly clean and sterilize the environment in factories to ensure the health and hygiene of employees in the workplace.
 4. We established safety and health work rules and management regulations in accordance with the Enforcement Rules of the Occupational Safety and Health Act and management requirements of OHSAS18000 and TOSHMA, in order to provide a safe work environment, prevent occupational accidents from occurring, and protect labor safety and health. All employees and non-employees working in workplaces of the Company are required to comply with the safety and health work rules and management regulations.
 5. To ensure the safety of employees in the workplace, we implement automated inspection and management by wandering around to ensure safety when using equipment or instruments. We perform regular "operating environment monitoring," "medical check-up," and "special medical check-up" to maintain employee health. We enhanced employee safety and health education and training to raise safety awareness, and regularly organize disaster prevention drills in hopes of properly taking precautionary measures and the correct safety protection measures in the event of a disaster.
 6. We enroll employees in group insurance to provide coverage for employees that are in an accident.
 7. We organize fire safety and occupational safety and health seminars to raise employees' awareness of fire safety and occupational safety and health.
 8. We appointed occupational safety personnel and hired medical personnel to provide employees with healthcare and emergency care, occupational illness and injury, and infectious disease management, physical exams, medical check-ups and results analysis, health guidance, health promotion, suitable assignments, and reinstatements.

壬、Important contracts:

Nature of Contract	Contracting parties	Commencement date/expiration date	Content	Restriction clauses
Outsourcing agreement	Tatung University	2016/01/26-2018/12/31	Industry-academia collaboration in R&D and applications	None
Outsourcing agreement	University of Taipei	2017/03/01-2019/06/01	Industry-academia collaboration in R&D and applications	shall abide by confidentiality obligations

Outsourcing agreement	National Central University	2017/07/03-2019/07/02	Industry-academia collaboration in R&D and applications	None
Outsourcing agreement	Chung Shan Medical University	2018/03/016-2019/03/31	Industry-academia collaboration in R&D and applications	shall abide by confidentiality obligations
Outsourcing agreement	Chung Shan Medical University	2018/11/01-2019/09/30	Industry-academia collaboration in R&D and applications	shall abide by confidentiality obligations
Service agreement	Hsieh Wen-Tong and Lou Chia-I Architects	2018/06/29-	Commissioned the counterpart to design and supervise the construction of a new office.	None
Service agreement	Hsieh Wen-Tong and Lou Chia-I Architects	2018/10/18-	Commissioned the counterpart to design and supervise factory construction.	None
Purchase agreement	Keen Star Holdings Limited	2018/04/26-	Purchased shares of Suzhou Meisheng Electronic Co., Ltd. held by the counterpart	None
Purchase agreement	Newood Consultancy Limited	2018/04/26-	Purchased shares of Indigo Enterprises Inc. held by the counterpart	None

癸、Corporate Social Responsibility

(I) Summary of Corporate Social Responsibility

As the global leader in electroacoustics, we expect ourselves to be an honest, woke company with integrity. Companies are public instruments and Merry has dedicated years of effort to fulfill its commitment to corporate social responsibility (CSR), taking action to achieve our mission to positively impact society through our economic responsibility, legal responsibility, ethical responsibility, environmental responsibility, and charity responsibility.

Merry's CSR project mainly covers corporate governance, employee care, environmental sustainability, and charity and welfare.

Corporate Governance
Honesty and integrity have been the core values of Merry since its establishment, and "sincerity, integrity, diligence, thrift, and endurance" are unchanging traditions when facing changes in the internal and external environment. We seek constant innovation in product and business models in hopes of achieving sustainable development. Merry shows high ethical standards through its employees, customers, and investors. ■ Implemented corporate governance in accordance with the "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" of the Taiwan Stock Exchange ■ Established Corporate Social Responsibility Best Practice Principles ■ Established a Remuneration Committee ■ Established business practice and professional ethics code
Care for employees
Employees are our most important partner in business. Merry strives to provide employees with a work environment where they can have peace of mind, and helps employees achieve work-life balance. Employees gain salaries, professional development, friendship, and charity through the guidance of supervisors who serve as their teacher and friend. ■ Provide employees with a healthy and safe work environment with gender equality ■ A variety of employee education and training courses are provided based on the TTQS

(Taiwan TrainQuali System) ■ Provide various benefits plans to help employees achieve work-life balance ■ Organize new employee forums each quarter for two-way communication and opinion exchange with the chairperson, helping employees more quickly identify with Merry
Environmental sustainability We have systems in place to strictly control employee education and training and implementation methods under various green policies for environmental protection and sustainable development, During product design, we incorporate the concept of 3R and ECO design, and use carbon reduction and waste reduction as management standards, striving to lower emissions and energy consumption to achieve environmental sustainability. ■ Comply with requirements of the RoHS, HF, WEEE, and REACH ■ Implement Merry's green supply chain management and green system management ■ Compile Merry's GHG inventory and implement energy conservation and carbon reduction plans ■ All factories passed the ISO 14064 GHG certification ■ Passed the hazardous substance process management system QC080000 certification
Charity and Welfare The common good of society is our philosophy in charity and welfare. Merry encourages employees to actively care for communities and give back to society, sowing even more seeds of charity. ■ Continue to promote the culture of reading and art and culture activities to make society better and more beautiful • Sponsored the "Library of Love" and "Library of Love Touring Workshop" • Sponsored the production of "Taiwan's March of Blessing" and an audio book by a classical music station • Arts and culture promotion, sponsor arts and culture performance and charity concerts ■ Participate in social welfare and encourage employees to actively care and give back to society • Implement the volunteer leave system to lead employees to become volunteers • Create opportunities for employees to become volunteers and match them with different organizations in need of volunteers ■ Promote industry-academia collaboration, and spare no effort in the cultivation of electroacoustics talent for Taiwan Establish an electroacoustics masters program and electroacoustics laboratory Organize the Merry electroacoustics paper award and electroacoustics impact forum Provide Merry electroacoustics research scholarships Organize Merry electroacoustics technology forums

(II) Organize Merry electroacoustics new talent awards:

To inspire and encourage youth in Taiwan to engage in R&D and creative applications in the field of electroacoustics, and drive the upgrade and development of electroacoustics technologies, Merry Electronics Co., Ltd. organized selections for the Electroacoustics Paper Award, Electroacoustics Practice Award, and Industrial Design Award. The awards are given to outstanding electroacoustics talent and increase interactions between industry and academia.

Merry is one of the world's main manufacturers of mobile phone parts such as telecom microphones and receivers. We have an international marketing network, production bases, and powerful research and development abilities. Employees uphold the traditions of sincerity, integrity, diligence, thrift, and endurance in delivering beautiful

sound that enrich people's lives. We strive to become a comprehensive supplier for communications and entertainment electroacoustics products around the world, and possess excellent development potential. Over the years, we have not only dedicated our efforts in the field of electroacoustics, but also spared no effort in the promotion of art and culture activities and giving back to society. We are also actively involved in industry-academia collaboration to support electroacoustics talent cultivation. We organized the first Merry Electroacoustics Paper Award in 2010, and this is the ninth year we have given out the award. We added the Electroacoustics Practice Award and Industrial Design Award in 2014, which were then combined into the Electroacoustics New Talent Award, actively encouraging students to engage in electroacoustics research and development. We have received excellent feedback for the awards.

The event accepts entries from students graduating from bachelor/masters/doctoral programs in July each year, and has attracted many students who studied electroacoustics products. Award winning works were selected through a rigorous and fair preliminary review and second review by a panel of judges formed by college professors and industry experts. Award winning students and their advisors received a prize and trophy. The Electroacoustics Paper Award and a total prize of NT\$550,000 was presented to 5 award winners in 2018.

(III) Implementation of industry-academia collaboration mechanisms:

1. We participate in campus job fairs and presentations of domestic colleges and provide job opportunities for graduates to join Merry.
2. We promoted the electroacoustics technology forum in domestic colleges with an electroacoustics department. We also engaged in academic and technology exchanges with graduate students in electroacoustics technology, and shares new knowledge and the latest development trends in electroacoustics technology in the industry, so as to elevate electroacoustics expertise and research ability in Taiwan, while providing job opportunities for graduates to join Merry.
3. For college students with excellent academic and conduct performance, we began providing allowances in 2011 and carried out exchanges, cultivation, and recruitment of these students to join Merry after they graduate, cultivating them into outstanding talent that will contribute what they learned to the industry. It is for this reason that we established the Regulations for Industry-Academia Collaboration in Technology Talent Cultivation. After review by our Internal Review Committee, we distributed a total of NT\$1,440,000 to 12 students in 2018.
4. We provide domestic college students with part-time work opportunities during summer and winter vacation and weekdays. These allow students to apply what they learn in school in the industry, and increase the capabilities of electroacoustics technologies, preparing students for working in the electroacoustics industry in the future.
5. Application for R&D alternative service: In coordination with our steady development of electroacoustics technologies, we apply for several R&D alternative service positions each year for application by students that intend to enter the field of electroacoustics.
6. Overseas factory automation talent internship and cultivation plan: We provide

half-year and one-year internship opportunities to students who intend to find automation related work in overseas factories. Besides having supervisors with an expertise in automation to assist in the internships, we also provide interns with high salaries and allowances, free meals and accommodations, plane tickets back to Taiwan, and paid leave to visit family. We hope that these students will join our automation teams at overseas factories after they graduate.

11 、 Industry-specific Key Performance Indicators (KPI):

- (I) Number of R&D personnel: The total number of R&D personnel all factories at the end of 2018 was 844.
- (II) Patent application: We filed 806 patent applications and currently have 201 effective patents; 145 patent applications are being processed; 460 patents have expired.
- (III) CO2 emission:

Unit: Metric ton of CO₂

Region \ Year	2018	2017
Scope1	2,542	2,827
Scope2	19,208	20,065
Total emission	25,675	22,848
Domestic	719	641
Overseas	24,956	22,248

F. Financial Overview

I. Condensed balance sheet and statement of comprehensive income for the most recent five years

(I) Condensed balance sheet and statement of comprehensive income - IFRS

1. Condensed consolidated balance sheet - IFRS

Unit: NT\$ Thousand

Item	Year	Financial information for the most recent 5 years					Financial information for the current year up to March 31, 2018 (Note 3)
		2014	2015	2016	2017	2018	
Current assets		6,397,728	7,327,852	10,557,078	17,156,216	21,640,870	14,759,345
Property, plant and equipment (Note 1)		2,711,553	2,840,113	1,307,610	1,593,478	1,988,191	2,040,616
Intangible assets		197,475	234,276	300,956	328,534	1,552,242	1,513,410
Other assets		627,605	983,467	3,195,320	7,280,509	5,150,273	6,169,071
Total assets		9,934,361	11,385,708	15,360,964	26,358,737	30,331,576	24,482,442
Current liabilities (Note 2)	Before distribution	3,422,954	3,693,363	6,407,330	12,035,053	16,177,542	8,487,734
	After distribution	4,311,085	4,285,450	8,143,868	15,178,891	Note 3	Undistributed
Non-current liabilities		412,028	1,882,241	2,008,373	619,450	4,074,607	3,985,629
Total liabilities (Note 2)	Before distribution	3,834,982	5,575,604	8,415,703	12,654,503	20,252,149	12,473,363
	After distribution	4,723,113	6,167,691	10,152,241	15,798,341	Note 3	Undistributed
Equity attributable to owners of parent		6,050,545	5,796,752	6,945,180	13,704,152	9,930,816	11,869,323
Capital Stock		1,850,273	1,850,273	1,866,045	2,004,721	1,996,625	2,054,565
Capital surplus		1,273,948	1,342,694	1,523,507	2,985,304	2,789,111	3,433,404
Retained earnings (Note 2)	Before distribution	2,709,443	2,438,103	3,858,685	5,738,283	4,998,048	5,413,237
	After distribution	1,821,312	1,846,016	2,122,147	2,594,445	Note 3	Undistributed
Other interests		216,881	268,740	-199,999	3,074,587	147,032	968,117
Treasury stock		-	-103,058	-103,058	-98,743	-	-
Non-controlling interests		48,834	13,352	81	82	148,611	139,756
Total equity (Note 2)	Before distribution	6,099,379	5,810,104	6,945,261	13,704,234	10,079,427	12,009,079
	After distribution	5,211,248	5,218,017	5,208,723	10,560,396	Note 3	Undistributed

Note 1: Include land value appreciation in the amount of NT\$11,997,000 after reappraisal in 1996.

Note 2: The amount of 2017 earnings to be distributed was reviewed by the Board of Directors, but has not yet been resolved by the shareholders' meeting. Hence, the distributed amount was not listed.

Note 3: At the time this annual report was published, data for the most recent quarter was already audited by the accountant.

2. Condensed consolidated statement of comprehensive income - IFRS

Unit: NT\$ Thousand

Item	Year	Financial information for the most recent 5 years					Financial information for the current year up to March 31, 2018 (Note 1)
		2014	2015	2016	2017	2018	
Operating revenue		12,315,998	12,240,234	16,939,274	26,678,810	35,494,808	7,631,451
Gross profit		2,971,851	2,394,886	3,366,079	4,660,834	4,725,068	1,013,870
Operating income/loss		1,439,020	852,514	1,653,389	2,572,377	2,303,133	361,859
Non-operating income and expenses		120,394	-39,214	816,917	1,684,883	423,116	166,624
Net income before tax		1,559,414	813,300	2,470,306	4,257,260	2,726,249	528,483
Net income from continuing operations		1,278,540	665,226	2,011,146	3,622,209	2,060,849	405,373
Loss from discontinued operations		-	-	-	-	-	-
Net profit of the term (loss)		1,278,540	665,226	2,011,146	3,622,209	2,060,849	405,373
Other consolidated income of the term (net value after tax)		119,724	50,884	-291,884	3,307,089	-2,583,113	790,065
Total comprehensive income of the term		1,398,264	716,110	1,719,262	6,929,298	-522,264	1,195,438

Net income attributable to owners of the parent	1,244,271	641,305	2,011,140	3,622,205	2,064,265	415,911
Net income attributable to non-controlling interests	34,269	23,921	6	4	-3,416	-10,538
Total Comprehensive income attributable Owners of the Parent	1,359,689	690,386	1,719,504	6,929,297	-514,200	1,204,293
Total Comprehensive income attributable to Non-controlling Interests	38,575	25,724	-242	1	-8,064	-8,855
Earnings per share	6.72	3.48	11	18.94	10.47	2.07

Note 1: At the time this annual report was published, data for the most recent quarter was already audited by the accountant.

3. Individual condensed balance sheet - IFRS

Unit: NT\$ Thousand

Item	Year	Financial information for the most recent 5 years				
		2014	2015	2016	2017	2018
Current assets		3,437,013	4,191,632	7,580,798	13,211,303	14,908,889
Property, plant and equipment (Note 1)		81,972	78,832	71,590	448,242	761,523
Intangible assets		180,575	171,676	294,727	315,860	277,570
Other assets (Note 1)		4,421,723	5,264,249	5,981,563	10,152,721	9,780,734
Total assets		8,121,283	9,706,389	13,928,678	24,128,126	25,728,716
Current liabilities	Before distribution	1,704,716	2,071,152	5,029,229	9,831,979	11,823,186
	After distribution	2,592,847	2,663,239	6,765,767	12,975,817	Note 2
Non-current liabilities		366,022	1,838,485	1,954,269	591,995	3,974,714
Total liabilities	Before distribution	2,070,738	3,909,637	6,983,498	10,423,974	15,797,900
	After distribution	2,958,869	4,501,724	8,720,036	13,567,812	Note 2
Equity attributable to owners of parent		6,050,545	5,796,752	6,945,180	13,704,152	9,930,816
Capital Stock		1,850,273	1,850,273	1,866,045	2,004,721	1,996,625
Capital surplus		1,273,948	1,342,694	1,523,507	2,985,304	2,789,111
Retained earnings	Before distribution	2,709,443	2,438,103	3,858,685	5,738,283	4,998,048
	After distribution	1,821,312	1,846,016	2,122,147	2,594,445	Note 2
Other interests		216,881	268,740	-199,999	3,074,587	147,032
Treasury stock		-	-103,058	-103,058	(98,743)	-
Total equity	Before distribution	6,050,545	5,796,752	6,945,180	13,704,152	9,930,816
	After distribution	5,162,414	5,204,665	5,208,642	10,560,314	Note 2

Note 1: Includes land value appreciation in the amount of NT\$11,997,000 after reappraisal in 1996.

Note 2: The amount of 2018 earnings to be distributed was reviewed by the Board of Directors, but has not yet been resolved by the shareholders' meeting. Hence, the distributed amount was not listed.

4. Condensed individual statement of comprehensive income - IFRS

Unit: NT\$ Thousand

Item	Year	Financial information for the most recent 5 years (Note 1)				
		2014	2015	2016	2017	2018
Operating revenue		10,513,877	10,578,633	15,617,796	24,316,279	30,438,179
Gross profit		2,057,249	1,498,566	2,182,598	3,269,857	2,612,459
Operating income/loss		1,282,718	708,904	1,235,054	1,906,016	1,279,191
Non-operating income and expenses		223,422	43,150	1,165,098	2,268,499	1,216,044
Net income before tax		1,506,140	752,054	2,400,152	4,174,515	2,495,235
Net income from continuing operations		1,244,271	641,305	2,011,140	3,622,205	2,064,265
Loss from discontinued operations		-	-	-	-	-
Net profit of the term (loss)		1,244,271	641,305	2,011,140	3,622,205	2,064,265
Other consolidated income of the term (net value after tax)		115,418	49,081	-291,636	3,307,092	-2,578,465
Total comprehensive income of the term		1,359,689	690,386	1,719,504	6,929,297	-514,200
Net income attributable to owners of the parent		1,244,721	641,305	2,011,140	3,622,205	2,064,265
Net income attributable to non-controlling interests		-	-	-	-	-
Total Comprehensive income attributable Owners of the Parent		1,359,689	690,386	1,719,504	6,929,297	-514,200
Total Comprehensive income attributable to Non-controlling Interests		-	-	-	-	-
Earnings per share		6.72	3.48	11	18.94	10.47

(V)Names of auditors and opinions

Year	Name of CPA:	Audit opinion
2014	Yang, Ming-Chin and Hung, Shu-Hua	Modified unqualified opinion
2015	Hung, Shu-Hua and Yang, Ming-Chin	Modified unqualified opinion
2016	Yang, Ming-Chin and Hung, Shu-Hua	Unqualified opinion
2017	Wang, Yu-Juan and Xu, Jian-Ye	Unqualified opinion
2018	Wang, Yu-Juan and Xu, Jian-Ye	Unqualified opinion

II. Financial analysis for the most recent five years and reasons for changes in financial ratios in the most recent two years

1. Merry Group - IFRS

Analytical item (Note 2)		Year	Financial analysis for the last five years					The current year up to Sunday, March 31, 2019
			2014	2015	2016	2017	2018	
Financial structure (%)	Debts Ratio		38.60	48.97	54.79	48.01	66.77	50.95
	Long-term Fund to Property, Plant and Equipment		240.14	270.38	684.73	860.02	704.43	776.97
Liquidity Analysis %	Current ratio		186.91	198.41	164.77	142.55	133.77	173.89
	Quick ratio		147.21	157.47	146.14	124.24	114.49	140.36
	Times Interest Earned		970.27	35.44	83.47	159.67	57.27	30.45
Operating ability	Average Collection Turnover (times)		4.53	4.50	5.46	5.28	4.50	1.07
	Days Sales Outstanding		80.49	81.11	66.84	69.12	81.11	341.12
	Average Inventory Turnover (times)		7.30	7.10	9.82	12.79	11.31	2.14
	Average Payment Turnover (times)		3.64	3.86	3.09	3.37	3.06	0.72
	Average Inventory Turnover Days		50.00	51.40	37.16	28.53	32.27	170.56
	Property, Plant and Equipment Turnover (Times)		5.11	4.41	8.17	18.39	19.82	3.79
	Total Assets Turnover (Times)		1.27	1.15	1.27	1.28	1.25	0.28
Profitability	Return on assets (%)		13.22	6.20	17.89	19.89	7.41	1.84
	ROE(%)		22.33	10.83	31.53	35.08	17.44	3.72
	Pre-tax income to paid-in capital ratio (%) (Note 7)		84.28	43.96	133.48	212.36	136.54	25.72
	Net Margin (%)		10.38	5.24	11.87	13.58	5.81	5.31
	Earnings per share (NT\$)		6.72	3.48	11.00	18.94	10.47	2.07
Cash flows	Cash flow ratio (%)		44.76	39.41	47.93	16.96	10.79	1.27
	Cash flow adequacy ratio (%)		133.18	128.17	201.28	154.65	73.97	86.32
	Cash flow reinvestment ratio (%)		11.25	4.55	40.48	3.58	-10.18	-21.41
Leverage	Operating leverage		1.22	1.42	1.18	1.08	1.13	1.33
	Financial leverage		1.00	1.03	1.02	1.01	1.02	1.06

Reasons for changes exceeding 20% in financial ratios in the most recent two years are as follows:

(I) Financial structure:

The increase in long-term fund to property, plant and equipment ratio was mainly due to the increase in financial assets at fair value through profit and loss - non-current and financial assets at fair value through other comprehensive profit and loss - non-current value adjustment, which resulted in the increase in long-term fund to fixed assets ratio.

(II) Liquidity:

The increase in debt ratio was mainly due to the amount of corporate bonds issued in 2018 was higher than the previous year, and a decrease in the valuation of other comprehensive income at the end of the period. Decrease in Times Interest Earned: Mainly due to the decrease in 2019 pre-tax net profit compared with the same period last year, which led to the decrease in times interest earned.

(III) Operating ability:

The decrease in inventory turnover was mainly due to the increase in cost of goods sold and increase in inventory at the end of the period. The increase in property, plant and equipment turnover was mainly due to the purchase of property resulting in a significant increase in property, plant and equipment.

(IV) Profitability:

The increase in return on assets, return on equity, pre-tax income to paid-in capital ratio, net margin ratio and earnings per share was mainly due to the decrease in net profit this period compared with the same period last year.

(V) Cash flows:

The decrease in cash flow ratio is mainly due to the increase in current liabilities this period. The decrease in cash reinvestment ratio was mainly due to the decrease in net profit compared with the same period last year, and the decrease in net profit this period led to a decrease in net cash inflow from operating activities.

Note 1: Calculation formulas such as the one below shall be listed at the end of this table:

甲、Financial structure

(1) Debt-to-asset ratio = total liabilities / total assets.

(2) Long-term fund to property, plant and equipment ratio = (total equity + non-current liabilities) / net amount of real estate properties, plants and equipment.

乙、Liquidity Analysis

(1) Current ratio = current assets / current liabilities.

(2) Quick ratio = (current assets - inventory - prepaid expense) / current liabilities.

(3) Time interest earned = net income before income tax and interest expense / current interest expense.

丙、Operating ability

(1) Receivables (including accounts receivable arising from operation notes receivable) turnover ratio = net sales / average receivables (including accounts receivable arising from operation notes receivable) balances.

(2) Average collection period = 365 / receivables turnover.

(3) Inventory turnover ratio = cost of goods sold / average amount of inventory.

- (4) Payable (including accounts payable arising from operation notes payable) turnover ratio = cost of goods sold / average payables (including accounts payable arising from operation notes payable) balances.
- (5) Average days of sales = 365 / inventory turnover.
- (6) Real estate, plant, and equipment turnover ratio = net sales / average net for real estate, plant, and equipment.
- (7) Fixed assets turnover = net sales / average gross assets.

丁、Profitability

- (1) Return on assets = [net income + interest expense (1– tax rate)]/ average total assets.
- (2) ROE = income after tax/net average equity.
- (3) Net margin = net income / net sales.
- (4) EPS = (income belonging to owner of parent company - stock dividend of preferred stocks)/weighted average number of issued shares (Note 4)

戊、Cash flows

- (1) Cash flow ratio = new cash flows from operating activities / current liabilities.
- (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years.
- (3) Cash reinvestment ratio = (net cash flows from operating activities – cash dividend) / (gross margin of property, plant and equipment + long-term investment + other non-current assets + working capital). (Note 5)

己、Leverage:

- (1) Operating leverage = (net operating revenues - current operating cost and expense)/operating profit (Note 6).
- (2) Financial leverage = operating profit/(operating profit - interest expense).

Note 2: Pay attention to the following matters when using the formula above for calculating EPS:

1. Based on the weighted average number of ordinary shares and not the number of outstanding shares at the end of the year.
2. The period of shares from cash capital increase or treasury stock must be taken into consideration when calculating the weighted average number of shares.
3. When calculating EPS in previous years or half years after capital increase by earnings or capital surplus, adjustments must be made according to the ratio of capital increase and the duration does not need to be considered.
4. If preferred stock is non-convertible cumulative preferred stock, the dividends (regardless of whether it is distributed) shall be deducted from after-tax net income or added to after-tax net loss. If the preferred stock is non-cumulative and there is after-tax net income, dividends on preferred stock shall be deducted from after-tax net profit. In case of a loss, then no adjustment is necessary.

Note 3: Pay attention to the following matters during cash flow analysis:

1. Net cash flows from operating activities refers to the net cash flows from operating activities in the cash flow statement.
2. Capital expenditure refers to the cash outflows from capital investments each year.
3. Inventory increase is only calculated when the amount at the end of the period is greater than the beginning of the period, and is calculated at zero if inventory decreases at the end of the year.
4. Cash dividends include cash dividends on ordinary shares and preferred shares.
5. Gross amount of property, plant, and equipment refers to the total amount of property, plant and equipment before cumulative depreciation is deducted.

Note 4: Issuers must divided operating costs and operating expenses into fixed and variable based on their properties. If it involves estimates or subjective judgment, make sure it is reasonable and consistent.

Note 5: The the Company's shares are issued without face value or where the face value is not equal to NT\$10, the calculation of paid-in capital ratio is based on equity attributable to parent company shareholders on the balance sheets.

2. Merry Electronics - IFRS

Analytical item (Note 3)		Year (Note 1)	Financial analysis for the last five years				
			2014	2015	2016	2017	2018
Financial structure (%)	Debts Ratio		25.50	40.28	50.14	43.20	61.40
	Long-term Fund to Property, Plant and Equipment		7,827.75	9,685.45	12,431.13	3,189.38	1826.21
Liquidity Analysis %	Current ratio		201.62	202.38	150.73	134.37	126.10
	Quick ratio		193.55	195.30	147.24	125.75	120.75
	Times Interest Earned		-	33.87	99.07	280.51	80.93
Operating ability	Average Collection Turnover (times)		4.49	4.56	5.78	5.30	4.65
	Days Sales Outstanding		81.36	80.01	63.16	68.85	78.49
	Average Inventory Turnover (times)		18.02	17.51	22.33	10.30	36.47
	Average Payment Turnover (times)		5.53	6.56	4.79	3.73	3.71
	Average Inventory Turnover Days		20.26	20.85	16.35	35.42	10.00
	Property, Plant and Equipment Turnover (Times)		136.10	131.57	207.65	93.55	50.32
	Total Assets Turnover (Times)		1.31	1.19	1.32	1.28	1.22
Profitability	Return on assets (%)		15.55	7.40	17.19	19.10	9.66
	ROE(%)		21.84	10.83	31.57	35.08	17.47
	Pre-tax income to paid-in capital ratio (%) (Note 7)		81.40	40.65	128.62	208.23	124.97
	Net Margin (%)		11.83	6.06	12.88	14.90	6.78
	Earnings per share (NT\$)		6.72	3.48	11.00	18.94	10.47
Cash flows	Cash flow ratio (%)		19.84	65.36	50.73	24.24	1.30
	Cash flow adequacy ratio (%)		526.91	534.46	1,129.15	214.6	116.22
	Cash flow reinvestment ratio (%)		-2.89	3.65	13.39	3.12	-22.01
Leverage	Operating leverage		1.03	1.05	1.04	1.03	1.06

	Financial leverage	1.00	1.03	1.02	1.01	1.03
Reasons for changes exceeding 20% in financial ratios in the most recent two years are as follows:						
(I) Financial structure:	The increase in long-term fund to property, plant and equipment ratio was mainly due to the increase in financial assets at fair value through profit and loss - non-current and financial assets at fair value through other comprehensive profit and loss - non-current value adjustment, which resulted in the increase in long-term fund to fixed assets ratio.					
(II) Liquidity:	The increase in debt ratio was mainly due to the amount of corporate bonds issued in 2018 was higher than the previous year, and a decrease in the valuation of other comprehensive income at the end of the period. The decrease in times interest earned was mainly due to the decrease in 2019 pre-tax net profit compared with the same period last year.					
(III) Profitability:	The increase in return on assets, return on equity, pre-tax income to paid-in capital ratio, net margin ratio and earnings per share was mainly due to the decrease in net profit this period compared with the same period last year.					
(IV) Cash flows:	The decrease in cash flow ratio is mainly due o the increase in current liabilities this period. The decrease in cash reinvestment ratio was mainly due to the decrease in net profit compared with the same period last year, and the decrease in net profit this period led to a decrease in net cash inflow from operating activities.					

Note 1: Please refer to "4. Merry Electronics - Financial Accounting Standards in Taiwan" for our financial ratios from 2009 to 2011. Financial statements for each year were all audited by a CPA.

Note 2: Calculation formulas such as the one below shall be listed at the end of this table:

1. Financial structure
 - (1) Debt-to-asset ratio = total liabilities / total assets.
 - (2) Long-term fund to property, plant and equipment ratio = (total equity + non-current liabilities) / net amount of real estate properties, plants and equipment.
2. Liquidity Analysis
 - (1) Current ratio = current assets / current liabilities.
 - (2) Quick ratio = (current assets - inventory - prepaid expense) / current liabilities.
 - (3) Time interest earned = net income before income tax and interest expense / current interest expense.
3. Operating ability
 - (1) Receivables (including accounts receivable arising from operation notes receivable) turnover ratio = net sales / average receivables (including accounts receivable arising from operation notes receivable) balances.
 - (2) Average collection period = 365 / receivables turnover.
 - (3) Inventory turnover ratio = cost of goods sold / average amount of inventory.
 - (4) Payable (including accounts payable arising from operation notes payable) turnover ratio = cost of goods sold / average payables (including accounts payable arising from operation notes payable) balances.
 - (5) Average days of sales = 365 / inventory turnover.
 - (6) Real estate, plant, and equipment turnover ratio = net sales / average net for real estate, plant, and equipment.
 - (7) Fixed assets turnover = net sales / average gross assets.
4. Profitability
 - (1) Return on assets = [net income + interest expense (1- tax rate)] / average total assets.
 - (2) ROE = income after tax / net average equity.
 - (3) Net margin = net income / net sales.
 - (4) EPS = (income belonging to owner of parent company - stock dividend of preferred stocks) / weighted average number of issued shares. (Note 4)
5. Cash flows
 - (1) Cash flow ratio = new cash flows from operating activities / current liabilities.
 - (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years.
 - (3) Cash reinvestment ratio = (net cash flows from operating activities - cash dividend) / (gross margin of property, plant and equipment + long-term investment + other non-current assets + working capital). (Note 5)
6. Leverage:
 - (1) Operating leverage = (net operating revenues - current operating cost and expense) / operating profit (Note 6).
 - (2) Financial leverage = operating profit / (operating profit - interest expense).

Note 3: Pay attention to the following matters when using the formula above for calculating EPS:

1. Based on the weighted average number of ordinary shares and not the number of outstanding shares at the end of the year.
2. The period of shares from cash capital increase or treasury stock must be taken into consideration when calculating the weighted average number of shares.
3. When calculating EPS in previous years or half years after capital increase by earnings or capital surplus, adjustments must be made according to the ratio of capital increase and the duration does not need to be considered.
4. If preferred stock is non-convertible cumulative preferred stock, the dividends (regardless of whether it is distributed) shall be deducted from after-tax net income or added to after-tax net loss. If the preferred stock is non-cumulative and there is after-tax net income, dividends on preferred stock shall be deducted from after-tax net profit. In case of a loss, then no adjustment is necessary.

Note 4: Pay attention to the following matters during cash flow analysis:

1. Net cash flows from operating activities refers to the net cash flows from operating activities in the cash flow statement.
2. Capital expenditure refers to the cash outflows from capital investments each year.
3. Inventory increase is only calculated when the amount at the end of the period is greater than the beginning of the period, and is calculated at zero if inventory decreases at the end of the year.
4. Cash dividends include cash dividends on ordinary shares and preferred shares.
5. Gross amount of property, plant, and equipment refers to the total amount of property, plant and equipment before cumulative depreciation is deducted.

Note 5: Issuers must divided operating costs and operating expenses into fixed and variable based on their properties. If it involves estimates or subjective judgment, make sure it is reasonable and consistent.

Note 6: The the Company's shares are issued without face value or where the face value is not equal to NT\$10, the calculation of paid-in capital ratio is based on equity attributable to parent company shareholders on the balance sheets

III. Supervisors' review report on the most recent financial report

Merry Electronics Co., Ltd.
Supervisors' Review Report

We have reviewed the 2018 Business Report and earnings distribution sent by the Board of Directors, as well as the financial statements and consolidated financial statements that were audited and certified by CPA Wang, Yu-Juan and Xu, Jian-Ye, and did not find any inconsistencies. We have thus prepared this report in accordance with Article 219 of the Company Act.

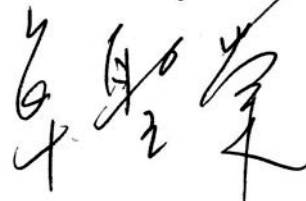
To

Merry Electronics Co., Ltd. 2019 Annual General Meeting

Supervisors: Liao, Ben-Lin



Supervisors: Cho, Sheng-Chung



Supervisors: Hung, Yun-Chung



Supervisors: Tong Qian Investment Co., Ltd.
Representative: Liao, Keng-Pin



Wednesday, February 27, 2019

- IV. Financial statements of the most recent year: See pages 159-285 for details
- V. Financial statements of the most recent year audited and certified by the CPA: See pages 286-394 for details
- VI. If the Company and its affiliated enterprises encountered any financial difficulty in the most recent year and up to the date of report, specify the impact on the Company's financial position: The Company and its affiliated enterprises did not encounter any financial difficulty in 2018 and up to the date of report.
- VII. Achievement of financial forecasts in the most recent two years:
Not applicable.

G. Review and analysis of financial position and performance and risk items

丙、 Financial summary

Unit: NT\$

Thousand: %

Item	Year	2018	2017	Difference	
				Amount	%
Current assets		21,640,870	17,156,216	+4,484,654	+26.14
Property, plant and equipment		1,988,191	1,593,478	+394,713	+24.77
Intangible assets		1,552,242	328,534	+1,223,708	+372.48
Other assets		5,150,273	7,280,509	-2,130,236	-29.26
Total assets		30,331,576	26,358,737	+3,972,839	+15.07
Current liabilities		16,177,542	12,035,053	+4,142,489	+34.42
Non-current liabilities		4,074,607	619,450	+3,455,157	+557.78
Total liabilities		20,252,149	12,654,503	+7,597,646	+60.04
Capital Stock		1,996,625	2,004,721	-8,096	-0.40
Capital surplus		2,789,111	2,985,304	-196,193	-6.57
Retained earnings		4,998,048	5,738,283	-740,235	-12.90
Other interests		147,032	3,074,587	-2,927,555	-95.22
Treasury stock		0	-98,743	+98,743	100
Non-controlling interests		148,611	82	+148,529	+0.05
Equity attributable to owners of parent		9,930,816	13,704,152	-3,773,336	-27.53
Total equity		10,079,427	13,704,234	-3,624,807	-26.45

Note: Retained earnings include statutory reserve and special reserve.

Analysis of changes reaching 20% or amount reaching NT\$10 million:

- (1) Total assets: Mainly due to the increase in net sales resulting in the increase in accounts receivable, which caused an increase in current assets. The increase in total assets was due to the significant increase in intangible assets from the acquisition of Sonavox Group and Austar Group.
- (2) Total liabilities: The increase in total liabilities compared with the previous year was mainly due to the issuance of corporate bonds in 2018.
- (3) Other interests: Mainly due to valuation adjustments of non-current financial assets and liabilities at fair value through profit and loss and non-current financial assets at fair value through other comprehensive income.

丁、 Financial performance

i. Comparative analysis of financial performance

Unit: NT\$ Thousand; %

Item	Year	2018	2017	Increase (Decrease)	Percentage of increase (decrease) %
Operating revenue		35,494,808	26,678,810	+8,815,998	+33.04
Gross profit		4,725,068	4,660,834	+64,234	+1.38
Operating income/loss		2,303,133	2,572,377	-269,244	-10.47
Non-operating income and expenses		423,116	1,684,883	-1,261,767	-74.89
Net income before tax		2,726,249	4,257,260	-1,531,011	-35.96
Net income from continuing operations		2,060,849	3,622,209	-1,561,360	-43.11
Net income		2,060,849	3,622,209	-1,561,360	-43.11
Other consolidated income/loss (net value after tax)		-2,583,113	3,307,089	-5,890,202	-178.11
Total comprehensive income of the term		-522,264	6,929,298	-7,451,562	-107.54
Net income attributable to owners of the parent		2,064,265	3,622,205	-1,557,940	-43.01
Net income attributable to non-controlling interests		-3,416	4	-3,420	-855
Total Comprehensive income attributable Owners of the Parent		-522,264	6,929,297	-7,451,561	-107.54
Total Comprehensive income attributable to Non-controlling Interests		-8,064	1	-8,065	-8,065

Reasons for changes reaching 20%:

1. Operating Revenue: Mainly due to the change in the group's product structure, which resulted in an increase in the percentage of high margin products, and led to an increase in revenue.
2. Operating gross margin and operating income: Mainly due to the increase in the group's operating costs and R&D expenses, which led to a decrease in operating gross margin and operating income.
2. Non-operating income and expenses: Caused by losses on financial assets and liabilities at fair value through profit and loss and financial assets measured at fair value through other comprehensive income.
3. Other comprehensive income (loss): The decrease compared with the same period last year was mainly due to the disposal of Concraft Holding Co., Ltd. shares in the same period last year.
4. Net income attributable to owners of the parent, total comprehensive income attributable owners of the parent: Mainly due to the decrease in net income.
5. Net income attributable to non-controlling interests, total comprehensive income attributable to non-controlling interests: Mainly due to loss on valuation.

- ii. Projected sales in the coming year and its basis, and the main factors for the continued growth or decline of sales:

Overview of the terminal market served by Merry:

Smartphone: Global smartphone shipments declined 0.3% in 2017 according to the IDC, which expects shipments in 2018 to continue to decline by 0.2% to 1.462 billion smartphones. The demand on new smartphones is expected to be driven by 5G and global shipments will reach 1.654 billion smartphones in 2022; CAGR over the five years will be 2.5%. Multiple years of low single digit growth and even slight decline proves that the smartphone market has matured.

PC industry (including tablet PCs, notebooks, and desktops): Approximately 260 million notebooks and desktops were shipped in 2017 according to the IDC, and CAGR to 2022 will be -0.9%. Approximately 164 million tablet PCs were shipped in 2017, and CAGR to 2022 will be -3.4%. This shows that conventional information terminal products will face an even more dire future than smartphones.

Headset market: The global headset market faces a whole different situation. Headsets not only need to be waterproof and have a noise reduction function, but have also transformed from a tool for transmitting sound into a personal assistant, and can also be connected to smartphones and wearable devices. This is necessary to meet users' demand on high quality audiovisual entertainment, personalized audio, sports, and smart voice assistant. According to statista, global wireless headset shipments is estimated at 432 million in 2018, and is expected to grow to 484 million by 2020. The growth momentum will come from smart headsets, which is projected to have a CAGR reaching 93% between 2016 and 2020 to 71 million headsets.

Smart speakers: Smart speakers have wireless Internet connection, audio input functions, artificial intelligence, and are able to control home appliances. According to Topology Research Institute, smart speakers were first introduced at the end of 2014, and an increasing number of brands have entered the market since then. Shipments of smart speakers worldwide in 2018 is projected to grow 66% compared with 2017 and exceed 46 million smart speakers. According to Fubon Investment Services, smart speaker shipments are expected to reach 61-101 million smart speakers by 2020 with American and Chinese brands launching new smart speakers.

Looking towards 2019, Merry will not only maintain its competitiveness in micro electroacoustics components used in ICT products to gain greater market share in a market with limited growth, but also focus on smart headsets, wireless speakers/smart speakers, and assistive listening devices, which are expected to show their sales growth potential in 2019.

戊、Cash flows

(I) Analysis of cash flow changes in the current year:

Unit: NT\$ Thousand

Cash at beginning of year	Net cash flows from operating activities for the entire year	Cash outflow for the entire	Cash surplus (shortage)	Remedial measures for cash shortage	
				Investment	Wealth

		year		plans	management plans
6,486,139	1,622,188	442,028	8,512,129	-	-

(II) Liquidity analysis for the most recent two years:

Item \ Year	2018	2017	Percentage of increase (decrease) (%)
Cash flow ratio (%)	47.93	16.96	182.61
Cash flow adequacy ratio (%)	201.28	154.65	30.15
Cash reinvestment ratio (%)	40.48	3.58	103.07
Reasons for changes: The increase in cash reinvestment ratio and cash flow adequacy ratio was mainly due to the increase in revenue, which resulted in the increase in net cash inflow from operating activities.			

(II) Liquidity analysis for the coming year:

Unit: NT\$ Thousand

Cash at beginning of year(1)	Net cash flows from operating activities for the entire year(2)	Cash outflow for the entire year(3)	Cash surplus (shortage) (1)+(2)+(3)	Remedial measures for cash shortage	
				Investment plans	Wealth management plans
8,512,129	2,128,883	579,676	10,061,336	-	-

1. Analysis of cash flow changes in the current year:

- (1) Operating activities: Mainly due to the decrease in net profit compared with the same period last year, which resulted in the decrease in net cash inflow compared with the same period last year.
- (2) Investing activities: Mainly due to the decrease in net profit compared with the same period last year, as well as large investment projects resulting in an increase in cash outflows compared with the same period year.
- (3) Financing activities: Mainly due to convertible corporate bonds issued in 2018, which resulted in the increase in net cash outflows from financing activities.

2. Remedial measures for cash shortage and liquidity analysis: Not applicable.

己、Impact of major capital expenditures in recent years on the Company's financial position and business: None

庚、Reinvestment policy in the most recent year, main reason for profit or loss, improvement plan, and investment plan for the coming year:

The global economic trend is highly uncertain in 2019. Investment benefits will be carefully evaluated before implementing investment plans in the future, so as to create value for the Company and shareholders.

The reason for profits from reinvestments in the most recent year is the good business situation and increase in sales of investees. The reason for losses sustained by some investees is the decrease in purchase orders received in China and the increase in cost. Future efforts will be directed to increasing the amount of purchase orders to lower cost.

辛、Risk analysis and assessment should be conducted for the following items in the most recent year and up to the date of report:

- i. Effects of interest rates, exchange rate fluctuations, and inflation on the Company's income and future response measures:

1. The Company's interest and exchange gains or losses in 2018 are listed below:

Unit: thousand NT\$, %

Item \ Year	2018
Net exchange gain (loss)	-28,321
Net operating revenue	35,494,808
Pre-tax profit	2,726,249

Net exchange gain (loss) as a percentage of net operating revenue	-0.08
Net exchange gain (loss) as a percentage of pre-tax net profit	-1.04
Interest income	58,430
Interest income as a percentage of net operating revenue	0.16
Interest income as a percentage of pre-tax net profit	2.14
Interest expense	48,453
Interest expense as a percentage of net operating revenue	0.14
Interest expense as a percentage of pre-tax net profit	1.78

Source: Consolidated financial report audited and certified by a CPA.

i. Interest rate changes

- A. Our loans are measured at amortized cost. Interest rates are set each year based on the contract. Hence, we are exposed to the risk of future interest rate changes in the market.
- B. When interest rate rises or declines by 0.25% and all other things held equal, after-tax net-profit (loss) in 2018 and 2017 will decline or increase NT\$9,507,000 and NT\$4,5008,000, respectively. This is mainly due to interest expense changing along with interest rates.

(2) Exchange rate fluctuations

- A. The Group operates in multiple countries and therefore has currency risk from the functional currency, which are mainly USD, RMB, and HKD, used by the Company and its subsidiaries. Currency risk mainly comes from future transactions and assets and liabilities that are recognized.
- B. Our business involves several non-functional currencies (the Company's functional currency is NTD, the functional currency of some subsidiaries is USD, RMB, and HKD), and is therefore affected by exchange rate fluctuations. Information on major foreign currency denominated assets and liabilities affected by exchange rate fluctuations are as follows:
The total amount of exchange gains or losses (including realized and unrealized) from the group's monetary items that are significantly affected by exchange rate fluctuations in 2018 and 2017 was a loss of NT\$28,321,000 and loss of NT\$237,569,000, respectively.

(3) Inflation

If inflation rises by 1%, the Company's expenses will increase NT\$20,885,000.

2.Future response measures:

(1) Response measures for interest rate changes

The Company's interest rate risk comes from liabilities generated by operating activities, and assets in time deposits and invested in bonds. To lower the interest rate risk of liabilities, the Company borrows long-term loans or issues convertible corporate bonds to meet the demand on capital expenditures. To lower the interest rate risk of assets, we allocate our funds in short-term time deposits and fixed income bonds, with good liquidity to ensure the safety of our funds while maintaining liquidity. We maintain close relationships with financial institutions to gain loans at preferential interest rates.

(2) Response measures for exchange rate fluctuations

The Company operates in multiple countries, and currency risk mainly comes from future transactions. Quotations provided to customers use relatively

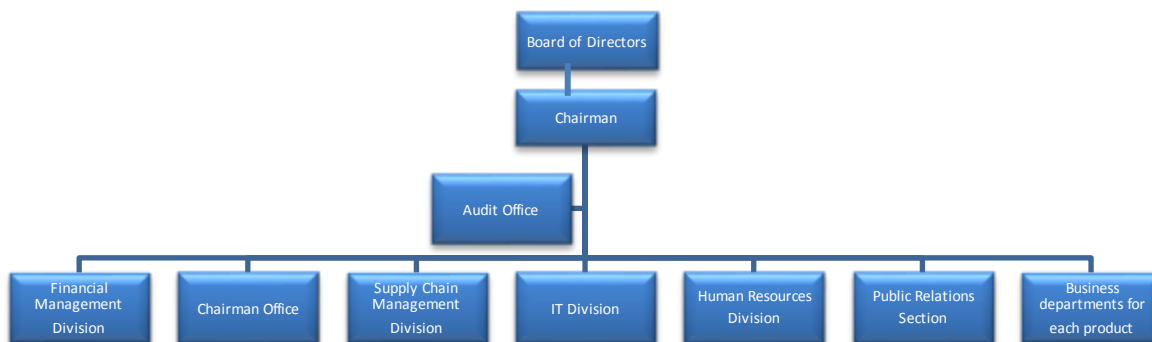
conservative exchange rates, so that exchange rate fluctuations will have a lower effect on the profits of purchase orders that are received. We hedge against foreign exchange exposure resulting from operations through foreign currency loans, cross currency swaps, forward exchange contracts, and options. We trade foreign exchange derivatives for hedging purposes, and established the "Procedure for the Acquisition or Disposal of Assets" in accordance with laws and regulations of the Securities and Futures Bureau to improve currency risk management in our financial operations and business.

(3) Response measures for inflation

Taiwan's consumer price index (CPI) increased 0.62% in 2018, so there are no concerns for deflation and there is no significant effect on cost and price. We will continue to monitor future inflation for cost control and quotations, and will make suitable adjustments.

- ii. Policy for engaging in high risk, high leverage investments, lending to others, endorsements and guarantees, and derivatives trading, main reason for profit or loss, and future response measures:
We have not engaged in high risk, high leverage investments in the past year. Please refer to pages 268 for lending to others and endorsement/guarantee. Derivatives traded in 2017 include forward exchange contracts and interest rate swaps to build a hedge position that avoids currency and interest rate risks from investments and loans. We carried out proper management and supervision based on the guidelines for acquisition and disposal of assets. Furthermore, we established the "Procedure for the Acquisition or Disposal of Assets" to specify the risk management system for trading derivatives. The above do not have any material negative impact on the Company's income.
- iii. Future R&D projects, current progress of uncompleted R&D projects, R&D expenses that need to be invested, expected time to mass production, and main factors to the success of future R&D projects: Please refer to page 116:
- iv. The effect of changes in important domestic and foreign policies and laws on the Company's financial position and business operations, and response measures:
All of our business operations comply with local policies and laws. We have a legal department that monitors changes in policies and laws and proposes prevention measures.
- v. The effect of changes in technologies and industry on the Company's financial position and business operations, and response measures:
The Company strives to develop new products/technologies and cultivate technology talent in response to industry changes. The Strategic Planning Department under the Chairperson's Office periodically analyzes the industry and market to ensure that the Company keeps up with application trends in the market.
- vi. The effect of changes in corporate image on the Company's crisis management, and response measures:
We have upheld the core values of "honesty and integrity" since the Company was founded, and attach great importance to fulfilling our corporate social responsibility. Corporate image related information is announced through the Company website, MOPS, Public Relations Section, and spokesperson.
- vii. Expected benefits and potential risks of merger and acquisition, and response measures:
Not applicable.
- viii. Expected benefits and potential risks of factory expansion, and response measures: Not applicable.
- ix. Risks of concentrated purchase or sales and response measures:
We are actively developing new products and customers to disperse our risk of sales. Furthermore, we are closely working together with core suppliers and are strategically developing new suppliers to ensure that we can satisfy the needs of our customers with

- respect to material quality/technology/price/delivery.
- x. Impact of mass transfer of equity by or change of directors, supervisors, or shareholders holding more than 10% interest on the Company, associated risks and response measures: Not applicable.
 - xi. The effect of changes in management right on the Company, risks, and response measures: Not applicable.
 - xii. For litigious and non-litigious events, if the result of major litigious, non-litigious events, or administrative disputes, either concluded or ongoing, involving the company and its directors, supervisors, president, de facto responsible person, major shareholders with more than 10% shares, or subsidiaries may have a material impact on shareholders' equity or stock prices, disclose the facts in contention, amount, start date of litigation, main parties involved, and progress up to the date of report: The Company is not involved in any major litigious, non-litigious events or administrative disputes. We do not have any information on individuals.
 - xiii. Other important risks and response measures: None
 - xiv. Structure of the risk management organization:
 Functional units of Merry Electronics Co., Ltd. minimize potential risks in business through delegation of authority, risk transfer, process improvement, education and training, and audit system to ensure the Company's stable growth and to meet business goals.
 The highest level supervisor of risk management is the chairperson, who implements the Company's overall risk management, and prevents potential losses within the Company's risk tolerance based on the business policy. Functional units are responsible for the identification, assessment, and response to risks. The Audit Office is responsible for overseeing risks and follow-up on subsequent improvement.



壬、Other important matters

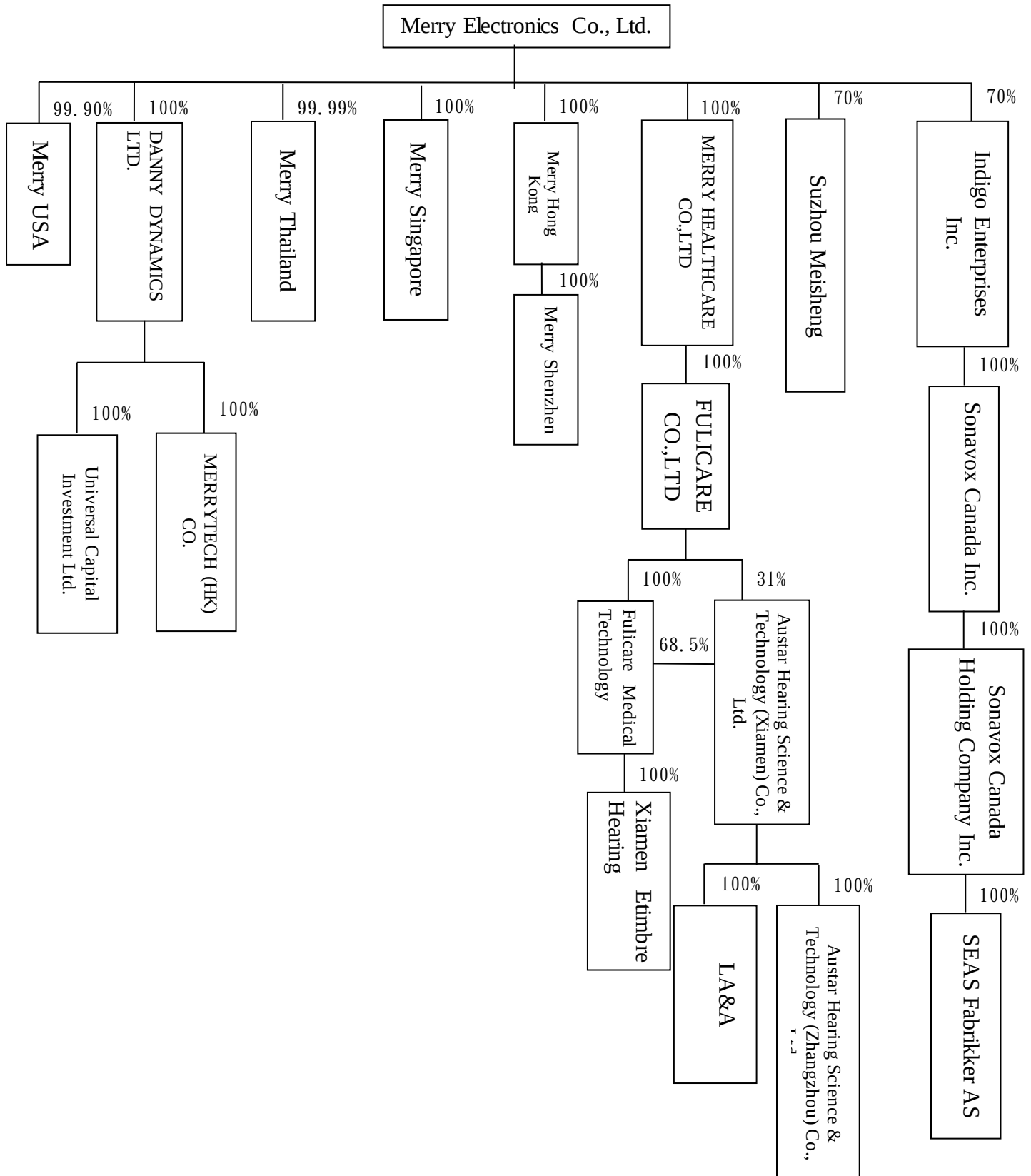
None.

H. Special matters

I. Information on affiliated enterprises:

April 22, 2019

i. Investment holding structure:



- ii. 1.The existence of a controlling and subordinate relation concluded in accordance with Article 369-3 of the Company Act: None
 2.Subordinate companies that the Company has direct or indirect control over the management of personnel, financial or business operations in accordance with Article 369-2 of the Company Act: None

iii. Basic information on affiliated enterprises:

Name of company	Date of establishment	Address	Cost of investment (paid-in capital)	Main business or products
MERRY ELECTRONICS (U.S.A.) CO.,LTD	1987.11.25	890 HILLVIEW CT STE. 200 MILPITAS, CA 95035-4565	NT\$28,227,000	Technical and Marketing Support Services
MERRY ELECTRONICS (HK) CO.,LTD.	1988.09.01	Room 10, 2F, Block B, Shatin Industrial Center, No. 5-7, Yuen Shun Circuit, Shatin, New Territories, Hong Kong	NT\$98,113,000	Mainly engages in trade and provides affiliated enterprises with cargo delivery services
MERRY ELECTRONICS (THAILAND) CO.,LTD.	1988.12.13	221 MU 3 EXPORT PROCESSING ZONE I LEAM CHABANG INDUSTRY PARK EPZ 1 SRIRACHA	NT\$484,358,000	1.Production and sales of microphone and components, microphone components, telephone components, and electronic products, such as blood glucose meter, cooking machine, electronic oven, and electric appliance switch. 2.Purchases machinery, raw materials, and materials used for domestic and overseas production of products. 3.Production, assembly, sales, and import/export of machinery, equipment, and parts used in factories, including molds and parts.
Merry Electronics (Shenzhen) Co., Ltd.	1989.04.18	No. 48, Meibao Rd., Dalang Office, Longhua District, Shenzhen City, Guangdong Province	NT\$426,378,000	Production, wholesale, import/export, and related businesses of microphones, speakers, alarms, induction stove, electronic transmitter, electronic receiver, marker tube, blanket dryer, multimeter, safety fastener, moisture meter, thermometer, garden light, pH meter, window opener, earphones, handfree headset, charger, car charger, leather case, battery, fixed support, anemometer, hygrothermograph, bluetooth board, in-vehicle handfree device controller, bluetooth in-vehicle handfree device, in-vehicle applicable connector, bluetooth handfree device, and electronic product parts and peripherals, and providing technical services for the above products. Leasing own property, machinery, and equipment.
DANNY DYNAMICS LIMITED	2002.01.02	P.O. Box 3321,Road Town,Tortola,British Virgin Islands	NT\$1,479,925,000	General investment
Universal Capital Inverstment Limited	2005.01.25	TM Building,Pope Hennessy Street,Port Louis,Republic of Mauritius	NT\$151,000	General investment
MERRYTECH (HK) CO. LIMITED	2007.11.26	Room 1201, 12F, Connaught Commercial Building, 185. Wanchai Road, Wanchai, Hong Kong	NT\$1,393,940,000	General investment

MERRY ELECTRONICS (Singapore) PTE. LTD.	2010.12.23	21, Bukit Batok Crescent, #21-79, WCEGA Tower, Singapore 568065	NT\$82,942,000	1.ELECTRONICS-RELATED INDUSTRIAL DESIGN SERVICES 2.RETAIL SALE OF AUDIO AND VIDEO EQUIPMENT (EG RADIO AND TELEVISION SETS,SOUND REPRODUCING AND RECORDING EQUIPMENT)
MERRY HEALTHCARE CO., LTD.	2014.06.25	The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O.Box 32052,Grand Cayman KY1-1208, Cayman Island	NT\$523,265,000	Sale of medical equipment
FULICARE CO., LTD.	2015.06.09	Portcullis TrustNet Chambers, P.O. Box 1225, Apia, Samoa.	NT\$454,953,000	General investment
Fulicare Medical Technology (Suzhou) Co., Ltd.	2015.08.05	No. 800, Kangyuan Rd., Xiangcheng Economic Development Zone, Suzhou City, Jiangsu Province	NT\$287,028,000	Production of medical equipment
Fulicare Medical Instruments Technical Services (Suzhou) Co., Ltd.	2016.01.19	No. 800, Kangyuan Rd., Xiangcheng Economic Development Zone, Suzhou City, Jiangsu Province	NT\$12,296,000	Medical instrument technical services, technical consultation, and health consultation services.
Austar Hearing Science & Technology (Xiamen) Co., Ltd.	1993.09.27	Room 3013A, Xuanyelou, Venture Park, Xiamen Torch Hi-tech Zone	NT\$59,303,000	Manufacturing of other medical devices and instruments; Wholesale of class 1 medical devices; Wholesale of class 2 medical devices; Wholesale of other machinery and equipment and electronics products; Software development; Repair of other professional equipment not listed; Import/export of various products and technologies, except for products and technologies that companies restricted from operating or prohibited from importing/exporting by the government.
Austar Hearing Science & Technology (Zhangzhou) Co., Ltd.	2016.03.31	Yunling Industrial Development Zone, Yunxiao, Zhangzhou City, Fujian Province	NT\$17,888,000	The design, development, production, import/export, and wholesale of assistive listening devices and instruments, hearing testing equipment, and sound related rehabilitation instruments.
LA&A	2012.09.26	Room 201-(2), No. 2, Gaoqinan Rd. (No. 12), Xiamen Area, Fujian Pilot Free Trade Zone, China	NT\$22,360,000	R&D of software functions used in assistive listening devices and sale of technologies.
Xiamen Etimbre Hearing Technology Co., Ltd.	2011.07.21	No. 38 and 39, 4F, Pacific Plaza,329 Jiahe Road,Siming District, Xiamen City	NT\$2,236,000	Operates specialty stores that sell hearing related products.
Suzhou Meisheng Electronic Co., Ltd.	1998.02.25	Chaoyang Industrial Workshop, Chao Lake Industrial Park, Suzhou Xiangcheng Economic Development Zone	NT\$154,608,000	Production and sales of stereo amplifiers, audio equipment, speakers, and related products.
Indigo Enterprises Inc.	1988.04.02	Portcullis Chambers,P.O.Box 1225,Apia,Samoa	NT\$865,832,000	General investment.
Sonavox Canada	1999.04.01	81 Zenway Boulevard,Suite 25,Woodbridge,ON L4H 0S5	NT\$30,000	Receiving purchase orders, R&D, and appearance design of speakers and amplifiers.
SEAS Fabrikker AS	-	Ryggeveien 96,1522 Moss,Norway	NT\$23,000	Production and sales of individual speakers.

iv. Profile of directors, supervisors, and the president of affiliated enterprises:

Name of company	Title	Name or Representative	Shares held	
			Shares (thousands)	Shareholding percentage
Merry Electronics (USA) Co., Ltd.	Director	Huang, Chao-Li (Appointed by Merry Electronics Co., Ltd.)	999	99.90%
	Director	Yang, Chao-You (Appointed by Merry Electronics Co., Ltd.)		
	CEO	Huang, Chao-Li		
	Treasurer	Zhong, Hua-Xue		
	Secretary	Zhong, Hua-Xue		
Merry Electronics (Hong Kong) Co., Ltd.	Director	Lin, Shih-Chieh (Appointed by Merry Electronics Co., Ltd.)	25,658	100.00%
	Director	Huang, Chao-Li (Appointed by Merry Electronics Co., Ltd.)		
Merry Electronics (Thailand) Co., Ltd.	Director	Huang, Chao-Li (Appointed by Merry Electronics Co., Ltd.)	5,060	99.99%
	Director	Lin, Shu-Chun (Appointed by Merry Electronics Co., Ltd.)		
Merry Electronics (Shenzhen) Co., Ltd.	Executive Director	Lin, Shih-Chieh (Appointed by Merry Electronics (Huizhou) Co., Ltd.)	-	100.00%
	President	Lin, Shih-Chieh		
	Supervisor	Joyce Lam		
DANNY DYNAMICS LIMITED	Director	Huang, Chao-Li (Appointed by Merry Electronics Co., Ltd.)	48,005	100.00%
Universal Capital Investment Limited	Director	Huang, Chao-Li (Appointed by Danny Dynamics Limited)	5	100.00%
MERRYTECH (HK) CO. LIMITED	Director	Huang, Chao-Li	48,000	100.00%
	Director	Lin, Shih-Chieh		
	Secretary of the Company	Lin, Shih-Chieh		
MERRY HEALTHCARE CO., LTD.	Director	Lin, Shu-Chun (Appointed by Merry Electronics Co., Ltd.)	-	100.00%
	Director	Liao, Lu-Lee (Appointed by Merry Electronics Co., Ltd.)		
MERRY ELECTRONICS (SINGAPORE) PTE. LTD.	Director	Lin, Shu-Chun (Appointed by Merry Electronics Co., Ltd.)	-	100.00%
	Director	Ken Soh (Appointed by Merry Electronics Co., Ltd.)		
	Executive Director	Ken Soh		
FULICARE CO., LTD.	Director	Lin, Shu-Chun (Appointed by Merry Healthcare Co., Ltd.)	-	100.00%
Fulicare Medical Technology (Suzhou) Co., Ltd.	Director	Lin, Shu-Chun (Appointed by Fulicare Co., Ltd.)	-	100.00%
	Supervisor	Joyce Lam		
	President	Lin, Shu-Chun		
Fulicare Medical Instruments Technical Services (Suzhou) Co., Ltd.	Director	Lin, Shu-Chun (Appointed by Fulicare Co., Ltd.)	-	100.00%
	Supervisor	Huang, Chao-Li		
AustarHearing Science & Technology (Xiamen) Co., Ltd.	Chairman	Lin, Shu-Chun	-	99.50%
	Director	Huang, Chao-Li		
	Supervisor	Joyce Lam		
	President	Hsu, Peng-Cheng		
Xiamen Etimbre Hearing Technology Co., Ltd.	Executive Director	Lin, Shu-Chun	-	99.50%

	Supervisor	Joyce Lam		
	President	Hsu, Peng-Cheng		
LA&A	Director	Lin, Shu-Chun	-	99.50%
	Supervisor	Joyce Lam		
	President	Hsu, Peng-Cheng		
Austar Hearing Science & Technology (Zhangzhou) Co., Ltd.	Executive Director	Lin, Shu-Chun	-	99.50%
	Supervisor	Joyce Lam		
	President	Hsu, Peng-Cheng		
Indigo Enterprise Inc.	Director	Yang, Ching-Yao	-	70.00%
	Director	Lin, Shu-Chun		
	Director	Ken Soh		
Sonavox Canada Holding Co., Inc.	Director	Yang, Ching-Yao	-	100.00%
	Director	Joseph Riggi		
	Director	Sam Chang		
	Director	Ken Soh		
	Secretary of the Board of Directors	Joyce Lam		
Sonavox Canada Inc.	Director	Yang, Ching-Yao	-	100.00%
	Director	Joseph Riggi		
	Director	Sam Chang		
	Director	Ken Soh		
	Secretary of the Board of Directors	Joyce Lam		
SEAS FABRIKKER	Chairman	Sam Chang	-	100.00%
	Labor Director	Harvard Sollian		
	Director	Olav Mellum Arntzen		
Suzhou Meisheng Electronic Co., Ltd.	Chairman	Lin, Shu-Chun	-	100.00%
	Director	Lin, Shih-Chieh		
	Director	Ken Soh		
	Director	Sam Chang		
	Supervisor	Joyce Lam		
	President	Yang, Mei-Ling		
Merry Electronics (Huizhou) Co., Ltd.	Chairman	Feng Yun(Appointed by the Luxshare Group)	-	49.00%
	Director	Pai, Ju-Ching (Appointed by the Luxshare Group)		
	Vice Chairman	Lin, Shih-Chieh(Appointed by Merry Electronics Co., Ltd.)		
	President	Feng Yun (Appointed by the Luxshare Group)		
	Supervisor	Joyce Lam		
Merry Electronics (Suzhou) Co., Ltd.	Chairman	Li, Pin(Appointed by the Luxshare Group)	-	49.00%
	Vice Chairman	Lin, Shu-Chun(Appointed by Merry Electronics Co., Ltd.)		
	Director	Tian, Yu-Ming(Appointed by the Luxshare Group)		
	Director	Zhang, Jun (Appointed by the Luxshare Group)		
	Director	Lin, Shih-Chieh(Appointed by Merry Electronics Co., Ltd.)		
	President	Li, Pin(Appointed by the Luxshare Group)		
	Supervisor	Joyce Lam		
Guangdong Luxshare & Merry	Chairman	Feng Yun (Appointed by the Luxshare	-	49.00%

Electronics Co., Ltd.		Group)		
	Vice Chairman	Lin, Shih-Chieh (Appointed by Merry Electronics Co., Ltd.)		
	Director	Wang, Lai-Sheng (Appointed by the Luxshare Group)		
	President	Pai, Ju-Ching		
	Supervisor	Joyce Lam		
	VP	Lin, Shih-Chieh		

v. Business overview of affiliated enterprises:

December 31, 2019 Unit: NT\$ Thousand

Name of company	Capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating profits	Profit or loss for the current period	Earnings per share (Note 1)
Merry Electronics (USA) Co., Ltd.	28,887	34,052	421	33,631	45,273	292	436	-
Merry Electronics (Hong Kong) Co., Ltd.	98,113	1,374,283	17,178	1,357,106	125,479	(15,393)	718,960	-
Merry Electronics (Thailand) Co., Ltd.	484,358	587,280	48,492	538,788	447,735	16,357	19,066	-
Merry Electronics (Shenzhen) Co., Ltd.	426,378	8,198,305	6,057,366	2,140,938	17,610,783	648,314	464,695	-
Merry Electronics (Shanghai) Co., Ltd.	7,422	149,090	145,955	3,134	275,918	(1,058)	(720)	-
DANNY DYNAMICS LIMITED	1,479,925	2,504,027	-	2,504,027	-	-	36,010	-
UNIVERSAL CAPITAL INVESTMENT LIMITED	151	-	715	(715)	-	-	(6)	-
Merry Electronics (Huizhou) Co., Ltd.	447,200	3,327,975	2,285,592	1,042,383	5,071,974	524,805	491,771	-
Merrytech (HK) Co., Ltd.	1,393,940	2,507,482	2,755	2,504,727	-	(17)	573	-
Merry Electronics (Singapore) Co., Ltd.	82,942	1,513,084	1,142,369	370,715	4,048,084	370,997	311,892	-
FULICARE CO., LTD.	454,953	504,922	45,778	459,144	-	(1,228)	4,535	-
Fulicare Medical Technology (Suzhou) Co., Ltd.	287,028	274,630	(407)	275,037	342	(1,318)	(1,105)	-
MERRY HEALTHCARE CO., LTD.	523,265	502,539	-	502,539	-	(374)	1,875	-
Fulicare Medical Instruments Technical Services (Suzhou) Co., Ltd.	12,296	11,457	(2)	11,459	13	30	30	-
AustarHearing Science & Technology (Xiamen) Co., Ltd.	59,303	188,583	145,330	43,253	356,050	22,557	17,050	-
Xiamen Etimbre Hearing Technology Co., Ltd.	2,236	2,470	1,495	975	11,483	(4,518)	(5,182)	-
LA&A	22,360	37,782	9,892	27,891	70,754	(2,762)	1,852	-

AustarHearing Science & Technology (Zhangzhou) Co., Ltd.	17,888	28,077	5,070	23,007	27,500	9,688	4,557	-
Merry Electronics (Guangdong) Co., Ltd.	894,400	1,341,497	487,629	853,868	356,610	(47,639)	(46,431)	-
Indigo Enterprises Inc.	865,832	7,722	14,797	(7,075)	-	(11,765)	(7,146)	-
Sonavox Canada Inc.	30	193,263	184,028	9,235	427,864	(5,709)	163	-
Sonavox Canada Holding Company Inc.	11,112	56,142	56,119	23	-	-	7,340	-
SEAS Fabrikker AS	23	72,692	20,122	52,570	138,606	16	4,832	-
Suzhou Meisheng Electronic Co., Ltd.	154,608	505,683	269,639	209,044	938,732	49,980	50,172	-

Note 1: Not applicable because the Company is a limited company.

vi. Consolidated financial statements of affiliated enterprises:

Companies that are to be included in the consolidated financial statements in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same as subsidiaries that are to be included in consolidated financial statements of the parent company in accordance with IFRS10 in 2018. All information on affiliated enterprises that must be disclosed in the consolidated financial statements was already disclosed in the abovementioned consolidated financial statements. Hence, we did not separately prepare consolidated financial statements of a affiliated enterprises. Please refer to page 104.

vii. Affiliation Report

Not applicable because the Company is not a subsidiary of other companies.

II. Progress of private placement of securities during the latest year and up to the date of annual report publication:

Information on Private Placement of Securities

Item	First private placement in 2016 (Note 1) Date of issuance: (yyyy/mm/dd) (The Investment Commission, MOEA denied subscription of the Company's shares by Hong Kong Luxshare Precision Limited on June 30, 2016. Hence, the company did not issue ordinary shares for private placement)	___ Private placement in ___(Note 1) Date of issuance: (yyyy/mm/dd)
Type of security in	Ordinary shares	

private placement (Note 2)		
Date and amount passed by the shareholders' meeting (Note 3)	The extraordinary shareholders' meeting on January 22, 2016 pass the proposal for private placement of ordinary shares, which will issue 63,000,000 ordinary shares at face value of NT\$10 for cash capital increase.	
Basis and reasonableness of the price	The subscription price of the private placement is set is the average closing price of ordinary shares 1, 3, or 5 business days before the fixing date minus stock and cash dividends plus the stock price after capital reduction; or the average closing price of ordinary shares 30 business days before the fixing date minus stock and cash dividends plus the stock price after capital reduction. The higher price of the two options above is the reference price. The subscription price of the private placement may not be lower than 80% of the reference price. The fixing date is temporarily set at December 7, 2015, the date of the Board meeting during which cash capital increase via private placement was decided, the average closing price of ordinary shares for the 5 business days before the fixing date (the higher of the two options), i.e., NT\$65.48, was selected as the reference price. The basis for setting the reference price of ordinary shares for the private placement complies with the Directions for Public Companies Conducting Private Placements of Securities, and therefore should be reasonable. The price per ordinary share was set at no more than NT\$60 (91.63% of the reference price) for the private placement. However, the shareholders' meeting authorized the Board of Directors to determine the actual date for setting the actual price based on the principles above and the market condition at the time.	
Method for selecting specific subscribers (Note 4)	1.Subscribers for the private placement are limited to specific persons in Letter (91) Tai-Cai-Zeng (1) No. 10003455 from the Financial Supervisory Commission dated June 13, 2002 in accordance with Article 43-6 of the Securities and Exchange Act. 2.The subscriber that was selected was Hong Kong Luxshare	

	Precision Limited (wholly-owned subsidiary of Luxshare Precision Limited).									
	3.Relationship of subscribers with the Company: None.									
Reason that private placement is necessary	1.Reason for not making a public offering: The need to bring in a strategic investor is to raise long-term capital within the shortest time possible. Private placement shares may not be freely transferred within three years, and therefore ensures the long-term cooperation between companies and strategic investors. Hence, we decided to raise funds from a specific investor through private placement. 2.Private placement amount: The shareholders' meeting will be requested to authorize the Board of Directors to carry out the private placement of no more than 63,000,000 shares within one year after resolution of the shareholders' meeting. 3.Use of funds from private placement and expected benefits: The funds will be used to increase working capital and meet demands for long-term development. It is expected to enhance the Company's competitiveness, improving business performance, and positively affect the Company's stability and shareholders' equity.									
Payment completed on	--									
Information on the Subscriber	Private placement subscriber (Note 5)	Qualifications (Note 6)	Subscription quantity	Relationship with the Company	Participation in Company operations	Private placement subscriber (Note 5)	Qualifications (Note 6)	Subscription Quantity	Relationship with the Company	Participation in Company operations
	Hong Kong Luxshare Precision Limited	Subparagraph 2, Paragraph 1, Article 43-6 of the Securities and Exchange Act	63,000,000 ordinary shares	None	-					
Actual subscription (or conversion) price (Note 7)	The Investment Commission, MOEA denied subscription of the Company's shares by Hong Kong Luxshare Precision Limited on June 30, 2016. Hence, the company did not actually subscribe to									

Actual subscription (or conversion) price and difference with the reference price (Note 7)	shares.	
Impact of private placement on shareholders equity (For example: Caused an increase in cumulative losses...)	1. The price per ordinary share in the private placement may not be lower than 80% of the reference price within 63,000,000 shares. The funds raised will be used to increase working capital and purchase production equipment. This will prevent the Company from being too dependent on bank loans, which increase the debt ratio and interest expenses and also increase financial risk. It also allows us to bring in strategic investors for most stable customers, securing our position in the electroacoustics industrial chain, and ensuring the Company's continuous business development, which will increase profits and have a positive effect on shareholders equity. The subscription price of the private placement may not be lower than 80% of the reference price, which complies with related laws and regulations, and therefore has limited effect on shareholders equity. 2. Vertical integration of the funds, experience, brand, or distribution channels of strategic investors can be expected to improve our profitability, increase efficiency, and expand market scale. This will increase the Company's overall shareholders equity and have a positive effect on the Company's financial position and shareholders equity.	
Utilization of funds from private placement and implementation progress	--	
Benefits of private placement	--	

Note 1: The number of fields adjusted based on the actual number of times. Specify if the private placement of negotiable securities was carried in batches.

Note 2: Fill in ordinary shares, preferred shares, convertible preferred shares, preferred shares with warrants, ordinary corporate bonds, convertible

corporate bonds, corporate bonds with warrants, overseas convertible corporate bonds, global depositary receipts, and employee stock option certificates.

Note 3: Private placement of corporate bonds does not need to be passed by the shareholders' meeting; specify the date it was passed by the Board of Directors and amount.

Note 4: If subscribers have been determined for ongoing private placement cases, specify the name of subscribers and their relationship with the Company.

Note 5: The number of fields adjusted based on the actual number.

Note 6: Fill in Subparagraph 1, 2, or 3, Paragraph 1, Article 43-6 of the Securities and Exchange Act.

Note 7: Actual subscription (or conversion) price refers to the subscription (or conversion) price set during actual issuance of negotiable securities in the private placement.

III. Holding or disposal of stocks of the Company by subsidiaries in the past year and up to the date of report: None.

IV. Other matters that require supplementary description: None.

I. Occurrence of events that have a material impact on shareholders equity or stock prices specified in Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act

Events that have a material impact on shareholders equity or stock prices specified in Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act in the most recent year and up to the date of report: None.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Merry Electronics Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Merry Electronics Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained 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 of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The key audit matters in relation to the consolidated financial statements for the year ended December 31, 2018, are outlined as follows:

Cut-off on sales revenue from distribution warehouse

Description

Refer to Note 4(28) for accounting policy on revenue recognition.

The Group recognises revenue upon delivery of goods or pick-up of goods (the transfer of control of ownership) by customers at warehouse. Warehouse sales revenue constitutes 23% of total operating revenue for the year ended December 31, 2018. The Group's revenue recognition is based on inventory movement records of warehouse based on the reports provided by warehouse custodians or bill of lading reports recorded on network platform. As the hubs are located in various locations and there are numerous custodians, the frequency and contents of statements provided by custodians vary, and customers are from different places, the process of revenue recognition contains numerous manual procedures, which would potentially result in inaccurate timing of revenue recognition and the discrepancy between physical inventory quantities in the hubs and quantities per accounting records. Thus, we consider the cut-off on sales revenue from distribution warehouse a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in relation to the above key audit matter:

- A. Understood, evaluated and verified the Group's procedure for warehouse sales revenue and internal control, including:
 - (a) Interviewing the staff from different departments of the sales revenue process from distribution warehouse, and confirming the consistency by comparing interview results with the process of warehouse sales revenue recognition obtained.
 - (b) Verifying the internal control of warehouse distribution (checked the terms of transaction / timing of ownership transfer and dates of supporting documents and verifying transactions recognised in the appropriate period by reconciling the quantities of supporting documents with invoices) to confirm the accuracy of the timing of revenue recognition.
- B. Performed cutoff procedures on sales revenue from distribution warehouse recognised during a specific period before and after the period-end, including verifying delivery schedule of distribution warehouse and ensuring the movements of inventories contained in the statements and cost of goods sold had been recognised in the appropriate period; and

- C. Performed physical inventory count observation or confirmed the inventory quantities with hub custodian and agreed the results to accounting records.

Valuation of inventories

Description

Refer to Note 4(12) for accounting policies on inventory valuation, Note 5(2) for significant accounting estimates and assumptions related to inventory valuation, and Note 6(5) for details of allowance for inventory valuation losses. As of December 31, 2018, the balances of inventories and allowance for inventory valuation losses were NT\$3,205,602 thousand and NT\$130,930 thousand, respectively.

The Group has a high risk of incurring inventory valuation loss or obsolescence due to fluctuations in market demand and rapidly evolving technology. Further, the measurement of net realisable value of inventories involves subjective judgement resulting in a high degree of estimation uncertainty. Thus, we consider the allowance for inventory valuation loss a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in relation to the above key audit matter:

- A. Understood and assessed the reasonableness of the subsequent inventory valuation and the provision for loss on obsolete and slow-moving inventory.
- B. Inspected the annual plan of the physical inventory count and observed the inventory count; evaluated the effectiveness of the procedures used to identify and control obsolete inventories.
- C. Obtained inventory aging report and verified dates of movements with supporting documents, and ensured the accuracy of inventory aging classification and its consistency with the policies.
- D. Obtained the net realisable value of each kind of inventory and checked whether the applied calculation logic was in agreement with all inventory, tested the supporting documents related to the estimation basis for net realisable value of inventories including verifying the supporting documents of sales and purchase prices, as well as recalculating and assessing the reasonableness of allowance for inventory valuation losses.

Business combination - acquisition of Indigo Enterprises Inc. and Suzhou Meisheng Electronics Co., Ltd.

Description

In July 2018, the Company acquired 70% of ordinary shares of Indigo Enterprise Inc. and Suzhou Meisheng Electronics Co., Ltd. with cash amounting to NT\$945,560 thousand and obtained control of these companies. Merry Electronics Co., Ltd. used the acquisition method as accounting treatment for the business combination, refer to Note 4(30) for the details. The purchase price allocation report prepared by the external appraiser appointed by management was used to measure and allocate the purchase price to identifiable assets and assumed liabilities which arose from the combination (refer to Note 6(28) in the consolidated financial statements for details).

As the purchase price allocation involved management's estimation and the business combination was significant to the financial statements, we consider the business combination a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in relation to the above key audit matter:

- A. Inquired with management the details of the business combination, including acquisition motive, purchase price and valuation basis for fair values of assets acquired and liabilities assumed, accounting policies applied and the related internal control process, and reviewed the minutes of Board of Directors' meeting and related contracts.
- B. Reviewed the assessment on the reasonableness of price provided by the independent expert and the agreements of share transfer, and checked voucher for payment consideration to verify the purchase price.
- C. Obtained an understanding of the basis and procedure of purchase price allocation which was estimated by management. We commissioned our internal appraiser to review the original data and the reasonableness of major assumptions (including discount rate and gross margin) and fair value as indicated in the purchase price allocation reports prepared by the appraisers appointed by Merry Electronics Co., Ltd.
- D. Obtained accounting entries of the combination to ensure acquired assets and assumed liabilities from the combination were recognised in line with the abovementioned price allocation result and the relevant events were disclosed in the notes section of financial statements.

Other matter - parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Merry Electronics Co., Ltd. as at and for the years ended December 31, 2018 and 2017.

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 “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 independent directors and supervisors, are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS 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 ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

A. 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.

- B. 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.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- D. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- E. 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.
- F. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other

matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Wang, Yu-Juan

Xu, Jian-Ye

For and on behalf of PricewaterhouseCoopers, Taiwan

February 27, 2019

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

MERRY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars)

(Expressed in thousands of New Taiwan dollars)						
Assets		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 8,512,129	28	\$ 6,486,139	25
1110	Financial assets at fair value	6(2)				
	through profit or loss - current		166,048	1	471,184	2
1120	Financial assets at fair value	6(3)				
	through other comprehensive income - current		259,226	1	-	-
1125	Available-for-sale financial assets					
	- current		-	-	185,272	1
1150	Notes receivable, net		895	-	-	-
1170	Accounts receivable, net	6(4)	8,574,012	28	6,456,482	24
1180	Accounts receivable due from					
	related parties, net		23,083	-	30,060	-
1200	Other receivables		75,386	-	165,115	1
1210	Other receivables - related parties		729,785	2	274,237	1
130X	Inventories, net	6(5)	3,074,672	10	2,203,391	8
1470	Other current assets	6(6)	225,634	1	884,336	3
11XX	Total current assets		21,640,870	71	17,156,216	65
Non-current assets						
1510	Financial assets at fair value	6(2)				
	through profit or loss - non-current		18,174	-	-	-
1517	Financial assets at fair value	6(3)				
	through other comprehensive income - non-current		1,482,779	5	-	-
1523	Available-for-sale financial assets					
	- non-current		-	-	4,337,228	17
1550	Investments accounted for under equity method	6(7)	3,426,878	11	2,783,096	11
1600	Property, plant and equipment, net	6(8)	1,988,191	7	1,593,478	6
1780	Intangible assets		1,552,242	5	328,534	1
1840	Deferred income tax assets		82,335	-	59,642	-
1900	Other non-current assets		140,107	1	100,543	-
15XX	Total non-current assets		8,690,706	29	9,202,521	35
1XXX	Total assets		\$ 30,331,576	100	\$ 26,358,737	100

(Continued)

MERRY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars)

(Expressed in thousands of New Taiwan dollars)						
Liabilities and Equity		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings		\$ 4,753,434	16	\$ 2,172,618	8
2110	Short-term notes and bills payable		-	-	-	-
2120	Financial liabilities at fair value	6(2)				
	through profit or loss - current		6,976	-	8,337	-
2150	Notes payable		74	-	1,382	
2170	Accounts payable		5,330,461	18	4,234,884	16
2180	Accounts payable - related parties		4,412,969	14	3,898,785	15
2200	Other payables		1,171,824	4	1,038,572	4
2220	Other payables - related parties		37,410	-	13,925	-
2230	Current income tax liabilities		293,442	1	433,359	2
2300	Other current liabilities		170,952	-	233,191	1
21XX	Total current liabilities		16,177,542	53	12,035,053	46
Non-current liabilities						
2530	Corporate bonds payable		2,882,721	10	-	-
2570	Deferred income tax liabilities		702,341	2	492,887	2
2640	Accrued pension liabilities		85,930	-	113,157	-
2670	Other non-current liabilities		403,615	2	13,406	-
25XX	Total non-current liabilities		4,074,607	14	619,450	2
2XXX	Total liabilities		20,252,149	67	12,654,503	48
Equity attributable to owners of parent						
Share capital						
3110	Share capital - common stock		1,996,625	7	2,004,721	8
Capital surplus						
3200	Capital surplus		2,789,111	9	2,985,304	11
Retained earnings						
3310	Legal reserve		1,539,341	5	1,177,121	5
3320	Special reserve		269,144	1	269,144	1
3350	Unappropriated retained earnings		3,189,563	11	4,292,018	16
Other equity interest						
3400	Other equity interest		147,032	-	3,074,587	11
3500	Treasury stocks		-	-	(98,743)	-
31XX	Equity attributable to owners of the parent		9,930,816	33	13,704,152	52
36XX	Non-controlling interest		148,611	-	82	-
3XXX	Total equity		10,079,427	33	13,704,234	52
Significant contingent liabilities and unrecognised contract commitments						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		\$ 30,331,576	100	\$ 26,358,737	100

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

MERRY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	2018		2017	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue		\$ 35,494,808	100	\$ 26,678,810	100
5000 Operating costs	6(5)	(30,769,740)	(86)	(22,017,976)	(82)
5900 Net operating margin		4,725,068	14	4,660,834	18
Operating expenses					
6100 Selling expenses		(350,439)	(1)	(323,523)	(1)
6200 General and administrative expenses		(968,491)	(3)	(845,662)	(3)
6300 Research and development expenses		(1,103,005)	(3)	(919,272)	(4)
6000 Total operating expenses		(2,421,935)	(7)	(2,088,457)	(8)
6900 Operating profit		2,303,133	7	2,572,377	10
Non-operating income and expenses					
7010 Other income		240,595	-	114,930	-
7020 Other gains and losses	6(2)(3)	(32,952)	-	1,572,461	6
7050 Finance costs		(48,453)	-	(26,831)	-
7060 Share of profit/(loss) of associates and joint ventures accounted for under equity methods	6(7)	263,926	1	24,323	-
7000 Total non-operating income and expenses		423,116	1	1,684,883	6
7900 Profit before income tax		2,726,249	8	4,257,260	16
7950 Income tax expense		(665,400)	(2)	(635,051)	(2)
8200 Profit for the year		\$ 2,060,849	6	\$ 3,622,209	14

(Continued)

MERRY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share)

	Items	Notes	2018		2017	
			AMOUNT	%	AMOUNT	%
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Actuarial losses on defined benefit plans		(\$ 7,051)	-	(\$ 6,919)	-
8316	Unrealised losses from investments in equity instruments measured at fair value through other comprehensive income	6(3)	(2,530,480)	(7)	-	-
8320	Share of other comprehensive loss of associates and joint ventures accounted for using equity method		(5,513)	-	(36)	-
8349	Income tax related to components of other comprehensive loss that will not be reclassified to profit or loss		1,410	-	886	-
8310	Other comprehensive loss that will not be reclassified to profit or loss		(2,541,634)	(7)	(6,069)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		14,447	-	(157,732)	(1)
8362	Unrealised gain on valuation of available-for-sale financial assets		-	-	3,382,897	13
8367	Unrealised gains from investments in debt instruments measured at fair value through other comprehensive income, net	6(3)	18,639	-	-	-
8370	Share of other comprehensive (loss) income of associates and joint ventures accounted for using equity method		(87,285)	-	77,377	-
8399	Income tax relating to the components of other comprehensive income		12,720	-	10,616	-
8360	Other comprehensive (loss) income that will be reclassified to profit or loss		(41,479)	-	3,313,158	12
8300	Total other comprehensive (loss) income for the year		(\$ 2,583,113)	(7)	\$ 3,307,089	12
8500	Total comprehensive (loss) income for the year		(\$ 522,264)	(1)	\$ 6,929,298	26
	Profit (loss) attributable to:					
8610	Owners of the parent		\$ 2,064,265	6	\$ 3,622,205	14
8620	Non-controlling interest		(3,416)	-	4	-
			<u>\$ 2,060,849</u>	<u>6</u>	<u>\$ 3,622,209</u>	<u>14</u>
	Comprehensive income (loss) attributable to:					
8710	Owners of the parent		(\$ 514,200)	(1)	\$ 6,929,297	26
8720	Non-controlling interest		(8,064)	-	1	-
			<u>(\$ 522,264)</u>	<u>(1)</u>	<u>\$ 6,929,298</u>	<u>26</u>
	Earnings per share					
9750	Basic earnings per share		<u>\$</u>	<u>10.47</u>	<u>\$</u>	<u>18.94</u>
9850	Diluted earnings per share		<u>\$</u>	<u>10.35</u>	<u>\$</u>	<u>18.30</u>

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

MERRY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Equity attributable to owners of the parent											
	Notes	Capital		Total capital surplus, additional paid-in capital	Retained Earnings			Financial statements translation differences of foreign operations	Treasury stocks	Total	Non-controlling interest	Total equity
		Share capital - common stock	Advance receipts for share capital		Legal reserve	Special reserve	Unappropriated retained earnings					
<u>2017</u>												
Balance at January 1, 2017		\$ 1,850,625	\$ 15,420	\$ 1,523,507	\$ 976,007	\$ 269,144	\$ 2,613,534	(\$ 199,999)	(\$ 103,058)	\$ 6,945,180	\$ 81	\$ 6,945,261
Profit for the year		-	-	-	-	-	3,622,205	-	-	3,622,205	4	3,622,209
Other comprehensive income for the year		-	-	-	-	-	(6,069)	3,313,161	-	3,307,092	(3)	3,307,089
Total comprehensive income		-	-	-	-	-	3,616,136	3,313,161	-	6,929,297	1	6,929,298
Appropriations and distribution of 2016 earnings:												
Legal reserve		-	-	-	201,114	-	(201,114)	-	-	-	-	-
Cash dividends		-	-	-	-	-	(1,736,538)	-	-	(1,736,538)	-	(1,736,538)
Convertible bonds converted to equity shares		134,873	-	1,335,337	-	-	-	-	-	1,470,210	-	1,470,210
Share-based payment		19,223	(15,420)	126,460	-	-	-	(38,575)	4,315	96,003	-	96,003
Balance at December 31, 2017		\$ 2,004,721	\$ -	\$ 2,985,304	\$ 1,177,121	\$ 269,144	\$ 4,292,018	\$ 3,074,587	(\$ 98,743)	\$ 13,704,152	\$ 82	\$ 13,704,234
<u>2018</u>												
Balance at January 1, 2018		\$ 2,004,721	\$ -	\$ 2,985,304	\$ 1,177,121	\$ 269,144	\$ 4,292,018	\$ 3,074,587	(\$ 98,743)	\$ 13,704,152	\$ 82	\$ 13,704,234
Effects of modified retrospective restatement		-	-	-	-	-	3,766	(3,766)	-	-	-	-
Balance at January 1, 2018 after adjustments		2,004,721	-	2,985,304	1,177,121	269,144	4,295,784	3,070,821	(98,743)	13,704,152	82	13,704,234
Profit for the year		-	-	-	-	-	2,064,265	-	-	2,064,265	(3,416)	2,060,849
Other comprehensive loss for the year		-	-	-	-	-	(11,154)	(2,567,311)	-	(2,578,465)	(4,648)	(2,583,113)
Total comprehensive loss		-	-	-	-	-	2,053,111	(2,567,311)	-	(514,200)	(8,064)	(522,264)
Appropriations and distribution of 2017 earnings:												
Legal reserve		-	-	-	362,220	-	(362,220)	-	-	-	-	-
Cash dividends		-	-	-	-	-	(3,143,838)	-	-	(3,143,838)	-	(3,143,838)
Issuance of convertible bonds		-	-	133,326	-	-	-	-	-	133,326	-	133,326
Convertible bonds converted to equity shares		1,409	-	13,565	-	-	-	-	-	14,974	-	14,974
Share-based payment		9,165	-	120,515	-	-	-	(9,752)	13,944	133,872	-	133,872
Retirement of treasury shares		(18,670)	-	(66,129)	-	-	-	-	84,799	-	-	-
Disposal of investments in equity instruments at fair value through other comprehensive income		-	-	-	-	-	346,726	(346,726)	-	-	-	-
Acquisition of additional equity in subsidiaries		-	-	(402,072)	-	-	-	-	-	(402,072)	-	(402,072)
Recognition of change in equity of associates in proportion to the Group's ownership		-	-	4,602	-	-	-	-	-	4,602	-	4,602
Acquisition of non-controlling interests in subsidiaries		-	-	-	-	-	-	-	-	-	156,593	156,593
Balance at December 31, 2018		\$ 1,996,625	\$ -	\$ 2,789,111	\$ 1,539,341	\$ 269,144	\$ 3,189,563	\$ 147,032	\$ -	\$ 9,930,816	\$ 148,611	\$ 10,079,427

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

MERRY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 2,726,249	\$ 4,257,260
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(8)	197,670	143,772
Amortisation	6(9)	94,691	49,435
Provision for bad debts expense	6(4)	-	3,334
Expected credit loss	6(4)	6,045	-
Amortisation on long-term rent prepaid		3,180	3,933
Share-based payments	6(16)	90,298	70,872
Treasury share-based payments	6(16)	26,734	17,013
Compensation cost of cash capital increase reserved for employee preemption	6(16)	3,993	-
Loss on financial assets or liabilities at fair value through profit or loss	6(2)	16,904	9,232
Share of profit of associates and joint ventures accounted for using equity method	6(7)	(263,926)	(24,323)
Interest income	6(22)	(58,430)	(37,149)
Dividend income	6(22)	(72,379)	(32,930)
Deferred income of government's compensation		(586)	(5,427)
Loss on disposal of property, plant and equipment	6(23)	798	3,306
Loss on disposal of intangible assets	6(23)	-	2,160
Gain on disposal of investments		-	(1,200,621)
Gain on disposal of subsidiary	6(29)	-	(18,223)
Finance costs		48,453	26,831
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss	6(2)	-	10,503
Financial assets mandatorily measured at fair value through profit or loss	6(2)	276,558	-
Notes receivable, net		(910)	-
Accounts receivable		(1,809,613)	(3,196,515)
Other receivables		(22,457)	(13,023)
Other receivables - related parties		(455,747)	(273,875)
Inventories		(572,527)	(1,061,803)
Prepayments		16,904	-
Other current assets		649,227	(543,816)
Acquisition of financial assets at fair value through profit or loss - non-current		(18,174)	-
Changes in operating liabilities			
Notes payable		(1,304)	1,363
Accounts payable		878,273	1,518,970
Accounts payable - related parties		500,112	2,228,255
Other payables		(41,476)	424,974
Other payables - related parties		23,672	(16,210)
Other current liabilities		(56,974)	(5,283)
Decrease (increase) in net defined benefit		(32,921)	4,896
Cash inflow generated from operations		2,152,337	2,346,911
Interest received		61,714	36,994
Dividend income		72,379	32,930
Interest paid		(45,686)	(26,320)
Income taxes paid		(618,556)	(349,201)
Net cash flows from operating activities		<u>1,622,188</u>	<u>2,041,314</u>

(Continued)

MERRY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at fair value through other comprehensive income	6(3)	(\$ 332,429)	\$ -
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(3)	603,040	-
Decrease in financial assets at fair value through profit or loss	6(2)	-	520
Proceeds from disposal of available-for-sale financial assets-current		-	432
Acquisition of available-for-sale financial assets-non-current		-	(729,408)
Proceeds from disposal of available-for-sale financial assets-non-current	12(4)	-	1,323,828
Acquisition of investments accounted for using equity method	6(7)	(452,564)	-
Acquisition of property, plant and equipment	6(8)(29)	(624,079)	(688,885)
Proceeds from disposal of property, plant and equipment		5,289	12,505
Acquisition of intangible assets	6(9)(29)	(57,336)	(67,556)
Proceeds from disposal of intangible assets		1,154	(132)
Decrease in other receivables due from related parties		-	64,557
Decrease (increase) in other financial assets		4,186	(15,302)
Decrease in guarantee deposits		(4,876)	(5,613)
Proceeds from disposal of subsidiary	6(29)	-	187,155
Effects of cash changes in consolidated entities	6(28)	(1,106,733)	-
Net cash flows (used in) from investing activities		(1,964,348)	82,101
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in short-term borrowings		2,582,573	1,784,967
Decrease in other non-current liabilities		(60,208)	(316)
Proceeds from issuance of bonds		3,015,000	-
Cash dividends paid		(3,143,838)	(1,736,538)
Employee purchase of treasury shares		13,944	4,315
Cancellation of restricted employee shares		(1,095)	(777)
Issuance of restricted employee shares		-	4,580
Net cash flows from financing activities		2,406,376	56,231
Effect of exchange rate changes		(38,226)	(170,694)
Net increase in cash and cash equivalents		2,025,990	2,008,952
Cash and cash equivalents at beginning of year		6,486,139	4,477,187
Cash and cash equivalents at end of year		\$ 8,512,129	\$ 6,486,139

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

MERRY ELECTRONICS CO., LTD AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

Merry Electronics Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) on December 24, 1975. The Company is primarily engaged in manufacturing, processing, repairing, sales of electric appliance and audiovisual electric products, telecommunication equipment and apparatus, computers and computing peripheral equipments, restrained telecom radio frequency equipments, medical appliances, as well as electronic parts and components; planning, design as well as output of service items’ equipments; production as well as marketing management consultant of service items’ relevant business. The Company’ shares were listed on the Taipei Exchange since August 1998 and transferred to the Taiwan Stock Exchange starting September 2000 with approval. The Company merged with its subsidiary, HUGES HI-TECH INC., on September 1, 2005. The Company was the surviving company while HUGES HI-TECH INC. was the dissolved company.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on FEBRUARY 26, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15, Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
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 International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

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

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Financial assets and liabilities at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply

modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2018	December 31, 2017	
MEHO	MERRY ELECTRONICS (HK) CO., LTD. ("MEST")	It refers to products traded the same as the Company's.	100.00%	100.00%	
MEHO	MERRY ELECTRONICS (THAILAND) CO., LTD. ("METC")	Its main business is the same as the Company's.	99.99%	99.99%	
MEHO	MERRY ELECTRONICS (U.S.A.) CO., LTD. ("MECA")	Agency sales of microphone and security system manufactured by affiliates.	99.90%	99.90%	
MEHO	DANNY DYNAMICS LIMITED ("DDVI")	It engaged in general investment business.	100.00%	100.00%	NOTE 6
MEHO	MERRY ELECTRONICS (SINGAPORE) PTE. LTD. ("MESG")	Manufacturing of other electronic components and circuit board.	100.00%	100.00%	
MEHO	MERRY HEALTHCARE CO., LTD. ("MHCH")	It engaged in sales of medical device.	100.00%	100.00%	
MEHO	ASIAN ELITE INTERNATIONAL LTD. ("MSCS")	Manufacturing and sales of speaker and amplifier.	70.00%	-	NOTE 4
MEHO	Indigo Enterprise Inc. ("IEAA")	It engaged in general investment business.	70.00%	-	NOTE4
MEST	MERRY ELECTRONICS (SHANGHAI)CO., LTD ("MECS")	It refers to products traded the same as the Company's.	49.00%	49.00%	NOTE 2
MEST	MERRY ELECTRONICS (SHENZHEN)CO., LTD. ("MECL")	Its main business is the same as the Company's.	100.00%	100.00%	
MEST	MERRY ELECTRONICS (HUIZHOU)CO., LTD. ("MECH")	Its main business is the same as the Company's	49.00%	49.00%	NOTE 1

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2018	December 31, 2017	
DDVI	Universal Capital Investment Limited ("UCMU")	It engaged in general investment business.	100.00%	100.00%	NOTE 7
DDVI	MERRYTECH (HK) CO.LIMITED ("MTCH")	It engaged in general investment business.	100.00%	100.00%	NOTE 8
IEAA	Sonavox Canada Inc. ("SECV")	Develop-to-order and appearance design of speaker and amplifier	100.00%	-	NOTE 4
SECV	Sonavox Canada Holding. ("SECH")	It engaged in general investment business.	100.00%	-	NOTE 4
SECH	Seas Fabrikker ("SENM")	Manufacturing and sales of speaker monomer	100.00%	-	NOTE 4
MHCH	FULICARE CO., LTD. ("MHFC")	It engaged in general investment business.	100.00%	100.00%	
MHFC	Fulicare Medical Instruments (Suzhou)Co.,Ltd ("MH FM")	It engaged in manufacturing of medical device.	100.00%	100.00%	
MHFC	Fulicare Medical Instruments Technical Services (Suzhou)Co.,Ltd ("MHTS")	Providing medical device technical service.	100.00%	100.00%	
MHFM	Fulicare Medical Instruments (Suzhou)Co.,Ltd ("MHMI")	It engaged in sales of medical device.	100.00%	-	NOTE 3
MHFM	Xiamen Etimbre Hearing Technology Co.LTD ("MHEH")	Research and development, manufacturing as well as sales of hearing aid, hearing device and acoustics equipment.	100.00%	-	NOTE 5

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2018	December 31, 2017	
MHFM&MHFC	Austar Hearing Science And Technology (Xiamen) Co. , Ltd ("MHAT")	Research and development, manufacturing as well as sales of hearing aid, hearing device and acoustics equipment.	99.50%	-	NOTE 5
MHAT	Austar Hearing Science And Technology (Zhangzhou) Co., Ltd. ("MHCZ")	It engaged in manufacturing of hearing aid and acoustics for rehabilitation device.	100.00%	-	NOTE 5
MHAT	Xiamen Laiyate Medical Devices Co. , Ltd ("MHLA")	It engaged in research and development as well as technical sales of software functions for hearing aid.	100.00%	-	NOTE 5

Note 1: In April 2017, the Group sold 44.95% of shares in the subsidiary, Merry Electronics (Huizhou) Co., Ltd., and did not participate in the capital increase raised by a subsidiary proportionally to its interest to the subsidiary. As a result, the Group lost control over the subsidiary.

Note 2: In April 2017, the Group sold 51% of shares in the subsidiary, Merry Electronics (Shanghai) Co., Ltd., as a result, the Group lost control over the subsidiary.

Note 3: The Group established the subsidiary, Fulicare Medical Instruments (Suzhou) Co., Ltd., in May 2018.

Note 4: The Group acquired Indigo Enterprise Inc. and Asian Elite International Ltd. in July 2018.

Note 5: The Group acquired 99.5% of shares in Austar Hearing Science And Technology (Xiamen) Co., Ltd. through jointly holding by MHFM and MHFC as well as acquired 100% of shares in Xiamen Etimbre Hearing Technology Co.LTD through MHFM.

Note 6: The Group amended abbreviation of ‘DANNY DYNAMICS LIMITED’ for the year, the initial abbreviation was ‘DANNY’.

Note 7: The Group amended abbreviation of ‘Universal Capital Investment Limited’ for the

year, the initial abbreviation was ‘UCIL’.

Note8: The Group amended abbreviation of ‘MERRYTECH (HK) CO.LIMITED’ for the year, the initial abbreviation was ‘MERRYTECH (HK)’.

C. Subsidiaries not included in the consolidated financial statements:

None.

D. Adjustments for subsidiaries with different balance sheet dates:

None.

E. Significant restrictions

None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in New Taiwan dollars, which is the Company’s functional and the Group’s presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise,
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within ‘Other gains and losses’.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.
- (c) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

- A. Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

Effective 2018

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:
 - (a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.
 - (b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified

from equity to profit or loss.

(9) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income including accounts receivable at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(11) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(12) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity do not arise from profit or loss or other comprehensive

income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	5 ~ 60 years
Machinery and equipment	2 ~ 10 years
Transportation equipment	7 ~ 12 years
Office equipment	5 ~ 10 years
Others	4 ~ 10 years

(15) Leased assets/ operating leases (lessee)

- A. Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(16) Intangible assets

- A. Computer software
Computer software is stated at cost and amortised on a straight-line basis over its estimated

useful life of 3 to 8 years.

B. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

C. Intangible assets, mainly patent rights、trademark rights and business rights, are amortised on a straight-line basis over their estimated useful lives of 3 ~ 10 years.

(17) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.
- B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(18) Borrowings

- A. Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(19) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(20) Financial liabilities at fair value through profit or loss

- A. Financial liabilities are classified in this category of held for trading if acquired principally for

the purpose of repurchasing in the short-term, or financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

- (a) Hybrid (combined) contracts; or
 - (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
 - (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.
- B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(21) Convertible bonds payable

- A. Convertible bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable upon issuance as a financial asset, a financial liability or an equity instrument in accordance with the contract terms. They are accounted for as follows:
- (a) The embedded call options and put options are recognised initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.
 - (b) The host contracts of bonds are initially recognised at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortised in profit or loss as an adjustment to 'finance costs' over the period of circulation using the effective interest method.
 - (c) The embedded conversion options which meet the definition of an equity instrument are initially recognised in 'capital surplus—share options' at the residual amount of total issue price less the amount of financial assets or financial liabilities at fair value through profit or loss and bonds payable as stated above. Conversion options are not subsequently remeasured.
 - (d) Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.
 - (e) When bondholders exercise conversion options, the liability component of the bonds (including bonds payable and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The issuance cost of converted common shares is the total book value of the abovementioned liability component and 'capital surplus—share options'.

(22) Non-hedging and embedded derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

(23) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(24) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are

measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

B. Restricted stocks:

- (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.
- (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.
- (c) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must return the stocks to the Group and the Group must refund their payments on the stocks, the Group recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments from the employees who are expected to be eventually vested with the stocks in 'capital surplus – others'.

(25) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from

initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(26) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(27) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(28) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells radio apparatus, communication devices, consumer electronics as well as electronic parts and components. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has

accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

- (b) The furniture is often sold with volume discounts based on aggregate sales over a 12-month period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated sales discounts. Accumulated experience is used to estimate and provide for the sales discounts and allowances, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. The sales usually are made with a credit term of 30 days. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.
- (c) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(29) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognised as non-current liabilities and are amortised to profit or loss over the estimated useful lives of the related assets using the straight-line method.

(30) Business combinations

- A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. The excess of the consideration transferred, the amount of any non-controlling interest in the

acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquiree recognised and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognised directly in profit or loss on the acquisition date.

(31) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical accounting estimates and assumptions

A. Impairment assessment of goodwill

The impairment assessment of goodwill relies on the Group's subjective judgement, including identifying cash-generating units, allocating assets and liabilities as well as goodwill to related cash-generating units, and determining the recoverable amounts of related cash-generating units. As of December 31, 2018, the Group recognised goodwill, net of impairment loss, amounting to \$931,678.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2018, the carrying amount of inventories was \$3,074,672.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>
Cash on hand and revolving funds	\$ 4,358
Checking accounts and demand deposits	4,663,889
Time deposits	3,224,030
Short-term paper	619,842
	<u>\$ 8,512,119</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

C. Time deposits with original maturity over 3 months were classified as other current financial assets.

(2) Financial assets at fair value through profit or loss

<u>Items</u>	<u>December 31, 2018</u>
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
- Funds	\$ 51,262
- Non-hedging derivatives	6,176
- Stocks	108,949
- Call options of convertible bonds	4,200
Valuation adjustment	(4,539)
	<u>\$ 166,048</u>
Non-current items:	
- Funds	<u>\$ 18,174</u>

<u>Items</u>	<u>December 31, 2018</u>
Current items:	
Financial liabilities held for trading	
- Non-hedging derivatives	<u>\$ 6,976</u>

A. Amounts recognised in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	<u>Year ended December 31, 2017</u>
Net gains on financial assets at fair value through profit or loss	<u>\$ 603,638</u>

A. The Group entered into contracts relating to derivative financial assets which were not

accounted for under hedge accounting. The information is listed below:

Derivative instruments	December 31, 2018		
	Contract amount (Notional principal)	Contract period	Contract price
Forward foreign exchange contract to sell	USD 54,300 thousand	2018/12/12~ 2019/1/29	NTD 30.649~30.756
Forward foreign exchange contract to buy	USD 54,300 thousand	2018/12/12~ 2019/1/29	NTD 30.709~30.811

The group entered into forward foreign exchange contracts to hedge exchange rate risk of import and export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

C. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).

D. Information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

(3) Financial assets at fair value through other comprehensive income

Items	December 31, 2018
Current items:	
Debt instruments	
Closed-end fund	\$ 50,000
Bonds	120,421
Valuation adjustment	3,855
	<u>174,276</u>
Equity instruments	
Stocks	83,834
Valuation adjustment	1,116
	<u>84,950</u>
Total	<u>\$ 259,226</u>
Non-current items:	
Equity instruments	
Listed stocks	748,154
Emerging stocks	40,106
Unlisted stocks	77,532
	<u>865,792</u>
Valuation adjustment	619,963
Accumulated impairment	(2,976)
Total	<u>\$ 1,482,779</u>

A. The Group has elected to classify equity and debt investments that are considered to be strategic investments or steady dividend income as financial assets at fair value through other

comprehensive income. The fair value of such investments amounted to \$1,742,005 as at December 31, 2018.

- B. During the year ended December 31, 2018, the Group repurchased bond investments at fair value of \$156,192 thousand due to the maturity of bond and resulted in cumulative losses on disposal amounting to \$13,602 thousand (shown as other gains and losses). Aiming to satisfy its capital needs, the Company sold \$443,288 thousand of equity investments at fair value and resulted in cumulative gains on disposal amounting to \$346,726 thousand (transferred from other equity interest to unappropriated retained earnings) during the year ended December 31, 2018.
- C. As of December 31, 2018, proceeds from disposal of shares of public offering companies were all collected.
- D. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	2018
<u>Equity instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive income	(\$ 2,530,480)
Cumulative losses reclassified to retained earnings due to derecognition	(\$ 346,726)
<u>Debt instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive income	\$ 5,037
Cumulative other comprehensive income reclassified to profit or loss	
Reclassified due to derecognition	\$ 13,602
Interest income recognised in profit or loss	\$ 6,190

- E. As at December 31, 2018 without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was \$1,742,005.
- F. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).
- G. Information on available-for-sale financial assets and financial assets at amortized cost as of December 31, 2017 is provided in Note 12(4).
- H. The counterparties of the Company's investments in debt instruments have good credit quality; those debt securities are all rated as investment grade.
- I. The Company recognised interest income of \$6,190 thousand on debt instruments held for the year ended December 31, 2018.

(4) Accounts receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	\$ 8,619,080	\$ 6,462,730
Less: Allowance for sales returns and discounts	(35,719)	(2,858)
Less: Allowance for uncollectible accounts	(9,349)	(3,390)
	<u>\$ 8,574,012</u>	<u>\$ 6,456,482</u>

A. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Not past due	\$ 8,433,995	\$ 6,410,250
Up to 30 days	184,170	49,271
31 to 90 days	754	694
91 to 180 days	161	173
Over 180 days	-	2,342
	<u>\$ 8,619,080</u>	<u>\$ 6,462,730</u>

The above ageing analysis was based on past due date.

B. The Group does not hold any collateral as security.

C. Information relating to credit risk of accounts receivable is provided in Note 12(2).

(5) Inventories

	<u>December 31, 2018</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 1,535,690	\$ (69,449)	\$ 1,466,241
Work in progress	481,447	(4,225)	477,222
Finished goods	<u>1,188,465</u>	<u>(57,256)</u>	<u>1,131,209</u>
	<u>\$ 3,205,602</u>	<u>\$ (130,930)</u>	<u>\$ 3,074,672</u>

	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 790,590	\$ (11,104)	\$ 779,486
Work in progress	338,996	(625)	338,371
Inventory in transit	<u>1,107,445</u>	<u>(21,911)</u>	<u>1,085,534</u>
	<u>\$ 2,237,031</u>	<u>\$ (33,640)</u>	<u>\$ 2,203,391</u>

The cost of inventories recognised as expense for the year :

	Year ended December 31, 2018	Year ended December 31, 2017
Cost of goods sold	\$ 30,650,791	\$ 21,974,120
Loss on decline in market value	97,290	7,314
Loss on inventory retirement	21,226	36,357
Loss on physical inventory	433	185
	<u>\$ 30,769,740</u>	<u>\$ 22,017,976</u>

(6) Other current assets

	2018	2017
Input tax	\$ 119,530	\$ 177,129
Prepayment for purchases	22,300	23,804
tax refund	9,251	481,443
Time deposits maturing in excess of three months	-	100,000
Others	74,553	101,960
	<u>\$ 225,634</u>	<u>\$ 884,336</u>

(7) Investments accounted for using equity method

	Years ended December 31,	
	2018	2017
Associates with Significant influence		
MERRY ELECTRONICS(SUZHOU)CO.,LTD (MECE)	\$ 2,422,186	\$ 2,425,963
Associates with Insignificant influence		
MERRY ELECTRONICS (HUIZHOU)CO.,LTD. (MECH)	525,324	291,590
Guangdong Luxshare & Merry Electronics Co., Ltd was established. (MEDG)	414,222	-
LEOHAB ENTERPRISE CO.,LTD. (LEOHAB)	64,030	64,029
MERRY ELECTRONICS (SHANGHAI)CO.,LTD		
MECS	1,116	1,514
	<u>\$ 3,426,878</u>	<u>\$ 2,783,096</u>

B. Gain or loss form Associates for using equity method :

Investee	2018	2017
MECE	\$ 36,033	\$ 224
MECH	240,968	20,782
MEDG	(22,752)	-
LEOHAB	10,030	6,247
MECS	(353)	(2,930)
	<u>\$ 263,926</u>	<u>\$ 24,323</u>

C. Associates

(a) The basic information of the associates that are material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Methods of measurement
		December 31, 2018	December 31, 2017		
MECE	Mainland China	49.00%	49.00%	Holding more than 20% of voting right of stockholders	Equity method

(b) The summarised financial information of the associates that are material to the Group is as follows:

Balance sheet

	MERRY ELECTRONICS(SUZHOU)CO.,LTD	
	December 31, 2018	December 31, 2017
Current assets	\$ 5,654,641	\$ 6,018,875
Non-current assets	6,997,805	6,246,974
Current liabilities	(5,459,121)	(5,391,728)
Non-current liabilities	(2,078,076)	(1,678,832)
Total net assets	<u>\$ 5,115,249</u>	<u>\$ 5,195,289</u>
Share in associate's net assets	2,506,472	2,545,692
(Un)Realised Profits and Losses from Upstream(Sidestream) transactions	(84,286)	(119,729)
Carrying amount of the associate	<u>\$ 2,422,186</u>	<u>\$ 2,425,963</u>

Statement of comprehensive income

	MERRY ELECTRONICS(SUZHOU)CO.,LTD	
	Year ended December 31, 2018	Year ended December 31, 2017
Revenue	\$ 9,159,172	\$ 7,680,843
Profit for the period from continuing operations	1,204	187,155
Loss for the period from discontinued operations	-	-
Other comprehensive income, net of tax	-	-
Total comprehensive income	<u>\$ 1,204</u>	<u>\$ 187,155</u>

(c)The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarised below:

	Years ended December 31,	
	2018	2017
Gain or loss from associates accounted for using equity method & joint ventures	\$ 227,893	\$ 24,099
Other comprehensive loss, net of tax	(26,406)	(36)
Total comprehensive loss	<u>(\$ 201,487)</u>	<u>(\$ 24,063)</u>

(8) Property, plant and equipment

Year ended December 31, 2018

Cost	Opening balance	First-time merger		Additions	Reductions	Transfers	Effect of foreign currency exchange differences		Ending balance
		effects							
Land	\$ 288,086	\$ -	\$ 304,776	\$ -	\$ -	\$ -	\$ 1,318	\$ -	\$ 594,180
Land improvements	596	-	-	-	-	-	23	-	619
Buildings and structures	985,725	-	15,319	(24,379)	36,182	(1,278)	-	-	1,011,569
Machinery	1,032,173	25,349	201,923	(38,339)	93	(13,237)	-	-	1,207,962
Transportation equipment	16,819	11,835	5,125	(411)	-	(495)	-	-	32,873
Office equipment	197,320	9,364	25,518	(7,017)	2,060	(1,773)	-	-	225,472
Others	105,031	15,604	12,470	(5,000)	1,363	(3,166)	-	-	126,302
Unfinished construction	-	1,083	2,495	-	-	-	-	-	3,578
Sub total	<u>2,625,750</u>	<u>\$ 63,235</u>	<u>\$ 567,626</u>	<u>(\$ 75,146)</u>	<u>\$ 39,698</u>	<u>(\$ 18,608)</u>	<u>-</u>	<u>-</u>	<u>3,202,555</u>
Accumulated amortization and impairment									
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Land improvements	(288)	-	(122)	-	-	-	(13)	-	(423)
Buildings and structures	(339,978)	-	(50,693)	24,379	(35,982)	4,733	(397,541)	-	-
Machinery	(477,946)	(13,123)	(113,792)	35,242	(31)	6,917	(562,733)	-	-
Transportation equipment	(9,697)	(3,880)	(2,593)	185	(397)	217	(16,165)	-	-
Office equipment	(126,457)	(5,972)	(21,543)	6,925	(1,158)	1,182	(147,023)	-	-
Others	(77,906)	(7,678)	(8,927)	2,328	-	1,704	(90,479)	-	-
Sub total	<u>(1,032,272)</u>	<u>(\$ 30,653)</u>	<u>(\$ 197,670)</u>	<u>\$ 69,059</u>	<u>(\$ 37,568)</u>	<u>\$ 14,740</u>	<u>(1,214,364)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,593,478</u>								<u>\$ 1,988,191</u>

Year ended December 31, 2017

Cost	Opening balance	First-time merger effects	Additions	Reductions	Effect of foreign currency exchange differences	Ending balance
Land	\$ 49,688	\$ 237,924	\$ -	\$ -	\$ 474	\$ 288,086
Land improvements	588	-	-	-	8	596
Buildings and structures	1,175,266	151,797	(6,009)	(318,160)	(17,169)	985,725
Machinery	788,536	325,936	(35,304)	(44,260)	(2,735)	1,032,173
Transportation equipment	19,172	2,661	(3,989)	(674)	(351)	16,819
Office equipment	169,934	48,508	(9,273)	(10,082)	(1,767)	197,320
Others	117,615	14,951	(8,112)	(17,803)	(1,620)	105,031
Unfinished construction	2,409	-	(2,176)	(154)	(79)	-
Subtotal	<u>2,323,208</u>	<u>\$ 781,777</u>	<u>(\$ 64,863)</u>	<u>(\$ 391,133)</u>	<u>(\$ 23,239)</u>	<u>2,625,750</u>
Accumulated amortization and impairment						
Land improvements	(\$ 167)	(\$ 117)	\$ -	\$ -	(\$ 4)	(\$ 288)
Buildings and structures	(346,127)	(33,773)	1,747	33,271	4,904	(339,978)
Machinery	(439,923)	(83,992)	28,988	12,952	4,029	(477,946)
Transportation equipment	(11,625)	(1,588)	2,638	601	277	(9,697)
Office equipment	(124,541)	(17,341)	9,146	4,868	1,411	(126,457)
Others	(93,215)	(6,961)	6,533	14,261	1,476	(77,906)
Subtotal	<u>(1,015,598)</u>	<u>(\$ 143,772)</u>	<u>\$ 49,052</u>	<u>\$ 65,953</u>	<u>\$ 12,093</u>	<u>(1,032,272)</u>
Total	<u>\$ 1,307,610</u>					<u>\$ 1,593,478</u>

(9) Intangible assets

Year ended December 31, 2018

Cost	Opening balance	First-time merger effects	Additions	Reductions	Effect of foreign currency exchange differences	Ending balance
Goodwill	\$ 139,735	\$ 791,789	\$ -	\$ -	\$ 154	\$ 931,678
Patents	19,264	-	5,051	(17,201)	(87)	7,027
Computer software	373,522	5,730	18,808	(248,056)	(314)	149,690
Customer relationship	-	326,550	-	-	-	326,550
Trademarks	-	61,481	-	-	-	61,481
Technical skills	-	115,748	-	-	-	115,748
Others	1,142	131	-	(1,154)	(119)	-
Subtotal	533,663	\$ 1,301,429	\$ 23,859	(\$ 266,411)	(\$ 366)	1,592,174
Accumulated amortization and impairment						
Patents	(\$ 14,318)	\$ -	(\$ 2,986)	\$ 17,201	\$ 3	(\$ 100)
Computer software	(190,811)	(5,170)	(56,488)	248,056	253	(4,160)
Customer relationship	-	-	(\$ 21,311)	-	(271)	(21,582)
Trademarks	-	-	(\$ 2,331)	-	33	(2,298)
Technical skills	-	-	(11,575)	-	(217)	(11,792)
Subtotal	(\$ 205,129)	(\$ 5,170)	(\$ 94,691)	\$ 265,257	(\$ 199)	(39,932)
Total	\$ 328,534					\$ 1,552,242

Year ended December 31, 2017

Cost	Opening balance	First-time merger effects	Additions	Reductions	Effect of foreign currency exchange differences	Ending balance
Goodwill	\$ 139,735	\$ -	\$ -	\$ -	\$ -	\$ 139,735
Patents	17,235	2,029	-	-	-	19,264
Computer software	297,929	75,580	(571)	(45)	629	373,522
Others	2,215	1,099	(2,028)	-	(144)	1,142
Sub Total	457,114	\$ 78,708	(\$ 2,599)	(\$ 45)	\$ 485	533,663
Accumulated amortization and impairment						
Goodwill	(11,777)	(\$ 2,541)	\$ -	\$ -	\$ -	(14,318)
Computer software	(144,381)	(46,894)	571	4	(111)	(190,811)
Sub Total	(156,158)	(\$ 49,435)	\$ 571	\$ 4	(\$ 111)	(205,129)
Total	\$ 300,956					\$ 328,534

A. Details of amortisation on intangible assets are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Operating costs	\$ 13,301	\$ 8,912
Selling expenses	5,514	2,026
Administrative expenses	42,592	15,013
Research and development expenses	33,284	23,484
	<u>\$ 94,691</u>	<u>\$ 49,435</u>

B. The recoverable amount of all cash-generating units calculated using the value-in-use exceeded their carrying amount, so goodwill was not impaired. The key assumptions used for value-in-use calculations are as follows:

The cash flow projections are based on financial budgets approved by the management covering a five-year period, the Company estimates a 10% year-on-year growth in sales as the Company will launch new products and improve its technology from 2019 to 2023, the estimation is based on the assumption that the Company is committed to developing and taking bluetooth orders and the experience of sale growths of 74%, 5%, 94%, 84% and 34% from 2014 to 2018, respectively.

Management determined budgeted gross margin based on past performance and their expectations of market development. The weighted average growth rates used are consistent with the projection included in industry reports. The discount rate of 1.03% used was pre-tax and reflected specific risks relating to the relevant operating segments.

C. As of December 31, 2018, the goodwill arose from acquiring Asian Elite International Ltd. and Indigo Enterprise Inc. amounting to \$581,644 thousand due to the benefits from production technology and market channel such as smart speakers of the companies that expected to be merged. The goodwill from business combination shall be tested annually at least for impairment in accordance with IAS 36.

The recoverable amount of all cash-generating units calculated using the value-in-use exceeded their carrying amount, so goodwill was not impaired. The key assumptions used for value-in-use calculations are as follows:

The cash flow projections are based on financial budgets approved by the management covering a five-year period. As the Company is committed to developing and taking smart speaker orders, it expects 17%, 97%, 21%, 17% and 15% year-on-year growth in sales from 2019 to 2023 through the launching of new products and improving its technologies during this period.

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rate used are consistent with the projection included in industry reports. The discount rate of 24.82% used was pre-tax and reflected specific risks relating to the relevant operating segments.

D.As of December 31, 2018, the goodwill arose from acquiring Austar Hearing Science And Technology (Xiamen) Co. , Ltd. amounting to \$210,145 thousand due to the benefits from production technology and market channel such as smart speakers of the companies that are expected to be merged. The goodwill from business combination shall be tested annually at least for impairment in accordance with IAS 36.

The recoverable amount of all cash-generating units calculated using the value-in-use exceeded their carrying amount, so goodwill was not impaired. The key assumptions used for value-in-use calculations are as follows:

The cash flow projections are based on financial budgets approved by the management covering a five-year period. As the Company is committed to developing and taking smart speaker orders, it expects 8%, 7%, 7%, 7% and 7% year-on-year growth in sales from 2019 to 2023 through the launching of new products and improving its technologies during this period. Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the projection included in industry reports. The discount rate of 15.60% used was pre-tax and reflected specific risks relating to the relevant operating segments.

(10) Other non-current assets

	Years ended December 31,	
	2018	2017
Prepayments for PP&E(including intangible asset)	\$ 55,634	\$ 23,573
Land access	48,791	44,386
Refundable deposits	19,004	14,128
Others	16,678	18,456
	<u>\$ 140,107</u>	<u>\$ 100,543</u>

A.The subsidiary-MEST signed land use right contracts with an individual and ROOT LAND LIMITED for the use of the land in Sha Tin Dist. Hong Kong with terms of 25 and 58 years, respectively, in 1990 and 1995. All rentals had been paid on the contract dates.

B. The subsidiary-MECL signed land use right contracts with the People's Republic of China for the use of the land in Bao'an District Shenzhen city with term of 50 years, in 1994, 2011 and 2015. All rentals had been paid on the contract dates.

C. The Company acquired land and buildings in Taichung Industrial Park from SUNTEX MANUFACTURE CORP. in total prepayment amount of NT\$ 308,664 thousand for the purpose of office expansion as resolved at the meeting of the Board of Directors on February 26, 2018. The land and buildings were transferred and recognised under property, plant and equipment on April 2, 2018.

D. Details of amortisation on land access are as follows:

	Years ended December 31,	
	2018	2017
Operating costs	\$ -	\$ 2,765
Administrative expenses	3,180	1,168
	<u>\$ 3,180</u>	<u>\$ 3,933</u>

(11) Short-term borrowings

Type of borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
Credit loan	<u>\$ 4,753,434</u>	0.69%~4.13%	-
Type of borrowings	December 31, 2017	Interest rate range	Collateral
Bank borrowings			
Credit loan	<u>\$ 2,172,618</u>	0.76%~2.08%	-

A. Interest expense recognised in profit or loss amounted to \$48,453 and \$26,831 for the years ended December 31, 2018 and 2017, respectively.

(12) Other payables

	Years ended December 31,	
	2018	2017
Payroll payable	\$ 384,657	\$ 327,507
Employee bonus payable	162,732	272,251
Payables on equipment (Including intangible assets)	51,240	106,979
Compensation due to directors and supervisors	54,244	90,750
Other accrued expenses	248,396	188,453
Other accrued expenses-non related parties	242,976	5,126
Others	27,579	47,506
	<u>\$ 1,171,824</u>	<u>\$ 1,038,572</u>

(13) Other current liabilities

	Years ended December 31,	
	2018	2017
Advance receipts	26,111	2,486
Bonds payable-current portion	-	14,955
Other current liabilities	<u>144,841</u>	<u>215,750</u>
Total	<u>170,952</u>	<u>233,191</u>

(14) Bonds payable

	December 31, 2018	December 31, 2017
Bonds payable	\$ 3,000,000	\$ 14,975
Less: Discount on bonds payable	(117,279)	(20)
	2,882,721	14,955
Less: Current portion or exercise of put options	-	(14,955)
	<u>\$ 2,882,721</u>	<u>\$ -</u>

A. The details of the second domestic unsecured convertible bonds issued by the Company on the December 11, 2018 are as follows:

(a) The terms of the second domestic unsecured convertible bonds issued by the Company are as follows:

- i. The competent authority has approved the Company's second time raising and issuance of domestic unsecured corporate bonds. The bonds are for a total issuance amount of US\$3,015,000 million dollars and a coupon rate of 0%, cover a 3-year period of issuance and a circulation period from December 11, 2018 to December 11, 2021, and will be redeemed in cash at face value at the maturity date. The bonds were listed on the Taipei Exchange on December 11, 2018.
- ii. The bondholders have the right to ask for conversion of the bonds into common shares of the Company by Taiwan Depository & Clearing Corporation through Securities Firms during the period from the date after three months of the bonds issue to the maturity date, except for the stop transfer period as specified in the terms of the bonds or the laws/regulations and the Company's book closure date of stock dividends, book closure date of cash dividends, the period between the date that is 15 business days before the book closure date of a capital increase to the ex-right date, the period between the record date of a capital reduction and the prior day before the commencement of share trading after shares are repurchased. The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.
- iii. The conversion price of the bonds is set up based on the pricing model in the terms of the bonds, and is subject to adjustments if the condition of the anti-dilution provisions occurs subsequently. The conversion price will be reset based on the pricing model in the terms of the bonds on each effective date regulated by the terms.

As of December 31, 2018, the conversion price of convertible bonds was \$147.7 per share.

- iv. The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: (i) the closing price of the Company common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after one month of the bonds issue to 40 days before

- the maturity date, or (ii) the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after three months of the bonds issue to 40 days before the maturity date.
- v. Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.
- (b) As of December 31, 2018, there was no common share converted from the convertible bond as the bonds were in the private lock-up period. After the issuance, the Company should adjust the conversion price of convertible bonds to \$147.7 per share in accordance with the terms set out in the indenture when there was an increase in issued common shares.
- B. Regarding the issuance of convertible bonds, the equity conversion options amounting to \$133,326 thousand were separated from the liability component and were recognised in ‘capital surplus - share options’ in accordance with IAS 32. The call options embedded in bonds payable were separated from their host contracts and were recognised in ‘financial assets at fair value through profit or loss’ in net amount in accordance with IFRS 9 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts.
- C. The details of the first domestic unsecured convertible bonds issued by the Company on January 29, 2015 are as follows:
- (a) The terms of the first domestic unsecured convertible bonds issued by the Company are as follows:
- i. The competent authority has approved the Company’s first time raising and issuance of domestic unsecured corporate bonds. The bonds are with a total issuance amount of US\$1,507,500 thousand dollars and a coupon rate of 0%, cover a 3-year period of issuance and a circulation period from January 29, 2015 to January 29, 2018, and will be redeemed in cash at 100.5% of face value at the maturity date. The bonds were listed on the Taipei Exchange on January 29, 2015.
 - ii. The bondholders have the right to ask for conversion of the bonds into common shares of the Company by Taiwan Depository & Clearing Corporation through Securities Firms during the period from the date after one month of the bonds issue to the maturity date, except for the stop transfer period as specified in the terms of the bonds or the laws/regulations and the Company’s book closure date of stock dividends, book closure date of cash dividends, the period between the date that is 15 business days before the book closure date of a capital increase to the ex-right date, the period between the record date of a capital reduction and the prior day before the commencement of share trading after shares are repurchased. The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.
 - iii. The conversion price of the bonds is set up based on the pricing model in the terms of

the bonds, and is subject to adjustments if the condition of the anti-dilution provisions occurs subsequently. The conversion price will be reset based on the pricing model in the terms of the bonds on each effective date regulated by the terms. As of December 31, 2017, the conversion price of convertible bonds was \$105.7 per share.

- vi. The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: (i) the closing price of the Company common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after one month of the bonds issue to 40 days before the maturity date, or (ii) the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after one months of the bonds issue to 40 days before the maturity date.
 - v. Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.
 - (b) On December 31, 2017, the bonds payable of \$1,492,526 had been converted into 13,487 thousand shares of common shares. As of January 31, 2018, the bonds were all converted. After the issuance, the Company should adjust the conversion price of convertible bonds to \$105.7 per share in accordance with the terms set out in the indenture when there was an increase in issued common shares.
- D. Regarding the issuance of convertible bonds, the equity conversion options amounting to \$683 thousand were separated from the liability component and were recognised in 'capital surplus—share options' in accordance with IAS 32. The call options embedded in bonds payable were separated from their host contracts and were recognised in 'financial assets or liabilities at fair value through profit or loss' in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts.

(15) Pensions

- A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company

and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ 125,392	\$ 154,607
Fair value of plan assets	41,348	42,475
Net defined benefit liability	<u>\$ 84,044</u>	<u>\$ 112,132</u>

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2018</u>			
Balance at January 1	\$ 154,607	(\$ 42,475)	\$ 112,132
Current service cost	1,246	-	1,246
Interest (expense) income	1,512	(408)	1,104
Past service cost	(2,706)	779	(1,927)
	<u>154,659</u>	<u>(42,104)</u>	<u>112,555</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(1,070)	(1,070)
Experience adjustments	<u>8,121</u>	<u>-</u>	<u>8,121</u>
	<u>8,121</u>	<u>(1,070)</u>	<u>7,051</u>
Pension fund contribution	-	(1,336)	(1,336)
Paid pension	(37,388)	3,162	(34,226)
Balance at December 31	<u>\$ 125,392</u>	<u>(\$ 41,348)</u>	<u>\$ 84,044</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2017</u>			
Balance at January 1	\$ 145,593	(\$ 40,036)	\$ 105,557
Current service cost	1,112	-	1,112
Interest (expense) income	1,794	(494)	1,300
	<u>148,499</u>	<u>(40,530)</u>	<u>107,969</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	150	150
Change in demographic assumptions	6	-	6
Change in financial assumptions	(1,565)	-	(1,565)
Experience adjustments	8,328	-	8,328
	<u>6,769</u>	<u>150</u>	<u>6,919</u>
Pension fund contribution	-	(2,756)	(2,756)
Paid pension	(661)	661	-
Balance at December 31	<u>\$ 154,607</u>	<u>\$ 42,475</u>	<u>\$ 197,082</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company and domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and domestic subsidiaries are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Discount rate	1.00%	1.00%
Future salary increases	3.00%	3.00%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase	Decrease	Increase	Decrease
	0.25%	0.25%	0.25%	0.25%
<u>December 31, 2018</u>				
Effect on present value of defined benefit obligation	<u>(3,331)</u>	<u>3,468</u>	<u>3,391</u>	<u>(3,275)</u>
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	<u>(3,705)</u>	<u>3,857</u>	<u>3,771</u>	<u>(3,643)</u>

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (f) The Company expects to pay contribution for pension plan amounting to \$2,975 thousand in 2019.
- (g) As of December 31, 2018, the weighted average duration of the retirement plan is 10 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	4,869
1-2 year(s)		2,687
2-5 years		18,098
Over 5 years		111,119
	\$	<u>136,773</u>

- B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination

of employment.

- (b) The Company's mainland China subsidiary, MECL, have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (c) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017, were \$119,453 and \$94,159, respectively. However, MECH and MECS were not consolidated entities since April 2017, therefore, their cost of pensions were not included in the consolidated financial statements since April 2017.

(16) Share-based payment

The Company issued restricted stocks to employees as resolved at the meeting of Board of Directors on April 27, 2017 and May 9, 2016 with grant dates on October 26, 2018, December 29, 2017, June 16, 2017 and December 21, 2016, the relevant information is as follows:

A. For the years ended December 31, 2018 and 2017, the Group's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Restricted stocks to employees	2016.12.21	1,542 units	3 years	Note
Restricted stocks to employees	2017.06.16	458 units	3 years	Note
Treasury stock transferred to employees	2017.10.30	95 units	-	-
Restricted stocks to employees	2017.12.29	196 units	3 years	Note
Treasury stock transferred to employees	2018.07.02	307 units	-	-
Restricted stocks to employees	2018.10.26	878 units	3 years	Note
Cash capital increase reserved for employee preemption	2018.12.28	363 units	-	-

Note: Depending on the employee's tenure in the Company (1 to 3 years), the employees can vest stocks at the ratio of 30%, 30% and 40% in three years based on the number of stocks written on the notification. The conditions for vesting restricted stocks are as

follows:

- (a) For the employees who are currently working in the Company, whose services have reached 1 year and achieved the performance of the most recent year's consolidated financial statements and the target personal performance, the ceiling of vested share ratio is 30%.
- (b) For the employees who are currently working in the Company, whose services have reached 2 year and achieved the performance of the most recent year's consolidated financial statements and the target personal performance, the ceiling of accumulated vested share ratio is 60%.
- (c) For the employees who are currently working in the Company, whose services have reached 3 year and achieved the performance of the most recent year's consolidated financial statements and the target personal performance, the ceiling of accumulated vested share ratio is 100%.
- (d) The Company will repurchase and retire the stocks that do not meet the conditions of vesting for the employees who resign during the vesting period or do not meet the condition of vesting by the issuance price.

The aforementioned restricted stocks issued by the Company cannot be transferred during the vesting period and the commissioned trust custodians execute the shareholders' rights on behalf of the employees.

B. Details of the share-based payment arrangements are as follows:

- (a) The first restricted stocks to employees in 2016

	2018		2017	
	No. of	Weighted- average exercise price (in dollars)	No. of	Weighted- average exercise price (in dollars)
	options		options	
Options outstanding at January 1	1,037	\$ -	1,542	-
Restricted stocks vested	(408)	10	(440)	-
Employee restricted shares retired	(87)	10	(65)	-
Options outstanding at December 31	<u>542</u>	-	<u>1,037</u>	-

- (b) The second restricted stocks to employees in 2016

	2018		2017	
	No. of options	Weighted- average exercise price (in dollars)	No. of options	Weighted- average exercise price (in dollars)
Options outstanding at January 1	445	\$ -	-	\$ -
Restricted stocks granted to employees	-	-	458	10
Restricted stocks vested	(129)	10	-	-
Employee restricted shares retired	(22)	10	(13)	-
Options outstanding at December 31	<u>294</u>	-	<u>445</u>	-

(c) The first restricted stocks to employees in 2017

	2018		2017	
	No. of options	Weighted- average exercise price (in dollars)	No. of options	Weighted- average exercise price (in dollars)
Options outstanding at January 1	196	\$ -	-	\$ -
Restricted stocks granted to employees	-	-	196	-
Employee restricted shares retired	(32)	10	-	-
Options outstanding at December 31	<u>164</u>	-	<u>196</u>	-

(d) The second restricted stocks to employees in 2017

	2018		2017	
	No. of options	Weighted-average exercise price (in dollars)	No. of options	Weighted-average exercise price (in dollars)
Options outstanding at January 1	-	\$ -	-	\$ -
Restricted stocks granted to employees	878	-	-	-
Employee restricted shares retired	(16)	10	-	-
Options outstanding at December 31	<u>862</u>	-	<u>-</u>	-

C. The fair value of stock options granted on grant date is measured using the closing price on the grant date. Relevant information is as follows:

Type of arrangement	Grant date	Stock price	Price risk	Exercise price	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit
The first restricted stocks to employees in 2016	2016.12.21	125	10	-	-	-	-	-	115
The second restricted stocks to employees in 2016	2016.06.16	187	10	-	-	-	-	-	177
Treasury stock transferred to employees	2017.10.30	220	45.42	-	-	-	-	-	174.58
The first restricted stocks to employees in 2017	2017.12.29	194.5	0	-	-	-	-	-	194.5
Treasury stock transferred to employees	2018.07.02	132.5	45.42	-	-	-	-	-	87.08
The second restricted stocks to employees in 2017	2018.10.26	139.5	0	-	-	-	-	-	139.5
Cash capital increase reserved for employees preemption	2018.12.28	123	112	-	-	-	-	-	11

D. Expenses incurred on share-based payment transactions are shown below:

	Year ended December 31, 2018	Year ended December 31, 2017
Equity-settled	\$ 121,025	\$ 87,885

(17) Share capital

- A. As of December 31, 2018, the Company's authorised capital was \$4,000,000, consisting of 400,000 thousand shares of ordinary stock (including 5,000 thousand shares reserved for employee stock options), and the paid-in capital was \$1,996,625 with a par value of \$10 (in dollars) per share.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	Years ended December 31,	
	2018	2017
At January 1	\$ 200,472	\$ 185,062
Employee restricted shares retired	(157)	(78)
Issuance of restricted shares to employees	1,074	2,000
Conversion of convertible bonds	141	13,488
Retirement of treasury share	(1,867)	-
At December 31	\$ 199,663	\$ 200,472

- (a) On May 9, 2016, the Board of Directors has resolved for the Company to issue employee restricted stocks (please refer to Note 6(16)). The issuance was approved by the regulatory authority and effective on August 18, 2016 with a subscription price of \$10 (in dollars) per share. The registrations were completed on February 24, 2017 and July 17, 2017 for ordinary shares issued of 1,542 thousand shares and 458 thousand shares, respectively. The employee restricted ordinary shares issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares.
- (b) On April 27, 2017, the Board of Directors has resolved for the Company to issue employee restricted stocks (please refer to Note 6(16)). The issuance was approved by the regulatory authority on November 29, 2017 and effective on January 22, 2018 and with a subscription price of \$0 (in dollars) per share. The registrations were completed on February 26, 2018 and November 15, 2018 for ordinary shares issued of 196 thousand shares and 878 thousand shares, respectively. The employee restricted ordinary shares issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares.
- (c) The Company retired 55,200 employee restricted shares as resolved at the meeting of the Board of Directors on October 25, 2018 with the capital reduction effective date set on the same day. The aforementioned capital reduction was completed.

B. Treasury shares

(a) Movements in the Company's treasury shares are as follows (in thousands):

Year ended December 31, 2018				
Reason for reacquisition	Number of shares at beginning	Additions	Reductions	Number of shares at end
Transferred to employees	2,174	-	(2,174)	-
Year ended December 31, 2017				
Reason for reacquisition	Number of shares at beginning	Additions	Reductions	Number of shares at end
Transferred to employees	2,269	-	(95)	2,174

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.
- (e) The Company retired 1,867 thousand treasury shares which were repurchased from June 16 to August 14, 2015 for the purpose of transferring to employees as resolved at the meeting of the Board of Directors on July 26, 2018 with the capital reduction effective date set on September 28, 2018.

(18) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	2018				
	Share premium	Share option	Employee restricted stocks	Others	Total
At January 1	\$ 2,719,952	\$ 683	\$ 236,200	\$ 28,469	\$ 2,985,304
Issuance of restricted shares to employees	-	-	111,741	-	111,741
Restricted stocks vested	69,665	-	(69,665)	-	-
Employee restricted stocks retired	-	-	(21,952)	-	(21,952)
Proceeds from issuance of convertible bonds	-	133,326	-	-	133,326
Ordinary shares converted from convertible bonds	14,248	(683)	-	-	13,565
Proceeds from issuing shares	-	3,993	-	-	3,993
Treasury stock transferred to employees	-	-	-	26,733	26,733
Retirement of treasury share	(25,646)	-	-	(40,483)	(66,129)
Acquisition of additional share agreements in a subsidiary	(402,072)	-	-	-	(402,072)
Recognition of change in equity of associates in portion to the Company's ownership	-	-	-	4,602	4,602
At December 31	<u>\$ 2,376,147</u>	<u>\$ 137,319</u>	<u>\$ 256,324</u>	<u>\$ 19,321</u>	<u>\$ 2,789,111</u>

	2017				
	Share premium	Share option	Employee restricted stocks	Others	Total
At January 1	\$ 1,266,154	\$ 68,567	\$ 177,330	\$ 11,456	\$ 1,523,507
Issuance of restricted shares to employees	-	-	119,188	-	119,188
Restricted stocks vested	50,577	-	(50,577)	-	-
Employee restricted stocks retired	-	-	(9,741)	-	(9,741)
Ordinary shares converted from convertible bonds	1,403,221	(67,884)	-	-	1,335,337
Treasury stock transferred to employees	-	-	-	17,013	17,013
At December 31	<u>\$ 2,719,952</u>	<u>\$ 683</u>	<u>\$ 236,200</u>	<u>\$ 28,469</u>	<u>\$ 2,985,304</u>

(19) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, after deduction of mandatory income tax, shall first be used to offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. After the provision or reversal of special reserve, the appropriation of the remaining earnings along with the unappropriated earnings of prior years shall be proposed by the Board of Directors and approved by the shareholders. According to the dividend policy adopted by the Board of Directors, 30% to 80% of the Company's accumulated distributable earnings shall be appropriated as dividends, and cash dividends shall account for at least 5% of the total dividends distributed.
- B. The Company's dividend policy is summarised below: as the Company operates in a volatile business environment and is in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's financial structure, operating results and future expansion plans. In order to encourage employees and operation team, if the Company has any profit for the current year, the Company shall set aside 5% to 10% as employees' compensation and no more than 2% as directors' and supervisors' remuneration. The employees' compensation shall be distributed in the form of stock and cash by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors and report it in the shareholders' meeting. Employees entitled to receive stock or cash as compensation include employees of subsidiaries of the company meeting certain specific requirements.

- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land. As of December 31, 2018, the balance of capital surplus as aforementioned was 269,144 thousand.
- E. The Company distributed cash dividends amounting to \$16.44 and \$9.5 per share, respectively, as resolved by the meeting of Board of Directors on June 13, 2018 and June 14, 2017. The abovementioned distribution of earnings for the years ended December 31, 2017 and 2016 was in agreement with those amounts proposed by the Board of Directors on February 26, 2018 and February 23, 2017.
- F. The appropriation of cash dividends of year 2018 as resolved by the Board of Directors on February 26, 2019 amounted to \$8.6.
- G. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(25).

(20) Other equity items

2018	Exchange differences on translation of foreign financial statements	Unrealised gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	Unrealised gains (losses) on available-for-sale financial assets	Cost of unearned employee compensation	Total
At January 1	(\$ 186,716)	\$ -	\$ -	\$ 3,475,451	(\$ 214,148)	\$ 3,074,587
Effects of simple retrospection	- (	15,395)	3,487,080	(3,475,451)	- (	3,766)
Issuance of restricted shares to employees	-	-	-	-	(122,481)	(122,481)
Amortisation of employee restricted stocks	-	-	-	-	90,298	90,298
Employee restricted shares retired	-	-	-	-	22,431	22,431
Revaluation - gross	-	5,037	(2,516,601)	-	-	(2,511,564)
Revaluation transferred to profit or loss - gross	-	13,602	-	-	-	13,602
Revaluation transferred to retained earnings – gross	-	-	(346,726)	-	-	(346,726)
Revaluation – associates	-	-	(13,879)	-	-	(13,879)
Revaluation – tax	-	-	-	-	-	-
Currency translation differences:						
- Group	19,095	-	-	-	-	19,095
- Tax on Group	(3,834)	-	-	-	-	(3,834)
- Associates	(87,285)	-	-	-	-	(87,285)
- Tax on associates	16,554	-	-	-	-	16,554
At December 31	(\$ 242,186)	\$ 3,244	\$ 609,874	\$ -	(\$ 223,900)	\$ 147,032

2017	Exchange differences on translation of foreign financial statements	Unrealised gains (losses) on available-for-sale financial assets	Cost of unearned employee compensation	Total
At January 1	(\$ 115,765)	\$ 91,339	(\$ 175,573)	(\$ 199,999)
Issuance of restricted shares to employees	-	-	(119,188)	(119,188)
Amortisation of employee restricted stocks	-	-	70,871	70,871
Employee restricted shares retired	-	-	9,742	9,742
Revaluation - gross	-	4,583,518	-	4,583,518
Revaluation transferred to profit or loss - gross	-	(1,200,621)	-	(1,200,621)
Revaluation – tax	-	1,215	-	1,215
Currency translation differences:				
- Group	(157,729)	-	-	(157,729)
- Tax on Group	18,417	-	-	18,417
- Associates	77,377	-	-	77,377
- Tax on associates	(9,016)	-	-	(9,016)
At December 31	<u>(\$ 186,716)</u>	<u>\$ 3,475,451</u>	<u>(\$ 214,148)</u>	<u>\$ 3,074,587</u>

(21) Operating revenue

	Year ended December 31, 2018
Revenue from contracts with customers	<u>\$ 35,494,808</u>

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

	Year ended December 31, 2018					
	Electronic devices					
	Taiwan	Europe	US	China	Others	Total
Segment revenue	\$ 17,668,463	\$ 15,601,370	\$ 15,233,862	\$ 3,740,292	\$ 878,463	\$ 53,122,450
Revenue from Internal segment transactions	(17,627,642)	-	-	-	-	(17,627,642)
Revenue from external customer contracts	<u>40,821</u>	<u>15,601,370</u>	<u>15,233,862</u>	<u>3,740,292</u>	<u>878,463</u>	<u>35,494,808</u>
Timing of revenue recognition						
At a point in time	<u>40,821</u>	<u>15,601,370</u>	<u>15,233,862</u>	<u>3,740,292</u>	<u>878,463</u>	<u>35,494,808</u>
Total	<u>\$ 40,821</u>	<u>\$ 15,601,370</u>	<u>\$ 15,233,862</u>	<u>\$ 3,740,292</u>	<u>\$ 878,463</u>	<u>\$ 35,494,808</u>

B. Contract assets and liabilities : None.

(22) Other income

	Years ended December 31,	
	2018	2017
Dividend income	\$ 72,379	\$ 32,930
Interest income from bank deposits	52,239	29,078
Interest income from financial assets not at fair value through profit or loss	6,190	8,071
Government grants	59,410	5,427
Sample income	15,631	7,570
Rent income	7,243	1,701
Other	27,503	30,153
Total	<u>\$ 240,595</u>	<u>\$ 114,930</u>

(23) Other gains and losses

	Years ended December 31,	
	2018	2017
Net currency exchange losses	(\$ 28,321)	(\$ 237,569)
Net gains on financial assets at fair value through profit or loss	62,842	603,638
Losses on disposal of property, plant and equipment	(798)	(3,306)
Gains / (Losses) on disposals of investment	(13,602)	1,200,621
Gains on disposals of subsidiary	-	18,223
Other losses	(53,073)	(6,986)
Total	<u>(\$ 32,952)</u>	<u>\$ 1,572,461</u>

Gains on disposals of subsidiary: Please refer to Note 6(28).

(24) Expenses by nature

	Years ended December 31,	
	2018	2017
Employee benefit expense	\$ 2,930,132	\$ 2,586,579
Depreciation charge	197,670	143,772
Amortisation charge (NOTE)	97,871	53,368
Total	<u>\$ 3,225,673</u>	<u>\$ 2,783,719</u>

Note: It includes amortisation of land use right.

(25) Employee benefit expense

	Years ended December 31,	
	2018	31, 2017
Wages and salaries	\$ 2,475,688	\$ 2,211,902
Share-based payments	120,716	87,885
Labour and health insurance fees	51,151	45,558
Pension costs	119,876	96,571
Directors' remuneration	46,372	53,615
Other personnel expenses	116,329	91,048
	<u>\$ 2,930,132</u>	<u>\$ 2,586,579</u>

Note: For the years ended December 31, 2018 and 2017, the Company had 12,744 and 13,420 employees, respectively, and 4 directors for both years.

- A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 5~10% for employees' compensation and shall not be higher than 2% for directors' and supervisors' remuneration.
- B. The details of employees' compensation and directors' and supervisors' remuneration of the Company are as follows:

	Years ended December 31,	
	2018	2017
Employees' compensation	\$ 162,732	\$ 272,251
Directors' and supervisors' remuneration	54,244	90,750
	<u>\$ 216,976</u>	<u>\$ 363,001</u>

The abovementioned amounts were recognised in wages and salaries.

Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved at the Board of Directors' meeting were in agreement with those amounts recognised in the profit or loss of 2017.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

- A. Income tax expense

(a) Components of income tax expense:

	Year ended December 31, 2018	Year ended December 31, 2017
Current tax:		
Current tax on profits for the year	\$ 394,590	\$ 531,027
Tax on undistributed surplus earnings	11,008	5,251
Prior year income tax (over) underestimation	<u>118,511</u>	<u>9,272</u>
Total current tax	<u>524,109</u>	<u>527,006</u>
Deferred tax:		
Origination and reversal of temporary differences	<u>141,291</u>	<u>108,045</u>
Income tax expense	<u>\$ 665,400</u>	<u>\$ 635,051</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	2018	2017
Exchange differences changes on translation of foreign financial statements	\$ 3,834	(\$ 18,417)
Exchange differences changes on translation of foreign financial statements - associates	(16,554)	9,016
Changes in fair value of available-for-sale financial assets	-	(1,215)
Remeasurement of defined benefit obligations	(1,410)	(886)
	<u>(\$ 14,130)</u>	<u>(\$ 11,502)</u>

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2018	2017
Current tax:		
Tax calculated based on profit before tax and statutory tax rate	\$ 606,729	\$ 822,353
Expenses disallowed by tax regulation	401	975
Tax exempt income by tax regulation	(9,571)	(300,557)
Effect from investment tax credits	(58,991)	(36,205)
Impact of change in the tax rate on temporary differences between current year and the year realised	-	87,976
Effect from Alternative Minimum Tax	-	64,530
Tax on undistributed surplus earnings	11,008	5,251
Prior year income tax under (over) estimation	118,511	(9,272)
Others	(2,687)	-
Income tax expense	<u>\$ 665,400</u>	<u>\$ 635,051</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences, tax losses and investment tax credits are as follows:

	2018				
	2018/1/1	Recognised in profit or loss	Recognised in other comprehensive income	Consolidation	2018/12/31
Deferred tax assets:					
- Temporary differences:					
Unrealised exchange loss	\$ 3,812	\$ 6,170	\$ -	\$ -	\$ 9,982
Income tax expense	131	-	-	850	981
Remeasurement of defined benefit obligations	13,826	-	1,410	-	15,236
Allowance for bad debts	5,913	1,120	-	-	7,033
Unallocated appropriation of pension	6,436	(6,243)	-	-	193
Unrealised impairment loss	595	(595)	-	-	-
Accumulated unused compensated absences	4,560	389	-	-	4,949
Allowance for inventory valuation losses and loss for obsolete and slow- moving inventories	2,779	10,646	-	293	13,718
Temporary difference of depreciation expense for property, plant and equipment	2,423	-	-	1,051	3,474
Loss on overseas long-term investment	(155)	-	-	-	(155)
Temporary difference of grant revenue	238	-	-	-	238
Amortisation of discounts on corporate bonds	-	427	-	-	427
Investment tax credits	17,624	(17,624)	-	-	-
Others	1,460	3,152	-	21,647	26,259
Total	<u>\$ 59,642</u>	<u>(\$ 2,558)</u>	<u>\$ 1,410</u>	<u>\$ 23,841</u>	<u>\$ 82,335</u>

	2018				
	Recognised in		Recognised in		Consolidation
	2018/1/1	Recognised in profit or loss	other comprehensive income		2018/12/31
- Deferred tax liabilities					
Gain on overseas long-term investment	(\$ 447,279)	(\$ 140,948)	\$ -	\$ -	(\$ 588,227)
Cumulative translation adjustment of long-term equity investments	(28,552)	-	12,720	-	(15,832)
Adjustment of land value increment tax	(800)	-	-	-	(800)
Unrealised loss/(gain) on valuation of financial instruments	(16,256)	2,215	-	-	(14,041)
Others	-	-	-	(83,441)	(83,441)
Total	<u>(\$ 492,887)</u>	<u>(\$ 138,733)</u>	<u>\$ 12,720</u>	<u>(\$ 83,441)</u>	<u>(\$ 702,341)</u>

2017				
	2017/1/1	Recognised in profit or loss	Recognised in other comprehensive income	2017/12/31
Deferred tax assets:				
- Temporary differences:				
Unrealised exchange loss (\$	8,562)	\$ 12,374	\$ -	\$ 3,812
Income tax expense	2,244	(2,113)	-	131
Remeasurement of defined benefit obligations	12,940	-	886	13,826
Allowance for bad debts	10,554	(4,641)	-	5,913
Unallocated appropriation of pension	5,280	1,156	-	6,436
Unrealised impairment loss	506	89	-	595
Accumulated unused compensated absences	3,912	648	-	4,560
Allowance for inventory valuation losses and loss for obsolete and slow-moving inventories	4,874	(2,095)	-	2,779
Temporary difference of depreciation expense for property, plant and equipment	2,423	-	-	2,423
Loss on overseas long-term investment	(155)	-	-	(155)
Temporary difference of grant revenue	4,327	(4,089)	-	238
Amortisation of discounts on corporate bonds	7,313	(7,313)	-	-
Investment tax credits	-	17,624	-	17,624
Others	(210)	1,670	-	1,460
Total	<u>\$ 45,446</u>	<u>\$ 13,310</u>	<u>\$ 886</u>	<u>\$ 59,642</u>

2017

	2017/1/1	Recognised in profit or loss	Recognised in other comprehensive income	2017/12/31
- Deferred tax liabilities				
Gain on overseas				
long-term investment	(\$ 325,594)	(\$ 121,685)	\$ -	(\$ 447,279)
Cumulative translation				
adjustment of				
long-term				
equity investments	(37,953)	-	9,401	(28,552)
Adjustment of land value				
increment tax	(800)	-	-	(800)
Unrealised loss/(gain)				
on valuation of				
financial instruments	(17,801)	330	1,215	(16,256)
Total	(\$ 382,148)	(\$ 121,355)	\$ 10,616	(\$ 492,887)

- D. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.
- E. MERRY HEALTHCARE CO., LTD., TAIWAN BRANCH (CAYMAN) through 2016 have been assessed and approved by the Tax Authority.
- F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(27) Earnings per share

	Year ended December 31, 2018		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 2,064,265</u>	<u>197,147</u>	<u>\$ 10.47</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 2,064,265	197,147	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,610	
Convertible bonds	-	-	
Employee restricted shares	<u>-</u>	<u>669</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 2,064,265</u>	<u>199,426</u>	<u>\$ 10.35</u>

Year ended December 31, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,622,205	191,208	\$ 18.94
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,622,205	191,208	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,531	
Convertible bonds	6,477	5,132	
Employee restricted shares	-	406	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 3,628,682	198,277	\$ 18.30

- A. The number of weighted-average outstanding shares is included for assumed conversion of all dilutive potential ordinary shares at the calculation of diluted earnings per share, based on the assumption that employees' compensation will be all distributed in the form of shares.
- B. The number of weighted-average shares outstanding is calculated by considering the weighted-average number of treasury shares for the years ended December 31, 2018 and 2017.

(28) Business combinations

- A. On July 1, 2018, the Company acquired 70% of ordinary shares of ASIAN ELITE INTERNATIONAL LTD. and Indigo Enterprise Inc. in cash amounting to \$945,560 thousand and obtained the control over these companies.

Those companies are engaged in manufacturing, sales, research and development of speaker and amplifier in the People's Republic of China, Canada and Norway. As a result of the acquisition, the Group is expected to increase its presence in these markets and expand its markets of smart speaker. The investment were carried out in two stages, the Company acquired 70% of shares in amount of US\$28,203 thousand at the first stage and acquired another 30% of shares in amount of US\$12,087 thousand at the second stage, the second stage payment will be made on maturity day during three years after the initial settlement date and the acquisition is completed unless the transferor refuses to transfer by written notice. According to relevant contract liabilities standard, the payment obligation of subsequent 30% of share was recognised (shown as 'Other non-current liabilities, others').

- B. The following table summarises the consideration paid for ASIAN ELITE INTERNATIONAL LTD. and Indigo Enterprise Inc. and the fair values of the assets acquired and liabilities assumed at the acquisition date, as well as the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets at the acquisition date:

	<u>July 1, 2018</u>
Purchase consideration	
Cash paid	\$ 945,560
Non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets	<u>155,964</u>
	<u>1,101,524</u>
Total identifiable net assets	
Carrying amount of increase on cash and cash equivalents of the subsidiary at acquisition	
Effect from changes of consolidated entities	
Cash	157,208
Accounts receivable	293,228
Inventories	195,904
PP&E	25,057
Intangible assets	417,711
Other receivables	13,490
Prepayments	9,353
Other current assets	10,350
Deferred income tax asset	23,842
Other non-current assets	2,084
Accounts payable	(292,859)
Other payables	(217,441)
Deferred income tax liability	(83,460)
Other non-current liabilities	(34,587)
Identified net assets	<u>519,880</u>
Goodwill	<u>\$ 581,644</u>

C. Cash outflow generated from acquisitions

	<u>IEAA</u>	<u>MHEH and MHAT</u>	<u>Total</u>
Cash paid	(\$ 945,560)	(\$ 338,606)	(\$ 1,284,166)
Plus: Carrying amount of cash when acquired	<u>157,208</u>	<u>20,225</u>	<u>177,433</u>
Effect of cash from business combination	<u>(\$ 788,352)</u>	<u>(\$ 318,381)</u>	<u>(\$ 1,106,733)</u>

D. For the period from July 1, 2018 to December 31, 2018, Asian Elite International Ltd. and Indigo Enterprise Inc. jointly contributed operating revenue and profit before income tax in the amounts of \$595,533 thousand and \$18,870 thousand, respectively, since the Group merged with them on July 1, 2018. Had Asian Elite International Ltd. and Indigo Enterprise Inc. been consolidated from January 1, 2018, the consolidated statement of comprehensive income would show operating revenue increased by \$1,267,247 thousand and profit before income tax by \$39,481, respectively, for the year ended December 31, 2018.

E. On July 31, 2018, the Group acquired 99.5% of equity of Austar Hearing Science And Technology (Xiamen) Co., Ltd. and Xiamen Etimbre Hearing Technology Co. LTD for a cash

consideration of \$338,606 thousand and obtained the control over them thereafter. Those investees are engaged in manufacturing, sales, research and development as well as related channel of hearing aid, hearing device and acoustics equipment. The Group expects that the merger will expand the operational scale and hearing aid devices market.

- F. The following table summarises the consideration paid for Austar Hearing Science And Technology (Xiamen) Co., Ltd. and Xiamen Etimbre Hearing Technology Co.LTD and the fair values of the assets acquired and liabilities assumed at the acquisition date, as well as the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets at the acquisition date:

	<u>July 31, 2018</u>
Purchase consideration	
Cash paid	\$ 338,606
Non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets	<u>629</u>
	<u>339,235</u>
Total identifiable net assets	
Carrying amount of increase on cash and cash equivalents of the subsidiary at acquisition	
Effect from changes of consolidated entities	
Cash	20,225
Accounts receivable	10,774
Inventories	61,967
Other receivables	4,521
Prepayments	2,066
Other current assets	1,839
Long-term investments in stocks	155
PP&E	7,525
Intangible assets	86,759
Other non-current assets	9,344
Due to banks	(7,157)
Accounts payable	(28,760)
Other payables	(25,559)
Other non-current liabilities	(14,609)
Identified net assets	<u>129,090</u>
Goodwill	<u>\$ 210,145</u>

- G. For the period from July 31, 2018 to December 31, 2018, Austar Hearing Science And Technology (Xiamen) Co., Ltd. and Xiamen Etimbre Hearing Technology Co.LTD jointly contributed operating revenue and profit before income tax in the amounts of \$193,809 thousand and \$6,693 thousand, respectively, since the Group merged with them on July 31, 2018. Had Austar Hearing Science And Technology (Xiamen) Co. , Ltd and Xiamen Etimbre

Hearing Technology Co. LTD been consolidated from January 1, 2018, the consolidated statement of comprehensive income would show operating revenue increased by \$398,333 thousand and profit before income tax by \$34,009, respectively, for the year ended December 31, 2018 .

(29) Supplemental cash flow information

A. Investing activities with partial cash payments

	Years ended December 31	
	2018	2017
Purchase of property, plant and equipment	\$ 569,756	\$ 781,777
Add: Opening balance of payable on equipment	98,721	23,582
Less: Ending balance of payable on equipment	23,588	19,398
Add: Beginning balance of prepayments for equipment	(19,398)	(37,151)
Less: Ending balance of prepayments for equipment	(48,588)	(98,721)
Cash paid during the year	<u>\$ 624,079</u>	<u>\$ 688,885</u>

	Years ended December 31,	
	2018	2017
Purchase of intangible assets	\$ 23,859	\$ 78,708
Add: Opening balance of payable	8,258	319
Ending balance of prepayments	32,046	4,175
Less: Opening balance of prepayments	(4,175)	(7,388)
Ending balance of payable	(2,652)	(8,258)
Cash paid during the year	<u>\$ 57,336</u>	<u>\$ 67,556</u>

B. Financing activities with no cash flow effects

	Years ended December 31,	
	2018	2017
Disposal of financial assets at fair value through profit or loss	(\$ 281,225)	\$ 155,738
Add: payment for prior period purchases during the year	4,667	-
Less: purchases unpaid during the year	-	(4,667)
Collected proceeds from prior period disposal	-	(161,574)
Net cash flows received during the year	<u>(\$ 276,558)</u>	<u>(\$ 10,503)</u>

C. Financial assets at fair value through other comprehensive income

	Years ended December 31,	
	2018	2017
Disposal of financial assets at fair value through other comprehensive income	(\$ 473,701)	(\$ 1,453,167)
Add: Uncollected proceeds from disposal during the year	-	129,339
Less: Collected proceeds from prior period disposal	(129,339)	-
Net cash flows received during the year	<u>(\$ 603,040)</u>	<u>(\$ 1,323,828)</u>

C. Financing activities with no cash flow effects:

	Years ended December 31,	
	2018	2017
Convertible bonds being converted to capital stocks	<u>\$ 1,409</u>	<u>\$ 134,873</u>

E. Disposal of subsidiary in 2017

- (a) In April 2017, the Group disposed 44.95% equity of Merry Electronics (Huizhou) Co., Ltd. and did not participate in the capital increase raised by the subsidiary. As a result, the Group lost control over the subsidiary. Details are provided in Note 4(3).
- (b) In April 2017, the Group disposed 51% equity of Merry Electronics (Shanghai) Co., Ltd. As a result, the Group lost control over the subsidiary. Details are provided in Note 4(3).
- (c) The information relating to consideration received and assets and liabilities of the subsidiaries is as follows:

	MECH	MECS	Total
Cash and cash equivalents consideration	\$ 238,315	\$ 5,551	\$ 243,866
Fair value of the equity investment held by the Group after the transaction	265,160	4,327	269,487
Total	<u>503,475</u>	<u>9,878</u>	<u>513,353</u>
Book value of subsidiary's assets & liability			
Cash	\$ 43,893	\$ 12,818	\$ 56,711
Accounts receivables	335,524	37,316	372,840
Other receivables	6,838	185	7,023
Inventories	160,745	7,107	167,852
Prepayments	1,133	-	1,133
Other current assets	134,022	5,598	139,620
Fixed assets	324,802	378	325,180
Intangible assets	41	-	41
Deferred income tax assets	4,827	2,469	7,296
Other non-current assets	47,838	16	47,854
Accounts payable	(501,162)	(48,075)	(549,237)
Other accounts payable	(37,828)	(2,640)	(40,468)
Other current liabilities	(49,371)	(5,486)	(54,857)
Other non-current liabilities	(25,907)	-	(25,907)
Net Assets	<u>\$ 445,395</u>	<u>\$ 9,686</u>	<u>\$ 455,081</u>

(d) Gain on disposal of subsidiary

	MECH	MECS	Total
Cash and cash equivalents consideration	\$ 238,315	\$ 5,551	\$ 243,866
Fair value of the equity investment held by the Group after the transaction	265,160	4,327	269,487
Identifiable assets of disposition	(445,395)	(9,686)	(455,081)
Exchange differences changes on translation	(39,941)	(108)	(40,049)
Gain on disposal of subsidiary	<u>\$ 18,139</u>	<u>\$ 84</u>	<u>\$ 18,223</u>

(e) Cash inflow generated from disposal of subsidiary

	MECH	MECS	Total
Cash and cash equivalents consideration	\$ 238,315	\$ 5,551	\$ 243,866
Less: Carrying amount of cash and cash equivalents when disposed	(43,893)	(12,818)	(56,711)
Decrease of cash when disposed	<u>\$ 194,422</u>	<u>(\$ 7,267)</u>	<u>\$ 187,155</u>

(30) Changes in liabilities from financing activities

	Short-term borrowings	Long-term borrowings	Liabilities from financing activities- gross
At January 1, 2018	\$ 2,172,618	\$ -	\$ 2,172,618
Changes in cash flow from financing activities	2,582,573	3,015,000	5,597,573
Impact of changes in foreign exchange rate	(8,914)	-	(8,914)
Changes in acquisition of subsidiaries	7,157	-	7,157
Changes in other non-cash items	-	(132,279)	(132,279)
At December 31, 2018	<u>\$ 4,753,434</u>	<u>\$ 2,882,721</u>	<u>\$ 7,636,155</u>

(31) Government grants

- A. The subsidiary, MECL, entered into a subsidy agreement with Economy, Trade and Information Commission of Shenzhen Municipality for the year ended December 31, 2016, which agreed to subsidise the Company with the maximum of RMB 3 million to purchase equipment and computer software. As of December 2018, the Company received RMB 3 million (shown as other non-current liabilities) and was in the process of purchasing the equipment and computer software.
- B. For the years ended December 31, 2018 and 2017, the subsidiary, MECL, applied for Entrepreneur Research and Development Funding Plan from the Science and Technology Innovation Committee of Shenzhen Municipality for the subsidies amounting to RMB 1,474 thousand and RMB 5 million thousand (NTD 6,829 thousand and NTD 22,360 thousand), respectively.
- C. For the years ended December 31, 2018 and 2017, the subsidiary, MECL, applied for Strategic Emerging Industries and Support Plans for Future Industrial Development Special Funds for the subsidies amounting to RMB 280 thousand and RMB 2 million thousand (NTD 1,297 thousand and NTD 8,944 thousand), respectively.

7. RELATED PARTY TRANSACTIONS

Name	Relationship
MERRY ELECTRONICS(SUZHOU)CO.,LTD (MECE)	Affiliated company
MERRY ELECTRONICS (HUIZHOU)CO.,LTD.(MECH)	Affiliated company
MERRY ELECTRONICS (SHANGHAI)CO.,LTD(MECS)	Affiliated company
Guangdong Luxshare & Merry Electronics Co., Ltd.(MEDG)	Affiliated company
LEOHAB ENTERPRISE CO.,LTD.(LEOHAB)	Affiliated company

(1) Associates

- A. In April 2017, the Group disposed 44.95% equity of Merry Electronics (Huizhou) Co., Ltd. and did not participate in the capital increase raised by the subsidiary. As a result, the Group lost control over the subsidiary. Significant transactions with the subsidiary during the period from January 1, 2017 to March 31, 2017 were excluded from the profit/loss accounts for the year ended December 31, 2017.
- B. In April, 2017, the Group disposed 51% equity of Merry Electronics (Shanghai) Co., Ltd. As a result, the Group lost control over the subsidiary. Significant transactions with the subsidiary during the period from January 1, 2017 to March 31, 2017 were excluded from the profit/loss accounts for the year ended December 31, 2017 .
- C. In order to expand the processing base and considering the difficulty of overseas recruitment and extra land acquisition, the Company established Guangdong Luxshare & Merry Electronics Co., Ltd. As resolved at the meeting of Board of Directors on September 11, 2017, the Company acquired 49% of shares in USD with an amount equivalent to RMB 98 million.

(2) Significant related party transactions

A. Operating revenue:

	Years ended December 31,	
	2018	2019
Sales of goods:		
MECE	\$ 66,402	\$ 18,600
MECH	12,363	2,249
MECS	11,112	9,925
MEDG	2,990	-
LEOHAB	3,058	-
Total	<u>\$ 95,925</u>	<u>\$ 30,774</u>

The prices of goods sold to related parties are based on the different product's profitability and adjusted annually as there is no comparable transaction for the goods sold to the third parties. The credit terms to related parties are 60 days end of month and 45 to 100 days end of month to the third parties.

B. Purchases:

	Years ended December 31,	
	2018	2019
Purchases of goods		
MECE	\$ 8,754,589	\$ 7,284,675
MECH	4,800,765	2,162,128
MEDG	350,429	-
Total	<u>\$ 13,905,783</u>	<u>\$ 9,446,803</u>

The associates are manufacturers for the Group's products and the prices are based on the

different product's profitability and adjusted annually as there is no comparable transaction for the goods purchased from the third parties. The payment terms are 60 days end of month and 30 to 120 days end of month to the third parties.

C. Receivables from related parties:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable		
MECE	\$ 15,190	\$ 18,432
MECS	3,255	11,628
MECH	4,534	-
MEDG	104	-
Total	<u>\$ 23,083</u>	<u>\$ 30,060</u>
Other receivables		
MECH	\$ 676,684	\$ 228,762
MECE	29,472	28,567
Other	23,629	16,908
Total	<u>\$ 729,785</u>	<u>\$ 274,237</u>

Other receivables mainly were the purchases of raw materials on the behalf of Merry Electronics (Huizhou) Co., Ltd. for the years ended December 31, 2018 and 2017.

D. Payables to related parties:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts payable		
MECE	\$ 2,428,878	\$ 3,356,961
MECH	1,693,833	541,824
MEDG	290,258	-
Total	<u>\$ 4,412,969</u>	<u>\$ 3,898,785</u>
Other payables		
MECE	\$ 37,339	\$ 13,681
MECH	71	203
MECS	-	41
Total	<u>\$ 37,410</u>	<u>\$ 13,925</u>

Other payables mainly were mould developing expenses payment that MERRY ELECTRONICS(SUZHOU)CO.,LTD paid on behalf of the parent company.

(3) Key management compensation

	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017</u>
Salaries and other short-term employee benefits	\$ 111,094	\$ 147,624
Post-employment benefits	939	1,054
Share-based payments	13,706	11,396
	<u>\$ 125,739</u>	<u>\$ 160,074</u>

8. PLEDGED ASSETS

None

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

Capital expenditures contracted for at the balance sheet date but not yet incurred is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Property, plant and equipment	\$ 84,290	\$ 2,766
Intangible assets	26,344	11,702
	<u>\$ 110,634</u>	<u>\$ 14,468</u>

10. SIGNIFICANT DISASTER LOSS

None

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

A. To meet customers' demand and expand the market of health care personal sound amplification product business, the Company acquired all shares issued by Biotest Medical Corp. through a share swap with an amount of NT\$ 9,420 thousand as resolved at the meeting of Board of Directors on February 26, 2019. Biotest Medical Corp. will become a wholly-owned subsidiary after the aforementioned swap.

B. The Company purchased the property in Taichung Export Processing Zone amounting to NT\$ 71,990 thousand from NEOCENE TECHNOLOGY CO., LTD. as resolved at the meeting of Board of Directors on February 26, 2019.

12. OTHERS

(1) Capital management

The Company's capital management is to ensure it has sufficient financial resource and operating plans to meet operational capital for future needs, capital expenditure, research and development expense, obligation repayment and dividend distribution within the next year.

The Company monitors capital by reassessing debt ratios periodically. The debt ratios as at December 31, 2018 and 2017 were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Total debt	\$ 20,252,149	\$ 12,654,503
Total assets	30,331,576	26,358,737
Debt ratio	67%	48%

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 184,222	\$ -
Financial assets held for trading	-	271,184
	<u>\$ 184,222</u>	<u>\$ 271,184</u>
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	\$ 1,567,729	\$ -
Qualifying equity instrument	174,276	-
	<u>\$ 1,742,005</u>	<u>\$ -</u>
Available-for-sale financial assets		
Available-for-sale financial assets	\$ -	\$ 4,522,500
	<u>\$ -</u>	<u>\$ 4,522,500</u>
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	\$ 8,512,129	\$ 6,486,139
Accounts receivable	8,597,095	6,486,542
Other receivables	805,171	439,352
Guarantee deposits paid	19,004	14,128
	<u>\$ 17,933,399</u>	<u>\$ 13,426,161</u>

	December 31, 2018	December 31, 2017
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	6,976	8,337
	<u>\$ 6,976</u>	<u>\$ 8,337</u>
Financial liabilities at amortised cost		
Short-term borrowings	\$ 4,753,434	\$ 2,172,618
Notes payable	74	1,382
Accounts payable	9,743,430	8,133,669
Other accounts payable	1,209,234	1,052,497
Corporate bonds payable (including current portion)	2,882,721	14,955
	<u>\$ 18,595,869</u>	<u>\$ 11,383,458</u>

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.
- (b) Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. Such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD、RMB and HKD. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.
- ii. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD、RMB and HKD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

B.The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018						
(Foreign currency: functional currency)	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		
				Degree of variation	Effects on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>						
<u>Monetary items</u>						
<u>Cash in banks</u>						
USD : NTD	84,311	30.72	\$ 2,589,612	3%	\$ 77,688	\$
RMB : NTD	16,048	4.47	71,767	3%	2,153	
HKD : NTD	2,382	3.92	9,340	3%	280	
USD : HKD	8,006	7.83	245,904	3%	7,377	
USD : RMB	7,208	6.87	221,394	3%	6,642	
USD : THB	3,500	32.22	107,503	3%	3,225	
<u>Receivables</u>						
USD : NTD	236,327	30.72	\$ 7,258,784	3%	\$ 217,764	
USD : HKD	1,183	7.83	36,336	3%	1,090	\$
USD : RMB	80,702	6.87	2,478,762	3%	74,363	

	December 31, 2018						
				Sensitivity analysis			
(Foreign currency: functional currency)	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effects on profit or loss	Effect on other comprehensive income	
<u>Non-monetary items</u>							
<u>Current financial investments at fair value through other comprehensive income</u>							
USD : NTD	3,305	30.72	\$ 101,513	3%	\$ -	\$	3,045
<u>Investments Accounted for Using Equity Method</u>							
USD : NTD	78,860	30.72	\$ 2,422,185	3%	\$ -	\$	72,666
HKD : NTD	134,262	3.92	526,441	3%	-		15,793
RMB : NTD	92,428	4.47	413,338	3%	-		12,400

	December 31, 2018					
	Sensitivity analysis					
(Foreign currency: functional currency)	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effects on profit or loss	Effect on other comprehensive income
<u>Financial liabilities</u>						
<u>Non-monetary items</u>						
<u>Bank loan</u>						
USD : NTD	1,600	30.72	\$ 49,144	3%	\$ 1,474	\$ -
USD : RMB	3,971	6.87	121,969	3%	3,659	-
<u>Payables</u>						
USD : NTD	180,384	30.72	\$ 5,540,495	3%	\$ 166,215	-
RMB : NTD	263,799	4.47	1,179,709	3%	35,391	-
USD : RMB	43,397	6.87	1,332,939	3%	39,988	-
HKD : RMB	11,519	0.88	45,166	3%	1,355	-

December 31, 2017						
(Foreign currency: functional currency)	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		
				Degree of variation	Effects on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>						
<u>Monetary items</u>						
<u>Cash in banks</u>						
USD : NTD	73,304	29.76	\$ 2,181,527	3%	\$ 65,446	\$ -
USD : HKD	9,443	7.82	281,024	3%	8,431	-
USD : RMB	4,257	6.52	126,688	3%	3,801	-
RMB : NTD	66,892	4.57	305,362	3%	9,161	-
RMB : HKD	54,985	1.20	251,007	3%	7,530	-
USD : THB	1,518	32.43	45,176	3%	1,355	-
<u>Receivables</u>						
USD : NTD	206,023	29.76	\$ 6,131,244	3%	\$ 183,937	\$ -
USD : RMB	116,497	6.52	3,466,951	3%	104,009	-
USD : THB	1,321	32.43	39,313	3%	1,179	-
USD : RMB	1,638	7.82	48,747	3%	1,462	-

	December 31, 2017						
				Sensitivity analysis			
(Foreign currency: functional currency)	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effects on profit or loss	Effect on other comprehensive income	
<u>Non-monetary items</u>							
<u>Current financial investments at fair value through other comprehensive income</u>							
RMB : NTD	2,421	4.57	\$ 11,052	3%	\$ -	\$	332
<u>Investments Accounted for Using Equity Method</u>							
USD : NTD	81,517	29.76	\$ 2,425,953	3%	\$ -	\$	72,779
HJD : NTD	76,991	3.81	293,104	3%	-		8,793
<u>Financial liabilities</u>							
<u>Non-monetary items</u>							
<u>Bank loan</u>							
USD : RMB	27,594	6.52	\$ 821,197	3%	\$ 24,636	\$	-
USD : NTD	2,000	29.76	59,520	3%	1,786		-
<u>Payable</u>							
USD : NTD	218,954	29.76	\$ 6,516,071	3%	\$ 195,482	\$	-
RMB : NTD	174,853	4.57	798,204	3%	23,946		-
USD : RMB	42,299	6.52	1,258,818	3%	37,765		-
HKD : RMB	16,388	0.83	62,389	3%	1,872		-

Total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to \$28,321 thousand and \$237,569 thousand, respectively.

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- ii. The Group's investments in equity securities comprise shares and open-end funds issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 3% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have increased/decreased by \$5,215 and \$11,732, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$48,552 and \$107,997, respectively, as a result of other comprehensive income classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

Cash flow and fair value Interest rate risk

- i. The Group's borrowings are measured at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.
- ii. If the borrowing interest rate had increased/decreased by 0.25% with all other variables held constant, profit, net of tax for the years ended December 31, 2018 and 2017 would have increased/decreased by \$9,507 and \$4,508, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.

(b) Credit risk

Effective 2018

- i. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
 - (i) If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
 - (ii) For investments in bonds that are traded over the counter, if any external credit rating agency rates these bonds as investment grade, the credit risk of these financial assets is low.
- ii. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial

difficulties;

(iii) Default or delinquency in interest or principal repayments;

(iv) Adverse changes in national or regional economic conditions that are expected to cause a default.

iii. The Group classifies customers' accounts receivable, contract assets in accordance with geographic area. The Group applies the modified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

iv. The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.

v. The Group used the forecastability of adjust historical and timely information to assess the default possibility of accounts receivable, contract assets and lease payments receivable. On December 31, 2018 and 2017, the provision matrix is as follows:

	Not past due	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
<u>December 31, 2018</u>						
Expected loss rate	0.09%	0.65%	11.68%	45.40%	100.00%	
Total book value	<u>\$ 8,398,276</u>	<u>\$ 184,170</u>	<u>\$ 591</u>	<u>\$ 163</u>	<u>\$ 161</u>	<u>\$ 8,583,361</u>
Loss allowance	<u>(\$ 7,839)</u>	<u>(\$ 1,206)</u>	<u>(\$ 69)</u>	<u>(\$ 74)</u>	<u>(\$ 161)</u>	<u>(\$ 9,349)</u>

vi. Movements in relation to the Group applying the modified approach to provide loss allowance for accounts receivable are as follows:

	2018 Accounts receivable
At January 1_IAS 39	\$ 3,390
Adjustments under new standards	-
At January 1_IFRS 9	3,390
Provision for impairment	5,959
Reversal of impairment loss	-
Effect of foreign exchange	-
At December 31	<u>\$ 9,349</u>

vii. For provisioned loss in 2018 and 2017, the impairment losses arising from customers' contracts are amounts to \$4,348.

There was no impairment on investments in debt instruments measured at fair value through other comprehensive income after the Company's evaluation.

viii. For investments in debt instruments at amortised cost and at fair value through other comprehensive income, the credit rating levels are presented below:

	December 31, 2018			
Financial assets at fair value through other comprehensive income				
Group 1	<u>\$ 174,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,277</u>

Group 1: Debt instruments designated as investment grade.

ix. Credit risk information of 2017 is provided in Note 12(4).

Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Credit risk arises from cash and cash equivalents, notes receivable, net, other receivables (including related parties), other current assets and other non-current assets that mostly were neither past due nor impaired and the maximum exposure to credit risk was the carrying amount.

- (i) The Company's cash and cash equivalents are deposited in financial institutions with good credit quality. To avoid excessive centralisation in deposits and effectively disperse credit risk, the Company also manages the percentage of deposit amount in each financial institution and those banks and financial institutions the Company transacts with are all with high credit ratings after the assessment.
- (ii) The Company's net notes receivable, net accounts receivable and other receivables are customer receivables from sales of products during the ordinary operating activities. The Company has screened out credit quality of tradable counterparties, thus, counterparties are all with credit ranking above certain level and the Company expects the credit risk is remote. The Company considers customer's historical record and financial status to assess the Company's accounts receivable that were neither past due nor impaired. The classification of credit quality is provided in Note 12(2).
- (iii) Other current assets are mainly excess business tax paid and other non-current assets mainly consists of guarantee deposits paid. The Company has screened out credit quality of tradable counterparties, thus, counterparties are all with credit ranking above certain level and the Company expects the credit risk is remote.

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity

requirements to ensure it has sufficient cash to meet operational needs

- ii. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.
- iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.
- iv. The Company has \$9,139,729 thousand in undrawn borrowing facilities.

December 31, 2018	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
<u>Non-derivative financial liabilities</u>						
Short-term borrowings	\$ 4,531,576	\$ 234,775	\$ -	\$ -	\$ -	\$ 4,766,351
Short-term notes and bills payable	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Notes payable	74	-	-	-	-	74
Accounts payable	4,692,987	637,474	-	-	-	5,330,461
Other payables -related parties	4,373,183	-	-	-	-	-
Other payables	1,080,248	119,444	-	-	-	1,199,692
Bonds payable	-	-	-	-	-	-
Preference share liabilities	-	-	-	-	-	-
Long-term borrowings (including current portion)	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Financial guarantee contracts	-	-	-	-	-	-
Other current liabilities	21,205	668	-	-	-	21,873
<u>Derivative financial liabilities</u>						
Accounts payable-related parties	4,373,183	39,786	-	-	-	4,412,969
Forward exchange contracts	6,976	-	-	-	-	6,976

December 31, 2017	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
<u>Non-derivative financial liabilities</u>						
Short-term borrowings	\$ 2,176,143	\$ -	\$ -	\$ -	\$ -	\$ 2,176,143
Notes payable	1,382	-	-	-	-	1,382
Accounts payable	3,606,243	628,641	-	-	-	4,234,884
Other payables	650,178	402,319	-	-	-	1,052,497
Accounts payable-related parties	3,898,785	-	-	-	-	3,898,785
Other current liabilities (Bonds payable-current portion)	241,528	-	-	-	-	241,528
<u>Derivative financial liabilities</u>						
Forward exchange contracts	8,337	-	-	-	-	8,337

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks, and derivative instruments with quoted market prices is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in derivative instruments & Equity Instrument is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in certain derivative instruments, equity investment without active market and is included in Level 3.

B. Financial instruments not measured at fair value

Financial instruments not measured at fair value include the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable and other payables.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2018 and 2017 is as follows:

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
-Equity securities	\$ 103,972	\$ -	\$ 18,174	\$ 122,146
-Forward exchange contracts	-	6,176	-	6,176
-Funds	51,700	-	-	51,700
-Call options of convertible bonds	-	-	4,200	4,200
-Equity securities	1,424,861	-	142,868	1,567,729
-Debt securities	<u>174,276</u>	<u>-</u>	<u>-</u>	<u>174,276</u>
Total	<u>\$ 1,754,809</u>	<u>\$ 6,176</u>	<u>\$ 165,242</u>	<u>\$ 1,926,227</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
-Forward exchange contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,976</u>	<u>\$ 6,976</u>

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
-Equity securities	\$ 164,324	\$ -	\$ -	\$ 164,324
-Forward exchange contracts	-	8,568	-	8,568
-Funds	52,636	-	-	52,636
-Profit instruments	-	-	45,650	45,650
-Call options of convertible bonds	-	-	6	6
Available-for-sale financial assets				
-Equity securities	4,186,957	30,241	120,974	4,338,172
-Debt securities	184,328	-	-	184,328
Total	<u>\$ 4,588,245</u>	<u>\$ 38,809</u>	<u>\$ 166,630</u>	<u>\$ 4,793,684</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
-Forward exchange contracts	<u>\$ -</u>	<u>\$ 8,337</u>	<u>\$ -</u>	<u>\$ 8,337</u>

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Emerging stocks</u>	<u>Open-end fund</u>
Market quoted price	Closing price at evaluation date	Last transaction quoted prices at evaluation date	Net asset value at evaluation date

- ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods,
- iii. Forward exchange contracts are usually valued based on the current forward exchange rate.

- vi. Under “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the Group makes self-assessment using the income approach to calculate the fair value of investment property. Related assumption and information of inputs are as follows:
- (i) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group’s financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group’s management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- A. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2
- B. The following chart is the movement of Level 3 for the years ended December 31, 2018 and 2017:

	2018	2017
At January 1	\$ 166,630	\$ 184,506
Added in the year	56,025	-
Sold in the year	(45,650)	(520)
Transfers into level 3	-	-
Gains recognised in profit or loss	4,194	(1,047)
Gains / (losses) recognised in other comprehensive income	(15,957)	(16,309)
At December 31	<u>\$ 165,242</u>	<u>\$ 166,630</u>

- C. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Equity securities	\$ 11,169	Market comparable companies	N/A	\$ 594	N/A

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Equity securities	\$ 98,906	Market comparable companies	N/A	\$ 5,833	N/A
Profit instruments	45,650	Net asset value	Due cash flow	45,650	The higher the due cash flow, the higher the fair value
Call options of convertible bonds	6	Binary tree convertible bond valuation model	Risk-free interest rate	0.0208%	The higher the risk-free interest rate, the lower the fair value
			Stock price	194.5	The higher the stock price, the higher the fair value
			Volatility	42.42%	The higher the stock price volatility, the higher the fair value

D. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

			December 31, 2018			
			Recognised in profit or loss		Recognised in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
	Input	Change				
Financial assets						
Call options of convertible bonds	Risk-free interest rate	±20bp	\$ -	\$ -	\$ -	\$ -
	Stock price	±10%	900	(1,200)	-	-
	Volatility	±5%	1,200	(1,200)	-	-
Equity securities	Stock price	±10%	-	-	1,117	1,117
	Volatility	±5%	-	-	-	-
			<u>\$ 2,100</u>	<u>(\$ 2,400)</u>	<u>\$ 1,117</u>	<u>\$ 1,117</u>

			December 31, 2018			
			Recognised in profit or loss		Recognised in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
	Input	Change				
Financial assets						
Equity securities	Cash flow	±10%	\$ -	\$ -	\$ 9,891	(\$ 9,891)
Profit instruments	Cash flow	±1%	457	(457)	-	-
Call options of convertible bonds	Risk-free interest rate	±20bp	-	-	-	-
	Stock price	±10%	-	-	-	-
	Volatility	±5%	-	-	-	-
			<u>\$ 457</u>	<u>(\$ 457)</u>	<u>\$ 9,891</u>	<u>(\$ 9,891)</u>

(1) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

(a) Financial assets at fair value through profit or loss

i. They are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(i) Hybrid (combined) contracts; or

(ii) They eliminate or significantly reduce a measurement or recognition inconsistency;
or

(iii) They are managed and their performance is evaluated on a fair value basis, in

accordance with a documented risk management or investment strategy.

- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- iii. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(b) Available-for-sale financial assets

- i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- iii. They are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

(c) Notes and accounts receivable

Accounts receivable originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

- i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- ii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment

loss was recognised, such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(e) Financial liabilities at fair value through profit or loss

i. They are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. They are classified as financial liabilities held for trading if acquired principally for the purpose of repurchasing in the short-term. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

(i) Hybrid (combined) contracts; or

(ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(iii) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

ii. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

		Available-for-sale-equity	Available-for-sale-liability		Effects	
	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income-equity	Measured at fair value through other comprehensive income-liability	Total	Retained earnings	Other equity interest
IAS39	\$ 471,184	\$ 4,337,228	\$ 185,272	\$ 4,993,684	\$ 4,292,018	\$ 3,074,587
Transferred into and measured at fair value through other comprehensive income-equity	(9,985)	9,985	-	-	790	(790) (1)
Impairment loss adjustment	-	-	-	-	2,976	(2,976) (2)
IFRS9	<u>\$ 461,199</u>	<u>\$ 4,347,213</u>	<u>\$ 185,272</u>	<u>\$ 4,993,684</u>	<u>\$ 4,295,784</u>	<u>\$ 3,070,821</u>

(a) Under IAS 39, because the equity instruments, which were classified as: financial assets at fair value through profit or loss, amounting to \$9,985 were not held for the purpose of

trading, they were reclassified as “financial assets at fair value through other comprehensive income (equity instruments)” application of IFRS 9.

- (b) According to the impairment requirements of IFRS 9, the Company both increased retained earnings and decreased other equity interest in the amount of \$2,976.

C. The significant accounts as of December 31, 2017 are as follows:

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

Items	December 31, 2017
Current items:	
Financial assets held for trading	
-Funds	\$ 251,262
-Non-hedging derivatives	8,568
-Stocks	153,333
-Call options of convertible bonds	6
	413,169
Valuation adjustment for financial assets held for trading	12,365
subtotal	425,534
Financial assets designated as at fair value through profit or loss on initial recognition	
-Profit instruments	45,650
Total	\$ 471,184

Items	December 31, 2017
Current items:	
Financial liabilities held for trading	
-Non-hedging derivatives	\$ 8,337

- i. The net profit is as follows:

	2017
Net gains on financial assets at fair value through profit or loss	\$ 603,638

- ii. The non-hedging derivative instruments transaction and contract information are as follows:

	December 31, 2017		
Financial instruments	Contract amount (Notional principal)	Contract period	Contract price
Forward foreign exchange contracts to sell	USD 52,000	2017.11.27 ~2018.02.08	NTD 29.595~29.944
Forward foreign exchange contracts to buy	USD 77,000	2017.11.23 ~2018.03.13	NTD 29.498~29.888

The Group entered into forward foreign exchange contracts to hedge exchange rate risk

of import and export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

- iii. As of December 31, 2017, the outstanding payments for settled transactions amounted to \$4,667 thousand (shown as other payables).

(b) Available-for-sale financial assets

Items	December 31, 2017
Current items:	
Closed-end fund	\$ 833
Stock	-
Corporate bond	199,768
Subtotal	200,601
Adjustments for change in value of available-for-sale financial assets	(15,329)
	<u>\$ 185,272</u>
Non-current items:	
Shares of public offering companies	\$ 726,870
Shares of non-public offering companies	118,149
Subtotal	845,019
Adjustments for change in value of available-for-sale financial assets	3,495,185
Accumulated impairment, available-for-sale financial assets	(2,976)
	<u>\$ 4,337,228</u>

- i. The Group recognised \$4,583,518 in other comprehensive income for fair value change and reclassified \$1,200,621 from equity to profit or loss for the year ended December 31, 2017.
- ii. The counterparties of the Company's investments in debt instruments have good credit quality; their credit rating levels are debt securities with investment grade.
- iii. The Group recognised interest income of \$8,071 on debt instruments held for the year ended December 31, 2017.
- iv. As of December 31, 2017, collectable payments for settled transactions amounted to \$129,339 thousand (shown as other receivables).
- v. Credit risk information for the year ended December 31, 2017 are as follows:
- (i) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients

before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

- (ii) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

vi. The credit quality information of Company's accounts receivable that are neither past due nor impaired under the Company's credit standards is as follows:

	December 31, 2017
Group 1	\$ 6,117,748
Group 2	292,502
	<u>\$ 6,410,250</u>

The international and domestic customers are classified within Group 1 and Group 2, respectively.

vii. The ageing analysis of financial assets that were past due but not impaired is as follows:

	December 31, 2017
Up to 30 days	\$ 49,271
31 to 90 days	694
91 to 180 days	173
Over 180 days	2,342
	<u>\$ 52,480</u>

The above ageing analysis was based on past due date.

viii. Movement analysis of impaired financial assets:

- (i) As of December 31, 2017, the Company had no accounts receivable individually assessed as impaired.
- (ii) Movements in the provision for impairment of accounts receivable are as follows:

	Year ended December 31, 2017		
	Individual provision	Group provision	Total
At January 1	\$ 17,173	\$ 123	\$ 17,296
Provision for impairment	-	3,334	3,334
Write-offs during the year	(17,173)	-	(17,173)
Decrease from disposal of subsidiary	-	(62)	(62)
Effects of foreign exchange	-	(5)	(5)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 3,390</u>	<u>\$ 3,390</u>

(4) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

(a) Sales of goods

- i. The Group manufactures and sells radio apparatus, communication devices, consumer electronics as well as electronic parts and components. Revenue is measured at the fair value of the consideration received or receivable taking into account of increment tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. The Company recognised revenue upon delivery of goods or pick-up of goods by customers at warehouse. Revenue arising from the delivery of goods is recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. Revenue arising from warehouse sales is recognised when the customers pick up the goods (risks and rewards transfer). The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.
- ii The Group offers customers volume discounts and right of return for defective products. The Group estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognised. The volume discounts are estimated based on the anticipated annual sales quantities.

B. The revenue recognised by using above accounting policies for the year ended December 31, 2017 are as follows:

	2017
Sales revenue	<u>\$ 26,678,810</u>

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 3.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: Please refer to table 4.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2).
- J. Significant inter-company transactions during the reporting periods: Purchases or sales of goods from or to related parties reaching \$100 million or more: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 8.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 9.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. Business organisation is divided into Taiwan, Shenzhen, Suzhou and other segments based on the operating regions. The Company's revenue is mainly from manufacturing and sales of microphones, receivers, speakers and other electronic components.

(2) Measurement of segment information

The Group evaluates the performance of the operating segments based on post-tax profit or loss.

(3) Information about segment profit or loss, assets and liabilities

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

A. The segment information provided to the chief operating decision-maker for the reportable segments for the year ended December 31, 2018 is as follows:

	<u>Taiwan</u>	<u>Shenzhen</u>	<u>Singapore</u>	<u>Total</u>
Revenue				
Revenue from external customer	\$ 30,419,173	\$ 425,821	\$ 4,030,125	\$ 34,875,119
Inter-segment revenue	19,006	17,310,441	13,959	17,343,406
Revenue total	<u>\$ 30,438,179</u>	<u>\$ 17,736,262</u>	<u>\$ 4,044,084</u>	<u>\$ 52,218,525</u>
Segment profit	<u>\$ 2,055,620</u>	<u>\$ 249,395</u>	<u>\$ 310,343</u>	<u>\$ 2,615,358</u>
segment profit (loss) contains :				
Interest revenue	\$ 40,417	\$ 16,865	\$ -	\$ 57,282
Interest expense	31,217	14,909	-	46,126
Depreciation & amortization	74,529	134,423	2,998	211,950
Income tax expense	428,809	166,596	63,555	658,960
Recognised investment profit which is adopting equity method	227,446	240,615	-	468,061

Note: The Group does not use segment information relating to assets and liabilities to evaluate segment performance. As a result, such information is not disclosed.

B. The segment information provided to the chief operating decision-maker for the reportable segments for the year ended December 31, 2017 is as follows:

	<u>Taiwan</u>	<u>Shenzhen</u>	<u>Total</u>
Revenue			
Revenue from external customers	\$ 24,312,405	\$ 258,071	\$ 24,570,476
Inter-segment revenue	3,874	13,707,891	13,711,765
Subtotal	<u>\$ 24,316,279</u>	<u>\$ 13,965,962</u>	<u>\$ 38,282,241</u>
Segment profit	<u>\$ 3,677,134</u>	<u>\$ 49,267</u>	<u>\$ 3,726,401</u>
Segment profit contains :			
Interest revenue	\$ 25,998	\$ 10,733	\$ 36,731
Interest expense	14,882	11,785	26,667
Depreciation & amortization	62,536	105,674	168,210
Income tax expense	552,310	53,392	605,702
Recognised investment profit which is adopting equity method	24,323	-	24,323

Note: The Group does not use segment information relating to assets and liabilities to evaluate segment performance. As a result, such information is not disclosed.

C. The Group's reportable operating segments are classified based on the operating regions.

D. The accounting policies of the operating segments are in agreement with the significant accounting policies summarised in Note 4. The Group's segment profit (loss) is measured with the current profit (loss), which is used as a basis for the Group in assessing the performance of the operating segments.

(4) Reconciliation for segment income (loss)

Sales between segments are carried out at arm's length. The revenue from external customers reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income.

A. A reconciliation of income after adjustment and total segment income from continuing operations

is provided as follows:

	2018	2017
Adjusted revenue from reportable segments	\$ 52,222,525	\$ 38,282,241
segments	<u>1,290,699</u>	<u>2,249,740</u>
Total operating segments	53,513,224	40,531,981
Elimination of inter-segment revenue	(18,018,416)	(13,853,171)
Total consolidated operating revenue	<u>\$ 35,494,808</u>	<u>\$ 26,678,810</u>

B. A reconciliation of adjusted current income before tax and the income before tax from continuing

operations is provided as follows:

	2018	2017
Adjusted income from reportable segments after income tax	\$ 2,615,358	\$ 3,726,401
Adjusted (loss) income from other operating segments after income tax	<u>40,364</u>	<u>107,621</u>
Total operating segments	2,655,722	3,834,022
Income from elimination of inter-segment revenue	(591,457)	(211,813)
Income from continuing operations after income tax	<u>\$ 2,064,265</u>	<u>\$ 3,622,209</u>

(5) Information on products and services

Revenues from external customers are mainly manufacturing, processing, repairing and sales of radio apparatus, communication devices, consumer electronics, automatic control system, electronic security systems and fire protection system as well as electronic components; planning, design as well as output of service items' equipment; production as well as marketing management consultant of service items' relevant business. Details of revenue is as follows:

	Years ended December 31,	
	2018	2017
Finished goods sales revenue	\$ 35,461,662	\$ 26,647,270
Technical service revenue	33,146	31,540
	<u>\$ 35,494,808</u>	<u>\$ 26,678,810</u>

(6) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Revenue	Non-current assets	Revenue	Non-current assets
US	\$ 15,233,862	\$ 781	\$ 13,733,432	\$ 882
Switzerland	3,209,505	-	2,161,534	-
Denmark	4,214,060	-	2,046,320	-
China	3,740,292	1,560,603	2,792,520	1,244,941
Netherlands	6,921,151	13,710,813	4,143,897	-
Other	2,175,938	-	1,801,107	5,470,163
	<u>\$ 35,494,808</u>	<u>\$ 15,272,197</u>	<u>\$ 26,678,810</u>	<u>\$ 6,715,986</u>

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Revenue	Segment	Revenue	Segment
A	\$ 14,116,651	Taiwan	\$ 12,468,619	Taiwan
B	8,300,890	Taiwan	6,361,604	Taiwan
C	3,000,101	Taiwan	1,908,001	Taiwan
	<u>\$ 25,417,642</u>		<u>\$ 20,738,224</u>	

MERRY ELECTRONICS CO., LTD.

Loans to others

Year ended December 31, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

No. (Note1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance for the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest rate	Nature of loan (Note 3)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 1)	Note
0	MEHO	MECE	Other receivables	Y	\$ 926,000	\$ 926,000	\$ -	-	2	\$ -	Business operation	\$ -	\$ -	\$ -	\$ 3,930,941	\$ 3,930,941	
1	MECL	MHAT	Other receivables	Y	31,073	-	31,073	-	2	-	Business operation	-	-	-	3,930,941	3,930,941	

The ceiling on total loans to others is the Company net assets; for short-term financing, the limit to a single party is 40% of the Company net assets.

Note 2: (1) For business transactions, limit on loans granted for a single party is the amount of the transactions.

(2) For short-term financing, limit on loans granted for a single party is 40% of the net assets of the Company.

Note 3: (1) For business transactions.

(2) For short-term financing.

MERRY ELECTRONICS CO., LTD.
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
December 31, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Note
				Number of shares	Book value (in thousands)	Ownership (%)	Fair value (in thousands)	
The Company	ARRIS International plc.	-	Financial assets mandatorily measured at fair value through profit or loss	1	\$ 169	-	\$ 478	
The Company	NYSE: XOM	-	Financial assets mandatorily measured at fair value through profit or loss	3	6,583	-	5,341	
The Company	NYSEARCA: VNO	-	Financial assets mandatorily measured at fair value through profit or loss	1	3,187	-	2,863	
The Company	NYSEARCA: XLE	-	Financial assets mandatorily measured at fair value through profit or loss	2	3,213	-	2,642	
The Company	006205.TW	-	Financial assets mandatorily measured at fair value through profit or loss	150	4,103	-	3,785	
The Company	00632R.TW	-	Financial assets mandatorily measured at fair value through profit or loss	15	201	-	198	
The Company	1312.TW	-	Financial assets mandatorily measured at fair value through profit or loss	60	1,736	-	1,311	
The Company	1815.TW	-	Financial assets mandatorily measured at fair value through profit or loss	110	1,788	-	1,705	
The Company	2014.TW	-	Financial assets mandatorily measured at fair value through profit or loss	110	1,515	-	1,177	
The Company	2884.TW	-	Financial assets mandatorily measured at fair value through profit or loss	171	2,717	-	3,427	
The Company	2886.TW	-	Financial assets mandatorily measured at fair value through profit or loss	120	2,683	-	3,114	
The Company	2891.TW	-	Financial assets mandatorily measured at fair value through profit or loss	130	2,429	-	2,625	
The Company	2929.TW	-	Financial assets mandatorily measured at fair value through profit or loss	32	2,947	-	2,679	
The Company	3004.TW	-	Financial assets mandatorily measured at fair value through profit or loss	50	2,806	-	2,995	
The Company	3323.TW	-	Financial assets mandatorily measured at fair value through profit or loss	50	2,088	-	1,634	
The Company	4190.TW	-	Financial assets mandatorily measured at fair value through profit or loss	20	2,484	-	2,210	
The Company	4739.TW	-	Financial assets mandatorily measured at fair value through profit or loss	30	3,524	-	2,744	
The Company	5871.TW	-	Financial assets mandatorily measured at fair value through profit or loss	38	2,823	-	3,663	
The Company	6239.TW	-	Financial assets mandatorily measured at fair value through profit or loss	25	2,329	-	1,653	
The Company	6411.TW	-	Financial assets mandatorily measured at fair value through profit or loss	10	1,033	-	700	
The Company	8422.TW	-	Financial assets mandatorily measured at fair value through profit or loss	18	3,444	-	2,997	
The Company	0392.HK	-	Financial assets mandatorily measured at fair value through profit or loss	55	8,748	-	8,949	
The Company	0868.HK	-	Financial assets mandatorily measured at fair value through profit or loss	220	7,822	-	7,469	
The Company	0916.HK	-	Financial assets mandatorily measured at fair value through profit or loss	270	6,352	-	5,643	
The Company	1288.HK	-	Financial assets mandatorily measured at fair value through profit or loss	460	6,606	-	6,187	
The Company	2238.HK	-	Financial assets mandatorily measured at fair value through profit or loss	180	5,083	-	5,512	
The Company	2907.HK	-	Financial assets mandatorily measured at fair value through profit or loss	80	6,078	-	4,994	
The Company	0371.HK	-	Financial assets mandatorily measured at fair value through profit or loss	110	2,383	-	1,721	
The Company	2318.HK	-	Financial assets mandatorily measured at fair value through profit or loss	24	3,830	-	6,507	
The Company	3188.HK	-	Financial assets mandatorily measured at fair value through profit or loss	51	8,245	-	7,049	
The Company	TW000T1041C6	-	Financial assets mandatorily measured at fair value through profit or loss	153	9,170	-	8,934	
The Company	TW000T0932C7	-	Financial assets mandatorily measured at fair value through profit or loss	54	18,075	-	18,105	
The Company	LU0286668453	-	Financial assets mandatorily measured at fair value through profit or loss	48	24,017	-	24,661	
					160,211		\$ 155,672	
			Valuation adjustment		(4,539)			
					\$ 155,672			

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Note
				Number of shares	Book value (in thousands)	Ownership (%)	Fair value (in thousands)	
The Company	JAFCO		Non-current financial assets mandatorily measured at fair value through profit or loss	400	\$ 18,174	0.48%	18,174	
			Valuation adjustment		<u>–</u>			
					<u>\$ 18,174</u>			
The Company	2881B.TW	–	Equity instruments measured at fair value through other comprehensive income	683	\$ 40,980	–	\$ 42,346	
The Company	2882B.TW	–	Equity instruments measured at fair value through other comprehensive income	585	35,100	–	36,212	
The Company	ACGLPACGLP	–	Equity instruments measured at fair value through other comprehensive income	3	1,933	–	1,562	
The Company	RNR-EBMG7498P1196	–	Equity instruments measured at fair value through other comprehensive income	3	2,459	–	1,912	
The Company	SSW-GMHY756383078	–	Equity instruments measured at fair value through other comprehensive income	4	3,362	–	2,918	
The Company	TSITDragon		Equity instruments measured at fair value through other comprehensive income	4,790	50,000	–	50,668	
The Company	P18QNB3F10306	–	Equity instruments measured at fair value through other comprehensive income	3,000	89,550	–	92,795	
MEST	EBIUH	–	Equity instruments measured at fair value through other comprehensive income	1,000	<u>30,871</u>		<u>30,813</u>	
			Valuation adjustment		<u>254,255</u>		<u>\$ 259,226</u>	
					<u>4,971</u>			
					<u>\$ 259,226</u>			
The Company	Stock - 6679.TW	–	Measured at fair value through other comprehensive income - non-current	1,567	\$ 40,106	4.17%	\$ 96,371	
The Company	Stock - 4943.TW	–	Measured at fair value through other comprehensive income - non-current	10,500	648,164	8.91%	1,136,520	
The Company	Stock - 3290.TW	–	Measured at fair value through other comprehensive income - non-current	5,723	99,990	5.75%	107,020	
The Company	Stock - FUJITER Semiconductor CO.,LTD.	–	Measured at fair value through other comprehensive income - non-current	2,781	27,811	9.79%	11,169	
The Company	Stock - Biotest Medical Corp.	–	Measured at fair value through other comprehensive income - non-current	1,305	13,050	5.80%	13,050	
The Company	Stock - NETVOX TECHNOLOGY CO., LTD	–	Measured at fair value through other comprehensive income - non-current	324	2,976	1.32%	–	
The Company	Stock - EVER THAI AGRI-PRODUCT CO.,LTD.	–	Measured at fair value through other comprehensive income - non-current	682	6,425	5.18%	6,425	
The Company	Stock - SUNSINO SME Development Co., Ltd.	–	Measured at fair value through other comprehensive income - non-current	168	2,123	0.36%	2,123	
The Company	Stock - LINSATION	–	Measured at fair value through other comprehensive income - non-current	75	8,772	5.75%	8,772	
MEST	Stock - Perfect Fortune Inc.	–	Measured at fair value through other comprehensive income - non-current	2,126	8,338	18.33%	72,250	
MEST	Stock - LOYAL WIRE& CABLE COMPANY LTD.	–	Measured at fair value through other comprehensive income - non-current	1,159	<u>8,037</u>	18.33%	<u>29,079</u>	
					865,792		<u>\$ 1,482,779</u>	
					619,963			
					(<u>2,976</u>)			
					<u>\$ 1,482,779</u>			

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

MERRY ELECTRONICS CO., LTD.

Aggregate purchases or sale of the same securities reaching \$300 million or 20% of paid-in capital or more
Year ended December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at December 31, 2018		Addition (Note 3)		Disposal (Note 3)			Balance as at December 31, 2018		
					Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Selling price	Book value	Gain (loss) on disposal	Number of shares (in thousands) (Note 6)	Amount
The Company	Stock	Non-current financial assets at fair value through other comprehensive income	4943. TW	-	11,775	\$ 726,870	-	\$ -	1,275	\$ 307.49	\$ 78,706	\$ 313,343	11,550	\$ 648,164

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counter party and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT\$300 million or 20% of paid-in capital or more.

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 5: Using the average exchange rate at December 31 for translation.

Note 6: The counterparty distributed shares of 1,050 thousand shares which resulted in the difference in the number of shares.

MERRY ELECTRONICS CO., LTD.
Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more
Year ended December 31, 2018

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

(except as otherwise indicated)													
						If the counterparty is a related party, information as to the last transaction of the real estate is disclosed below:							
Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship with the counterparty	Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer	Date of the original transaction	Amount	Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
The Company	Land and buildings	107/2/26	\$ 308,664	\$ 308,664	SUNTEX MANUFACTURE CORP.	-	-	-	-	\$ -	Market price	Office	-

MERRY ELECTRONICS CO., LTD.

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance (Note 2)	Percentage of total notes/accounts receivable (payable)	Note
METC	MECE	Investment accounted for using the equity method	Purchases	227, 982	1%	60 days end of month after offsetting with accounts receivable	(Note 1)	30~90 days end of month for the third parties	(37, 569)	0%	
MESG	METC	A subsidiary of the Company	Purchases	443, 330	1%	61 days end of month after offsetting with accounts receivable	(Note 1)	30~91 days end of month for the third parties	(41, 641)	0%	(Note 3)
MESG	MECL	A subsidiary of the Company	Purchases	1, 248, 166	4%	62 days end of month after offsetting with accounts receivable	(Note 1)	30~92 days end of month for the third parties	(318, 381)	3%	(Note 3)
MESG	MECH	Investment accounted for using the equity method	Purchases	1, 871, 587	5%	63 days end of month after offsetting with accounts receivable	(Note 1)	30~93 days end of month for the third parties	(658, 946)	7%	
MECL	MECE	Investment accounted for using the equity method	Purchases	116, 052	0%	64 days end of month after offsetting with accounts receivable	(Note 1)	30~94 days end of month for the third parties	(58, 320)	1%	
MECL	MEST	A subsidiary of the Company	Purchases	122, 744	0%	65 days end of month after offsetting with accounts receivable	(Note 1)	30~95 days end of month for the third parties	(16, 173)	0%	(Note 3)
本公司	MECH	Investment accounted for using the equity method	Purchases	2, 928, 810	8%	66 days end of month after offsetting with accounts receivable	(Note 1)	30~96 days end of month for the third parties	(1, 034, 887)	11%	
本公司	MECE	Investment accounted for using the equity method	Purchases	8, 410, 554	24%	67 days end of month after offsetting with accounts receivable	(Note 1)	30~97 days end of month for the third parties	(2, 330, 766)	24%	
本公司	MECL	A subsidiary of the Company	Purchases	16, 029, 448	45%	68 days end of month after offsetting with accounts receivable	(Note 1)	30~98 days end of month for the third parties	(2, 993, 515)	31%	(Note 3)

Note 1: For purchase transactions with related parties, the price is based on the profitability of the product and will be adjusted annually.

Note 2: The balance is the net amount after offsetting accounts receivable and payable due from/ to related parties.

Note 3: Inter-company transactions between companies within the Group are eliminated.

MERRY ELECTRONICS CO., LTD.

Receivables from related parties reaching \$100 million or 20% of paid-in capital or more

December 31, 2018

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date (Note 2)	Allowance for doubtful accounts	Note
					Amount	Action taken			
MECL	MESG	A subsidiary of the Company	\$ 318,381	4.15	\$ -	-	\$ 184,162	\$ -	
MECH	MESG	Investment accounted for using the equity method	658,946	3.24	-	-	444,218	-	
MECH	The Company	Investment accounted for using the equity method	1,034,887	3.06	-	-	687,536	-	
MECE	The Company	Investment accounted for using the equity method	2,330,766	4.99	-	-	2,330,766	-	
MECL	The Company	A subsidiary of the Company	2,993,515	4.91	-	-	2,960,003	-	

Note 1: Inter-company transactions between companies within the Group are eliminated.

Note 2: The balance was as at February 26, 2019.

MERRY ELECTRONICS CO., LTD.

Significant inter-company transactions during the reporting periods
Year ended December 31, 2018

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

Transaction							Percentage of consolidated total operating revenues or total assets (Note 3)
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	
1	MESG	METC	3	Purchases	443, 330	The price is based on the profitability of the product	1%
1	MESG	MECL	3	Purchases	1, 248, 166	The price is based on the profitability of the product	4%
2	MECL	MEST	3	Purchases	122, 744	The price is based on the profitability of the product	0%
0	The Company	MECL	1	Purchases	16, 029, 448	The price is based on the profitability of the product	45%
1	MESG	METC	3	Accounts payable	41, 641	The balance shown was net of receivables as agreed by both parties	0%
1	MESG	MECL	3	Accounts payable	318, 381	The balance shown was net of receivables as agreed by both parties	3%
2	MECL	MEST	3	Accounts payable	16, 173	The balance shown was net of receivables as agreed by both parties	0%
0	The Company	MECL	1	Accounts payable	2, 993, 515	The balance shown was net of receivables as agreed by both parties	31%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

1. Parent company is '0'.
2. The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counter party is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

MERRY ELECTRONICS CO., LTD.
Information on investees
Year ended December 31, 2018

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Note
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares (in thousand shares)	Ownership (%)	Book value			
The Company	MEST	HONG KONG	Sales of microphone, receiver and speaker	\$ 981, 113	\$ 981, 113	25, 658	100. 00	\$ 3, 086, 828	\$ 718, 960	\$ 718, 960	(Note 1)
The Company	DANNY	British Virgin IS.	General investment business	1, 479, 925	1, 479, 925	48, 005	100. 00	2, 419, 742	36, 010	36, 010	(Note 1)
The Company	LEOHAB ENTERPRISE CO., LTD.	Taichung City	Plastic injection molding and metal stamping	96, 666	96, 666	13, 395	30. 91	64, 030	32, 450	10, 030	
The Company	MECA	U.S.A	Sales of microphone, receiver and speaker	28, 887	28, 887	999	99. 90	33, 598	436	435	
The Company	MESG	SINGAPORE	Manufacture of other electronic component and circuit board	82, 942	82, 942	800	100. 00	370, 715	311, 892	311, 892	
The Company	METC	THAILAND	Sales of microphone, receiver, speaker and security system	484, 358	484, 358	5, 060	99. 99	533, 283	19, 066	19, 064	(Note 1)
The Company	MHCH	CAYMAN	Sales of medical device	523, 265	114, 184	20, 500	100. 00	442, 404	1, 875	(2, 063)	
DANNY	UCIL	MAURITIUS	General investment business	151	151	5	100. 00	(715)	(6)	(註2)	
DANNY	MECEHK	HONG KONG	General investment business	1, 393, 940	1, 393, 940	48, 000	100. 00	2, 504, 727	573	(註2)	
MHCH	MHFC	SAMOA	General investment business	454, 953	33, 660	-	100. 00	459, 144	4, 535	(註2)	
The Company	Indigo	SAMOA	General investment business	865, 832	-	-	70. 00	836, 583	(7, 146)	(29, 017)	

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Note
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares (in thousand shares)	Ownership (%)	Book value			
		CANADA		30	–	–		10,382	163	(註2)	
Indigo	Sonavox Canada		Speaker and amplifier research and development and design				100.00				
Sonavox	Sonavox Canada Holding	CANADA	General investment business	11,112	–	–	100.00	9,648	7,340	(註2)	
Sonavox Canada Holding	SEAS	NORWAY	Manufacture and sales of speaker monomer	23	–	–	100.00	52,394	4,832	(註2)	

Note 1: The investment income included unrealised gains or losses and realised gains arising from upstream transactions.

Note 2: The investee is second subsidiary and investment income (loss) is not shown.

MERRY ELECTRONICS CO., LTD.
Information on investees in Mainland China
Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital (Note 5)	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	to Mainland China / Amount remitted back to Taiwan for the six-month period ended		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 3)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Note
					Remitted to Mainland China	Remitted back to Taiwan							
		\$	426,378	(Note 2)	\$	453,191	\$	-	\$	-			
MECL	Microphone, receiver, speaker, security system, induction cooker and other electronic component												
MECE	Manufacture and sales of microphone, receiver and speaker	2,798,305	(Note 2)	1,369,285		-	1,369,285	81,531	49.00%	36,033	2,422,186	295,185	(Note 5)
		7,422	(Note 2)	6,055			6,055						
MECS	International trade, transit trade and trading consulting; trading amongst companies in bonded area and trading agency in the area				-	-		(721)	49.00%	(353)	1,116	40,321	(Note 5)
Perfect Fortune Inc.	Electric wire, electric cable and other wire processing	45,484	(註2、4)	107,624	-	-	107,624	-	18.33%	-	72,250	-	(Note 5)
LOYAL WIRE& CABLE COMPANY LTD.	Electric wire, electric cable and other wire processing	24,800	(註2、4)	-	-	-	-	-	18.33%	-	29,079	-	(Note 5)
MECH	Manufacture and sales of microphone, receiver, speaker and mobile phone	447,200	(Note 2)	420,687		-	420,687	491,771	49.00%	240,969	525,324	-	(Note 5)
MHFM	Manufacture of medical device	287,028	(Note 2)	32,990	277,773	-	310,763	(1,105)	100.00%	(1,105)	275,037	-	
MHTS	Medical device technical service	12,296	(Note 2)	12,154	-	-	12,154	30	100.00%	30	11,459	-	(Note 5)
		894,400		-	452,564	-	452,564	(46,431)			416,309	-	
Guangdong Luxshare & Merry Electronics Co., Ltd was established.	Research and development of sound equipment, earphones, mobile power supply, charging box, cable, connector, electronic components, plastic hardware, mould and antenna		(Note 1)						49.00%	(22,752)			(Note 5)
MIMI	Sales of medical device	2,460	(Note 2)	2,526	-	-	2,526	(262)	100.00%	(262)	288	-	(Note 5)
ASIAN ELITE INTERNATIONAL LTD.	Manufacture of speaker and amplifier	154,608		-	79,728	-	79,728	50,172	70.00%	20,935	96,909	-	(Note 5)
Xiamen Etimbre Hearing Technology Co.LTD	Retail sales of hearing products	2,236	(Note 1)	-	2,237	-	2,237	-	99.50%	(2,424)	975	-	(Note 5)
Austar Hearing Science And Technology (Xiamen) Co., Ltd.	Manufacture and sales of hearing aid, hearing device and acoustics equipment	59,303	(Note 2)	-	275,537	-	275,537	-	99.50%	4,369	32,440	-	(Note 5)

MERRY ELECTRONICS CO., LTD.
Information on investees in Mainland China
Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital (Note 5)	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	to Mainland China / Amount remitted back to Taiwan for the six-month period ended		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 3)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Note
					Remitted to Mainland China	Remitted back to Taiwan							
Xiamen Laiyate Medical Devices Co., Ltd.	Research and development and technical sales of software for hearing aid use	22,360	(Note 2)	-	22,180	-	22,180	-	99.50%	2,589	27,751	-	(Note 5)
Austar Hearing Science And Technology (Zhangzhou) Co., Ltd.	Manufacture of hearing aid and acoustics for rehabilitation device	17,888	(Note 2)	-	17,744	-	17,744	-	99.50%	(396)	24,641	-	(Note 5)
							<u>\$ 3,532,275</u>						

Note 1: Reinvesting in the investee in Mainland China through the parent company.

Note 2: Through investing in an existing company in the third area, which then invested in the investee in Mainland China.

Note 3: The financial statements that are audited and attested by R.O.C. parent company's CPA.

Note 4: The investee is the reinvestment company of MERRY ELECTRONICS (HK) CO., LTD. shown as non-current available-for-sale financial assets.

Note 5: The amount in the table is translated into New Taiwan dollars at the closing exchange rates prevailing at the balance sheet date.

MERRY ELECTRONICS CO., LTD.

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas
Year ended December 31, 2018

Table 10

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Counterparty	Sale (purchase)		Property transaction		payable		collaterals		Financing				
		Amount	%	Amount	%	December 31,		December 31,		balance during the year ended	December 31,	Interest rate	the year ended December 31,	Others
						2018	%	2018	Purpose					
MECL	The Company	(\$ 1,248,166)	4%	\$ -	-	(\$ 318,381)	5%	\$ -	-	\$ -	-	-	\$ -	-
MESG	METC	(122,744)	0%	-	-	(16,173)	0%	-	-	-	-	-	-	-
MECL	MESG	(16,029,448)	45%	-	-	(2,993,515)	50%	-	-	-	-	-	-	-

MERRY ELECTRONICS CO., LTD.

Information on investments in Mainland China - ceiling on reinvestments in Mainland China

Year ended December 31, 2018

Table 10

Expressed in thousands of NTD

(Except as otherwise indicated)

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 2)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 1)
The Company	\$ 2,857,076	\$ 3,404,850	\$ 5,958,490

Note 1: (2001) Tai-Cai-Zheng (1) Letter No. 006130 of Securities and Futures Commission, Ministry of Finance, R.O.C

Note 2: The amount in the table was translated into New Taiwan dollars at the closing exchange rates prevailing at the balance sheet date.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Merry Electronics Co., Ltd.

Opinion

We have audited the accompanying parent company only balance sheets of Merry Electronics Co., Ltd. (the “Company”) as at December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Independent Accountant’s Responsibilities for the Audit of Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The key audit matters in relation to the parent company only financial statements for the year ended

December 31, 2018 are outlined as follows:

Cut-off on sales revenue from distribution warehouse

Description

Refer to Note 4(27) for accounting policy on revenue recognition.

The Company recognises revenue upon delivery of goods or pick-up of goods (the transfer of control of ownership) by customers at warehouse. Warehouse sales revenue constitutes 28% of total operating revenue for the year ended December 31, 2018. The Company's revenue recognition is based on inventory movement records of warehouse based on the reports provided by warehouse custodians or bill of lading reports recorded on network platform. As the hubs are located in various locations and there are numerous custodians, the frequency and contents of statements provided by custodians vary, and customers are from different places, the process of revenue recognition contains numerous manual procedures, which would potentially result in inaccurate timing of revenue recognition and the discrepancy between physical inventory quantities in the hubs and quantities per accounting records. Thus, we consider the cut-off on sales revenue from distribution warehouse a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in relation to the above key audit matter:

- A. Understood, evaluated and verified the Company's procedure for warehouse sales revenue and internal control, including:
 - (a) Interviewing the staff from different departments of the sales revenue process from distribution warehouse, and confirming the consistency by comparing interview results with the process of warehouse sales revenue recognition obtained.
 - (b) Verifying the internal control of warehouse distribution (checked the terms of transaction / timing of ownership transfer and dates of supporting documents and verifying transactions recognised in the appropriate period by reconciling the quantities of supporting documents with invoices) to confirm the accuracy of the timing of revenue recognition..
- B. Performed cutoff procedures on sales revenue from distribution warehouse recognised during a specific period before and after the period-end, including verifying delivery schedule of distribution warehouse and ensuring the movements of inventories contained in the statements and cost of goods sold had been recognised in the appropriate period; and
- C. Performed physical inventory count observation or confirmed the inventory quantities with hub custodian and agreed the results to accounting records.

Investments accounted for using equity method - valuation of inventories

Description

The Company receives orders from customers and the subsidiaries are tasked to manufacture the products. The subsidiaries (shown as investments accounted for using equity method) have a high risk of incurring inventory valuation loss and obsolescence due to fluctuations in market demand and rapidly evolving technology. Further, the measurement of net realisable value of inventories involves subjective judgement resulting in a high degree of estimation uncertainty. Thus, we consider the allowance for inventory valuation loss of the subsidiaries (shown as investments accounted for using equity method) a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in relation to the above key audit matter:

- A. Understood and assessed the reasonableness of the subsequent inventory valuation and the provision for loss on obsolete and slow-moving inventory.
- B. Inspected the annual plan of the physical inventory count and observed the inventory count; evaluated the effectiveness of the procedures used to identify and control obsolete inventories.
- C. Obtained inventory aging report and verified dates of movements with supporting documents, and ensured the accuracy of inventory aging classification and its consistency with the policies.
- D. Obtained the net realisable value of each kind of inventory and checked whether the applied calculation logic was in agreement with all inventory, tested the supporting documents related to the estimation basis for net realisable value of inventories including verifying the supporting documents of sales and purchase prices, as well as recalculating and assessing the reasonableness of allowance for inventory valuation losses.

Investments accounted for using equity method - acquisition of Indigo Enterprises Inc. and Suzhou Meisheng Electronics Co., Ltd.

Description

In July 2018, the Company acquired 70% of ordinary shares of Indigo Enterprises Inc. and Suzhou Meisheng Electronics Co., Ltd. with cash amounting to NT\$945,560 thousand and obtained control of these companies. The Company used the acquisition method as accounting treatment for the business combination, refer to Note 4(28) for the details. The purchase price allocation report prepared by the external appraiser appointed by management was used to measure and allocate the purchase price to

identifiable assets and assumed liabilities which arose from the combination (refer to Note 6(28) in the consolidated financial statements for details).

As the purchase price allocation involved management's estimation and the business combination was significant to the financial statements, we consider the business combination a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in relation to the above key audit matter:

- A. A. Inquired with management the details of the business combination, including acquisition motive, purchase price and valuation basis for fair values of assets acquired and liabilities assumed, accounting policies applied and the related internal control process, and reviewed the minutes of Board of Directors' meeting and related contracts.
- B. Reviewed the assessment on the reasonableness of price provided by the independent expert and the agreements of share transfer, and checked the voucher for payment consideration to verify the purchase price.
- C. Obtained an understanding of the basis and procedure of purchase price allocation which was estimated by management. We commissioned our internal appraiser to review the original data and the reasonableness of major assumptions (including discount rate and gross margin) and fair value as indicated in the purchase price allocation reports prepared by the appraisers appointed by the Company.
- D. Obtained accounting entries (shown as 'Investments accounted for using equity method') of the price allocation result based on the price allocation report and ensured accuracy of recorded amount.

Responsibilities of management and those charged with governance for the parent company only financial statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going

concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including independent directors and supervisors, are responsible for overseeing the Company's financial reporting process.

Independent accountant's responsibilities for the audit of the parent company only financial statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS 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 parent company only financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- A. Identify and assess the risks of material misstatement of the parent company only 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.
- B. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- D. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our

auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- E. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- F. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the company 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 parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Wang, Yu-Juan

Xu, Jian-Ye

For and on behalf of PricewaterhouseCoopers, Taiwan

February 27, 2019

The accompanying parent company only financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying parent company only financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

MERRY ELECTRONICS CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars)

			December 31, 2018		December 31, 2017	
Assets		Notes	AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 6,610,358	26	\$ 5,268,817	22
1110	Financial assets at fair value through profit or loss - current	6(2) and 12(4)	166,048	1	425,534	2
1120	Financial assets at fair value through other comprehensive income - current	6(3)	228,413	1	-	-
1125	Available-for-sale financial assets - current	12(4)	-	-	155,254	1
1170	Accounts receivable, net	6(4)	7,168,341	28	5,934,566	25
1180	Accounts receivable - related parties	7	10,595	-	13,518	-
1200	Other receivables		32,386	-	145,010	1
1210	Other receivables - related parties	7	33,326	-	300,312	1
130X	Inventories, net	6(5)	625,058	2	830,972	3
1410	Prepayments		8,890	-	16,438	-
1476	Other current financial assets		-	-	100,000	-
1479	Other current assets		25,474	-	20,882	-
11XX	Total current assets		14,908,889	58	13,211,303	55
Non-current assets						
1510	Financial assets at fair value through profit or loss - non-current	6(2) and 12(4)	18,174	-	-	-
1517	Financial assets at fair value through other comprehensive income - non-current	6(3)	1,381,450	6	-	-
1523	Available-for-sale financial assets - non-current	12(4)	-	-	4,261,751	18
1550	Investments accounted for under equity method	6(6)	8,300,401	32	5,832,596	24
1600	Property, plant and equipment, net	6(7)	761,523	3	448,242	2
1780	Intangible assets	6(8)	277,570	1	315,860	1
1840	Deferred income tax assets	6(24)	40,785	-	50,712	-
1990	Other non-current assets		39,924	-	7,662	-
15XX	Total non-current assets		10,819,827	42	10,916,823	45
1XXX	Total assets		\$ 25,728,716	100	\$ 24,128,126	100

(Continued)

MERRY ELECTRONICS CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(10)	\$ 4,399,144	17	\$ 1,349,520	6
2120	Financial liabilities at fair value through profit or loss - current	6(2)	6,976	-	8,337	-
2170	Accounts payable		4,420	-	486	-
2180	Accounts payable - related parties	7	6,642,168	26	7,236,535	30
2200	Other payables	6(11)	423,685	2	580,503	2
2220	Other payables - related parties	7	40,296	-	71,273	-
2230	Current income tax liabilities		119,172	-	390,648	2
2300	Other current liabilities		187,325	1	194,677	1
21XX	Total current liabilities		11,823,186	46	9,831,979	41
Non-current liabilities						
2530	Corporate bonds payable	6(12)	2,882,721	11	-	-
2570	Deferred income tax liabilities	6(24)	604,859	2	478,846	2
2640	Accrued pension liabilities	6(13)	84,044	-	112,132	-
2645	Guarantee deposits received		1,018	-	1,017	-
2670	Other non-current liabilities	6(6)	402,072	2	-	-
25XX	Total non-current liabilities		3,974,714	15	591,995	2
2XXX	Total liabilities		15,797,900	61	10,423,974	43
Equity						
Share capital						
3110	Share capital - common stock	6(15)	1,996,625	8	2,004,721	8
Capital surplus						
3200	Capital surplus	6(16)	2,789,111	11	2,985,304	12
Retained earnings						
3310	Legal reserve	6(17)	1,539,341	6	1,177,121	5
3320	Special reserve		269,144	1	269,144	1
3350	Unappropriated retained earnings		3,189,563	12	4,292,018	18
Other equity interest						
3400	Other equity interest	6(18)	147,032	1	3,074,587	13
3500	Treasury stocks	6(15)	-	-	(98,743)	-
3XXX	Total equity		9,930,816	39	13,704,152	57
Significant contingent liabilities and unrecognised contract commitments						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		\$ 25,728,716	100	\$ 24,128,126	100

The accompanying notes are an integral part of these parent company only financial statements.

MERRY ELECTRONICS CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share)

	Items	Notes	2018		2017	
			AMOUNT	%	AMOUNT	%
4000	Sales revenue	6(19), 7 and 12(5)	\$ 30,438,179	100	\$ 24,316,279	100
5000	Operating costs	6(5)(22)(23) and 7	(27,825,720)	(92)	(21,046,422)	(86)
5900	Net operating margin		<u>2,612,459</u>	<u>8</u>	<u>3,269,857</u>	<u>14</u>
	Operating expenses	6(22)(23)				
6100	Selling expenses		(210,681)	-	(214,360)	(1)
6200	General and administrative expenses		(553,006)	(2)	(577,230)	(3)
6300	Research and development expenses		(569,581)	(2)	(572,251)	(2)
6000	Total operating expenses		<u>(1,333,268)</u>	<u>(4)</u>	<u>(1,363,841)</u>	<u>(6)</u>
6900	Operating profit		<u>1,279,191</u>	<u>4</u>	<u>1,906,016</u>	<u>8</u>
	Non-operating income and expenses					
7010	Other income	6(20)	131,041	-	66,957	-
7020	Other gains and losses	6(2)(3)(21)	52,726	-	1,629,889	7
7050	Finance costs		(31,217)	-	(14,882)	-
7070	Share of profit of associates and joint ventures accounted for using equity method	6(6)				
			<u>1,063,494</u>	<u>4</u>	<u>586,535</u>	<u>2</u>
7000	Total non-operating income and expenses		<u>1,216,044</u>	<u>4</u>	<u>2,268,499</u>	<u>9</u>
7900	Profit before income tax		<u>2,495,235</u>	<u>8</u>	<u>4,174,515</u>	<u>17</u>
7950	Income tax expense	6(24)	(430,970)	(1)	(552,310)	(2)
8200	Profit for the year		<u>\$ 2,064,265</u>	<u>7</u>	<u>\$ 3,622,205</u>	<u>15</u>
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Actuarial losses on defined benefit plans	6(13)	(\$ 7,051)	-	(\$ 6,919)	-
8316	Unrealised losses from investments in equity instruments measured at fair value through other comprehensive income		(2,530,480)	(9)	-	-
8330	Share of other comprehensive loss of associates and joint ventures accounted for using equity method		(5,513)	-	(36)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		<u>1,410</u>	<u>-</u>	<u>886</u>	<u>-</u>
8310	Other comprehensive loss that will not be reclassified to profit or loss		<u>(2,541,634)</u>	<u>(9)</u>	<u>(6,069)</u>	<u>-</u>
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Exchange differences on translation	6(18)	19,095	-	(157,729)	-
8362	Available-for-sale financial assets	6(3)	-	-	3,388,831	14
8367	Unrealised gains from investments in debt instruments measured at fair value through other comprehensive income		18,639	-	-	-
8380	Share of other comprehensive (loss) income of associates and joint ventures accounted for using equity method		(87,285)	-	72,658	-
8399	Income tax relating to the components of other comprehensive income		<u>12,720</u>	<u>-</u>	<u>9,401</u>	<u>-</u>
8360	Other comprehensive (loss) income that will be reclassified to profit or loss		<u>(36,831)</u>	<u>-</u>	<u>3,313,161</u>	<u>14</u>
8300	Other comprehensive (loss) income for the year		<u>(\$ 2,578,465)</u>	<u>(9)</u>	<u>\$ 3,307,092</u>	<u>14</u>
8500	Total comprehensive (loss) income for the year		<u>(\$ 514,200)</u>	<u>(2)</u>	<u>\$ 6,929,297</u>	<u>29</u>
	Earnings per share	6(25)				
9750	Basic earnings per share		<u>\$ 10.47</u>		<u>\$ 18.94</u>	
9850	Diluted earnings per share		<u>\$ 10.35</u>		<u>\$ 18.30</u>	

The accompanying notes are an integral part of these parent company only financial statements.

MERRY ELECTRONICS CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

(Expressed in thousands of New Taiwan dollars)											
		Capital		Retained Earnings			Financial statements translation differences of foreign operations			Treasury stocks	Total equity
Notes		Share capital - common stock	Advance receipts for share capital	Total capital surplus, additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings				
2017											
Balance at January 1, 2017		\$ 1,850,625	\$ 15,420	\$ 1,523,507	\$ 976,007	\$ 269,144	\$ 2,613,534	(\$ 199,999)	(\$ 103,058)	\$ 6,945,180	
Profit for the year		-	-	-	-	-	3,622,205	-	-	3,622,205	
Other comprehensive income for the year		-	-	-	-	-	(6,069)	3,313,161	-	3,307,092	
Total comprehensive income		-	-	-	-	-	3,616,136	3,313,161	-	6,929,297	
Appropriations and distribution of 2016 earnings (Note 1):		6(17)									
Legal reserve		-	-	-	201,114	-	(201,114)	-	-	-	
Cash dividends		-	-	-	-	-	(1,736,538)	-	-	(1,736,538)	
Convertible bonds converted to equity shares		6(12)	134,873	1,335,337	-	-	-	-	-	1,470,210	
Share-based payment		6(14)	19,223	(15,420) 126,460	-	-	-	(38,575)	4,315	96,003	
Balance at December 31, 2017		\$ 2,004,721	\$ -	\$ 2,985,304	\$ 1,177,121	\$ 269,144	\$ 4,292,018	\$ 3,074,587	(\$ 98,743)	\$ 13,704,152	
2018											
Balance at January 1, 2018		\$ 2,004,721	\$ -	\$ 2,985,304	\$ 1,177,121	\$ 269,144	\$ 4,292,018	\$ 3,074,587	(\$ 98,743)	\$ 13,704,152	
Effects of modified retrospective restatement		-	-	-	-	-	3,766	(3,766)	-	-	
Balance at January 1, 2018 after adjustments		2,004,721	-	2,985,304	1,177,121	269,144	4,295,784	3,070,821	(98,743)	13,704,152	
Profit for the year		-	-	-	-	-	2,064,265	-	-	2,064,265	
Other comprehensive loss for the year		6(18)	-	-	-	-	(11,154)	(2,567,311)	-	(2,578,465)	
Total comprehensive income		-	-	-	-	-	2,053,111	(2,567,311)	-	(514,200)	
Appropriations and distribution of 2017 earnings (Note 2):											
Legal reserve		-	-	-	362,220	-	(362,220)	-	-	-	
Cash dividends		-	-	-	-	-	(3,143,838)	-	-	(3,143,838)	
Issuance of convertible bonds		6(12)	-	133,326	-	-	-	-	-	133,326	
Convertible bonds converted to equity shares		6(12)	1,409	13,565	-	-	-	-	-	14,974	
Share-based payment		6(14)	9,165	120,515	-	-	-	(9,752)	13,944	133,872	
Retirement of treasury shares		6(15)	(18,670)	(66,129)	-	-	-	-	84,799	-	
Disposal of investments in equity instruments at fair value through other comprehensive income		6(3)	-	-	-	-	346,726	(346,726)	-	-	
Acquisition agreement of additional equity in subsidiaries		-	-	(402,072)	-	-	-	-	-	(402,072)	
Recognition of change in equity of associates in proportion to the Group's ownership		-	-	4,602	-	-	-	-	-	4,602	
Balance at December 31, 2018		\$ 1,996,625	\$ -	\$ 2,789,111	\$ 1,539,341	\$ 269,144	\$ 3,189,563	\$ 147,032	\$ -	\$ 9,930,816	

Note 1: Directors' and supervisors' remuneration amounting to \$43,733 thousand and employees' compensation amounting to \$128,626 thousand were recognised as expenses in the statement of comprehensive income for the year ended December 31, 2016.

Note 2: Directors' and supervisors' remuneration amounting to \$90,750 thousand and employees' compensation amounting to \$272,251 thousand were recognised as expenses in the statement of comprehensive income for the year ended December 31, 2017.

The accompanying notes are an integral part of these parent company only financial statements.

MERRY ELECTRONICS CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 2,495,235	\$ 4,174,515
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(7)	18,288	14,614
Amortization	6(8)	56,241	47,922
Provision for bad debts expense	6(4)	-	935
Expected credit loss		1,024	-
Finance costs		31,217	14,882
Net loss on financial assets or liabilities at fair value through profit or loss		16,904	7,617
Share of profit of associates and joint ventures accounted for using equity method	6(6)		586,535)
Dividend income	6(20)	(60,437)	(28,950)
Interest income	6(20)	(40,417)	(25,998)
(Gain) loss on disposal of property, plant and equipment	6(21)	(97)	576
Gain on disposal of investments	6(21)	-	(1,200,621)
Share-based payments	6(14)	90,298	70,872
Treasury share-based payments	6(14)	26,734	17,013
Compensation cost of cash capital increase reserved for employee preemption	6(14)	3,993	-
Effect of exchange rate changes		(58,875)	106,065
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss	6(2)	231,061	12,117
Notes receivable, net		-	2
Accounts receivable		(1,234,799)	(2,734,105)
Accounts receivable - related parties		2,923	(7,719)
Other receivables		152,625	(8,027)
Other receivables - related parties		495	-
Inventories		205,914	(664,020)
Prepayments		7,548	(7,796)
Other current assets		(7,398)	(8,409)
Acquisition of financial assets at fair value through profit or loss - non-current		(18,174)	-
Changes in operating liabilities			
Notes payable		-	73
Accounts payable		3,934	(10,237)
Accounts payable - related parties		(594,367)	3,188,965
Other payables		(162,479)	229,488
Other payables - related parties		(30,977)	37,679
Other current liabilities		7,622	(41,644)
Other non-current liabilities		(22,325)	673
Cash inflow generated from operations		58,217	2,599,947
Interest paid		(30,050)	(4,785)
Income taxes paid		(552,376)	(267,491)
Interest received		43,223	26,295
Dividend income		60,437	28,950
Recognition of dividends received from investments accounted for using equity method	6(26)	574,124	-
Net cash flows from operating activities		153,575	2,382,916

(Continued)

MERRY ELECTRONICS CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in other receivables due from related parties	7	\$ -	(\$ 25,713)
Acquisition of financial assets at fair value through other comprehensive income		(324,392)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(3)(26)	603,040	-
Proceeds from disposal of available-for-sale financial assets-current	12(4)	-	432
Acquisition of available-for-sale financial assets-non-current	12(4)	-	(729,408)
Proceeds from disposal of available-for-sale financial assets-non-current	6(3) and 12(4)	-	1,323,828
Acquisition of investments accounted for using equity method	6(6)	(1,807,223)	-
Acquisition of property, plant and equipment	6(7)(26)	(335,241)	(388,858)
Proceeds from disposal of property, plant and equipment		3,185	1,321
Acquisition of intangible assets	6(8)(26)	(44,197)	(59,161)
Decrease (increase) in other financial assets		100,000	(100,000)
Decrease in guarantee deposits		284	269
Net cash flows (used in) from investing activities		(1,804,544)	22,710
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings		3,049,624	1,188,270
Proceeds from issuance of bonds	6(12)	3,015,000	-
Cash dividends paid	6(17)	(3,143,838)	(1,736,538)
Employee purchase of treasury shares		13,944	4,315
Issuance of restricted employee shares		-	4,580
Cancellation of restricted employee shares		(1,095)	(777)
Net cash flows from (used in) financing activities		2,933,635	(540,150)
Effect of exchange rate changes		58,875	(106,065)
Net increase in cash and cash equivalents		1,341,541	1,759,411
Cash and cash equivalents at beginning of year		5,268,817	3,509,406
Cash and cash equivalents at end of year		\$ 6,610,358	\$ 5,268,817

The accompanying notes are an integral part of these parent company only financial statements.

MERRY ELECTRONICS CO., LTD.
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

Merry Electronics Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) on December 24, 1975. The Company is primarily engaged in manufacturing, processing, repair, sales of electric appliances and audiovisual electric products, telecommunication equipment and apparatus, computers and computing peripheral equipments, restrained telecom radio frequency equipments, medical appliances, as well as electronic parts and components; planning, design as well as output of service items’ equipments; production as well as marketing management consultant of service items’ relevant business. The Company’s shares were listed on the Taipei Exchange since August 1998 and transferred to the Taiwan Stock Exchange since September 2000 with approval. The Company merged with its subsidiary, HUGES HI-TECH INC., on September 1, 2005. The Company was the surviving company while HUGES HI-TECH INC. was the dissolved company.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These parent company only financial statements were authorised for issuance by the Board of Directors on February 26, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014 - 2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014 - 2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014 - 2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015 - 2017 cycle	January 1, 2019

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative -Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
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 International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these parent company only financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The parent company only financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

(2) Basis of preparation

A. Except for the following items, the parent company only financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

- (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 11 (‘IAS 11’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in New Taiwan dollars, which is the Company’s functional and presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial

transactions.

- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'Other gains and losses'.

B. Translation of foreign operations

- (a) The operating results and financial position of all the company entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Company retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.
- (c) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities held mainly for trading purposes;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the

counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(6) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.
- D. The Company recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(7) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:
 - (a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.
 - (b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the

cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(8) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income including accounts receivable, at each reporting date, the Company recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable that do not contain a significant financing component, the Company recognises the impairment provision for lifetime ECLs.

(10) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Investments accounted for using equity method / subsidiaries and associates

- A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity
- B. Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Company are eliminated. The accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is

recognised in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognise losses proportionate to its ownership, unless it has incurred statutory/constructive obligations or made payments on behalf of the associate.

- D. When changes in a subsidiary's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the subsidiary, the Company recognises the Company's share of change in equity of the subsidiary in 'Capital surplus' in proportion to its ownership.
- E. If changes in the Company's shares in subsidiaries do not result in loss in control (transactions with non-controlling interest), transactions shall be considered as equity transactions, which are transactions between owners. Difference of adjustment of non-controlling interest and fair value of consideration paid or received is recognised in equity.
- F. When the Company loses control of a subsidiary, the Company remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Company loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.
- G. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 per cent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- H. The Company's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income.
- I. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognises the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- J. Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

- K. In the case that an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Company's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- L. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the financial statements prepared with basis for consolidation. Owners' equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the financial statements prepared with basis for consolidation.

(13) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	5 ~ 60 years
Machinery and equipment	2 ~ 10 years
Transportation equipment	7 ~ 12 years
Office equipment	5 ~ 10 years
Others	4 ~ 10 years

(14) Leased assets / leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(15) Intangible assets

A. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 5 years.

B. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

C. Other intangible assets are patents and are amortised using the straight-line method over 3 years.

(16) Impairment of non-financial assets

A. The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

B. The recoverable amounts of goodwill should be evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.

C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination.

(17) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(18) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(19) Financial liabilities at fair value through profit or loss

- A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term and financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:
 - (a) Hybrid (combined) contracts; or
 - (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
 - (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.
- B. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(20) Convertible bonds payable

Convertible bonds issued by the Company contain conversion options (that is, the bondholders have the right to convert the bonds into the Company's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Company classifies the bonds payable upon issuance as a financial asset, a financial liability or an equity instrument in accordance with the contract terms. They are accounted for as follows:

- A. The embedded call options and put options are recognised initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as 'Gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.
- B. The host contracts of bonds are initially recognised at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortised in profit or loss as an adjustment to 'finance costs' over the period of circulation using the effective interest method.
- C. The embedded conversion options which meet the definition of an equity instrument are initially recognised in 'capital surplus—share options' at the residual amount of total issue price less the amount of financial assets or financial liabilities at fair value through profit or loss and bonds payable as stated above. Conversion options are not subsequently remeasured.
- D. Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.

E. When bondholders exercise conversion options, the liability component of the bonds (including bonds payable and 'Financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The issuance cost of converted common shares is the total book value of the abovementioned liability component and 'Capital surplus - share options'.

(21) Non-hedging and embedded derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

(22) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Company calculates the number of

shares based on the closing price at the previous day of the board meeting resolution.

(23) Employee share-based payment

- A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.
- B. Restricted stocks:
- (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.
 - (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Company recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.
 - (c) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must return the stocks to the Company and the Company must refund their payments on the stocks, the Company recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments from the employees who are expected to be eventually vested with the stocks in 'Capital Surplus - restricted stock'.

(24) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the parent company only balance sheet. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(25) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(26) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(27) Revenue recognition

Sales of goods

- A. The Company manufactures and sells radio apparatus, communication devices, consumer electronics as well as electronic parts and components. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence

and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

- B The products are often sold with volume discounts based on aggregate sales over a 12-month period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated sales discounts. Accumulated experience is used to estimate and provide for the sales discounts and allowances, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. The sales usually are made with a credit term of 100 days which is consistent with market practice. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Company does not adjust the transaction price to reflect the time value of money.
- C. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(28) Business combinations

- A. The Company uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Company measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquiree recognised and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognised directly in profit or loss on the acquisition date.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The related information is addressed below:

(1) Critical accounting estimates and assumptions

A. Impairment assessment of goodwill

The impairment assessment of goodwill relies on the Company's subjective judgement, including identifying cash-generating units, allocating assets and liabilities as well as goodwill to related cash-generating units, and determining the recoverable amounts of related cash-generating units. Please refer to Note 6(9) for the information of goodwill impairment.

As of December 13, 2018, the Group recognised goodwill, net of impairment loss, amounting to \$139,375.

B. Impairment assessment of investments accounted for using equity method

The Company assesses the impairment of an investment accounted for using equity method as soon as there is any indication that it might have been impaired and its carrying amount cannot be recovered. The Company assesses the recoverable amount of an investment accounted for under the equity method based on the present value of the Company's share of expected future cash flows of the investee, and analyses the reasonableness of related assumptions.

As of December 31, 2018, the Company's investments accounted for under the equity method, net of impairment loss, amounted to \$8,300,401.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand and revolving funds	\$ 175	\$ 221
Checking accounts and demand deposits	2,768,317	3,238,146
Time deposits	3,224,098	1,155,387
Short-term notes and bills	617,768	875,063
	<u>\$ 6,610,358</u>	<u>\$ 5,268,817</u>

A. The Company associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Company has no cash and cash equivalents pledged to others.

C. Time deposits with original maturity over 3 months were classified as other current financial

assets amounting to \$0 and \$100,000 as at December 31, 2018 and 2017, respectively.

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

Items	December 31, 2018
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
- Funds	\$ 51,262
- Non-hedging derivatives	6,176
- Stocks	108,949
- Call options of convertible bonds	4,200
Valuation adjustment	(4,539)
	<u>\$ 166,048</u>
Non-current items:	
- Funds	<u>\$ 18,174</u>

Items	December 31, 2018
Current items:	
Financial liabilities held for trading	
- Non-hedging derivatives	<u>\$ 6,976</u>

A. Amounts recognised in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	Year ended December 31, 2018
Net gains on financial assets at fair value through profit or loss	<u>\$ 62,842</u>

B. The Company entered into contracts relating to derivative financial assets which were not accounted for under hedge accounting. The information is listed below:

	December 31, 2018		
Derivative instruments	Contract amount (Notional principal)	Contract period	Contract price
Forward foreign exchange contract to sell	<u>USD 54,300 thousand</u>	2018/12/12~ 2019/1/29	NTD 30.649~30.756
Forward foreign exchange contract to buy	<u>USD 54,300 thousand</u>	2018/12/12~ 2019/1/29	NTD 30.709~30.811

The Company entered into forward foreign exchange contracts to hedge exchange rate risk of import and export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

C. Information relating to credit risk of financial assets at fair value through profit or loss is

provided in Note 12(2).

D. Information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

(3) Financial assets at fair value through other comprehensive income

Items	December 31, 2018
Current items:	
Debt instruments	
Closed-end fund	\$ 50,000
Bonds	89,550
Valuation adjustment	3,913
	<u>143,463</u>
Equity instruments	
Stocks	83,834
Valuation adjustment	1,116
	<u>84,950</u>
	<u>\$ 228,413</u>
Non-current items:	
Equity instruments	
Listed stocks	\$ 748,154
Emerging stocks	40,106
Unlisted stocks	61,157
	<u>849,417</u>
Valuation adjustment	535,009
Accumulated impairment	(2,976)
	<u>\$ 1,381,450</u>

A. The Company has elected to classify equity and debt investments that are considered to be strategic investments or steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$1,609,863 as at December 31, 2018.

B. During the year ended December 31, 2018, the Company repurchased bond investments at fair value of \$156,192 due to maturity of bond which resulted in cumulative losses on disposal amounting to \$13,602 (shown as other gains and losses). Aiming to satisfy the capital needs, the Company sold \$443,288 of equity investments at fair value which resulted in cumulative gains on disposal amounting to \$346,726 (transferred from other equity interest to unappropriated retained earnings) during the year ended December 31, 2018.

C. As of December 31, 2018, proceeds from disposal of shares of public offering companies were all collected.

D. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	Year ended December 31, 2018
<u>Equity instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive income	(\$ 3,530,480)
Cumulative gains (losses) reclassified to retained earnings due to derecognition	(\$ 346,726)
<u>Debt instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive income	\$ 5,037
Cumulative other comprehensive income reclassified to profit or loss	
Reclassified due to derecognition	\$ 13,602
Interest income recognised in profit or loss	\$ 5,048

E. For the year ended December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Company was \$1,609,863.

F. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

G. Information on available-for-sale financial assets as of December 31, 2017 is provided in Note 12(4).

H. The counterparties of the Company's investments in debt instruments have good credit quality; those debt securities are all rated as investment grade.

I. The Company recognised interest income of \$5,048 on debt instruments held for the year ended December 31, 2018.

(4) Accounts receivable

	December 31, 2018	December 31, 2017
Accounts receivable	\$ 7,206,019	\$ 5,938,359
Less: Allowance for sales discounts	(35,719)	(2,858)
Less: Loss allowance	(1,959)	(935)
	<u>\$ 7,168,341</u>	<u>\$ 5,934,566</u>

A. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	December 31, 2018	December 31, 2017
Not past due	\$ 7,028,573	\$ 5,892,354
Up to 30 days	177,049	45,926
31 to 90 days	236	-
91 to 180 days	161	79
Over 180 days	-	-
	<u>\$ 7,206,019</u>	<u>\$ 5,938,359</u>

The above ageing analysis was based on past due date.

B. The Company does not hold any collateral as security.

C. Information relating to credit risk of accounts receivable is provided in Note 12(2).

(5) Inventories

December 31, 2018			
	Cost	Allowance for slow-moving and valuation losses	Book value
Finished goods	\$ 671,831	(\$ 46,810)	\$ 625,021
Raw materials	957	(920)	37
	<u>\$ 672,788</u>	<u>(\$ 47,730)</u>	<u>\$ 625,058</u>

December 31, 2017			
	Cost	Allowance for slow- moving and valuation losses	Book value
Finished goods	\$ 852,380	(\$ 21,460)	\$ 830,920
Raw materials	957	(905)	52
	<u>\$ 853,337</u>	<u>(\$ 22,365)</u>	<u>\$ 30,972</u>

The cost of inventories recognised as expense for the year:

	Years ended December 31	
	2018	2017
Cost of goods sold	\$ 27,800,355	\$ 21,024,944
Loss on market value decline and obsolete and slow-moving inventories	25,365	21,478
	<u>\$ 27,825,720</u>	<u>\$ 1,046,422</u>

(6) Investments accounted for using equity method

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
MERRY ELECTRONICS (HK) CO., LTD.	\$ 3,086,828	\$ 2,432,406
DANNY DYNAMICS LIMITED	2,419,742	2,423,606
LEOHAB ENTERPRISE CO., LTD.	64,030	64,029
MERRY ELECTRONICS (U.S.A.) CO., LTD.	33,598	32,124
MERRY ELECTRONICS (SINGAPORE) PTE., LTD.	370,715	348,922
MERRY ELECTRONICS (THAILAND) CO., LTD.	533,283	494,510
MERRY HEALTHCARE CO., LTD.	442,404	36,999
GUANGDONG LUXSHARE & MERRY ELECTRONICS CO., LTD.	416,309	
ASIAN ELITE INTERNATIONAL LTD.	96,909	-
INDIGO ENTERPRISE INC.	836,583	-
	<u>\$ 8,300,401</u>	<u>\$ 5,832,596</u>

In April, 2017, the Company sold 44.95% of shares in the subsidiary, MERRY ELECTRONICS (HUIZHOU) CO., LTD., and did not participate in capital increase raised by MERRY ELECTRONICS (HUIZHOU) CO., LTD. The Company sold 51% of shares in the subsidiary, MERRY ELECTRONICS (SHANGHAI) CO., LTD. Accordingly, the shareholding ratio of those companies decreased from 100% to 49% and the Company lost control over them. Therefore, the remaining investments were remeasured at fair value as the cost on initial recognition of the associate, which was based on the fair value from the asset assessment report provided by the external appraisal experts. The differences between the fair value and carrying amount were recognised in profit or loss, and the related gain recognised for the year ended December 31, 2017 amounted to \$18,223. Please refer to Note 6(22) in the consolidated financial statements for the year ended December 31, 2018. Consequently, the assets and liabilities of both companies were not included in the consolidated financial statements as of December 31, 2017.

In order to expand the processing base and consider the difficulty of overseas recruitment and extra land acquisition, the Company jointly established Guangdong Luxshare & Merry Electronics Co., Ltd. As resolved by the Board of Directors during its meeting on September 11, 2017, the Company acquired 49% of shares in USD with amount equivalent to RMB 98 million.

A. Subsidiaries:

- (a) Details of the subsidiaries of the Company are provided in Note 4(3) in the Company's consolidated financial statements as of and for the year ended December 31, 2018.
- (b) In April, 2017, the Company sold 44.95% of shares in the subsidiary, MERRY ELECTRONICS (HUIZHOU) CO., LTD., and did not participate in capital increase raised by MERRY ELECTRONICS (HUIZHOU) CO., LTD. Consequently, the Company lost

control over it. Therefore, only the statement of comprehensive income of MERRY ELECTRONICS (HUIZHOU) CO., LTD. for the three months ended March 31, 2017 was consolidated in the Company's financial statements for the year ended December 31, 2017.

- (c) In April 2017, the Company sold 51% of shares in the subsidiary, MERRY ELECTRONICS (SHANGHAI) CO., LTD. Consequently, the Company lost control over it. Therefore, only the statement of comprehensive income of MERRY ELECTRONICS (SHANGHAI) CO., LTD. for the three months ended March 31, 2017 was consolidated in the Company's financial statements for the year ended December 31, 2017.
- (d) The Board of Directors during its meeting in February 2018 adopted a resolution to increase cash capital in Fulicare Co., Ltd. in the amount of US\$10,500.
- (e) In February 2018, the Company acquired 14% and 68.5% of shares in Austar Hearing Science and Technology (Xiamen) Co., Ltd. for a consideration of RMB 10,453 thousand and RMB 51,147 thousand through second-tier subsidiary, Fulicare Co., Ltd., and third-tier subsidiary, Fulicare Medical Technology (Suzhou) Co., Ltd., respectively as resolved at the meeting of the Board of Directors. The Company acquired 82.5% of shares for total amount of RMB 61,600 thousand. In June 2018, the Company acquired an additional 17% of shares in Austar Hearing Science and Technology (Xiamen) Co., Ltd. for a consideration of RMB 13,600 thousand through Fulicare Co., Ltd. as resolved at the meeting of the Board of Directors. Accordingly, the Company acquired 99.5% of shares for a total amount of RMB 75,200 thousand.
- (f) In April 2018, the Company invested in the investee of Indigo Enterprises Inc., Sonavox Canada Inc., and the subsidiary of Indigo Enterprises Inc., SEAS FABRIKKER, and entered into a share transfer agreement with the shareholder (Newood Consultancy Limited) as resolved at the meeting of the Board of Directors. The investments were carried out in two stages: the Company acquired 70% of shares in the amount of US\$28,203 thousand at the first stage and acquired another 30% of shares in the amount of US\$12,087 thousand at the second stage, the second stage payment will be made on maturity date three years after the initial settlement date and the acquisition is completed unless the transferor refuses to transfer by written notice. In accordance with relevant contract liabilities standard, the payment obligation of subsequent 30% of shares was recognised (shown as 'Other non-current liabilities, others'). In July 2018, the Company acquired 70% of shares in Indigo Enterprise Inc. and ASIAN ELITE INTERNATIONAL LTD. and accordingly, the Company obtained control over it. Only the statements of comprehensive income of said investees for the six months ended December 31, 2018 were consolidated in the Company's financial statements.
- (g) The information on investment income from the subsidiaries, MERRY ELECTRONICS (SINGAPORE) PTE., LTD. and MERRY ELECTRONICS (HK) CO., LTD., is provided in Note 6(26).

- (h) In December 2018, the Company acquired 100% of shares in Fulicare Medical Technology (Xiamen) Co., Ltd. (to be confirmed) for a consideration of US\$10 million as resolved at the meeting of Board of Directors.
- (i) To meet customers' demand and expand market of health care personal sound amplification product business, the Company made a cooperation investment with Biotest Medical Corp. for a consideration no more than NT\$10 million as resolved at the meeting of the Board of Directors on December 27, 2018.

B. Associates

The carrying amount of the Company's interests in all individually immaterial associates and the Company's share of the operating results are summarised below:

As of December 31, 2018 and 2017, the carrying amount of the Company's individually immaterial associates amounted to \$480,339 and \$64,029, respectively.

	Years ended December 31,	
	2018	2017
Share of (loss) profit of associates accounted for using equity method	(\$ 12,722)	\$ 6,247
Other comprehensive income, net of tax	(23,003)	125
Total comprehensive (loss) income	(\$ 35,725)	\$ 6,372

C. The recognised share of profit (loss) of subsidiaries and associates accounted for using equity method is as follows:

	Years ended December 31,	
	2018	2017
MERRY ELECTRONICS (HK) CO., LTD.	\$ 718,960	\$ 441,905
DANNY DYNAMICS LIMITED	36,010	(33,333)
LEOHAB ENTERPRISE CO., LTD.	10,030	6,247
MERRY ELECTRONICS (U.S.A.) CO., LTD.	435	2,065
MERRY ELECTRONICS (SINGAPORE) PTE. LTD.	311,892	181,845
MERRY ELECTRONICS (THAILAND) CO., LTD.	19,064	16,680
MERRY HEALTHCARE CO., LTD.	(2,063)	(28,874)
GUANGDONG LUXSHARE & MERRY ELECTRONICS CO., LTD.	(22,752)	-
ASIAN ELITE INTERNATIONAL LTD.	20,935	-
INDIGO ENTERPRISE INC.	(29,017)	-
	<u>\$ 1,063,494</u>	<u>\$ 586,535</u>

(7) Property, plant and equipment

Year ended December 31, 2018

Cost	Opening balance	Additions	Reductions	Ending balance
Land	\$ 254,124	\$ 304,776	\$ -	\$ 558,900
Buildings and structures	182,812	5,082	(10,947)	176,947
Machinery	85,221	10,036	(5,692)	89,565
Transportation equipment	2,767	-	(185)	2,582
Office equipment	55,215	11,364	(882)	65,697
Others	8,985	914	(827)	9,072
Unfinished construction	-	2,485	-	2,485
	<u>589,124</u>	<u>\$ 334,657</u>	<u>(\$ 18,533)</u>	<u>905,248</u>
<u>Accumulated depreciation</u>				
Buildings and structures	(36,843)	(\$ 5,309)	\$ 10,947	(31,205)
Machinery	(65,093)	(4,259)	3,431	(65,921)
Transportation equipment	(553)	(369)	185	(737)
Office equipment	(32,208)	(7,205)	882	(38,531)
Others	(6,185)	(1,146)	-	(7,331)
	<u>(140,882)</u>	<u>(\$ 18,288)</u>	<u>\$ 15,445</u>	<u>(143,725)</u>
	<u>\$ 448,242</u>			<u>\$ 761,523</u>

Year ended December 31, 2017

Cost	Opening balance	Additions	Reductions	Ending balance
Land	\$ 18,378	\$ 235,746	\$ -	\$ 254,124
Buildings and structures	47,556	135,256	-	182,812
Machinery	82,965	2,816	(560)	85,221
Transportation equipment	2,476	2,581	(2,290)	2,767
Office equipment	42,950	16,232	(3,967)	55,215
Others	8,453	532	-	8,985
	<u>202,778</u>	<u>\$ 393,163</u>	<u>(\$ 6,817)</u>	<u>589,124</u>
<u>Accumulated depreciation</u>				
Buildings and structures	(33,694)	(\$ 3,149)	\$ -	(36,843)
Machinery	(59,622)	(5,476)	5	(65,093)
Transportation equipment	(1,166)	(396)	1,009	(553)
Office equipment	(31,593)	(4,521)	3,906	(32,208)
Others	(5,113)	(1,072)	-	(6,185)
	<u>(131,188)</u>	<u>(\$ 14,614)</u>	<u>\$ 4,920</u>	<u>(140,882)</u>
	<u>\$ 71,590</u>			<u>\$ 448,242</u>

(8) Intangible assets

Year ended December 31, 2018					
Cost	Opening balance	Additions	Reductions	Transfers	Ending balance
Goodwill	\$ 139,735	\$ -	\$ -	\$ -	\$ 139,735
Patents	19,263	1,883	-	-	21,146
Computer software	360,238	16,068	(1,071)	-	375,235
	<u>519,236</u>	<u>\$ 17,951</u>	<u>(\$ 1,071)</u>	<u>\$ -</u>	<u>536,116</u>

Accumulated amortisation

Patents	(14,317)	(\$ 2,884)	\$ -	\$ -	(17,201)
Computer software	(189,059)	(53,357)	1,071	-	(241,345)
	<u>(203,376)</u>	<u>(\$ 56,241)</u>	<u>\$ 1,071</u>	<u>\$ -</u>	<u>(258,546)</u>
	<u>\$ 315,860</u>				<u>\$ 277,570</u>

Year ended December 31, 2017					
Cost	Opening balance	Additions	Reductions	Transfers	Ending balance
Goodwill	\$ 139,735	\$ -	\$ -	\$ -	\$ 139,735
Patents	17,234	2,029	-	-	19,263
Computer software	293,212	60,266	-	6,760	360,238
	<u>450,181</u>	<u>\$ 62,295</u>	<u>\$ -</u>	<u>\$ 6,760</u>	<u>519,236</u>

Accumulated amortisation

Patents	(11,777)	(\$ 2,540)	\$ -	\$ -	(14,317)
Computer software	(143,677)	(45,382)	-	-	(189,059)
	<u>(155,454)</u>	<u>(\$ 47,922)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(203,376)</u>
	<u>\$ 294,727</u>				<u>\$ 315,860</u>

Details of amortisation on intangible assets are as follows:

	Years ended December 31,	
	2018	2017
Administrative expenses	\$ 20,152	\$ 13,168
Research and development expenses	20,184	22,856
Operating costs	13,552	9,872
Selling expenses	2,353	2,026
	<u>\$ 56,241</u>	<u>\$ 47,922</u>

(9) Impairment of non-financial assets

The recoverable amount of all cash-generating units calculated using the value-in-use exceeded

their carrying amount, so goodwill was not impaired. The key assumptions used for value-in-use calculations are as follows:

The cash flow projections are based on financial budgets approved by the management covering a five-year period, the Company estimates a 10% year-on-year growth in sales as the Company will launch new products and improve its technology from 2019 to 2023. The estimation is based on that the Company is committed to developing and taking Bluetooth orders and the experience of sale growths of 74%, 5%, 94%, 84% and 34% from 2014 to 2018, respectively.

Management determined budgeted gross margin based on past performance and their expectations of market development. The weighted average growth rates used are consistent with the projection included in industry reports. The discount rate of 1.03% used was pre-tax and reflected specific risks relating to the relevant operating segments.

(10) Short-term borrowings

Type of Borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	\$ 4,399,144	0.69%~2.99%	None
Type of Borrowings	December 31, 2017	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	\$ 1,349,520	0.76%~1.97%	None

(11) Other payables

	December 31, 2018	December 31, 2017
Salary and bonus payable	\$ 117,550	\$ 137,438
Employees' compensation payable	162,028	272,251
Remuneration due to directors and supervisors	54,009	90,750
Machinery and equipment payable	13,650	7,934
Others	76,448	72,130
	<u>\$ 423,685</u>	<u>\$ 580,503</u>

(12) Bonds payable

	December 31, 2018	December 31, 2017
Bonds payable	\$ 3,000,000	\$ 14,975
Less: Discount on bonds payable	(117,279)	(20)
	2,882,721	14,955
Less: Current portion	-	(14,955)
	<u>\$ 2,882,721</u>	<u>\$ -</u>

A. The details of the second domestic unsecured convertible bonds issued by the Company on December 11, 2018 are as follows:

(a) The terms of the second domestic unsecured convertible bonds issued by the Company are

as follows:

- i. The competent authority has approved the Company's second issuance of domestic unsecured corporate bonds for a total issuance amount of US\$3,015 million at a coupon rate of 0%, covering a 3-year period of issuance and a circulation period from December 11, 2018 to December 11, 2021. The bonds will be redeemed in cash at face value at the maturity date. The bonds were listed on the Taipei Exchange on December 11, 2018.
 - ii. The bondholders have the right to ask for conversion of the bonds into common shares of the Company by Taiwan Depository & Clearing Corporation through Securities Firms during the period from the date after three months of the bonds issue to the maturity date, except for the stop transfer period as specified in the terms of the bonds or the laws/regulations and the Company's book closure date of stock dividends, book closure date of cash dividends, the period between the date that is 15 business days before the book closure date of a capital increase to the ex-right date, the period between the record date of a capital reduction and the prior day before the commencement of share trading after shares are repurchased. The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.
 - iii. The conversion price of the bonds is set up based on the pricing model in the terms of the bonds, and is subject to adjustments if the condition of the anti-dilution provisions occurs subsequently. The conversion price will be reset based on the pricing model in the terms of the bonds on each effective date regulated by the terms.
As of December 31, 2018, the conversion price of convertible bonds was \$147.7 per share.
 - iv. The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: (i) the closing price of the Company's common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after one month of the bonds issue to 40 days before the maturity date, or (ii) the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after three months of the bonds issue to 40 days before the maturity date.
 - v. Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.
- (b) As of December 31, 2018, there was no common share converted from the convertible bond as the bonds were in the private lock-up period. After the issuance, the Company should adjust the conversion price of convertible bonds of \$147.7 per share in accordance with the terms set out in the indenture when there is an increase in issued common shares.
- B. Regarding the issuance of convertible bonds, the equity conversion options amounting to \$133,326 were separated from the liability component and were recognised in 'capital surplus -

share options' in accordance with IAS 32. The call options embedded in bonds payable were separated from their host contracts and were recognised in 'Financial assets at fair value through profit or loss' in net amount in accordance with IFRS 9 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts.

C. The details of the first domestic unsecured convertible bonds issued by the Company on January 29, 2015 are as follows:

(a) The terms of the first domestic unsecured convertible bonds issued by the Company are as follows:

- i. The competent authority has approved the Company's first time issuance of domestic unsecured corporate bonds for a total issuance amount of US\$1,507,500 thousand at a coupon rate of 0%, covering a 3-year period of issuance and a circulation period from January 29, 2015 to January 29, 2018. The bonds will be redeemed in cash at 100.5% of face value at the maturity date. The bonds were listed on the Taipei Exchange on January 29, 2015.
- ii. The bondholders have the right to ask for conversion of the bonds into common shares of the Company by Taiwan Depository & Clearing Corporation through Securities Firms during the period from the date after one month of the bonds issue to the maturity date, except for the stop transfer period as specified in the terms of the bonds or the laws/regulations and the Company's book closure date of stock dividends, book closure date of cash dividends, the period between the date that is 15 business days before the book closure date of a capital increase to the ex-right date, the period between the record date of a capital reduction and the prior day before the commencement of share trading after shares are repurchased. The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.
- iii. The conversion price of the bonds is set up based on the pricing model in the terms of the bonds, and is subject to adjustments if the condition of the anti-dilution provisions occur subsequently. The conversion price will be reset based on the pricing model in the terms of the bonds on each effective date regulated by the terms. As of December 31, 2017, the conversion price of convertible bonds was \$105.7 per share.
- vi. The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: (i) the closing price of the Company's common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after one month of the bonds issue to 40 days before the maturity date, or (ii) the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after one month of the bonds issue to 40 days before the maturity date.
- v. Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the

Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.

(b) On December 31, 2017, the bonds payable of \$1,492,526 had been converted into 13,487 thousand shares of common shares. As of January 31, 2018, the bonds were all converted. After the issuance, the Company should adjust the conversion price of convertible bonds of \$105.7 per share in accordance with the terms set out in the indenture when there is an increase in issued common shares.

D. Regarding the issuance of convertible bonds, the equity conversion options amounting to \$683 were separated from the liability component and were recognised in ‘capital surplus—share options’ in accordance with IAS 32. The call options embedded in bonds payable were separated from their host contracts and were recognised in ‘financial assets or liabilities at fair value through profit or loss’ in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts.

(13) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees’ service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 5.1% of the employees’ monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee, and contributes 8% of the manager’s salaries and wages to the retirement fund deposited. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions for the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ 125,392	\$ 154,607
Fair value of plan assets	(41,348)	(42,475)
Net defined benefit liability	<u>\$ 84,044</u>	<u>\$ 112,132</u>

(c) Movements in net defined benefit liabilities are as follows:

Year ended December 31, 2018	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Balance at January 1	\$ 154,607	(\$ 42,475)	\$ 112,132
Current service cost	1,246	-	1,246
Interest expense (income)	1,512	(408)	1,104
Past service cost	(2,706)	779	(1,927)
	<u>154,659</u>	<u>(42,104)</u>	<u>112,555</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(1,070)	(1,070)
Experience adjustments	<u>8,121</u>	<u>-</u>	<u>8,121</u>
	<u>8,121</u>	<u>(1,070)</u>	<u>7,051</u>
Pension fund contribution	<u>-</u>	<u>(1,336)</u>	<u>(1,336)</u>
Paid pension	<u>(37,388)</u>	<u>3,162</u>	<u>(34,226)</u>
Balance at December 31	<u>\$ 125,392</u>	<u>(\$ 41,348)</u>	<u>\$ 84,044</u>
Year ended December 31, 2017	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Balance at January 1	\$ 145,593	(\$ 40,036)	\$ 105,557
Current service cost	1,112	-	1,112
Interest expense (income)	1,794	(494)	1,300
	<u>148,499</u>	<u>(40,530)</u>	<u>107,969</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	150	150
Change in demographic assumptions	6	-	6
Change in financial assumptions	(1,565)	-	(1,565)
Experience adjustments	<u>8,328</u>	<u>-</u>	<u>8,328</u>
	<u>6,769</u>	<u>150</u>	<u>6,919</u>
Pension fund contribution	<u>-</u>	<u>(2,756)</u>	<u>(2,756)</u>
Paid pension	<u>(661)</u>	<u>661</u>	<u>-</u>
Balance at December 31	<u>\$ 154,607</u>	<u>(\$ 42,475)</u>	<u>\$ 112,132</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined

benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	Years ended December 31,	
	2018	2017
Discount rate	1.00%	1.00%
Future salary increases	3.00%	3.00%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Morality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase	Decrease	Increase	Decrease
	0.25%	0.25%	0.25%	0.25%
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 3,331)	\$ 3,468	\$ 3,391	(\$ 3,275)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 3,705)	\$ 3,857	\$ 3,771	(\$ 3,643)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (f) The Company expects to pay contribution for pension plan amounting to \$2,975 in 2019.
- (g) As of December 31, 2018, the weighted average duration of the retirement plan is 10 years.

The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	4,869
1-2 year(s)		2,687
2-5 years		18,098
Over 5 years		111,119
	\$	<u>136,773</u>

B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2018 and 2017 were \$26,435 and \$21,931, respectively.

(14) Share-based payments

The Company issued restricted stocks to employees as resolved at the meeting of the Board of Directors on April 27, 2017 and May 9, 2016 with grant dates on October 26, 2018, December 29, 2017, June 16, 2017 and December 21, 2016. The relevant information is as follows:

A. For the years ended December 31, 2018 and 2017, the Company’s share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Restricted stocks to employees	2016.12.21	1,542 units	3 years	Note
Restricted stocks to employees	2017.06.16	458 units	3 years	Note
Treasury stock transferred to employees	2017.10.30	95 units	-	-
Restricted stocks to employees	2017.12.29	196 units	3 years	Note
Treasury stock transferred to employees	2018.07.02	307 units	-	-
Restricted stocks to employees	2018.10.26	878 units	3 years	Note
Cash capital increase reserved for employee preemption	2018.12.28	363 units	-	-

Note: Depending on the employees' tenure in the Company (1 to 3 years), the employees can vest stocks at the ratio of 30%, 30% and 40% in three years based on the number of stocks written on the notification. The conditions for vesting restricted stocks are as follows:

- (a) For the employees who are currently working in the Company, whose services have reached 1 year and achieved the performance of the most recent year's consolidated financial statements and the target personal performance, the ceiling of vested share ratio is 30%.
- (b) For the employees who are currently working in the Company, whose services have reached 2 years and achieved the performance of the most recent year's consolidated financial statements and the target personal performance, the ceiling of accumulated vested share ratio is 60%.
- (c) For the employees who are currently working in the Company, whose services have reached 3 years and achieved the performance of the most recent year's consolidated financial statements and the target personal performance, the ceiling of accumulated vested share ratio is 100%.
- (d) The Company will repurchase and retire the stocks that did not meet the conditions of vesting for the employees who resign during the vesting period or not meet the condition of vesting by the issuance price.

The aforementioned restricted stocks issued by the Company cannot be transferred during the vesting period and the commissioned trust custodians execute the shareholders' rights on behalf of the employees.

B. Details of the share-based payment arrangements are as follows:

(a) The first restricted stocks to employees in 2016

	2018		2017	
	No. of	Weighted- average exercise price (in dollars)	No. of	Weighted- average exercise price (in dollars)
	options		options	
Options outstanding at January 1	1,037	\$ -	1,542	-
Restricted stocks vested	(408)	10	(440)	-
Employee restricted shares retired	(87)	10	(65)	-
Options outstanding at December 31	<u>542</u>	-	<u>1,037</u>	-

(b) The second restricted stocks to employees in 2016

	2018		2017	
	No. of	Weighted- average exercise price (in dollars)	No. of	Weighted- average exercise price (in dollars)
	options		options	
Options outstanding at January 1	445	\$ -	-	\$ -
Restricted stocks granted to employees	-	-	458	187
Restricted stocks vested	(129)	10	-	-
Employee restricted shares retired	(22)	10	(13)	-
Options outstanding at December 31	<u>294</u>	-	<u>445</u>	-

(c) The first restricted stocks to employees in 2017

	2018		2017	
	No. of options	Weighted- average exercise price (in dollars)	No. of options	Weighted- average exercise price (in dollars)
Options outstanding at January 1	196	\$ -	-	\$ -
Restricted stocks granted to employees	-	-	196	195
Employee restricted shares retired	(32)	10	-	-
Options outstanding at December 31	<u>164</u>	-	<u>196</u>	-

(d) The second restricted stocks to employees in 2017

	2018		2017	
	No. of options	Weighted- average exercise price (in dollars)	No. of options	Weighted- average exercise price (in dollars)
Options outstanding at January 1	-	\$ -	-	\$ -
Restricted stocks granted to employees	878	140	-	-
Employee restricted shares retired	(16)	10	-	-
Options outstanding at December 31	<u>862</u>	-	<u>-</u>	-

B. The fair value of stock options granted on grant date is measured using the closing price on the grant date. Relevant information is as follows:

Type of arrangement	Grant date	Stock price	Exercise price Price risk	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit
The first restricted stocks to employees in 2016	2016.12.21	125	10	-	-	-	-	115
The second restricted stocks to employees in 2016	2016.06.16	187	10	-	-	-	-	177
Treasury stock transferred to employees	2017.10.30	220	45.42	-	-	-	-	174.58
The first restricted stocks to employees in 2017	2017.12.29	194.5	0	-	-	-	-	194.5
Treasury stock transferred to employees	2018.07.02	132.5	45.42	-	-	-	-	87.08
The second restricted stocks to employees in 2017	2018.10.26	139.5	0	-	-	-	-	139.5
Cash capital increase reserved for employee preemption	2018.12.28	123	112	-	-	-	-	11

C. Expenses incurred on share-based payment transactions are shown below:

	Years ended December 31,	
	2018	2017
Equity-settled	\$ <u>121,025</u>	\$ <u>87,885</u>

(15) Share capital

A. As of December 31, 2018, the Company's authorised capital was \$4 billion, consisting of 400 million shares of ordinary stock (including 5 million shares reserved for employee stock options), and the paid-in capital was \$1,996,625 thousand with a par value of \$10 (in dollars) per share.

Movements in the number of the Company's ordinary shares outstanding are as follows (in thousands):

	2018	2017
At January 1	\$ 200,472	\$ 185,062
Employee restricted shares retired	(157)	(78)
Issuance of restricted shares to employees	1,074	2,000
Conversion of convertible bonds	141	13,488
Retirement of treasury share	(1,867)	-
At December 31	\$ <u>199,663</u>	\$ <u>200,472</u>

(a) On May 9, 2016, the Board of Directors has resolved for the Company to issue employee restricted stocks (please refer to Note 6(16)). The issuance was approved by the regulatory authority and effective on August 18, 2016 with a subscription price of \$10 (in dollars) per share. The registrations were completed on February 24, 2017 and July 17, 2017 for ordinary shares issued of 1,542 thousand shares and 458 thousand shares, respectively. The employee restricted ordinary shares issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares.

(b) On April 27, 2017, the Board of Directors has resolved for the Company to issue employee restricted stocks (please refer to Note 6(16)). The issuance was approved by the regulatory authority on November 29, 2017 and effective on January 22, 2018 and with a subscription price of \$0 (in dollars) per share. The registrations were completed on February 26, 2018 and November 15, 2018 for ordinary shares issued of 196 thousand shares and 878 thousand shares, respectively. The employee restricted ordinary shares issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares.

(c) The Company retired 55,200 employee restricted shares as resolved at the meeting of the

Board of Directors on October 25, 2018 with the capital reduction effective date set on the same day. The aforementioned capital reduction had been completed.

- (d) In 2018, the Company increased its capital by issuing 4 million shares with a par value of \$112 (in dollars per share). The total amount of capital increase was \$40 million. The capital increase was set effective on January 1, 2019 and the registration has been completed in February 13, 2019.

B. Treasury shares

- (a) Movements in the Company's treasury shares are as follows (in thousands):

Reason for reacquisition	Year ended December 31, 2018			Number of shares at end
	Number of shares at beginning	Additions	Reductions	
Transferred to employees	2,174	-	(2,174)	-

Reason for reacquisition	Year ended December 31, 2017			Number of shares at end
	Number of shares at beginning	Additions	Reductions	
Transferred to employees	2,269	-	(95)	2,174

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.
- (e) The Company retired 1,867 thousand treasury shares which were repurchased from June 16, 2015 to August 14, 2015 for the purpose of transferring to employees as resolved at the meeting of the Board of Directors on July 26, 2018 with the capital reduction effective date set on September 28, 2018.

(16) Capital surplus

Capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. However, capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	2018				
	Share premium	Treasury share option	Employee restricted stocks	Others	Total
At January 1	\$ 2,719,952	\$ 683	\$ 236,200	\$ 28,469	\$ 2,985,304
Issuance of restricted shares to employees	-	-	111,741	-	111,741
Restricted stocks vested	69,665	-	(69,665)	-	-
Employee restricted stocks retired	-	-	(21,952)	-	(21,952)
Proceeds from issuance of convertible bonds	-	133,326	-	-	133,326
Ordinary shares converted from convertible bonds	14,248	(683)	-	-	13,565
Proceeds from issuing shares	-	3,993	-	-	3,993
Treasury stock transferred to employees	-	-	-	26,733	26,733
Retirement of treasury share	(25,646)	-	-	(40,483)	(66,129)
Acquisition of additional share agreements in a subsidiary	(402,072)	-	-	-	(402,072)
Recognition of change in equity of associates in proportion to the Company's ownership	-	-	-	4,602	4,602
At December 31	<u>\$ 2,376,147</u>	<u>\$ 137,319</u>	<u>\$ 256,324</u>	<u>\$ 19,321</u>	<u>\$ 2,789,111</u>

	2017				
	Share premium	Treasury share option	Employee restricted stocks	Others	Total
At January 1	\$ 1,266,154	\$ 68,567	\$ 177,330	\$ 11,456	\$ 1,523,507
Issuance of restricted shares to employees	-	-	119,188	-	119,188
Restricted stocks vested	50,577	-	(50,577)	-	-
Employee restricted stocks retired	-	-	(9,741)	-	(9,741)
Ordinary shares converted from convertible bonds	1,403,221	(67,884)	-	-	1,335,337
Treasury stock transferred to employees	-	-	-	17,013	17,013
At December 31	<u>\$ 2,719,952</u>	<u>\$ 683</u>	<u>\$ 236,200</u>	<u>\$ 28,469</u>	<u>\$ 2,985,304</u>

(17) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, after deduction of mandatory income tax, shall first be used to offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. After the provision or reversal of special reserve, the appropriation of the remaining earnings along with the unappropriated earnings of prior years shall be proposed by the Board of Directors and approved by the shareholders. According to the dividend policy adopted by the Board of Directors, 30% to 80% of the Company's accumulated distributable earnings shall be appropriated as dividends, and cash dividends shall account for at least 5% of the total dividends distributed.
- B. The Company's dividend policy is summarised below: as the Company operates in a volatile business environment and is in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's financial structure, operating results and future expansion plans. In order to encourage employees and operations team, if the Company has any profit for the current year, the Company shall set aside 5% to 10% as employees' compensation and no more than 2% as directors' and supervisors' remuneration. The employees' compensation shall be distributed in the form of stock and cash by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors and report it in the shareholders' meeting. Employees entitled to receive stock or cash as compensation include employees of subsidiaries of the company meeting certain specific requirements.

- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land. As of December 31, 2018, the balance of capital surplus was \$269,144.
- E. The Company distributed cash dividends amounting to \$16.44 and \$9.5 per share, respectively as resolved at the meeting of Board of Directors on June 13, 2018 and June 14, 2017, respectively. The abovementioned distribution of earnings for the years ended December 31, 2017 and 2016 was in agreement with those amounts proposed by the Board of Directors on February 26, 2018 and February 23, 2017, respectively.
- F. The appropriation of cash dividends for 2018 as resolved by the Board of Directors on February 26, 2019 amounted to \$8.6.
- G. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(23).

(18) Other equity items

	Exchange differences on translation of foreign financial statements	Unrealised gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	Unrealised gains (losses) on available- for-sale financial assets	Cost of unearned employee compensation	Total
2018						
At January 1	\$ 186,716	\$ -	\$ -	\$ 3,475,451	(\$ 214,148)	\$3,074,587
Effects of simple retrospection	- (	15,395)	3,487,080	(3,475,451)	- (	3,766)
Issuance of restricted shares to employees	-	-	-	- (	122,481)	(122,481)
Amortisation of employee restricted stocks	-	-	-	-	90,298	90,298
Employee restricted shares retired	-	-	-	-	22,431	22,431
Revaluation - gross	-	5,037	(2,516,601)	-	-	(2,511,564)
Revaluation transferred to profit or loss - gross	-	13,602	-	-	-	13,602
Revaluation transferred to retained earnings – gross	-	-	(346,726)	-	-	(346,726)
Revaluation – associates	-	-	(13,879)	-	-	(13,879)
Revaluation – tax	-	-	-	-	-	-
Currency translation differences:						
- Group	19,095	-	-	-	-	19,095
- Tax on Group	(3,834)	-	-	-	-	(3,834)
- Associates	(87,285)	-	-	-	-	(87,285)
- Tax on associates	16,554	-	-	-	-	16,554
At December 31	<u>\$ 242,186</u>	<u>\$ 3,244</u>	<u>\$ 609,874</u>	<u>\$ -</u>	<u>(\$ 223,900)</u>	<u>\$ 147,032</u>

	Exchange differences on translation of foreign financial statements	Unrealised gains (losses) on available-for-sale financial assets	Cost of unearned employee compensation	Total
2017				
At January 1	(\$ 115,765)	\$ 91,339	(\$ 175,573)	(\$ 199,999)
Issuance of restricted shares to employees	-	-	(119,188)	(119,188)
Amortisation of employee restricted stocks	-	-	70,871	70,871
Employee restricted shares retired	-	-	9,742	9,742
Revaluation – gross	-	4,589,452	-	4,589,452
Revaluation transfer - gross	- (1,200,621)		- (1,200,621)	
Revaluation – associates	- (5,934)		- (5,934)	
Revaluation – tax	-	1,215	-	1,215
Currency translation differences:				
–Group	(157,729)	-	- (157,729)	
–Tax on Group	18,417	-	-	18,417
–Associates	77,377	-	-	77,377
–Tax on associates	(9,016)	-	-	(9,016)
At December 31	<u>(\$ 186,716)</u>	<u>\$ 3,475,451</u>	<u>(\$ 214,148)</u>	<u>\$ 3,074,587</u>

(19) Operating revenue

	Year ended December 31, 2018
Revenue from contracts with customers	<u>\$ 30,438,179</u>

A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services at a point in time in the following geographical regions:

	Year ended December 31, 2018					
	Electronic devices					
	Taiwan	Europe	US	Mainland China	Others	Total
Total segment revenue	<u>\$ 50,377</u>	<u>\$12,236,850</u>	<u>\$14,959,506</u>	<u>\$ 2,316,514</u>	<u>\$ 874,932</u>	<u>\$30,438,179</u>
Revenue from external customer contracts	<u>\$ 50,377</u>	<u>\$12,236,850</u>	<u>\$14,959,506</u>	<u>\$ 2,316,514</u>	<u>\$ 874,932</u>	<u>\$30,438,179</u>
Timing of revenue recognition						
At a point in time	<u>\$ 50,377</u>	<u>\$12,236,850</u>	<u>\$14,959,506</u>	<u>\$ 2,316,514</u>	<u>\$ 874,932</u>	<u>\$30,438,179</u>

B. Contract assets and liabilities: None.

(20) Other income

	Years ended December 31,	
	2018	2017
Dividend income	\$ 60,437	\$ 28,950
Interest income from bank deposits	35,369	18,657
Interest income from financial assets not at fair value through profit or loss	5,048	7,341
Sample income	11,683	7,570
Rent income	6,620	1,574
Other income	11,884	2,865
	<u>\$ 131,041</u>	<u>\$ 66,957</u>

(21) Other gains and losses

	Years ended December 31,	
	2018	2017
Net currency exchange gains (losses)	\$ 3,564	(\$ 172,858)
Net gains on financial assets at fair value through profit or loss	62,842	603,638
Gains (losses) on disposal of property, plant and equipment	97	(576)
Gains (losses) on disposals of investment	(13,602)	1,200,621
Other losses	(175)	(936)
	<u>\$ 52,726</u>	<u>\$ 1,629,889</u>

(22) Expenses by nature

	Years ended December 31,	
	2018	2017
Employee benefit expense	\$ 984,785	\$ 1,056,660
Depreciation charge	18,288	14,614
Amortisation charge	56,241	47,922
	<u>\$ 1,059,314</u>	<u>\$ 1,119,196</u>

(23) Employee benefit expense

	Years ended December 31,	
	2018	2017
Wages and salaries	\$ 708,228	\$ 812,464
Share-based payments	118,770	87,885
Labour and health insurance fees	52,067	44,504
Pension costs	26,882	24,343
Director's remuneration	46,372	53,615
Other employee benefit expense	32,466	33,849
	<u>\$ 984,785</u>	<u>\$ 1,056,660</u>

- A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be from 5% to 10% for employees' compensation and shall not be higher than 2% for directors' and supervisors' remuneration.
- B. The details of employees' compensation and directors' and supervisors' remuneration of the Company are as follows:

	Years ended December 31,	
	2018	2017
Employees' compensation	\$ 162,028	\$ 272,251
Directors' and supervisors' remuneration	54,009	90,750
	<u>\$ 216,037</u>	<u>\$ 363,001</u>

The abovementioned amounts were recognised in salaries and wages.

Employees' compensation and directors' and supervisors' remuneration for 2017 as resolved at the Board of Directors' meeting were in agreement with those amounts recognised in the profit or loss of 2017.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(24) Income tax

A. Income tax expense

(a) Components of income tax expense:

		Years ended December 31,	
		2018	2017
Current tax:			
Current tax on profits for the year	\$	254,791	\$ 461,296
Tax on undistributed surplus earnings		11,008	5,251
Prior year income tax under (over) estimation		15,101	(20,286)
Total current tax		<u>280,900</u>	<u>446,261</u>
Deferred tax:			
Origination and reversal of temporary differences		150,070	106,049
Income tax expense	\$	<u>430,970</u>	\$ <u>552,310</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

		Years ended December 31,	
		2018	2017
Exchange differences changes on translation of foreign financial statements	\$	3,834	(\$ 18,417)
Exchange differences changes on translation of foreign financial statements - associates	(	16,554)	9,016
Remeasurement of defined benefit obligations	(	1,410)	(886)
	(\$	<u>14,130</u>	(\$ <u>10,287</u>)

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2018	2017
Current tax:		
Tax calculated based on profit		
before tax and statutory tax rate	\$ 446,618	\$ 714,737
Expenses disallowed by tax regulation	35	659
Tax exempt income by tax regulation	(9,571)	(300,557)
Effect from investment tax credits	(29,534)	-
Impact of change in the tax rate		
on temporary differences between	-	64,530
current year and the year realised		
Effect from Alternative Minimum Tax	-	87,976
Tax on undistributed surplus earnings	11,008	5,251
Prior year income tax under		
(over) estimation	15,101	(20,286)
Others	(2,687)	-
Income tax expense	<u>\$ 430,970</u>	<u>\$ 552,310</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences, tax losses and investment tax credits are as follows:

		2018			
		January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets:					
Temporary differences:					
Remeasurement of defined benefit obligations	\$	13,826	\$ -	\$ 1,410	\$ 15,236
Allowance for bad debts		5,913	205	-	6,118
Unallocated appropriation of pension		6,435	(6,243)	-	192
Unrealised impairment loss		595	(595)	-	-
Accumulated unused compensated absences		3,694	389	-	4,083
Allowance for inventory valuation losses and loss on obsolete and slow-moving inventories		425	9,121	-	9,546
Amortisation of discounts on corporate bonds		-	427	-	427
Unrealised exchange loss		2,200	1,397	-	3,597
Unrealised loss on valuation of financial instruments		-	1,586	-	1,586
Investment tax credits		17,624	(17,624)	-	-
	\$	<u>50,712</u>	<u>(\$ 11,337)</u>	<u>\$ 1,410</u>	<u>\$ 40,785</u>
Deferred tax liabilities					
Temporary differences:					
Gain on overseas long-term investment	(\$	447,280)	(\$ 140,947)	\$ -	(\$ 588,227)
Cumulative translation adjustment of long-term equity investments	(	28,552)	-	12,720	(15,832)
Unrealised exchange gain		-	-	-	-
Others	(	3,014)	2,214	-	(800)
	(\$	<u>478,846</u>	<u>(\$ 138,733)</u>	<u>\$ 12,720</u>	<u>(\$ 604,859)</u>

	2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets:				
Temporary differences:				
Remeasurement of defined benefit obligations	\$ 12,940	\$ -	\$ 886	\$ 13,826
Allowance for bad debts	10,554	(4,641)	-	5,913
Unallocated appropriation of pension	5,279	1,156	-	6,435
Unrealised impairment loss	506	89	-	595
Accumulated unused compensated absences	2,184	1,510	-	3,694
Allowance for inventory valuation losses and loss on obsolete and slow-moving inventories	151	274	-	425
Amortisation of discounts on corporate bonds	7,313	(7,313)	-	-
Unrealised exchange loss	-	2,200	-	2,200
Investment tax credits	-	17,624	-	17,624
	<u>\$ 38,927</u>	<u>\$ 10,899</u>	<u>\$ 886</u>	<u>\$ 50,712</u>
Deferred tax liabilities				
Temporary differences:				
Gain on overseas long-term investment	\$ 325,594	\$ 121,686	\$ -	\$ 447,280
Cumulative translation adjustment of long-term equity investments	(37,953)	-	9,401	(28,552)
Unrealised exchange gain	(2,984)	2,984	-	-
Others	(4,768)	1,754	-	(3,014)
	<u>\$ 371,299</u>	<u>\$ 116,948</u>	<u>\$ 9,401</u>	<u>\$ 478,846</u>

D. Details of the amount the Company is entitled as investment tax credit and unrecognised deferred tax assets were 17,624, the tax credit was all used in 2018.

E. The Company invested in MERRY ELECTRONICS (HK) CO., LTD. and MERRY ELECTRONICS (U.S.A.) CO., LTD. Before 2000, the unappropriated retained earnings of MERRY ELECTRONICS (HK) CO., LTD. and MERRY ELECTRONICS (U.S.A.) CO., LTD. were not distributed because of permanent investment and their accumulated deficit were not covered either, therefore, the difference between the carrying amount and taxable amount of long-term equity investments was not recognised as deferred tax. However, the retained earnings after 2001 would be distributed and remitted back for the consideration of the whole operation plan, therefore, from 2001, the deferred tax liabilities and assets would be recognised for the retained earnings and accumulated deficit.

F. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority while the income tax returns through 2014 have not been assessed and approved.

G. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(25) Earnings per share

	Year ended December 31, 2018		
		Weighted average number of ordinary shares outstanding	Earnings per share (in dollars)
	Amount after tax	(shares in thousands)	
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 2,064,265</u>	<u>197,147</u>	<u>\$ 10.47</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 2,064,265	197,147	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,610	
Convertible bonds	-	-	
Employee restricted shares	-	669	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 2,064,265</u>	<u>199,426</u>	<u>\$ 10.35</u>

Year ended December 31, 2017			
		Weighted average number of ordinary shares outstanding	Earnings per share (in dollars)
	Amount after tax	(shares in thousands)	
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,622,205	191,208	\$ 18.94
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,622,205	191,208	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,531	
Convertible bonds	6,477	5,132	
Employee restricted shares	-	406	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 3,628,682	198,277	\$ 18.30

- A. The number of weighted-average outstanding shares is included for assumed conversion of all dilutive potential ordinary shares at the calculation of diluted earnings per share, based on the assumption that employees' compensation will all be distributed in the form of shares.
- B. The number of weighted-average shares outstanding is calculated by considering the weighted-average number of treasury shares for the years ended December 31, 2018 and 2017.

(26) Supplemental cash flow information

A. Investing activities with partial cash payments

	Years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 334,657	\$ 393,163
Add: Opening balance of payable on equipment	5,831	1,315
Ending balance of prepayments for equipment	5,962	211
Less: Ending balance of payable on equipment	(10,998)	(5,831)
Opening balance of prepayments for equipment	(211)	-
Cash paid during the year	<u>\$ 335,241</u>	<u>\$ 388,858</u>

	Years ended December 31,	
	2018	2017
Purchase of intangible assets	\$ 17,951	\$ 69,055
Add: Opening balance of payable	2,103	-
Ending balance of prepayments	30,970	4,175
Less: Opening balance of prepayments	(4,175)	(11,966)
Ending balance of payable	(2,652)	(2,103)
Cash paid during the year	<u>\$ 44,197</u>	<u>\$ 59,161</u>

B. Financial assets at fair value through profit or loss

	Years ended December 31,	
	2018	2017
Disposal of financial assets at fair value through profit or loss	(\$ 235,728)	\$ 154,124
Add: Uncollected proceeds from disposal during the year	-	-
Payment for prior period purchases during the year	4,667	-
Less: Purchases unpaid during the year	- (	4,667)
Collected proceeds from prior period disposal	- (	161,574)
Cash received during the year	<u>(\$ 231,061)</u>	<u>\$ 12,117)</u>

C. Financial assets at fair value through other comprehensive income

	Years ended December 31,	
	2018	2017
Disposal of financial assets at fair value through other comprehensive income	(\$ 473,701)	(\$ 1,453,167)
Add: Uncollected proceeds from disposal during the year	-	129,339
Less: Collected proceeds from prior period disposal	(129,339)	-
Cash received during the year	<u>(\$ 603,040)</u>	<u>(\$ 1,323,828)</u>

D. Investments accounted for using equity method

	Years ended December 31,	
	2018	2017
Backward remittance of earnings in subsidiaries	(\$ 347,634)	(\$ 226,490)
Add: Ending balance of dividends receivable (shown as other receivables due from related parties)	-	226,490
Less: Opening balance of dividends receivable (shown as other receivables due from related parties)	(226,490)	-
	<u>(\$ 574,124)</u>	<u>\$ -</u>

(27) Changes in liabilities from financing activities

	Short-term borrowings	Convertible bonds	Total liabilities from financing activities
At January 1, 2018	\$ 1,349,520	\$ -	\$ 1,349,520
Changes in cash flow from financing activities	3,049,066	3,015,000	3,049,066
Impact of changes in foreign exchange rate	558	-	558
Changes in other non-cash items	-	(132,279)	-
At December 31, 2018	<u>\$ 4,399,144</u>	<u>\$ 2,882,721</u>	<u>\$ 4,399,144</u>

7. RELATED PARTY TRANSACTIONS

(1) Relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
MERRY ELECTRONICS (HK) CO., LTD. ("MEST")	Subsidiary of the Company
MERRY ELECTRONICS (U.S.A) CO., LTD. ("MECA")	Subsidiary of the Company
MERRY ELECTRONICS (SINGAPORE) PTE. LTD. ("MESG")	Subsidiary of the Company
MERRYTECH (HK) CO., LTD. ("MTCH")	Subsidiary of the Company (Note 1)
UNIVERSAL CAPITAL INVESTMENT LIMITED ("UCMU")	Subsidiary of the Company (Note 2)
Merry Electronics (Suzhou) Co., Ltd. ("MECE")	Stockholder which accounts for the Company using the equity method (Note 3)
MERRY ELECTRONICS (SHENZHEN) CO.,	Subsidiary of the Company
MERRY ELECTRONICS (HUIZHOU) CO., LTD. ("MECH")	Stockholder which accounts for the Company using the equity method (Note 4)
LEOHAB ENTERPRISE CO.,LTD. ("LEOHAB")	Stockholder which accounts for the Company using the equity method
GUANGDONG LUXSHARE & MERRY ELECTRONICS CO., LTD. ("MEDG")	Stockholder which accounts for the Company using the equity method (Note 5)
MERRY HEALTHCARE CO., LTD., TAIWAN BRANCH (CAYMAN) ("MHCHTW")	Subsidiary of the Company

Note 1: The Company amended MERRYTECH (HK) CO. LIMITED to MTCH during the year.

Note 2: The Company amended UCIL to UCMU during the year.

Note 3: The Company did not participate in the increase raised by MECE in August 2016. As a result, the Company lost control over the subsidiary.

Note 4: The Company sold 44.95% of shares in MECH in April 2017 and did not participate in the increase raised by MECH in April 2016. As a result, the Company lost control over the subsidiary.

Note 5: The Company became the related party with MEDG after acquisition of 49% of its shares in 2018.

(2) Significant related party transactions

A. Operating revenue

(a) Sales of goods

	Years ended December 31,	
	2018	2017
MECE	\$ 16,254	\$ 7,873
MECL	7,018	-
MHCHTW	1,765	1,101
Others	99	523
	<u>\$ 25,136</u>	<u>\$ 9,497</u>

The credit terms of aforementioned transactions were approximately the same with third parties, which were 60 days after the end of the month, and to third parties were 45 to 100 days after the end of the month.

(b) Technical service revenue

	Years ended December 31,	
	2018	2017
MESG	\$ 10,223	\$ 2,773
Others	3,058	-
	<u>\$ 13,281</u>	<u>\$ 2,773</u>

i. The Company granted licences of manufacturing, technology and intellectual property of electroacoustic products and charged 0.84% to 3.06% of the companies' net sale amount excluding the sales amount from related parties.

ii. The credit term of aforementioned transactions was 60 days after the end of the month.

B. Purchases

(a) Purchases of goods

	Years ended December 31,	
	2018	2017
MECL	\$ 15,935,083	\$ 12,914,131
MECE	8,410,554	7,041,938
MECH	2,883,969	1,659,597
Others	310,638	-
	<u>\$ 27,540,244</u>	<u>\$ 21,615,666</u>

The prices of goods for the aforementioned purchase transactions charged by the companies are based on the different product's profitability and adjusted annually. The credit terms to the Company was 60 days after the end of the month and 30 to 90 days after the end of the month to third parties.

(b) Administrative service fee

	Years ended December 31,	
	2018	2017
MECA	\$ 45,543	\$ 34,365
MESG	14,859	13,261
	<u>\$ 60,402</u>	<u>\$ 47,626</u>

The above administrative service fees were charged for marketing management services provided by the subsidiaries in current period with an additional 3% of service fees. The credit term was 60 days after the end of the month.

C. Receivables from related parties

(a) Accounts receivable

	December 31, 2018	December 31, 2017
MECE	\$ 9,772	\$ 13,366
Others	823	152
	<u>\$ 10,595</u>	<u>\$ 13,518</u>

The receivables arise mainly from sale transactions and services provided for granting licences of manufacturing, technology and intellectual property of electroacoustic products.

(b) Other receivables

	December 31, 2018	December 31, 2017
MECE	\$ 29,152	\$ 28,337
MEST	-	266,490
Others	4,174	5,485
	<u>\$ 33,326</u>	<u>\$ 300,312</u>

Other receivables mainly consisted of the receivables of sale of property, plant and equipment and miscellaneous payments on behalf of the related parties.

D. Payables to related parties

(a) Accounts payable

	December 31, 2018	December 31, 2017
MECL	\$ 2,993,515	\$ 3,545,861
MECE	2,330,766	3,299,297
MECH	1,034,887	-
Others	283,000	391,377
	<u>\$ 6,642,168</u>	<u>\$ 7,236,535</u>

(b) Other payables

	December 31, 2018	December 31, 2017
MECE	\$ 27,103	\$ 11,621
MEST	13,193	11,781
MECL	-	38,974
MECA	-	8,897
	<u>\$ 40,296</u>	<u>\$ 71,273</u>

The other payables arise mainly from accounts receivable collected and miscellaneous payment made on behalf of the related parties.

E. Key management compensation

	Years ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	\$ 108,436	\$ 139,118
Post-employment benefits	939	1,054
Share-based payments	13,706	11,396
	<u>\$ 123,081</u>	<u>\$ 151,568</u>

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	December 31, 2018	December 31, 2017
Property, plant and equipment	\$ 1,801	\$ 868
Intangible assets	26,344	11,681
	<u>\$ 28,145</u>	<u>\$ 12,549</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

A. To meet customers' demand and expand market of health care personal sound amplification product business, the Company acquired all the shares issued by Biotest Medical Corp. through a share swap for a consideration of \$9,420 as resolved at the meeting of the Board of Directors on February 26, 2019. Biotest Medical Corp. will become a wholly-owned subsidiary after the aforementioned swap.

B. The Company purchased the property in Taichung Export Processing Zone amounting to \$71,990 from NEOCENE TECHNOLOGY CO., LTD. as resolved at the meeting of the Board of Directors on February 26, 2019.

12. OTHERS

(1) Capital management

A. In view of the industrial characteristics and future development status and considering the external environment changes, the Company's capital management objective is to ensure it has sufficient financial resource and operating plans to meet operational capital for future needs, capital expenditure, research and development expense, obligation repayment and dividend distribution within the following year.

The Company monitored capital by reassessing debt ratios periodically. The debt ratios at December 31, 2018 and 2017 were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Total debt	\$ 15,797,900	\$ 10,423,974
Total assets	25,728,716	24,128,126
Debt ratio	61%	43%

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 184,222	\$ -
Financial assets held for trading	-	425,534
	<u>\$ 184,222</u>	<u>\$ 425,534</u>
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	\$ 1,466,400	\$ -
Qualifying equity instrument	143,463	-
Available-for-sale financial assets		
Available-for-sale financial assets	-	4,417,005
	<u>\$ 1,609,863</u>	<u>\$ 4,417,005</u>
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	\$ 6,610,358	\$ 5,268,817
Accounts receivable (including accounts receivable due from related parties)	7,178,936	5,948,084
Other receivables (including other receivables due from related parties)	65,712	445,322
Guarantee deposits paid	2,992	3,276
	<u>\$ 13,857,998</u>	<u>\$ 11,665,499</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ 6,976	\$ 8,337
Short-term borrowings	4,399,144	1,349,520
Accounts payable (including accounts payable to related parties)	6,646,588	7,237,021
Other payables (including other payables to related parties)	463,981	651,776
Corporate bonds payable (including current portion)	2,882,721	14,955
Guarantee deposits received	1,018	1,017
	<u>\$ 14,400,428</u>	<u>\$ 9,262,626</u>

B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.
- (b) The Company's treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

There was no significant change in the reporting period. Please refer to Note 12 in the consolidated financial statements for the year ended December 31, 2017, except for the items explained below:

(a) Market risk

Foreign exchange risk

- i. The Company operates internationally and is exposed to exchange rate risk arising from the transactions of the Company used in various functional currency, primarily with respect to the USD, RMB and HKD. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.

B. The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018							
				Sensitivity analysis			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)			Effects on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)							
Financial assets							
Monetary items							
Cash in banks							
USD : NTD	\$ 81,187	30.72	\$ 2,493,659	3%	\$ 74,810	\$ -	
RMB : NTD	16,047	4.47	71,762	3%	2,153	-	
HKD : NTD	2,382	3.92	9,340	3%	280	-	
SGD : NTD	405	22.48	9,104	3%	273	-	
Receivables							
USD : NTD	\$ 236,335	30.72	\$ 7,259,030	3%	\$ 217,771	\$ -	
HKD : NTD	69	3.92	271	3%	8	-	
Non-monetary items							
Current financial investments at fair value through other comprehensive income							
USD : NTD	\$ 3,305	30.72	\$ 101,513	3%	\$ -	\$ 3,045	
Non-current financial investments at fair value through other comprehensive income							
THB : NTD	\$ 6,425	0.95	\$ 6,124	3%	\$ -	\$ 184	
HKD : NTD	2,126	3.92	8,336	3%	-	250	

	December 31, 2018						
				Sensitivity analysis			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
<u>Current financial assets</u>							
<u>mandatorily measured</u>							
<u>at fair value through profit or loss</u>							
USD:NTD	\$ 2,006	30.72	\$ 61,614	3%	\$ 1,848	\$	-
HKD:NTD	14,019	3.92	54,968	3%	1,649		-
<u>Non-current financial assets</u>							
<u>mandatorily measured at fair value</u>							
<u>through profit or loss</u>							
USD:NTD	\$ 600	30.72	\$ 18,429	3%	\$ 553	\$	-
<u>Financial liabilities</u>							
<u>Monetary items</u>							
<u>Bank borrowings</u>							
USD:NTD	\$ 1,600	30.72	\$ 49,144	3%	\$ 1,474	\$	-
<u>Accounts payable</u>							
USD:NTD	\$ 180,372	30.72	\$ 5,540,126	3%	\$ 166,204	\$	-
RMB:NTD	254,279	4.47	1,137,136	3%	34,114		

December 31, 2017						
(Foreign currency: functional currency)				Sensitivity analysis		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>						
<u>Monetary items</u>						
<u>Cash in banks</u>						
USD:NTD	\$ 40,314	29.76	\$ 1,199,745	3%	\$ 35,992	\$ -
RMB:NTD	39,621	4.57	181,068	3%	5,432	-
<u>Accounts receivable</u>						
USD:NTD	\$ 204,216	29.76	\$ 6,077,468	3%	\$ 182,324	\$ -
<u>Non-monetary items</u>						
<u>Current available-for-sale financial assets</u>						
RMB:NTD	\$ 34,086	4.57	155,773	3%	\$ -	\$ 4,673
<u>Investments accounted for using equity method</u>						
USD:NTD	\$ 82,814	29.76	\$ 2,464,530	3%	\$ -	\$ 73,672
HKD:NTD	638,427	3.81	2,432,406	3%	-	72,925
THB:NTD	537,511	0.92	494,510	3%	-	14,835
<u>Financial liabilities</u>						
<u>Monetary items</u>						
<u>Bank borrowings</u>						
USD:NTD	\$ 2,000	29.76	\$ 59,520	3%	\$ 1,786	\$ -
<u>Accounts payable</u>						
USD:NTD	\$ 223,519	29.76	\$ 6,651,925	3%	\$ 199,558	-
RMB:NTD	174,853	4.57	799,078	3%	23,972	-

Total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2018 and 2017 amounted to \$3,564 and \$172,858, respectively.

Price risk

- i. The Company's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.
- ii. The Company's investments in equity securities comprise shares and open-end funds issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 3% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have increased by \$5,215 and \$5,308, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$45,512 and \$132,482, respectively, as a result of other comprehensive income classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

- i. The Company's borrowings are measured at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.
- ii. If the borrowing interest rate had increased/decreased by 0.25% or with all other variables held constant, profit, net of tax for the years ended December 31, 2018 and 2017 would have decreased/increased by \$8,798 and \$2,800, respectively. The main factor is that changes in interest expense result from floating rate borrowings.

(b) Credit risk

Effective 2018

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. For banks and financial institutions, the Company transacts with a variety of banks and financial institutions, mainly domestic and overseas well-known financial institutions, to avoid concentration in any single counterparty and to minimise credit risk. The Company can only enter into the financial services and loan agreement provided by banks and

- financial institutions after being approved by the Board of Directors or authorised management according to the Company's delegation of authorisation policy. To prevent legal risks, all the Company signs with banks and financial institutions after all documents are examined by counsel or legal advisor profession. The Company periodically checks the credit rating, conditions and quality of service as well as transactions. According to the Company's operating condition, the credit limits and utilisation of credit limits are monitored on a regular basis and maintained within a reasonable range to ensure it meets the needs of the operation.
- iii. The Company adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.
 - iv. The Company adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
 - (i) If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
 - (ii) For investments in bonds that are traded over the counter, if any external credit rating agency rates these bonds as investment grade, the credit risk of these financial assets is low.
 - v. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
 - (iii) Default or delinquency in interest or principal repayments;
 - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
 - vi. The Company classifies customer's accounts receivable and contract assets in accordance with geographic area. The Company applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.
 - vii. The Company wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Company will continue executing the recourse procedures to secure their rights.
 - viii. The Company used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable, contract assets and lease payments receivable. On December 31, 2018, the provision matrix is as follows:

	Not past due	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
<u>December 31, 2018</u>						
Expected loss rate	0.01%	0.59%	19.18%	45.40%	100.00%	
Total book value	<u>\$ 6,992,854</u>	<u>\$ 177,049</u>	<u>\$ 73</u>	<u>\$ 163</u>	<u>\$ 161</u>	<u>\$ 7,170,300</u>
Loss allowance	<u>(\$ 668)</u>	<u>(\$ 1,042)</u>	<u>(\$ 14)</u>	<u>(\$ 74)</u>	<u>(\$ 161)</u>	<u>(\$ 1,959)</u>

- ix. Movements in relation to the Company applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	2018
	Accounts receivable
At January 1_IAS 39	\$ 935
Adjustments under new standards	-
At January 1_IFRS 9	935
Provision for impairment	1,024
Reversal of impairment loss	-
Effect of exchange rate changes	-
At December 31	<u>\$ 1,959</u>

For provisioned loss in 2018, the impairment losses arising from customers' contracts are \$1,024 thousand.

- x. There was no impairment on investments in debt instruments measured at fair value through other comprehensive income after the Company's evaluation.
- xi. For investments in debt instruments at fair value through other comprehensive income, the credit rating levels are presented below:

	<u>December 31, 2018</u>			
Financial assets at fair value through other comprehensive income				
Group 1	<u>\$ 139,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,550</u>

Group 1: Debt instruments designated as investment grade.

- xii. Credit risk information of 2017 is provided in Note 12(4).

Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Credit risk arises from cash and cash equivalents, notes receivable, net, other receivables (including related parties), other current assets and

other non-current assets that mostly were neither past due nor impaired and the maximum exposure to credit risk was the carrying amount.

- (i) The Company's cash and cash equivalents are deposited in financial institutions with good credit quality. To avoid excessive centralisation in deposits and effectively disperse credit risk, the Company also manages the percentage of deposit amount in each financial institution and those banks and financial institutions the Company transacts with are all with high credit ratings after the assessment.
- (ii) The Company's net notes receivable, net accounts receivable and other receivables are customer receivables from sales of products during the ordinary operating activities. The Company has screened out credit quality of tradable counterparties, thus, counterparties are all with credit ranking above certain level and the Company expects the credit risk is remote. The Company considers customer's historical record and financial status to assess the Company's accounts receivable that were neither past due nor impaired. The classification of credit quality is provided in Note 12(2).
- (iii) Other current assets are mainly excess business tax paid and other non-current assets mainly consists of guarantee deposits paid. The Company has screened out credit quality of tradable counterparties, thus, counterparties are all with credit ranking above certain level and the Company expects the credit risk is remote.

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. Company treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.
- iii. The table below analyses the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.
- iv. The Company has \$3,604,751 thousand undrawn borrowing facilities.

Non-derivative financial liabilities:

December 31, 2018	Less than 3 months	3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Short-term borrowings	\$ 4,401,222	\$ -	\$ -	\$ -	\$ -	\$ 4,401,222
Accounts payable	4,363	57	-	-	-	4,420
Accounts payable to related parties	6,642,168	-	-	-	-	6,642,168
Other payables	183,693	20,493	219,499	-	-	423,685
Other payables to related parties	40,296	-	-	-	-	40,296
Other current liabilities	10,852	635	-	-	-	11,487
Bonds payable	-	-	-	3,000,000	-	3,000,000

Derivative financial liabilities

Forward exchange contracts	6,976	-	-	-	-	6,976

Non-derivative financial liabilities:

December 31, 2017	Less than 3 months	3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Short-term borrowings	\$ 4,401,222	\$ -	\$ -	\$ -	\$ -	\$ 4,401,222
Accounts payable	486	-	-	-	-	486
Accounts payable to related parties	7,236,535	-	-	-	-	7,236,535
Other payables	218,835	361,668	-	-	-	580,503
Other payables to related parties	71,273	-	-	-	-	71,273
Other current liabilities (including bonds payable expiring within one year)	27,729	-	-	-	-	27,729

Derivative financial liabilities

Forward exchange contracts	-	-	-	-	-	-

(3) Fair value

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks and derivative instruments with quoted market prices is included in Level 1

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Company's investment in certain derivative instruments and equity investment is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in certain derivative instruments and equity investment without active market and investment property is included in Level 3.

B. Financial instruments not measured at fair value

Financial instruments not measured at fair value include the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable and other payables.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities are as follows:

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
-Equity securities	\$ 103,972	\$ -	\$ 18,174	\$ 122,146
-Forward exchange contracts	-	6,176	-	6,176
-Funds	51,700	-	-	51,700
-Call options of convertible bonds	-	-	4,200	4,200
Financial assets at fair value through other comprehensive income				
-Equity securities	1,424,861	-	41,539	1,466,400
-Debt securities	<u>143,463</u>	<u>-</u>	<u>-</u>	<u>143,463</u>
	<u>\$1,723,996</u>	<u>\$ 6,176</u>	<u>\$ 63,913</u>	<u>\$1,794,085</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
-Forward exchange contracts	<u>\$ -</u>	<u>\$ 6,976</u>	<u>\$ -</u>	<u>\$ 6,976</u>

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
-Equity securities	\$ 164,324	\$ -	\$ -	\$ 164,324
-Forward exchange contracts	-	8,568	-	8,568
-Funds	52,636	-	-	52,636
-Call options of convertible bonds	-	-	6	6
Available-for-sale financial assets				
-Equity securities	4,186,957	30,241	45,497	4,262,695
-Debt securities	154,310	-	-	154,310
	<u>\$4,558,227</u>	<u>\$ 38,809</u>	<u>\$ 45,503</u>	<u>\$4,642,539</u>
<u>Liabilities</u>				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
-Forward exchange contracts	<u>\$ -</u>	<u>\$ 8,337</u>	<u>\$ -</u>	<u>\$ 8,337</u>

D. The methods and assumptions the Company used to measure fair value are as follows:

- (a) The instruments the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Emerging stocks</u>	<u>Open-end fund</u>
Market quoted price	Closing price at evaluation date	Last transaction quoted prices at evaluation date	Net asset value at evaluation date

- (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods.
- (c) Forward exchange contracts are usually valued based on the current forward exchange rate.
- (d) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial and non-financial

instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

E. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

F. The following chart is the movement of Level 3 for the years ended December 31, 2018 and 2017:

	2018	2017
At January 1	\$ 45,503	\$ 47,795
Sold in the year	26,946	-
Transfers into level 3	-	-
Gains/(losses) recognised in profit c	4,194 (	1,047)
Losses recognised in other comprehensive income	(12,730)	(1,245)
At December 31	<u>\$ 63,913</u>	<u>\$ 45,503</u>

G. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Equity securities	\$ 11,169	Market comparable companies	N/A	\$ 594	N/A
Call options of convertible bonds	4,200	Binary tree convertible bond valuation model	Risk-free interest rate	0.5935%	The higher the risk-free interest rate, the lower the fair value
			Stock price	123	The higher the stock price, the higher the fair value
			Volatility	52.14%	The higher the stock price volatility, the higher the fair value

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Equity securities	\$ 23,429	Market comparable companies	N/A	\$ 135	N/A
Call options of convertible bonds	6	Binary tree convertible bond valuation model	Risk-free interest rate	0.0208%	The higher the risk-free interest rate, the lower the fair value
			Stock price	194.5	The higher the stock price, the higher the fair value
			Volatility	42.42%	The higher the stock price volatility, the higher the fair value

H. The Company has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different

measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

			December 31, 2018			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Call options of convertible bonds	Risk-free interest rate	±20bp	\$ -	\$ -	\$ -	\$ -
	Stock price	±10%	900	(1,200)	-	-
	Volatility	±5%	1,200	(1,200)	-	-
Equity securities	Stock price	±10%	-	-	1,117	1,117
	Volatility	±5%	-	-	-	-
			<u>\$ 2,100</u>	<u>(\$ 2,400)</u>	<u>\$ 1,117</u>	<u>\$ 1,117</u>

			December 31, 2017			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Call options of convertible bonds	Risk-free interest rate	±20bp	\$ -	\$ -	\$ -	\$ -
	Stock price	±10%	-	-	-	-
	Volatility	±5%	-	-	-	-
			<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note: There was no effect from call options of convertible bonds for the year ended December 31, 2017.

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

(a) Financial assets at fair value through profit or loss

- i. They are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:
 - (i) Hybrid (combined) contracts; or
 - (ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or
 - (iii) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
 - ii. On a regular way purchase or sale basis, financial assets held for trading and financial assets designated as at fair value through profit or loss on initial recognition are recognised and derecognised using trade date accounting.
 - iii. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.
- (b) Available-for-sale financial assets
- i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.
 - ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
 - iii. They are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income.
- (c) Notes and accounts receivable
- Notes and accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.
- (d) Impairment of financial assets
- i. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of loss events that occurred after the initial recognition of the and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be

reliably estimated.

- ii. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(e) Financial liabilities at fair value through profit or loss

- i. They are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. They are classified as financial liabilities held for trading if acquired principally for the purpose of repurchasing in the short-term. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

- (i) Hybrid (combined) contracts; or

- (ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or

- (iii) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

- ii. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

- B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

	Measured at fair value through profit or loss	Available-for- sale-equity Measured at fair value through other comprehensive income-equity	Available-for- sale-liability Measured at fair value through other comprehensive income-liability	Total	Effects	
					Retained earnings	Other equity interest
IAS 39	\$ 425,534	\$ 4,261,751	\$ 155,254	\$4,842,539	\$4,292,018	\$ 3,074,587
Transferred into and measured at fair value (9,985)		9,985	-	-	790	(790) (1)
through other comprehensive income-equity						
Impairment loss adjustment	-	-	-	-	2,976	(2,976) (2)
IFRS 9	<u>\$ 415,549</u>	<u>\$ 4,271,736</u>	<u>\$ 155,254</u>	<u>\$4,842,539</u>	<u>\$4,295,784</u>	<u>\$ 3,070,821</u>

- (a) Under IAS 39, because the equity instruments, which were classified as financial assets at fair value through profit or loss amounting to \$9,985 were not held for the purpose of trading, they were reclassified as “financial assets at fair value through other comprehensive income (equity instruments)” on initial application of IFRS 9.
- (b) According to the impairment requirements of IFRS 9, the Company both increased retained earnings and decreased other equity interest in the amount of \$2,976.
- C. The significant accounts as of December 31, 2017 are as follows:
- (a) Financial assets and liabilities at fair value through profit or loss

Items	December 31, 2018
Current items:	
Financial assets held for trading	
-Funds	\$ 251,262
-Non-hedging derivatives	8,568
-Stocks	153,333
-Call options of convertible bonds	6
	413,169
Valuation adjustment for financial assets held for trading	12,365
	<u>\$ 425,534</u>

Items	December 31, 2017
Current items:	
Financial liabilities held for trading	
-Non-hedging derivatives	\$ 8,337

i. The net profit is as follows:

	Year ended December 31, 2017
Net gains on financial assets at fair value through profit or loss	<u>\$ 603,638</u>

ii. The non-hedging derivative instruments transaction and contract information are as follows:

	December 31, 2017		
Financial instruments	Contract amount (Notional principal)	Contract period	Contract price
Forward foreign exchange contracts to sell	<u>USD 52 million</u>	2017.11.27 ~2018.02.08	NTD 29.595~29.944
Forward foreign exchange contracts to buy	<u>USD 77 million</u>	2017.11.23 ~2018.03.13	NTD 29.498~29.888

The Company entered into forward foreign exchange contracts to hedge exchange rate risk of import and export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

iii. As of December 31, 2017, the outstanding payments for settled transactions amounted to \$4,667 (shown as other payables).

(b) Available-for-sale financial assets

Items	December 31, 2017
Current items:	
Closed-end fund	\$ 833
Corporate bond	169,795
	<u>170,628</u>
Adjustments for change in value of available-for-sale financial assets	(15,374)
	<u>\$ 155,254</u>
Non-current items:	
Shares of public offering companies	\$ 726,870
Shares of non-public offering companies	110,055
	<u>836,925</u>
Adjustments for change in value of available-for-sale financial assets	3,427,802
Accumulated impairment, available-for-sale financial assets	(2,976)
	<u>\$ 4,261,751</u>

- i. The Company recognised gains of \$4,589,452 in other comprehensive income for fair value change and reclassified gains of \$1,200,621 from equity to profit or loss for the year ended December 31, 2017.
- ii. The counterparties of the Company's investments in debt instruments have good credit quality; their credit rating levels are debt securities with investment grade.
- iii. The Company recognised interest income of \$7,341 on debt instruments held for the year ended December 31, 2017.
- iv. As of December 31, 2017, collectable payments for settled transactions amounted to \$129,339 (shown as other receivables).
- v. Credit risk information for the year ended December 31, 2017 are as follows:
 - (i) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions,

only independently rated parties with a minimum rating of 'A' are accepted.

- (ii) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

- vi. The credit quality information of Company's accounts receivable that are neither past due nor impaired under the Company's credit standards is as follows:

	December 31, 2017	
Group 1	\$	5,851,321
Group 2		41,033
	\$	5,892,354

The international and domestic customers are classified within Group 1 and Group 2, respectively.

- vii. The ageing analysis of financial assets that were past due but not impaired is as follows:

	December 31, 2017	
Up to 30 days	\$	45,926
31 to 90 days		-
91 to 180 days		79
Over 180 days		-
	\$	46,005

The above ageing analysis was based on past due date.

- viii. Movement analysis of impaired financial assets:

- (i) As of December 31, 2017, the Company had no impaired accounts receivable.
(ii) Movements in the provision for impairment of accounts receivable are as follows:

	Year ended December 31, 2017		
	Individual provision	Group provision	Total
At January 1	\$ 17,173	\$ -	\$ 17,173
Write-offs during the year	(17,173)	-	(17,173)
Provision for impairment	-	935	935
Balance at December 31, 2018	\$ -	\$ 935	\$ 935

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

- A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

Sales revenue

- (a) The Company manufactures and sells radio apparatus, communication devices, consumer electronics as well as electronic parts and components. Revenue is measured at the fair

value of the consideration received or receivable taking into account of increment tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. The Company recognised revenue upon delivery of goods or pick-up of goods by customers at warehouse. Revenue arising from the delivery of goods is recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. Revenue arising from warehouse sales is recognised when the customer pick up the goods (risks and rewards transfer). The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

- (b) The Company offers customers volume discounts and right of return for defective products. The Company estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognised. The volume discounts are estimated based on the anticipated annual sales quantities.

B. The revenue recognised by using above accounting policies for the year ended December 31, 2017 are as follows:

	<u>Year ended December 31, 2017</u>
Sales revenue	<u>\$ 24,316,279</u>

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 3.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: Please refer to table 4.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.

H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more:
Please refer to table 6.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Note 6(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 8.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 9.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

14. SEGMENT INFORMATION

Not applicable

15. INITIAL APPLICATION OF IFRSs

Not applicable

MERRY ELECTRONICS CO., LTD.

Loans to others

Year ended December 31, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

No. (Note1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance for the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest rate	Nature of loan (Note 3)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 1)	Note
			Other receivables										Item	Value			
0	MEHO	MECE	receivables	Y	\$ 926,000	\$ 926,000	\$ -	-	2	\$ -	Business operation	\$ -		\$ -	\$ 3,930,941	\$ 3,930,941	

The ceiling on total loans to others is the Company's net assets; for short-term financing, the limit to a single party is 40% of the Company's net assets.

Note 2: (1) For business transactions, limit on loans granted for a single party is the amount of the transactions.

(2) For short-term financing, limit on loans granted for a single party is 40% of the net assets of the Company.

Note 3: (1) For business transactions.

(2) For short-term financing.

MERRY ELECTRONICS CO., LTD.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Note
				Number of shares	Book value (in thousands)	Ownership (%)	Fair value (in thousands)	
The Company	ARRIS International plc.	-	Financial assets mandatorily measured at fair value through profit or loss	511	\$ 169	-	\$ 478	
The Company	NYSE: XOM	-	Financial assets mandatorily measured at fair value through profit or loss	2,550	6,583	-	5,341	
The Company	NYSEARCA: VNO	-	Financial assets mandatorily measured at fair value through profit or loss	1,250	3,187	-	2,863	
The Company	NYSEARCA: XLE	-	Financial assets mandatorily measured at fair value through profit or loss	1,500	3,213	-	2,642	
The Company	006205.TW	-	Financial assets mandatorily measured at fair value through profit or loss	150,000	4,103	-	3,785	
The Company	00632R.TW	-	Financial assets mandatorily measured at fair value through profit or loss	15,000	201	-	198	
The Company	1312.TW	-	Financial assets mandatorily measured at fair value through profit or loss	60,000	1,736	-	1,311	
The Company	1815.TW	-	Financial assets mandatorily measured at fair value through profit or loss	110,000	1,788	-	1,705	
The Company	2014.TW	-	Financial assets mandatorily measured at fair value through profit or loss	110,000	1,515	-	1,177	
The Company	2884.TW	-	Financial assets mandatorily measured at fair value through profit or loss	170,516	2,717	-	3,427	
The Company	2886.TW	-	Financial assets mandatorily measured at fair value through profit or loss	120,000	2,683	-	3,114	
The Company	2891.TW	-	Financial assets mandatorily measured at fair value through profit or loss	130,000	2,429	-	2,625	
The Company	2929.TW	-	Financial assets mandatorily measured at fair value through profit or loss	32,282	2,947	-	2,679	
The Company	3004.TW	-	Financial assets mandatorily measured at fair value through profit or loss	50,000	2,806	-	2,995	
The Company	3323.TW	-	Financial assets mandatorily measured at fair value through profit or loss	50,000	2,088	-	1,634	
The Company	4190.TW	-	Financial assets mandatorily measured at fair value through profit or loss	20,000	2,484	-	2,210	
The Company	4739.TW	-	Financial assets mandatorily measured at fair value through profit or loss	30,000	3,524	-	2,744	
The Company	5871.TW	-	Financial assets mandatorily measured at fair value through profit or loss	37,800	2,823	-	3,663	
The Company	6239.TW	-	Financial assets mandatorily measured at fair value through profit or loss	25,000	2,329	-	1,653	
The Company	6411.TW	-	Financial assets mandatorily measured at fair value through profit or loss	10,000	1,033	-	700	
The Company	8422.TW	-	Financial assets mandatorily measured at fair value through profit or loss	18,000	3,444	-	2,997	
The Company	0392.HK	-	Financial assets mandatorily measured at fair value through profit or loss	55,000	8,748	-	8,949	
The Company	0868.HK	-	Financial assets mandatorily measured at fair value through profit or loss	220,000	7,822	-	7,469	
The Company	0916.HK	-	Financial assets mandatorily measured at fair value through profit or loss	270,000	6,352	-	5,643	
The Company	1288.HK	-	Financial assets mandatorily measured at fair value through profit or loss	460,000	6,606	-	6,187	
The Company	2238.HK	-	Financial assets mandatorily measured at fair value through profit or loss	180,000	5,083	-	5,512	
The Company	2907.HK	-	Financial assets mandatorily measured at fair value through profit or loss	80,000	6,078	-	4,994	
The Company	0371.HK	-	Financial assets mandatorily measured at fair value through profit or loss	110,000	2,383	-	1,721	
The Company	2318.HK	-	Financial assets mandatorily measured at fair value through profit or loss	24,000	3,830	-	6,507	
The Company	3188.HK	-	Financial assets mandatorily measured at fair value through profit or loss	51,000	8,245	-	7,049	
The Company	TW000T1041C6	-	Financial assets mandatorily measured at fair value through profit or loss	153,396.09	9,170	-	8,934	
The Company	TW000T0932C7	-	Financial assets mandatorily measured at fair value through profit or loss	54,335.00	18,075	-	18,105	
The Company	LU0286668453	-	Financial assets mandatorily measured at fair value through profit or loss	47,983.82	24,017	-	24,661	
					160,211		\$ 155,672	
Valuation adjustment					(4,539)			
					\$ 155,672			

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Note
				Number of shares	Book value (in thousands)	Ownership (%)	Fair value (in thousands)	
The Company	ARRIS International plc.	-	Financial assets mandatorily measured at fair value through profit or loss	511	\$ 169	-	\$ 478	
The Company	JAFCO	-	Non-current financial assets mandatorily measured at fair value through profit or loss	400,000	18,174	0.48%	18,174	
			Valuation adjustment		-			
					<u>\$ 18,174</u>			
The Company	2881B.TW	-	Equity instruments measured at fair value through other comprehensive income	683,000	\$ 40,980	-	\$ 42,346	
The Company	2882B.TW	-	Equity instruments measured at fair value through other comprehensive income	585,000	35,100	-	36,212	
The Company	ACGLPACGLP	-	Equity instruments measured at fair value through other comprehensive income	2,560	1,933	-	1,562	
The Company	RNR-EBMG7498P1196	-	Equity instruments measured at fair value through other comprehensive income	3,000	2,459	-	1,912	
The Company	SSW-GMHY756383078	-	Equity instruments measured at fair value through other comprehensive income	4,000	3,362	-	2,918	
The Company	TSITDragon	-	Debt instruments measured at fair value through other comprehensive income	4,790,102.20	50,000	-	50,668	
The Company	P18QNB3F10306	-	Debt instruments measured at fair value through other comprehensive income	3,000,000	89,550	-	92,795	
					223,384		<u>\$ 228,413</u>	
			Valuation adjustment		5,029			
					<u>\$ 228,413</u>			
The Company	Stock - 6679.TW	-	Measured at fair value through other comprehensive income - non-current	1,567,000	\$ 40,106	4.17%	\$ 96,371	
The Company	Stock - 4943.TW	-	Measured at fair value through other comprehensive income - non-current	10,500,000	648,164	8.91%	1,136,520	
The Company	Stock - 3290.TW	-	Measured at fair value through other comprehensive income - non-current	5,723,000	99,990	5.75%	107,020	
	Stock - FUJITER Semiconductor CO.,LTD.	-	Measured at fair value through other comprehensive income - non-current		27,811	9.79%		
The Company	Stock - Biotest Medical Corp.	-	Measured at fair value through other comprehensive income - non-current	2,781,153			11,169	
The Company	Stock - NETVOX	-	Measured at fair value through other comprehensive income - non-current	1,305,000	13,050	5.80%	13,050	
The Company	TECHNOLOGY CO., LTD	-	Measured at fair value through other comprehensive income - non-current	323,604	2,976	1.32%	-	
	Stock - EVER THAI AGRICULTURE CO.,LTD.	-	Measured at fair value through other comprehensive income - non-current					
The Company	Stock - SUNSINO SME Development Co., Ltd.	-	Measured at fair value through other comprehensive income - non-current	682,640	6,425	5.18%	6,425	
The Company	Stock - LINSATION	-	Measured at fair value through other comprehensive income - non-current	167,764	2,123	0.36%	2,123	
				75,000	8,772	5.75%	8,772	
					849,417		<u>\$ 1,381,450</u>	
			Valuation adjustment		535,009			
			Accumulated impairment		(2,976)			
					<u>\$ 1,381,450</u>			

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

MERRY ELECTRONICS CO., LTD.

Aggregate purchases or sale of the same securities reaching \$300 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

					Balance as at December 31, 2018		Addition (Note 3)		Disposal (Note 3)				Balance as at December 31, 2018	
Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Selling price	Book value	Gain (loss) on disposal	Number of shares (in thousands) (Note 6)	Amount
The Company	Stock	Non-current financial assets at fair value through other comprehensive income	4943, TW	-	11,775	\$ 726,870	-	\$ -	1,275	\$ 307.49	\$ 78,706	\$ 313,343	11,550	\$ 648,164

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counter party and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT\$300 million or 20% of paid-in capital or more.

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 5: Using the average exchange rate at December 31 for translation.

Note 6: The counterparty distributed shares of 1,050 thousand shares which resulted in the difference in the number of shares.

MERRY ELECTRONICS CO., LTD.

Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

If the counterparty is a related party, information as to the last transaction of the real estate is disclosed below:													
Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship with the counterparty	Relationship		Date of the original transaction	Amount	Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
							Original owner who sold the real estate to the counterparty	between the original owner and the acquirer					
The Company	Land and buildings	26-Feb-18	\$ 300,860	\$ 300,860	SUNTEX MANUFACTURE CORP.	-	-	-	-	\$ -	Market price	Office	-

Note 1: The appraisal result should be presented in the 'Basis or reference used in setting the price' column if the real estate acquired should be appraised pursuant to the regulations.

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 3: Date of the event referred to herein is the date of contract signing, date of payment, date of execution of a trading order, date of title transfer, date of board resolution, or other date that can confirm the counter party and the monetary amount of the transaction, whichever is earlier.

MERRY ELECTRONICS CO., LTD.

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Transaction Percentage of total purchases (sales)	Credit term	to third party transactions		Notes/accounts receivable (payable)		
							Unit price	Credit term	Balance (Note 2)	Percentage of total notes/accounts receivable (payable)	Note
METC	MECE	Investment accounted for using the equity method	Purchases	\$ 227,982	1%	60 days after end of the month after offsetting with accounts receivable	(Note 1)	30~90 days after the end of the month for third parties	\$ (37,569)	1%	
MESG	METC	A subsidiary of the Company	Purchases	443,330	1%	60 days after end of the month after offsetting with accounts receivable	(Note 1)	30~90 days after the end of the month for third parties	(41,641)	1%	(Note 3)
MESG	MECL	A subsidiary of the Company	Purchases	1,248,166	4%	60 days after end of the month after offsetting with accounts receivable	(Note 1)	30~90 days after the end of the month for third parties	(318,381)	5%	(Note 3)
MESG	MECH	Investment accounted for using the equity method	Purchases	1,871,587	6%	60 days after end of the month after offsetting with accounts receivable	(Note 1)	30~90 days after the end of the month for third parties	(658,946)	10%	
MECL	MECE	Investment accounted for using the equity method	Purchases	116,052	0%	60 days after end of the month after offsetting with accounts receivable	(Note 1)	30~90 days after the end of the month for third parties	(58,320)	1%	
MECL	MEST	A subsidiary of the Company	Purchases	122,744	0%	60 days after end of the month after offsetting with accounts receivable	(Note 1)	30~90 days after the end of the month for third parties	(16,173)	0%	(Note 3)
The Company	MECH	Investment accounted for using the equity method	Purchases	2,928,810	10%	60 days after end of the month after offsetting with accounts receivable	(Note 1)	30~90 days after the end of the month for third parties	(1,034,887)	16%	
The Company	MECE	Investment accounted for using the equity method	Purchases	8,410,554	28%	60 days after end of the month after offsetting with accounts receivable	(Note 1)	30~90 days after the end of the month for third parties	(2,330,766)	35%	
The Company	MECL	A subsidiary of the Company	Purchases	16,029,448	53%	60 days after end of the month after offsetting with accounts receivable	(Note 1)	30~90 days after the end of the month for third parties	(2,993,515)	45%	(Note 3)

Note 1: For purchase transactions with related parties, the price is based on the profitability of the product and will be adjusted annually.

Note 2: The balance is the net amount after offsetting accounts receivable and payable due from/ to related parties.

Note 3: Inter-company transactions between companies within the Group are eliminated.

MERRY ELECTRONICS CO., LTD.

Receivables from related parties reaching \$100 million or 20% of paid-in capital or more

December 31, 2018

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date (Note 1)	Allowance for doubtful accounts	Note
					Amount	Action taken			
MECL	MESG	A subsidiary of the Company	\$ 318,381	4.15	\$ -	-	\$ 184,162	\$ -	
MECH	MESG	Investment accounted for using	658,946	3.24	-	-	444,218	-	
MECH	The Company	the equity method Investment accounted for using	1,034,887	3.06	-	-	687,536	-	
MECE	The Company	the equity method Investment accounted for using	2,330,766	4.99	-	-	2,330,766	-	
MECL	The Company	the equity method A subsidiary of the Company	2,993,515	4.91	-	-	2,960,003	-	

Note 1: The balance was as at February 26, 2019.

MERRY ELECTRONICS CO., LTD.

Significant inter-company transactions during the reporting period

Year ended December 31, 2018

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction	Percentage of consolidated total operating revenues or total assets (Note 3)
						terms	
1	MESG	METC	3	Purchases	\$ 443,330	The price is based on the profitability of the product	1%
1	MESG	MECL	3	Purchases	1,248,166	The price is based on the profitability of the product	4%
2	MECL	MEST	3	Purchases	122,744	The price is based on the profitability of the product	0%
0	The Company	MECL	1	Purchases	16,029,448	The price is based on the profitability of the product	53%
1	MESG	METC	3	Accounts payable	41,641	The balance shown was net of receivables as agreed by both parties	0%
1	MESG	MECL	3	Accounts payable	318,381	The balance shown was net of receivables as agreed by both parties	1%
2	MECL	MEST	3	Accounts payable	16,173	The balance shown was net of receivables as agreed by both parties	0%
0	The Company	MECL	1	Accounts payable	2,993,515	The balance shown was net of receivables as agreed by both parties	12%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

1. Parent company is '0'.
2. The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counter party is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

MERRY ELECTRONICS CO., LTD.

Information on investees

Year ended December 31, 2018

Table 8

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018				Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Note
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares (in thousand shares)	Ownership (%)	Book value				
The Company	MEST	HONG KONG	Sales of microphone, receivers and speakers	\$ 981,113	\$ 981,113	25,658	100.00	\$ 3,086,828	\$ 718,960	\$ 718,960		Note 1
The Company	DANNY	British Virgin IS.	General investment business	1,479,925	1,479,925	48,005	100.00	2,419,742	36,010	36,010		Note 1
The Company	LEOHAB ENTERPRISE CO.,LTD.	Taichung City	Plastic injection molding and metal stamping	96,666	96,666	13,395	30.91	64,030	32,450	10,030		
The Company	MECA	U.S.A	Sales of microphone, receivers and speakers	28,887	28,887	999	99.90	33,598	436	435		
The Company	MESG	SINGAPORE	Manufacture of other electronic component and circuit boards	82,942	82,942	800	100.00	370,715	311,892	311,892		
The Company	METC	THAILAND	Sales of microphone, receivers, speakers and security system	484,358	484,358	5,060	99.99	533,283	19,066	19,064		Note 1
The Company	MHCH	CAYMAN	Sales of medical device	523,265	114,184	20,500	100.00	442,404	1,875 (	2,063)		
DANNY	UCIL	MAURITIUS	General investment business	151	151	5	100.00 (	715) (	6)	(Note 2)		
DANNY	MECEHK	HONG KONG	General investment business	1,393,940	1,393,940	48,000	100.00	2,504,727	573	(Note 2)		
CO. LTD.	MHCH	SAMOA	General investment business	454,953	33,660	-	100.00	459,144	4,535	(Note 2)		
The Company	Indigo	SAMOA	General investment business	865,832	-	-	70.00	836,583 (	7,146) (	29,017)		
			Speakers and amplifiers research	30	-	-		10,382	163	(Note 2)		
Indigo	Sonavox Canada	CANADA	and development and design				100.00					
Sonavox	Sonavox Canada Holding	CANADA	General investment business	11,112	-	-	100.00	9,648	7,340	(Note 2)		
			Manufacture and sales of speaker	23	-	-		52,394	4,832			
Sonavox Canada Holding	SEAS	NORWAY	monomer				100.00			(Note 2)		

Note 1: The investment income included unrealised gains or losses and realised gains arising from upstream transactions.

Note 2: The investee is second subsidiary and investment income (loss) is not shown.

MERRY ELECTRONICS CO., LTD.
Information on investees in Mainland China
Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital (Note 5)	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China / Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 3)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Note
					Remitted to Mainland China	Remitted back to Taiwan							
MECL	Microphone, receiver, speaker, security system, induction cooker and other electronic components	\$ 426,378	(Note 2)	\$ 453,191	\$ -	\$ -	\$ 453,191						
MECE	Manufacture and sales of microphone, receiver and speaker	2,798,305	(Note 2)	1,369,285			1,369,285	\$ 464,695	100.00%	464,695	\$ 2,141,326	\$ 2,282,120	(Note 5)
MECS	International trade, transit trade and trading consulting; trading amongst companies in bonded area and trading agency in the area	7,422	(Note 2)	6,055			6,055	81,531	49.00%	36,033	2,422,186	295,185	(Note 5)
Perfect Fortune Inc.	Electric wire, electric cable and other wire processing	45,484	(註2、4)	107,624	-	-	107,624	(721)	49.00%	(353)	1,116	40,321	(Note 5)
LOYAL WIRE&CABLE COMPANY LTD	Electric wire, electric cable and other wire processing	24,800	(註2、4)	-	-	-	-	-	18.33%	-	72,250	-	(Note 5)
MECH	Manufacture and sales of microphone, receiver, speaker and mobile phone	447,200	(Note 2)	420,687	-	-	420,687	-	18.33%	-	29,079	-	(Note 5)
MHFM	Manufacture of medical device	287,028	(Note 2)	32,990	277,773	-	310,763	(1,105)	100.00%	(1,105)	275,037	-	(Note 5)
MHTS	Medical device technical service	12,296	(Note 2)	12,154	-	-	12,154	30	100.00%	30	11,459	-	(Note 5)

Investee in Mainland China	Main business activities	Paid-in capital (Note 5)	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China / Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 3)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Note
					Remitted to Mainland China	Remitted back to Taiwan							
Guangdong Luxshare & Merry Electronics Co., Ltd was established.	Research and development of sound equipment, earphones, mobile power supply, charging box, cable, connector, electronic components, plastic hardware, mould and antenna	894,400		-	452,564	-	452,564	(46,431)			416,309	-	
MHMI	Sales of medical device	2,460	(Note 1) (Note 2)		-	-		(262)	49.00%	(22,752)	288	-	(Note 5)
ASIAN ELITE INTERNATIONAL LTD.	Manufacture of speaker and amplifier	154,608		2,526	79,728	-	2,526	50,172	100.00%	(262)	96,909	-	(Note 5)
Xiamen Etimbre Hearing Technology Co., Ltd.	Retail sales of hearing products	2,236	(Note 1) (Note 2)	-	2,237	-		-	70.00%	20,935	975	-	(Note 5)
Austar Hearing Science And Technology (Xiamen) Co., Ltd.	Manufacture and sales of hearing aid, hearing device and acoustics equipment	59,303	(Note 2)	-	275,537	-	2,237	-	99.50%	(2,424)	32,440	-	(Note 5)
Xiamen Laiyate Medical Devices Co., Ltd.	Research and development and technical sales of software for hearing aid use	22,360	(Note 2)	-	22,180	-	275,537	-	99.50%	4,369	27,751	-	(Note 5)
Austar Hearing Science And Technology (Zhangzhou) Co., Ltd	Manufacture of hearing aid and acoustics for rehabilitation device	17,888	(Note 2)	-	17,744	-	22,180	-	99.50%	2,589	24,641	-	(Note 5)
							17,744		99.50%	(396)			(Note 5)
							\$ 3,532,275						

Note 1: Reinvesting in the investee in Mainland China through the parent company.

Note 2: Through investing in an existing company in the third area, which then invested in the investee in Mainland China.

Note 3: The financial statements that are audited and attested by R.O.C. parent company's CPA.

Note 4: The investee is the reinvestment company of MERRY ELECTRONICS (HK) CO.,LTD. shown as non-current available-for-sale financial assets.

Note 5: The amount in the table is translated into New Taiwan dollars at the closing exchange rates prevailing at the balance sheet date.

MERRY ELECTRONICS CO., LTD.

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

Year ended December 31, 2018

Table 10

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Counterparty	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing		Interest rate	Interest during the year ended December 31, 2018	Others
		Amount	%	Amount	%	Balance at December 31, 2018	%	Balance at December 31, 2018	Purpose	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018			
MECL	MESG	\$ 1,248,166	4%	\$ -	-	\$ 318,381	4%	\$ -	-	\$ -	\$ -	-	\$ -	-
MECL	MEST	(122,744)	0%	-	-	(16,173)	0%	-	-	-	-	-	-	-
MECL	The Company	16,029,448	53%	-	-	2,993,515	42%	-	-	-	-	-	-	-

MERRY ELECTRONICS CO., LTD.
Information on investments in Mainland China - ceiling on reinvestments in Mainland China
Year ended December 31, 2018

Table 10

Expressed in thousands of NTD
(Except as otherwise indicated)

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 2)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 1)
The Company	\$ 2,857,076	\$ 3,404,850	\$ 5,958,490

Note 1: (2001) Tai-Cai-Zheng (1) Letter No. 006130 of Securities and Futures Commission, Ministry of Finance, R.O.C

Note 2: The amount in the table was translated into New Taiwan dollars at the closing exchange rates prevailing at the balance sheet date.

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