



AIRMATE (CAYMAN) INTERNATIONAL CO LIMITED

2018 Annual Report (Translation)

**Visit MOPS(Market Observation Post System) website to query Airmate's
Annual Report: <http://newmops.twse.com.tw>**

**Soft Copy of Airmate's Annual Report is available at:
www.airmate-china.com**

Published on May 22, 2019

This is a translation of the 2018 Annual Report of AIRMATE (CAYMAN) INTERNATIONAL CO LIMITED (the “Company”). The translation is intended for reference only and nothing else, the Company hereby disclaims any and all liabilities whatsoever for the translation. The Chinese text of the Annual Report shall govern any and all matters related to the interpretation of the subject matter stated herein.

I. Spokesperson

Name: Zhuang, Ya Song Tel: (886)2-2700-1931

Title: Group Investment Relations Manager E-mail: ysaasung@airmate-china.net

II. Deputy Spokesperson

Name: Shih, Jui Pin Tel: (886)6-2645207

Title: Chairman and President of the Company E-mail: shih@tungfu.com.tw

III. Name, title, contact phone number, and e-mail address of the designated agent within the territory of the Republic of China

Name: Shih, Jui Pin Title: Chairman and President of the Company

Tel: (886)6-2645207 E-mail: shih@tungfu.com.tw

IV. Address and telephone number of the head office and branches

(I) Head office: Airmate (Cayman) International Co Limited

Address: The Office of Codan Trust Company (Cayman) Limited Yard, Cricket Square, Hutchins Drive, P.O.BOX 2681 GT, George Town, Grand Cayman, British West Indies.

Tel: (86)-0755-27655988

(II) Subsidiaries

1. Airmate International Holding Limited

Address: PO Box 71, Craigmuir Chambers, Road Town, Tortola, British Virgin Islands

Tel: (86)-0755-27655988

2. Airmate China International Limited (BVI)

Address: Palm Grave House, P.O, Box438, Road Town, Tortola, British Virgin Islands

Tel: (86)-0755-27655988

3. Waon Development Limited, Hong Kong (hereinafter, "Waon Company")

Address: Flat 1006-1007, 10/F, Fortress Tower 250 King's Road, North Point, Hong Kong

Tel: (852)2578-3303

4. Airmate Electrical (Shenzhen) Limited (hereinafter, "Airmate Shenzhen")

Address: Huangfengling Industrial Zone, Shiyan Street, Baoan District, Shenzhen City, Guangdong Province

Tel: (86)-0755-27655988

5. Waon Development Limited (Hong Kong), Taiwan Branch

Address: 3F., No. 11, Xinzhong Rd., South Dist., Tainan City

Tel: (886) 6- 2645207

6. Airmate Electrical (Jiujiang) Ltd.

Address: No.1 Tonggang East Road, Chengxi Port District, Jiujiang Economic and Technological Development Zone, Jiangxi Province

Tel: (86)-0792-2286888

7. Shenzhen Airmate Technology Co Limited

Address: Huangfengling Industrial Zone, Shiyan Street, Baoan District, Shenzhen City, Guangdong Province

Tel: (86)-0755-27655988

8. Airmate(Cayman) International Co Limited, Taiwan Branch

Address: 3F., No. 11, Xinzhong Rd., South Dist., Tainan City

Tel: (886) 6- 2645207

V. List of Directors

Title	Name	Nationality	Education and Career Background
Chairman	Shih, Jui Pin	The Republic of China	Department of Electronics, Affiliated College of Central University, Aichi Prefecture, Japan Commodity Department staff, Yuasa Primus Co., Ltd., Japan
Director	Tsai, Cheng-Fu	The Republic of China	Master of Electronic Engineering, National Kaohsiung University of Science and Technology Person in Charge of Zhanwei Limited (Hong Kong)
Director	Cheng, Li-Ping	The Republic of China	Statistics of the Tamkang University Deputy General Manager, Dongfu Electrical Appliances Co., Ltd.
Director	Shih Li, Chueh-Chu	The Republic of China	Kuang Hua Senior High School
Director	Shih,Jui-Lin	The Republic of China	Department of Business Administration, Mount Ida College Business Department Staff of Data Systems Consulting Co., Ltd., Business Department Staff of Microcell Composite Company
Director	Chen, Yen-Fu	The Republic of China	Institute of Environmental Policy, National Dong Hua University Project Manager of Chinghua Engineering Co., Ltd.(CEC), Assistant Sales Manager of Creating Nano Technologies Inc., Sales Representative of Nano Electronics and Micro System Technologies Inc., Assistant to the Ministry of Education Environmental Protection Group
Director	Chen Shun Loong	The Republic of China	Master of Graduate Institute of Business Administration, National Chung Hsing University, Department of Industrial Management, National Taiwan University of Science and Technology General Manager, RT-Mart Commodities Department
Independent Director	Chen,Ming-Chang	The Republic of China	Ph.D. of Graduate Institute of Business Administration, National Chengchi University, National Business Doctor Chairman of China Taiwanese

				Investment Management Association, General Manager of China Productivity Center, Director of Graduate Institute of Business Administration, National Chung Hsing University, Deputy Director of Small and Medium Enterprises Administration, Ministry of Economy Affairs, Director, Economic Division, Mainland Affairs Council
Independent Director	Fan,Chin-Hwa	The Republic of China	of	Master of Accounting, Wisconsin University Bank of Canton of California, Deloitte Touche Tohmatsu Limited, Chen & Fan Accountancy Corporation, Crestridge consulting
Independent Director	Chiu,Shean-Bii	The Republic of China	of	PhD in Accounting & Finance and Master of Business Administration, University of Washington, USA President of Pension Fund Association, R.O.C, Full-time Professor, Department of Finance, Taiwan University
Independent Director	Chi,Lai-Ping	The Republic of China	of	Bachelor of Economics, Columbia University and Master of International Relations, University of Chicago, USA Senior Vice President and President of Greater China Region of Sony Life Japan, Managing Director of Sino-US Met Life Insurance Co., Ltd.,

VI. Stock Transfer Handling Agency

Agency: CTBC Bank, Department of Corporate Agency, website: www.ctbcbank.com

Address: 5F., No. 83, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City Tel: (886)2-6636-5566

VII. Certificated Public Accountants (CPAs) for the most recent year's financial report

Names of CPAs: Li, Cihui and Lu, Guanwen Accounting firm: KPMG

Website: www.kpmg.com.tw Tel: (886) 2-8101-6666

Address: 68F., No. 7, Sec. 5, Xinyi Rd., Xinyi Dist., Taipei City

VIII. The name of any exchanges where the company's securities are traded offshore and the method by which to access information on said offshore securities: not applicable

IX. Company Website: <http://www.ticket-china.com>

Contents

Chapter 1	Letter to Shareholders	1
	I. Foreword	1
	II. Operating Results for 2018	2
	III. Summary of the business plan for the current fiscal year	4
	IV. The company's future development strategy	5
	V. The effect of external competition, the legal environment, and the overall business environment	6
Chapter 2	Company Profile	7
	I. Date of Founding	7
	II. Corporate and Group Profile	7
	III. Group Structure	8
	IV. Corporate and Group History	9
	V. Risk Items.....	11
Chapter 3	Corporate Governance Report	12
	I. Corporate Organization	12
	II. Directors, Supervisors, President, Vice President, Assistant Vice Presidents and Managers of Departments and Branches	14
	III. Compensations to Directors, Supervisors, President and Vice Presidents in the Most Recent Year	26
	IV. Status of Corporate Governance	33
	V. Information on CPA Professional Fees	61
	VI. Information on Replacement of CPA	62
	VII. Where the Company's Chairman, President, or any managerial officer in charge of finance or accounting matters who has, in the most recent year, held a position at the accounting firm of its CPA or at an affiliated enterprise	62
	VIII. Conditions of share transfer and changes in equity pledge from the Directors, Supervisors, managers, and shareholders who hold more than 10% of shares, from the past year up to the date printed on the Annual Report	62
	IX. Relationship information between 10 largest substantial shareholders	64
	X. Shares held by the Company, its directors, supervisors, managers, and businesses either directly or indirectly controlled by the Company as a result of investment, and the ratio of consolidated shares held.....	65

Chapter 4	Funding Status	66
	I. Capital & Shares	66
	II. Issuance of Corporate Bonds	74
	III. Preferred Stocks	77
	IV. Overseas Depositary Receipt	77
	V. Employee Stock Warrant	77
	VI. New Shares to Employees with Restricted Rights.....	77
	VII. Issuance of New Shares in Connection with the Merger or Acquisition of Other Companies.....	77
	VIII. Financing Plans and Implementation	77
Chapter 5	Overview of Business Operations	78
	I. Description of the Business.....	78
	II. Overview of the Industry	94
	III. Employee Information in the Last Two Years Up to the Printing of the Report	108
	IV. Information on Environmental Protection Expenditure	109
	V. Labor Relations	109
	VI. Important Contracts	110
Chapter 6	Financial Information	111
	I. Condensed Balance Sheet, Statement of Comprehensive Income and Independent Auditors' Opinions of the Most Recent Five Years.....	111
	II. Financial Analysis of the Most Recent Five Years	115
	III. Supervisors' or Audit Committee's Review Report of the Most Recent Year.....	118
	IV. Financial Statements of the Most Recent Year, Including Independent Auditors' Audit Reports, Balance Sheets and Statements of Comprehensive Income, Changes in Equity and Cash Flows with Two-Year Data Available for Comparison, and Notes or Tables	119
	V. Audited and Certified Parent Company Only Financial Statements of the Most Recent Year, Excluding Statements of Significant Accounts.....	119
	VI. Financial Difficulties Experienced by the Company and Its Affiliates in the Most Recent Year up to the Date of Publication of This Annual Report, and Their Impact on the Company's Financial Position	119

Chapter 7	Review of Financial Conditions, Operating Results, and Risk Management	120
	I. Analysis of Financial Status.....	120
	II. Financial performance	121
	III. Cash flow	122
	IV. Impact of Major Capital Expenditures on Corporate Finances and Business for the Most Recent Year.....	123
	V. Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year.....	123
	VI. Analysis of Risk Management for the Most Recent Year up to the Printing Date of the Annual Report.....	124
	VII. Other important matters	128
Chapter 8	Special Disclosures	129
	I. Affiliated Companies	129
	II. Private Placement of Securities of the Most Recent Year up to the Publication Date of this Annual Report	135
	III. Holding or Disposal of the Company's Shares by the Subsidiaries of the Most Recent Year up to the Date of Publication of This Report	135
	IV. Other Necessary Supplements.....	135
	V. Events of Considerable Impact on Shareholders' Equity or on Prices of Securities as Specified in Subparagraph 2, Paragraph 2 of Article 36 of the Securities and Exchange Act.....	135
	VI. Major Differences from the Domestic Protective Provisions for Shareholders' Interests.....	135

Chapter 1 Letter to Shareholders

I. Foreword

In 2018, the global economy continued to be sluggish and affected by the US-China trade war, together with the gradual decrease of domestic appliances sales in China. Looking back at the Company's operating performance over the past year, our operating layout in the Chinese market has gradually shown benefits.; its profitability has been improving. In addition to accelerating the development of smart appliances, we developed wider market channels, improved product quality and brand image to seize new opportunities in the market.

In the past year, the Company adjusted its operating structure, integrated resources, and improved production efficiency to reduce production costs and boost the market competitiveness in product prices. Efforts have also been made to develop high-end household appliances. With the introduction of new products, the expansion of sales channels and the adjustment of sales strategies, we look forward to a brand-new performance in 2019.

The Company's overview of operations in 2018 and its outlook for 2019 are as follows:

The Company is the ultimate parent company of the Group after its listing, mainly responsible for investment holding. Its production base is primarily located in Shenzhen City, Guangdong Province, and Jiujiang City, Jiangxi Province in China. The consolidated operating revenue in 2018 is NT\$10.615 billion, and the consolidated net profits after tax (PAT) resulted in losses of NT\$(14.6) million. The consolidated net loss per share after tax is NT\$(0.12). Looking forward to 2019, economic challenges in China still exists. As the demand in domestic market steadily increases and small household appliances industry encounters fierce competition, the Company will continuously expand the Group's operation scale, enhance all operating management, control costs and expenses reasonably, actively develop the market, deepen customer service, and closely cooperate with crucial customers. These all aim to build an enterprise with competitiveness and core values.

Looking forward to the Company's development, due to the improvement of living standards in mainland China, consumers' requirements for the quality of small household appliances have also increased, which is an opportunity for the Company. However, in the face of stagnating growth momentum in mainland China and intense market competition in the development of domestic Fast Moving Consumer Goods(FMCG) market, the Company and its reinvestment subsidiaries will continue to cultivate the existing market and expanding the end-customer market scale. Since the listing, the management team and all employees have been

working hard with a humble attitude and strict principles. We are focusing on the production and operation of our primary sector, providing competitive and optimized products for the small household appliance industry, creating the most significant interests for the majority of shareholders and the Company employees, and put corporate social responsibility into real practices, to give back to the consistent support and love from our shareholders. Thank you for your support.

II. Operating Results for 2018

(I) 2018 Business Plan and Results

Unit: thousand NT\$

	<u>2018 Audit</u>	<u>2017 Audit</u>	<u>Growth Rate</u>
Consolidated operating revenue	10,614,940	10,024,202	5.89%
Consolidated operating profit	1,809,931	1,736,363	4.24%
Consolidated net profit	68,437	(46,001)	248.77%
Consolidated net non-operating income (expense)	3,830	53,336	(92.82%)
Consolidated net profit before tax	72,267	7,335	885.24%
Income tax expense	90,350	5,981	1410.62%
Consolidated total profit and loss	(18,083)	1,354	(1435.52%)

(II) Financial income and expenditure and profitability

Item		Year	2018	2017
Financial Structure	Liabilities to assets ratio (%)		70.44	66.84
Solvency	Current ratio (%)		98.24	112.79
	Quick ratio (%)		55.45	50.26
Profitability	Return on assets (%)		0.97	0.86
	Return on shareholders' equity (%)		(0.58)	0.16
	Net profit margin (%)		(0.14)	0.04
	Earnings per share (NT\$)		(0.12)	0.03

(III) Annual research and technological developments

1. Annual research and technological development results

- (1) Research and development of water misting fan
- (2) Research of Silence Fan Blades
- (3) Research and development of silent heating and cooling tower fan
- (4) Research and development of double-sided reflective electric heater

- (5) Research and development of humidifier and air purifier
 - (6) Research and development of folding box fan
 - (7) Research and development of quilt dryer
 - (8) Development of DC brushless BMC motors
 - (9) Development of standardized and modular PCB components
 - (10) Research and development of purifier fan
 - (11) Research and Development of humidifying airflow fan
 - (12) Research and development of PTC tower fan heater
 - (13) Research and development of large capacity gasification humidifier
 - (14) Research and development of large capacity gasification humidifier with PTC (both humidification and heating)
 - (15) Research and development of tower heating wire heater
 - (16) Research and development of cabinet type heating wire heater
 - (17) Development of one-piece style skirting radiator
 - (18) Research and development of the roller natural gasification humidifier
 - (19) Head-swing mechanism for fan tilt-up 50 degree
2. Future research and technology development plans
- (1) Short-term business development plans
 - A. In response to the change of "coal to electricity" heating system in northern China, enhance the research and development of various electric heaters, especially thermal storage electric heaters,
 - B. Continue to improve the performance of various motors to reinforce the vacancy of brushless DC BMC motors.
 - C. Increase the R&D investment of new fans in the domestic market and increase the production models to satisfy different needs.
 - D. Continue to increase healthy home appliances series productions.
 - E. R&D investment in new air system for medical systems
 - (2) Long-term business development plans
 - A. Forward-looking research of IoT home appliances
 - B. Product modularization research to improve production efficiency
 - C. Research and development of sensor and human-machine interaction (voice control) of smart home appliances.
 - D. Various compound air-handling units (cold, heat, sterilization, and humidification).
 - E. Research the application of aerodynamics and wind channels, and continuous fan blade optimization.

III. Summary of the business plan for the current fiscal year

(I) Business Policies

1. Taking the development of the Chinese market brand as the core policy, constructing an enterprise with competitiveness and core values to assure advantages in quality and volume, and strengthen the successful cooperation among Airmate, suppliers, and customers.
2. Keep promoting corporate policies, including employment localization, and the establishment of an enterprise business management model for the Group. Devoted to popularize the Company's product and develop new products, improve production technology, and reasonable control of costs and expenses, to enhance the Company's operating profit.
3. Enhance harmonious labor relations, create the greatest profits for employees and shareholders, and fulfill corporate social responsibility.

(II) Sales volume forecast and the basis

The main markets of the Company's reinvestment subsidiaries are mainland China, Northeast Asia, Europe, and America. Therefore, the estimated annual sales volume is primarily based on the relevant statistics of local industries, information feedback from key customers, and judgment of future market supply and demand. In general, the business volume and amount of small household appliances industry will continue to grow steadily in the future.

(III) Significant Sales and Production Policies

1. Export

- Sales of products in Japan, Korea, and Europe and the United States are growing steadily in the past two quarters, and new customers are being actively developed, and assisting customers in developing new products for promotion to Taiwan, China and Thailand markets.
- Develop and promote multi-functional small household appliances, and get OEM orders from clients.

2. Offline Market in China

- Integration: The whole country is divided into four sub-regional markets- eastern, western, southern, and northern regions, and four regional market directors are set up. We hope this will achieve more accurate and efficient market management to enhance the brand's services for dealers and consumers. At least 1,200 Airmate image model stores in city and township are planned, and at least 12 fans will be on display in the stores, covering no less than three high-end product models. It not only broadens the market channels but also improve the quality of sales and brand image.
- Focus: Hot-selling products are targeted and SKU is reduced to ensure sales efficiency, and improve production-marketing integration performance. At the same time, we focus on dealers and factory inventory turnover to reduce dealers and factory quarterly inventory and ultimately achieve the goal of on-demand production.
- Attention to channel management: the width of channel outlets continues to expand, and the construction of Airmate County/township image stores will increase from 1,200 in 2017 to

2,000 in 2018. In addition, we will enhance the key experience in the electronics exhibition and supermarket system, increase the investment of the image store and the training of the sellers' sales ability, so as to realize the sales growth of single retail store and increase the sales ratio of high-end products.

3. Online Market in China

- Multi-Platform Suitability Development: Given the different online consumers and sales modes of four platforms, namely Taobao Tianmao, Jingdong Mall, Suning Easy-to-buy and Merchandise Club, we will develop differentiated product portfolios suitable for all platforms to meet the needs of different consumers. At the same time, we pay attention to the development of other new sales models such as Pinduoduo, Yunji, and Netease's strict selection of OEMs, to increase the proportion of brand sales through the whole network and channels.
- Taking advantage of the high efficiency, low cost and high focus of the online platform, besides electric fans and heaters, we focus on four major categories products in the market, namely, dryer, dehumidifier, ventilator and bathroom master, to increase the sales and expand the fields for the brand's high growth target performance.
- Online communication: New social media and self-brand media are the key means of communication. The communication with users (especially the Z-generation young users) and fans through high-quality, interactive and quality-oriented content are enhanced, to improve Airmate's popularity and reputation among young consumers, and to enhance its quality influence.

IV. The company's future development strategy

The Company and its reinvestment subsidiaries will continue to focus on the development of the primary sector, invest in high-profit-margin products with new R&D technology, and strengthen the cooperation among Airmate, suppliers and customers.

V. The effect of external competition, the legal environment, and the overall business environment

(I) Impact from external competitive environment

The small household appliances industry is in a variety of fierce competitive environment, the Company and its subsidiaries will continue to apply their existing advantages and reasonable control the costs and expenses to reduce the impact brought by the external competitive environment.

(II) Impact of legal environment

The Company and its important subsidiaries have not suffered any punishment or loss in recent years from the changes in the regulatory environment.

(III) Impact of the overall business environment

At present, the production and operation bases of the reinvested subsidiaries of the Company are located in mainland China. Although the overall environment for the local small household appliances is fierce and competitive, the economic development in China and increasing per capita income lead to overwhelming consumption ability. Hence, the future will continue to grow steadily.

Wish peace and joy to you all.

Airmate (Cayman) International Co Limited

Chairman of the Board: SHIH, JUI PIN

President: SHIH, JUI PIN

Chief Accountant: ZHANG, ZHI WEI

Chapter 2 Company Profile

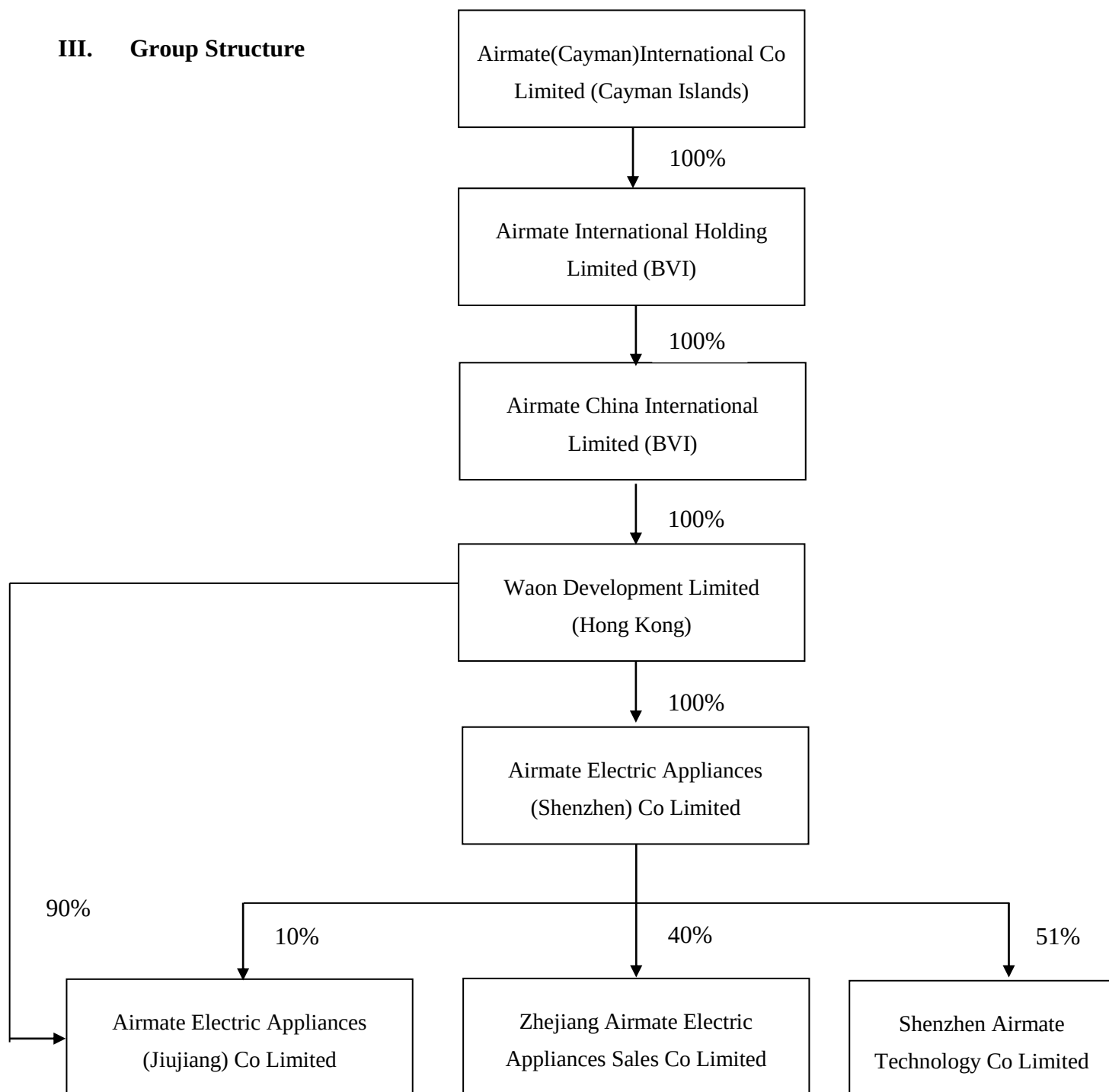
I. Date of Founding: March 11, 2004.

II. Corporate and Group Profile

Airmate (Cayman) International Co Limited (Cayman) International Co., Ltd. (hereinafter referred to as the Company) was established on March 11, 2004, as an overseas holding company registered in the Cayman Islands. The Company returned to Taiwan, with the entity to apply for registration of the counter and the application for a TWSE primary listing of its issued stock. As of the end of December 2016, the Company has 6 subsidiaries, including Airmate International Holding Limited (BVI), Airmate China International Limited (BVI), Waon Development Limited (Hong Kong), Airmate Electrical (Shenzhen) Ltd., Airmate Electrical (Jiujiang) Ltd., and Shenzhen Airmate Technology Co., Ltd. Except for Shenzhen Airmate Technology Co., Ltd., which the Company owns 51% of the shares, and the others are 100% wholly-owned subsidiaries. Functions differentiate the operating entities. Shenzhen Airmate Technology Co., Ltd., and Airmate Electrical (Jiujiang) Ltd. are responsible for R&D, production and sales centers. Waon Development Limited (Hong Kong) is responsible for external orders. The Company specializes in the research and development, production and sales of electric fans, electric heaters and various small household appliances.

The Company started as a home OEM appliance manufacturer. In 1991, it established a production base - Airmated Electrical (Shenzhen) Ltd., which was committed to R&D and manufacture of exquisite small household appliances. In 1997, it officially launched its own brand <  艾美特 > products, and began to deploy sales channels with dealers in China systematically. The products are sold in more than 8,000 shopping malls in 31 provinces in China. At present, the domestic sales in mainland China account for about 55% of total sales. Besides, the Company also relies on its excellent R&D and production capacity to design, develop, and manufactures OEMs for various household appliances brands in the world. Through Waon Development Limited (Hong Kong), which is responsible for export sales, the service OEM customers cover Japan, South Korea, France, Germany, Canada, Singapore, the United States, Australia. The export sales account for about 45% of the Group's total sales, becoming the home appliance industry. The company has become one of the most internationally recognized manufacturers in the household appliances industry. This is a significant recognition of the company's efforts in the small household appliance market in China over the years.

III. Group Structure



IV. Corporate and Group History

Year	History of the Company and the Group
1973	The parent company of Airmate (Taiwan Dongfu Electrical Appliances Co., Ltd.) was founded in Taiwan.
1990	The management team and the substantial shareholders established Waon Development Limited (Hong Kong) with a registered capital of HK\$13,510 thousand.
1991	Established Airmate Electrical (Shenzhen) Limited with a registered capital of US\$23,750 thousand, and set up a major production base in Shenzhen to launch a global layout.
1994	Became the first foreign-invested enterprise to obtain CCEE safety certification for small household appliances in China. Start to cooperate with Sanyo Electric Co., Ltd. of Japan to produce dedicated Sanyo fan motors.
1996	Obtained ISO9002 quality control system international certification.
1997	Expand the Airmate brand into the Chinese market and cut into the electric heater market. Establishment of Airmate French subsidiary, registered capital Franc 50 thousand. Established Airmate China International Limited (BVI) with a registered capital of US\$20,000 thousand.
1998	Established Airmate International Holding Limited with a registered capital of US\$21,000 thousand.
1999	Obtained ISO9001 quality control system international certification. The China Association of Enterprises with Foreign Investment was awarded the “National Foreign Investment Double Excellence Enterprise”. By the share conversion, included Waon Company as a 100% subsidiary of Airmate International
2000	Establish a global sales network of more than 60 countries on five continents and become the largest supplier of household fans in Japan.
2001	Waon Company signed an equity transfer agreement with Airmate China to transfer the equity of Airmate Electrical (Shenzhen), which is 100% owned by the former Waon Company, to Airmate China.
2002	China Quality Inspection Association awarded "National Dual Guarantee Enterprise of Product Quality and After-Sale Service Credit". “Airmate” was named a famous trademark in Guangdong Province. Won the doual honors of Shenzhen Industry and Commerce Top 100 and Export top 100
2003	Airmate expanded plant at Shenzhen Airmate fans passed the "National Inspection-Free Product Quality". Awarded with "National Dual Guarantee Enterprise of Product Quality and After-Sale Service Credit"
2004	The Company was established with HK\$16,000 in shares and became the ultimate parent company of the group through a series of stock exchange processes.
2005	Airmate extensively entered other small home appliances market. The State Administration of Quality Supervision, Inspection and Quarantine

Year	History of the Company and the Group
	awarded the title of "China's Famous Brand Products" Was rated as "the first Shenzhen Import and Export Integrity AAA Enterprise". Rated as “The Top 500 Company With The Most Valuable Brand in The Country”.
2008	Airmate trademark was awarded the title of “Well-Known Trademark”. Capital increase by cash of HK\$40,000.
2009	Won the award of "The National High-tech Enterprise Award" Won the title of "Guangdong Province Famous Brand Product". Elected as "Member of Shenzhen Quality and Credit Enterprise". capital increase by cash of HK\$1,050,000. Transferred of surplus and employee dividend to capital of HK\$4,820 thousand
2010	Won the honor of “Shenzhen Intellectual Property Advantage Enterprise”. Awarded the "Director Award of Science and Technology Innovation in Bao'an District". Transferred of employee dividend to capital of HK\$680 thousand
2011	Airmate's electric fan comprehensive market share in China for 10 consecutive years ranks the top two among domestic enterprises. Airmate's electric heater comprehensive market share in China for 6 consecutive years ranks the top three among domestic enterprises.
2012	Transferred of capital surplus to capital of HK\$203,310 thousand capital increase by cash of HK\$29,000 thousand. The Directors were re-elected as Directors, including four Independent Directors, and set up an Audit Committee. Reelected the board of directors. Elected nine directors, including four independent directors, and set up an audit committee. On July 26, 2012, the shareholders' meeting approved a resolution to change the company's par value per share from HK\$1 to NT\$10, with the paid-in capital of NT\$1,102,442,500.
2013	capital increase by cash of NT\$122,500 thousand. On March 21, listed on the TWSE
2014	Established Airmate Electrical (Jiujiang) Ltd. with a registered capital of US\$35,000,000 thousand. Mass production in October the same year.
2015	Joint venture with mainland Chinese to establish Airmate Technology Co., Ltd., specializes in kitchen appliances product design, development, and market development. With the registered capital of RMB \$10,000 thousand, and the company holds 51% shares.
2016	Airmate Electrical (Jiujiang) Ltd. capital increase by cashd of US\$23,000 thousand. On June 3, 2016, the Company signed a joint development project agreement with TCL Haichuanggu Technology Park Development Co., Ltd. (hereinafter referred to as TCL Haichuanggu) and Shenzhen TCL Real Estate Co., Ltd. to develop old factories land in Shenzhen Industrial Zone. Completed the liquidation of Airmate Europe LLC. on 8 June 2016.
2017	The capital increase by cash of Airmate Electrical (JIUJIANG) Limited of US\$ 3,300 thousand.

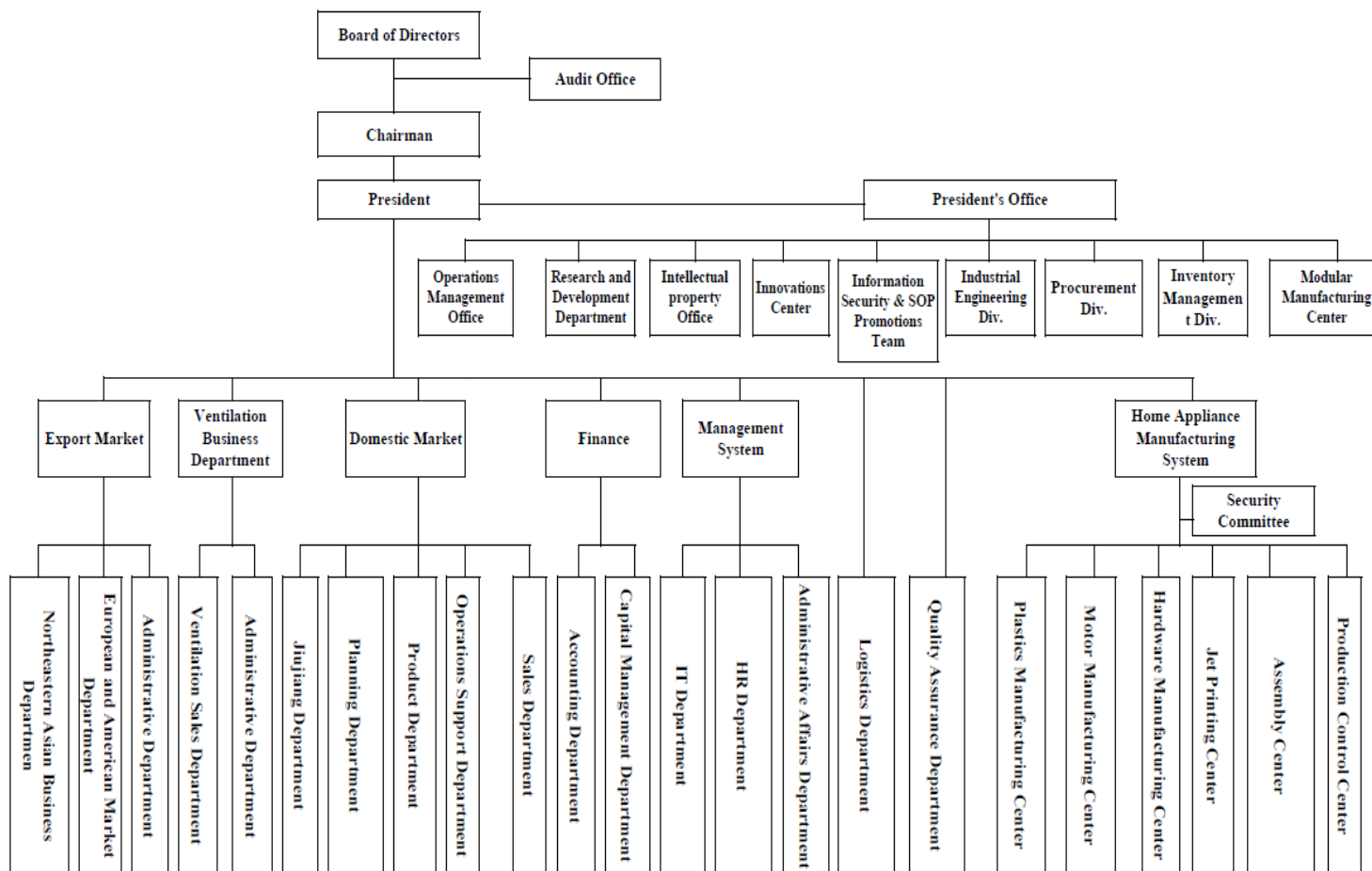
Year	History of the Company and the Group
2018	Airmate Electrical (Jiujiang) Ltd. capital increase by cashd of US\$1,850 thousand. Airmate Fresh Wind Division was established on April 30, 2018 The development project of the old factory land in Shenzhen Industrial Zone signed by the Company and TCL Haichuanggu Technology Park Development Co., Ltd. (hereinafter referred to as TCL Haichuanggu) and Shenzhen TCL Real Estate Co., Ltd. started in October 2018.

V. Risk Items: Please refer to the Chapter VII-6 of this annual report.

Chapter 3 Corporate Governance Report

I. Corporate Organization

(I) Organizational Structure



(II) Responsibilities and functions of major departments

Major departments		Functions
Board of Directors		Planning Company-wide business operations and policies, establishing operational goals and appointing the Company's major managers to execute Company business.
Audit Department		Responsible for various auditing tasks and the internal control evaluation and implementation of the Company as well as proposing recommendations for improvement and continuously monitoring progress of improvement.
President (CEO)		Perform resolutions from the Board of Directors meeting and Company management.
President's Office (CEO's Office)		Managing Company operational management, information security management, execute SOP, innovation center, patent applications, handling of legal cases, and maintaining investor relations.
Export Market	Export Business Department	Developing and maintaining the Company's export business.
	Sales Administration Department	Day-to-day internal management work of the Export Business Department.
Domestic Market	Sales Department	Developing and maintaining the Company's business in China.
	Jiujiang Department	Developing and maintaining the Company's business in China.
	Product Department	Product development in China.
	Planning Department	Product advertisement and promotions in China.
	Operations Support Department	Day-to-day internal management work of sales business in China.
Financing Department	Accounting Department	Accounting and bookkeeping tasks and establishing and carrying out the accounting policy.
	Capital Management Department	Capital planning and appropriations.
Ventilation Business Department	Ventilation Sales Department	Expansion and maintenance of ventilation business products in China.
	Administrative Department	Routine management of Ventilation Sales Department in China.
IT Department		Researching and establishing the Company's IT policy, IT system planning and maintenance, and telecommunications planning, setting, and maintenance.
HR Department		Manages human resources-related tasks.
Administrative Affairs Department		Day-to-day administrative management.
Research and Development Department		Coordinating the Company's R&D resources and establishing R&D objectives.
Logistics Department		Manages the Company's purchasing and warehousing tasks.
Quality Assurance Department		In charge of various quality controls and handles customer grievances.
Home Appliance Manufacturing Department		Production of plastics, motors, hardware, inkjet printing and assembly.

II. Directors, Supervisors, President, Vice President, Assistant Vice Presidents and Managers of Departments and Branches

(I) Basic information of Directors

1. Director information

As of April 8, 2019

Title	Nationality	Name	Gender	Date elected or assumes office	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and minor children		Shares held in others' names		Education and Work Experience	Titles concurrently held at the Company and other companies	Other supervisory or director roles held by spouse or second-degree relations:		
							Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)			Title	Name	Relation
Director	The Republic of China	Shih, Jui Pin	Male	2018.06.11	3 years	2011.09.01	1,359,522	1.11	1,372,522	1.12	247,000	0.20	—	—	Department of Electronics, Professional Training College of Chubu University Japan Yuasa Primus Co., Ltd. Commodity Department employee	Chairman of Airmate International Holding Limited; Chairman of Airmate China International Limited (BVI); Chairman of Waon Development Limited (Hong Kong); Chairman of Waon Development Limited (Hong Kong), Taiwan Branch; Chairman and General Manager of Airmate Electric (Shenzhen) Co., Limited; Vice Chairman and General Manager of Airmate Electric (Jiujiang) Co., Limited; Director of Shenzhen Airmate Technology Co., Limited; Representative of Pearl Place	Director	Shih Li, Chueh-Chu	Mother and son
																	Director	Shih, Jui-Lin	Brothers

Title	Nationality	Name	Gender	Date elected or assumes office	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and minor children		Shares held in others' names		Education and Work Experience	Titles concurrently held at the Company and other companies Holdings Ltd.	Other supervisory or director roles held by spouse or second-degree relations:		
							Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)			Title	Name	Relation
Director	The Republic of China	Tsai, Cheng-Fu	Male	2018.06.11	3 years	2004.04.30	3,666,837	2.98	3,666,837	2.98	—	—	—	—	Master's degree, Department of Electronics, NKUST Person-in-charge of Lucky View Development (Int'l) Limited	Director of Waon Development Limited (Hong Kong); Vice Chairman at Airmate Electrical (Shenzhen) Limited; Director at Zhejiang Airmate Electrical Sales Limited; Person-in-charge of Joyful Oasis; Chairman of Airmate Electrical (Jiujiang) Limited; Chairman of Shenzhen Airmate Technology Co Limited	—	—	—
Director	The Republic of China	Cheng, Li-Ping	Male	2018.06.11	3 years	2006.12.18	3,095,192	2.52	3,095,192	2.52	48,250	0.04	—	—	Department of Statistics, Tamkang University Deputy General Manager of Tung Fu Electric Co., Ltd.	Director of Waon Development Limited (Hong Kong); Director of Airmate Electrical (Jiujiang) Limited; and Director of Shenzhen Airmate Technology Co Limited	—	—	—
Director	The Republic	Shih Li, Chueh-Chu	Female	2018.06.11	3 years	2006.12.18	1,864,992	1.52	1,890,992	1.54	—	—	—	—	Senior High School of Kuang	Director of Waon	Chairman	Shih, Jui Pin	Mother and son

Title	Nationality of China	Name	Gender	Date elected or assumes office	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and minor children		Shares held in others' names		Education and Work Experience	Titles concurrently held at the Company and other companies	Other supervisory or director roles held by spouse or second-degree relations:		
							Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)			Title	Name	Relation
															Hua High School	Development Limited (Hong Kong); Director of Tung Fu Electric Co., Ltd.	Director	Shih, Jui-Lin	Mother and son
Director	The Republic of China	Chen, Yen-Fu	Male	2018.06.11	3 years	2018.06.11	15,000	0.01	15,000	0.01	1,278,240	1.04	—	—	Master of National Dong Hwa University College of Environmental Studies Assistant Manager of Ministry of Education Environmental Protection Division; Project Manager of Capital Engineering Corp; Business Specialist of Nano Electronics and Micro System Technologies, Inc.; Business Assistant Manager of Creating Nano Technologies	Sales Assistant Manager, Li Pai Yi Co., Ltd.	—	—	—
Director	The Republic of China	Shih, Jui-Lin	Male	2018.06.11	3 years	2018.06.11	260,000	0.21	260,000	0.21	625	0.00	—	—	Mount Ida College Department of Business Administration Employee of Data Systems Consulting Co., Ltd. Sales Department; Employee of Microcell Composite Company Sales	Research Director of Airmate Electric (Shenzhen) Co., Limited;	Chairman	Shih, Jui Pin	Brothers
																Manager of Airmate Electric (Shenzhen) Co., Limited Export Sales Department;	Director	Shih Li, Chueh-Chu	Mother and son

Title	Nationality	Name	Gender	Date elected or assumes office	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and minor children		Shares held in others' names		Education and Work Experience	Titles concurrently held at the Company and other companies	Other supervisory or director roles held by spouse or second-degree relations:		
							Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)			Title	Name	Relation
Director	The Republic of China	Chen, Shun-Loong	Male	2018.06.11	3 years	2018.06.11	2,254,000	1.83	2,254,000	1.83	—	—	—	—	Master's degree, College of Management of NCHU; Bachelor's degree from College of Industrial Management of NTUST General Manager of RT-Mart Department of Commodity	—	—	—	—
Independent Director	The Republic of China	Chiu, Shean-Bii	Male	2018.06.11	3 years	2012.05.15	—	—	—	—	—	—	—	—	Master of Business Administration and Doctor of Finance of Washington University Chairman of Pension Fund Association, R.O.C.; Professor of Finance, National Taiwan University	Independent Director of ECOVE Environment Corporation; Independent Director of Long Chen Paper Co., Ltd.; Professor of Finance, National Taiwan University	—	—	—
Independent Director	The Republic of China	Chen, Ming-Chang	Male	2018.06.11	3 years	2012.05.15	—	—	—	—	—	—	—	—	Doctor of NCCU Department of Business Administration; Doctor of National Business Administration; Chairman of Taiwanese Investment and Management Association in China; General	Dean of Management Institute in Taipei; Lecturer of Nanhua University; Adjunct Professor of National Taipei University; Consultant at Strait Exchange Foundation and Asia Taiwanese Chambers of	—	—	—

Title	Nationality	Name	Gender	Date elected or assumes office	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and minor children		Shares held in others' names		Education and Work Experience	Titles concurrently held at the Company and other companies	Other supervisory or director roles held by spouse or second-degree relations:		
							Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)			Title	Name	Relation
															Manager of China Production Center; Chairman of College of Management, National Chung Hsing University; Deputy Division Head of Small and Medium Enterprise Administration, MOEA; Division Head of Mainland Affairs Council Division of Economics	Commerce; Member of the Compensation Committee of Kenda Rubber Ind., Co., Ltd.; Independent of Global Wafer Co., Ltd.; Independent Director of Career Consulting Co., Ltd.; Independent Director of Shane Global Holding Inc.			
Independent Director	The Republic of China USA	Fan, Chin-Hwa	Male	2018.06.11	3 years	2012.05.15	5,000	0.00	5,000	0.00	—	—	—	—	Master of Wisconsin University College of Statistics Bank of Canton, Deloitte Touche Tohmatsu Limited, Chen & Fan Accountancy Corporation, Crestridge Consulting	Crestridge Consulting, Independent Director of New Omni Bank	—	—	—
Independent Director	The Republic of China USA	Chi, Lai-Ping	Male	2018.06.11	3 years	2012.09.05	—	—	—	—	—	—	—	—	Bachelors in Economics, Columbia University, USA. Masters in International Relations, Chicago University, USA. Senior Vice	Adjunct professor of University of International Business and Economics, Chairman of Trimaran PR Asia Limited, Independent Director of Yuanta	—	—	—

Title	Nationality	Name	Gender	Date elected or assumes office	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and minor children		Shares held in others' names		Education and Work Experience	Titles concurrently held at the Company and other companies	Other supervisory or director roles held by spouse or second-degree relations:		
							Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)			Title	Name	Relation
															President and President of Greater China Region at Sony Life Insurance Co., Ltd, Managing Director of Zhongmei Liantai Metropolis Life Insurance Co., Ltd., Director of MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited, General Manager of MetLife Taiwan Insurance Co., Ltd.	Financial Holding Co., Limited, Independent Director of Yuanta Life Insurance Co., Ltd.			

2. Major Shareholders of Institutional Shareholders: Not applicable, as the Company's Directors and Independent Directors are not institutional shareholders.
3. Major Shareholders of Substantial Institutional Shareholders: Not applicable.
4. Directors' Information

Name	Has more than 5 years of work experience and the following professional qualifications			Meets conditions of independence (Note)										Concurrently serves as Independent Director for multiple other publicly-listed companies
	Serves in lecturer roles or above in public or private college institutions in one of the following departments: business administration, law, finance, accounting, or another discipline relevant to the Company's operations	Currently serving as a judge, prosecutor, lawyer, accountant, or other professional practice or technician that must undergo national examinations and specialized license related to a discipline relevant to the Company's operations	Has work experiences in business administration, law, finance, accounting, or another discipline relevant to the Company's operations	1	2	3	4	5	6	7	8	9	10	
Shih, Jui Pin	—	—	✓	—	—	—	—	—	✓	✓	—	✓	✓	—
Cheng, Li-Ping	—	—	✓	—	—	—	✓	✓	✓	✓	✓	✓	✓	—
Tsai, Cheng-Fu	—	—	✓	—	—	—	✓	✓	✓	✓	✓	✓	✓	—
Shih, Jui-Lin	—	—	✓	—	—	—	✓	✓	✓	✓	—	✓	✓	—
Shih Li, Chueh-Chu	—	—	✓	✓	—	—	—	—	✓	✓	—	✓	✓	—
Chen, Yen-Fu	—	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	—
Chen, Shun-Loong	—	—	✓	✓	✓	—	✓	✓	✓	✓	✓	✓	✓	—
Chen, Ming-Chang	✓	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Fan, Chin-Hwa	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Chiu, Shean-Bii	✓	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Chi, Lai-Ping	—	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note: For any director or supervisor who fulfills the relevant condition(s) for two fiscal years before being elected to the office or during the term of office, please provide the [] sign in the field next to the corresponding conditions. ✓

- (1) Not employed by the Company or an affiliated company.
- (2) Not serving as a director or supervisor of any of the Company's affiliated companies (this restriction does not apply to independent directors in the Company or its parent company or subsidiaries, which have been appointed in accordance with local laws or laws of the registered country).

- (3) Not a natural-person shareholder who holds more than 1% of issued shares or is ranked top 10 in terms of the total quantity of shares held, including the shares held in the name of the person's spouse, minor children, or in the name of others.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship in the three preceding items.
- (5) Not a director, supervisor, or employee of an institutional shareholder that directly holds more than 5% of the total number of issued shares of the Company or is ranked top 5 in terms of quantity of shares held.
- (6) Not a director, supervisor, managerial officer, or shareholder holding more than 5% of shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. This restriction, however, does not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Corporation Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
- (8) Not a spouse or a relative within the second degree of kinship with any director.
- (9) Where none of the circumstances in the subparagraphs of Article 30 of the Company Act applies.
- (10) Where the person is not elected in the capacity of the government, a juristic person, or a representative thereof as provided in Article 27 of the Company Act.

(II) Information of the President, Vice Presidents, Directors, and Supervisors from each department and branch institutions

As of April 8, 2019

Title	Nationality	Name	Gender	Date of appointment	Number of shares held		Shares held by spouse and minor children		Shares held in others' names		Education and Work Experience	Positions concurrently held in other companies	Managers who have spousal or second-degree family relationships within the Company		
					Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)			Title	Name	Relation
Chairman and President	The Republic of China	Shih, Jui Pin	Male	2018.08.03	1,372,522	1.12	247,000	0.20	—	—	Department of Electronics, Professional Training College of Chubu University Japan Yuasa Primus Co., Ltd. Commodity Department employee	Chairman of Airmate International Holding Limited; Chairman of Airmate China International Limited (BVI); Chairman of Waon Development Limited (Hong Kong); Chairman of Waon Development Limited (Hong Kong), Taiwan Branch; Chairman and General Manager of Airmate Electric (Shenzhen) Co., Limited; Vice Chairman and General Manager of Airmate Electric (Jiujiang) Co., Limited; Director of Shenzhen Airmate Technology Co., Limited; Representative of Pearl Place Holdings Ltd.	—	—	—
Vice President	The Republic of China	Tseng, Yan-Min	Male	2009.01.01	1,292,832	1.05	—	—	—	—	Bachelor's degree from Mechanical Engineering Department, Southern Taiwan University of Science and Technology R&D Manager at Tung Fu Electric Co., Ltd	Director of Hometech International Overseas Ltd; Director of Sunmax International Enterprise Ltd; Director of Chung Wei Co., Ltd; Director of	—	—	—

Title	Nationality	Name	Gender	Date of appointment	Number of shares held		Shares held by spouse and minor children		Shares held in others' names		Education and Work Experience	Positions concurrently held in other companies	Managers who have spousal or second-degree family relationships within the Company		
					Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)			Title	Name	Relation
												Airmate Electrical (Shenzhen) Limited; and Supervisor of Airmate Electrical (Jiujiang) Limited			
Vice President	Japan	Kanai, Mari	Female	2009.01.01	609,613	0.50	—	—	—	—	Business Administration in Information Management from Nanzan University, Japan Consultant at YUASA Primus Co., Ltd.	Person-in-charge of Orb, Inc.; and Airmate Electrical (Shenzhen) Limited	—	—	—
Chief Operating Officer (COO)	The Republic of China	Tseng, Chao-Ting	Male	2018.11.14	151,285	0.12			—	—	Department of International Business, Chung Yuan Christian University Information and Finance Manager at Airmate Electrical (Shenzhen) Limited Purchasing Manager of Chicony Electronics Co., Ltd; Assistant Manager in Supply Chain Management Department of Tsannkuen (Zhangzhou) Enterprise Co., Ltd.	President of Tung Fu Electric Co., Ltd and Director of Airmate Electrical (Jiujiang) Limited	—	—	—
Assistant Manager	The Republic of China	Chen, Yung-Shen	Male	2010.01.01	23,250	0.02	—	—	—	—	Department of Industrial Engineering and Management, National Taipei University of Technology Assistant Manager of IT division at Shanghai DBTel Industry Co., Ltd. and Information Director	—	—	—	—

Title	Nationality	Name	Gender	Date of appointment	Number of shares held		Shares held by spouse and minor children		Shares held in others' names		Education and Work Experience	Positions concurrently held in other companies	Managers who have spousal or second-degree family relationships within the Company		
					Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)			Title	Name	Relation
											at Landis Hospitality Group				
Assistant Manager	Mainland China	Piao, Yuan-Zhe	Male	2009.01.13	10,295	0.01	—	—	—	—	Environmental Engineering Department, Xi'an University of Architecture and Technology Export Sales, Deputy Manager, and Manager at Airmate Electrical (Shenzhen) Limited	—	—	—	—
Head of China Market Department	Mainland China	Lei Yan	Female	2018.09.10	—	—	—	—	—	—	Department of Law, Hengyang Gong'an Cadre Secondary Specialized School in Hunan Province Director of China Market Department, Airmate Electrical (Shenzhen) Limited	—			
Audit Manager	The Republic of China	Hsu, Ming-Hsiung	Male	2017.10.11	—	—	—	—	—	—	Department of Accounting, Shih Chien University Financial Analyst and Coordinator at Chinese Television System (CTS), Auditing Specialist at 7-ELEVEN	Audit Manager of Airmate International Holding Limited, Airmate China International Limited (BVI), Waon Development Limited (Hong Kong), Taiwan Branch, Airmate Electrical (Shenzhen) Limited, and Airmate Electrical (Jiujiang) Limited	—	—	—
Accounting Manager	The Republic of China	Ho, Mei-Hsiu	Female	2019.01.10	—	—	—	—	—	—	Department of Financial Management, National Kaohsiung University of Science and Technology	Accounting Manager of Airmate International Holding Limited, Airmate			

Title	Nationality	Name	Gender	Date of appointment	Number of shares held		Shares held by spouse and minor children		Shares held in others' names		Education and Work Experience	Positions concurrently held in other companies	Managers who have spousal or second-degree family relationships within the Company		
					Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)	Number of shares	Shareholding ratio (%)			Title	Name	Relation
											Audit Manager of KPMG	China International Limited (BVI), Waon Development Limited (Hong Kong), Taiwan Branch, Airmate Electrical (Shenzhen) Limited, and Airmate Electrical (Jiujiang) Limited, and Supervisor of Zhejiang Airmate Eletrical Sales Limited and Shenzhen Airmate Technology Co Limited			
Finance Manager	The Republic of China	Lin, Huangming	Male	2019.01.10	—	—	—	—	—	—	Bachelor's degree from Department of Public Finance, Feng Chia University and Master's degree in International Finance, National Taipei University Bank of Taichung, Binhai Nanya Recycling Co., Ltd.	Finance Manager of Airmate International Holding Limited, Airmate China International Limited (BVI), Waon Development Limited (Hong Kong), Taiwan Branch, Airmate Electrical (Shenzhen) Limited, and Airmate Electrical (Jiujiang) Limited			

III. Compensations to Directors, Supervisors, President and Vice Presidents in the Most Recent Year

1. Remuneration of Directors (including Independent Directors)

(1) Remuneration of Directors in the most recent year (2018)

Unit: NT\$1,000

Title	Name	Directors' Remuneration								Ratio of total remuneration A, B, C, and D to net Income (%) (Note 3)		Remuneration paid to concurrent employees								Ratio of total remuneration A, B, C, D, E, F, and G to net Income (%) (Note 3)		Whether compensation to Directors from an invested company other than the Company's subsidiary
		Compensations (A)		Retirement allowance (B)		Directors' bonus (C) (Note 1)		Allowances (D)				Salary, bonus, and allowances (€)		Severance pay (F)		Employee bonus (G) (Note 2)						
		The Company	All companies in the consolidated financial statements	The Company	All companies in the consolidated financial statements	The Company	All companies in the consolidated financial statements	The Company	All companies in the consolidated financial statements	The Company	All companies in the consolidated financial statements	The Company	All companies in the consolidated financial statements	The Company	All companies in the consolidated financial statements	The Company		All companies in the consolidated financial statements	Cash amount	Stock amount		
																Cash amount	Stock amount					
Chairman and President	Shih, Jui Pin (Note 5)	4,800	8,460	—	10	749	749	301	301	-40.07	-65.22	1,911	5,790	20,129	20,151	—	—	—	—	-191.03	-242.90	—
Director	Tsai, Cheng-Fu																					
Director	Cheng, Li-Ping (Note 5)																					
Director	Shih Li, Chueh-Chu																					
Director	Shih, Jui-Lin																					
Director	Chen, Yen-Fu																					
Director	Chen, Shun-Loong																					
Director	Yang, Yu-Fu (Note 6)																					
Director	Tseng Wu, Yu-Hsiang (Note 6)																					
Director	Yue-Chian g Yu (Note 6)																					
Independent Director	Chen, Ming-Chang																					
Independent Director	Fan, Chin-Hwa																					
Independent Director	Chiu, Shean-Bii																					
Independent Director	Chi, Lai-Ping																					

- Note 1: In the most recent year (2018), the Board of Directors has approved of a cumulative sum of NT\$749 thousand on March 4, 2019 as remuneration for Directors and Supervisors. The Shareholders' Meeting has yet to approve of this resolution.
- Note 2: In the most recent year (2018), the Board of Directors has approved of a cumulative sum of NT\$4,026 thousand on March 4, 2019 as remuneration for employees. The Shareholders' Meeting has yet to approve of this resolution.
- Note 3: After-tax net income for the Company and the Consolidated Entity was both NT\$14,599 thousand in 2018.
- Note 4: Directors were elected during the Shareholders' Meeting on June 11, 2018.
- Note 5: Upon approval from the Board meeting on June 11, 2018, as Director Cheng, Li-Ping's term of office as Chairman has expired, re-elections were held and Director Shih, Jui Pin assumed the position in his place.
- Note 6: Directors Shih, Jui-Lin, Chen, Yen-Fu, and Chen, Shun-Loong were elected as Directors of the Company in the Shareholders' Meeting on June 11, 2018; Directors Yang, Yu-Fu, Tseng Wu, Yu-Hsiang, and Yu, Yue-Chiang were released of their duties as Directors of the Company as their terms of office had expired.

Table of Range of Remuneration

Table of Remuneration Ranges for Directors	Name of Director			
	Total remunerations from A to D (A+B+C+D)		Total remunerations from A to G (A+B+C+D+E+F+G)	
	The Company	All companies in the consolidated financial statements	The Company	All companies in the consolidated financial statements
Lower than NT\$2,000,000	Shih, Jui Pin, Tsai, Cheng-Fu, Cheng, Li-Ping, Shih Li, Chueh-Chu, Chen, Yen-Fu, Chen, Shun-Loong, Yang, Yu-Fu, Tseng Wu, Yu-Hsiang, Yu, Yueh-Chiang, Chen, Ming-Chang , Fan, Chin-Hwa , Chiu, Shean-Bii, Chi, Lai-Ping	Shih, Jui Pin, Cheng, Li-Ping, Shih, Jui-Lin, Shih Li, Chueh-Chu, Chen, Yen-Fu, Chen, Shun-Loong, Yang, Yu-Fu, Tseng Wu, Yu-Hsiang, Yu, Yueh-Chiang, Chen, Ming-Chang , Fan, Chin-Hwa , Chiu, Shean-Bii, Chi, Lai-Ping	Shih, Jui Pin, Tsai, Cheng-Fu, Shih, Jui-Lin, Shih Li, Chueh-Chu, Chen, Yen-Fu, Chen, Shun-Loong, Yang, Yu-Fu, Tseng Wu, Yu-Hsiang, Yu, Yueh-Chiang, Chen, Ming-Chang , Fan, Chin-Hwa , Chiu, Shean-Bii, Chi, Lai-Ping	Shih, Jui Pin, Shih Li, Chueh-Chu, Chen, Yen-Fu, Chen, Shun-Loong, Yang, Yu-Fu, Tseng Wu, Yu-Hsiang, Yu, Yueh-Chiang, Chen, Ming-Chang , Fan, Chin-Hwa , Chiu, Shean-Bii, Chi, Lai-Ping
NT\$2,000,000 (inclusive) to NT\$5,000,000	—	Tsai, Cheng-Fu	—	Shih, Jui Pin, Tsai, Cheng-Fu
NT\$5,000,000 (inclusive) to NT\$10,000,000	—	—	—	—
NT\$10,000,000 (inclusive) to NT\$15,000,000	—	—	—	—
NT\$15,000,000 (inclusive) to NT\$30,000,000	—	—	Cheng, Li-Ping	Cheng, Li-Ping
NT\$30,000,000 (inclusive) to NT\$50,000,000	—	—	—	—
NT\$50,000,000 (inclusive) to NT\$100,000,000	—	—	—	—
Over NT\$100,000,000	—	—	—	—
Total	14 persons	14 persons	14 persons	14 persons

2. Remunerations for Supervisors: Not applicable.

3. Remuneration for the President and Vice President

Unit: NT\$1,000

Title	Name	Pay (A)		Retirement allowance (B)		Bonus and special fee (C)		Profit-sharing employee bonus (D)				Ratio of total remuneration A, B, C, and D to net Income (%) (Note 1)		Whether compensations to Directors from an invested company other than the Company's subsidiary
		The Company	All companies in the consolidated financial statements	The Company	All companies in the consolidated financial statements	The Company	All companies in the consolidated financial statements	The Company		All companies in the consolidated financial statements		The Company	All companies in the consolidated financial statements	
								Cash amount	Stock amount	Cash amount	Stock amount			
Chairman and President	Shih, Jui Pin (Note 2)	1,910	22,774	20,129	20,219	—	432	280	—	280	—	-152.88	-299.36	—
Director and Senior Consultant	Cheng, Li-Ping (Note 2)													
President	Luo, Li-Zhen (Note 3)													
President	Zhang, Wan-Quan (Note 4)													
Chief Operating Officer (COO)	Tseng, Chao-Ting (Note 5)													
Vice President	Ting, Ho-Hwa (Note 6)													
Vice President	Kanai, Mari													
Vice President	Tseng, Yan-Min													
Assistant Manager	Chen, Yung-Shen													
Assistant Manager	Piao, Yuan-Zhe													
Head of China Market Department	Lei Yan (Note 7)													
Accounting Manager	Ho, Mei-Hsiu (Note 8)													
Finance Manager	Lin, Huang-Ming (Note 8)													
Chief Financial Officer (CFO)	Chang, Chih-Wei (Note 8)													
Audit Manager	Hsu, Ming-Hsiung													

- Note1. After-tax net income for the Company and the Consolidated Entity was both NT\$14,599 thousand in 2018
- Note2. Due to personal career planning goals, Mr. Cheng, Li-Ping has assumed the position of Senior Consultant at the Company since August 3, 2018, and the President position was concurrently served by Chairman Shih, Jui-Pin.
- Note3. Due to personal career planning goals, Mr. Lou, Li-Zhen resigned as President of the subsidiary Airmate Electrical (Shenzhen) Limited on August 22, 2018, and the President position was concurrently served by Chairman Shih, Jui-Pin.
- Note4. Due to personal career planning goals, Mr. Zhang, Wan-Quan has assumed the position of Senior Consultant at Airmate Electric (Jiujiang) Co., Limited since February 12, 2019, and the President position was concurrently served by Chairman Shih, Jui-Pin.
- Note5. Since November 14, 2018, Mr. Tseng, Chao-Ting has served as Chief Operating Officer of the Company.
- Note6. Due to personal career planning goals, Ms. Ting, Ho-Hwa resigned as Vice President of China Market Department on February 28, 2018, and the Vice President position was concurrently served by Chairman Shih, Jui-Pin.
- Note7. Since September 10, 2018, Ms. Lei Yan has served as Vice President of China Market Department.
- Note8. Due to personal career planning goals, Mr. Chang, Chih-Wei resigned as Finance and Accounting Manager on January 10, 2019, and the Accounting Manager position was assumed by Manager Ho, Mei-Hsiu, while the Finance Manager position was assumed by Manager Lin, Huang-Ming.

Table of Range of Remuneration

Table of Remuneration Ranges for President and Vice Presidents	Name of President and Vice President	
	The Company	All companies in the consolidated financial statements
Lower than NT\$2,000,000	Shih, Jui Pin, Shih, Jui-Lin, Yen-Min Tseng, Chen, Yung-Shen, Hsu, Ming-Hsiung	Kanai, Mari, Shih, Jui-Lin, Ting, Ho-Hwa, Chen, Yung-Shen, Hsu, Ming-Hsiung, Tseng, Chao-Ting, Luo, Li-Zhen , Piao, Yuan-Zhe , Lei Yan
NT\$2,000,000 (inclusive) to NT\$5,000,000 (exclusive)	Cheng, Li-Ping, Shih, Jui Pin	Shih, Jui Pin, Yen-Min Tseng, Chang, Chih-Wei, Zhang, Wan-Quan
NT\$5,000,000 (inclusive) to NT\$10,000,000 (exclusive)	—	—
NT\$10,000,000 (inclusive) to NT\$15,000,000 (exclusive)	—	—
NT\$15,000,000 (inclusive) to NT\$30,000,000 (exclusive)	Cheng, Li-Ping	Cheng, Li-Ping
NT\$30,000,000 (inclusive) to NT\$50,000,000 (exclusive)	—	—
NT\$50,000,000 (inclusive) to NT\$100,000,000 (exclusive)	—	—
Over NT\$100,000,000	—	—
Total	6 persons	14 persons

4. Names of Managers and the Distribution of Employee's Profit-sharing Bonus

As of April 8, 2019; Unit: NT\$1,000

	Title	Name	Stock amount	Cash amount	Total	Ratio of total amount to the after-tax net income (%)
Manager	Chairman and President	Shih, Jui Pin (Note 2)	—	280	280	6.57
	President	Cheng, Li-Ping (Note 2)				
	Vice President	Tseng, Yan-Min				
	Vice President	Kanai, Mari				
	Chief Operating Officer (COO)	Tseng, Chao-Ting (Note 3)				
	Assistant Manager	Chen, Yung-Shen				
	Assistant Manager	Piao, Yuan-Zhe				
	Head of China Market Department	Lei Yan (Note 4)				
	Manager	Hsu, Ming-Hsiung				
	President	Luo, Li-Zhen (Note 5)				
	President	Wan-Chuan Chang (Note 6)				
	Vice President	Ting, Ho-Hwa (Note 7)				
	Manager	Ho, Mei-Hsiu (Note 8)				
	Manager	Lin, Huang-Ming (Note 8)				
	Chief Financial Officer (CFO)	Chang, Chih-Wei (Note 8)				

Note1. In the most recent year (2018), the Board of Directors has approved of a cumulative sum of NT\$4,026 thousand on March 4, 2019 as remuneration for employees. The Shareholders' Meeting has yet to approve of this resolution.

Note2. Due to personal career planning goals, Mr. Cheng, Li-Ping has assumed the position of Senior Consultant at the Company since August 3, 2018, and the President position was concurrently served by Chairman Shih, Jui-Pin.

Note3. Since November 14, 2018, Mr. Tseng, Chao-Ting has served as Chief Operating Officer of the Company.

Note4. Since September 10, 2018, Ms. Lei Yan has served as Vice President of China Market Department.

Note5. Due to personal career planning goals, Mr. Lou, Li-Zhen resigned as President of the subsidiary Airmate Electrical (Shenzhen) Limited on August 22, 2018, and the President position was concurrently served by Chairman Shih, Jui-Pin.

Note6. Due to personal career planning goals, Mr. Zhang, Wan-Quan has assumed the position of Senior Consultant at Airmate Electric (Jiujiang) Co., Limited since February 12, 2019, and the President position was concurrently served by Chairman Shih, Jui-Pin.

Note7. Due to personal career planning goals, Ms. Ting, Ho-Hwa resigned as Vice President of China Market Department on February 28, 2018, and the Vice President position was concurrently served by Chairman Shih, Jui-Pin.

Note8. Due to personal career planning goals, Mr. Chang, Chih-Wei resigned as Finance and Accounting Manager on January 10, 2019, and the Accounting Manager position was assumed by Manager Ho, Mei-Hsiu, while the Finance Manager position was assumed by Manager Lin, Huang-Ming.

- (III) Separate comparison and explanation of analysis of the ratio of remunerations paid by the Company and all companies in the Consolidated Financial Statements to Company directors, supervisors, President, and Vice President in the most recent two years on the after-tax net income and explanation of policies, standards, and packages for payment of remuneration, as well as the procedures followed for determining the remuneration, and their linkages to business performance and future risk exposure.

- (1) Ratio of remunerations paid to Directors, Supervisors, President and Vice President in the most recent two years on the after-tax net income

Unit: NT\$1,000

Item	2018		2017	
	Remunerations	ratio on the after-tax net income (%)	Remunerations	ratio on the after-tax net income (%)
Director	35,462	242.91	22,589	529.90
President and Vice President	43,704	299.36	34,163	762.00

Note: the after-tax net income (loss) from the Company and the Consolidated Financial Statements in 2018 and 2017 were NT\$14,599 thousand and NT\$4,262 thousand respectively.

- (2) Policies, standards, and packages for payment of remuneration, as well as the procedures followed for determining the remuneration, and their linkages to business performance and future risk exposure.

A. Directors

Directors' remunerations are determined by the Board of Directors by referencing recommendations from the Remuneration Committee and average industry standards. Directors' remunerations include travel expenses, appropriation of net income and allowances. Appropriation of net income has been clearly stipulated in the Company's Articles of Association, in which any surplus present after paying income taxes and offsetting any past deficits, 10% of which will be appropriated as legal capital reserve and special capital reserve, and the no more than 3% of the balance can be appropriated as Directors' remunerations. After a resolution has been approved at the Board meeting, the Board will submit the proposal for approval at the Shareholders' Meeting.

B. President and Vice Presidents

Remunerations for President and Vice Presidents are handled in accordance with the Company's HR regulations in line with their titles, levels of contribution to the Company and in consideration of industry standards.

IV. Status of Corporate Governance

(I) The Board of Directors

Functions of the Board of Directors

The Board of Directors has convened 6 meetings (A) in 2018 with the following attendance from its members:

Title	Name	Actual attendance in person (B)	Times of proxy attendance	Actual presence (attendance) rate (%) (B/A)	Note
Chairman	Shih, Jui Pin	6	-	100	Elected by the General Shareholders' Meeting on May 15, 2012 and re-elected by the General Shareholders' Meeting on June 11, 2018. Attendance required: 6 times.
Director	Cheng, Li-Ping	6	-	100	Elected by the General Shareholders' Meeting on May 15, 2012 and re-elected by the General Shareholders' Meeting on June 11, 2018. Attendance required: 6 times.
Director	Tsai, Cheng-Fu	6	-	100	Elected by the General Shareholders' Meeting on May 15, 2012 and re-elected by the General Shareholders' Meeting on June 11, 2018. Attendance required: 6 times.
Director	Shih Li, Chueh-Chu	6	-	100	Elected by the General Shareholders' Meeting on May 15, 2012 and re-elected by the General Shareholders' Meeting on June 11, 2018. Attendance required: 6 times.
Director	Shih, Jui-Lin	4	-	100	Elected by the General Shareholders' Meeting on June 11, 2018. Attendance required: 4 times.
Director	Chen, Shun-Loong	4	-	100	Elected by the General Shareholders' Meeting on June 11, 2018. Attendance required: 4 times.
Director	Chen, Yen-Fu	4	-	100	Elected by the General Shareholders' Meeting on June 11, 2018. Attendance required: 4 times.
Director	Yang, Yu-Fu	2	-	100	Released of duty by the General Shareholders' Meeting on June 11, 2018. Attendance required: 2 times.
Director	Yu, Yueh-Chiang	-	1	0	Released of duty by the General Shareholders' Meeting on June 11, 2018. Attendance required: 2 times.
Director	Tseng Wu, Yu-Hsiang	2	-	100	Released of duty by the General Shareholders' Meeting on June 11, 2018. Attendance required: 2 times.
Independent Director	Chen, Ming-Chang	6	-	100	Elected by the General Shareholders' Meeting on May 15, 2012 and re-elected by the General Shareholders' Meeting on June 29, 2015. Attendance required: 6 times.
Independent Director	Fan, Chin-Hwa	5	1	83.33	Elected by the General Shareholders' Meeting on May 15, 2012 and re-elected by the General Shareholders' Meeting on June 11, 2018. Attendance required: 6 times.
Independent Director	Chiu, Shean-Bii	5	-	83.33	Elected by the General Shareholders' Meeting on May 15, 2012 and re-elected by the General Shareholders' Meeting on June 11, 2018. Attendance required: 6 times.
Independent Director	Chi, Lai-Ping	5	1	83.33	Elected by the Special Shareholders' Meeting on September 5, 2012 and re-elected by the General Shareholders' Meeting on June 11, 2018. Attendance required: 6 times.

Title	Name	Actual attendance in person (B)	Times of proxy attendance	Actual presence (attendance) rate (%) (B/A)	Note
Other required disclosure:					
I.	The date of the Board meeting, the term, content of the proposals, opinion of all members of the Audit Committee, and the Company's handling of the opinion of Audit Committee shall be recorded under the following circumstances in the operations of the Board of Directors meeting:				
	(I) Items listed in Article 14-3 of Securities and Exchange Act: Please see Material Resolutions from the Board of Directors meetings.				
	(II) Other than the matters mentioned above, other resolutions on which the Independent Directors have dissenting opinions or qualified opinions: None.				
II.	In regards to the recusal of Directors from voting due to conflict of interests, the name of the Directors, the proposal, reasons for recusal due to conflict of interests and voting outcomes should be stated: None.				
III.	Measures taken to strengthen the functions of the Board (for example, establishing an Audit Committee and enhancing information transparency) for the current year and the most recent year and the implementation: the Company's Board of Directors has approved of the establishment of an Audit Committee and a Remuneration Committee on June 8, 2012, and the Company will disclose relevant information on the Company website and a designated website from the competent authority to enhance information transparency in the future.				

(II) Implementation of Audit Committee Meetings

Audit Committee has been set up on June 8, 2012 and its composition includes all Independent Directors. At least one meeting will be convened in each quarter, and the operations of the Audit committee in the current year and the most recent year are as follow:

The Audit Committee convened 6 meetings in 2018 (A), with the following attendance records from the Independent Directors:

Title	Name	Actual attendance in person (B)	Times of proxy attendance	Actual attendance rate (%) (B/A) (Note)	Note
Independent Director	Chen, Ming-Chang	6	-	100	Re-elected as Independent Director on June 11, 2018 and also serves as a member of the Audit Committee in accordance with the Articles of Association. Attendance required: 6 times.
Independent Director	Fan, Chin-Hwa	5	1	83.33	Re-elected as Independent Director on June 11, 2018 and also serves as a member of the Audit Committee in accordance with the Articles of Association. Attendance required: 6 times.
Independent Director	Chiu, Shean-Bii	5	-	83.33	Re-elected as Independent Director on June 11, 2018 and also serves as a member of the Audit Committee in accordance with the Articles of Association. Attendance required: 6 times.
Independent Director	Chi, Lai-Ping	5	1	83.33	Re-elected as Independent Director on June 11, 2018 and also serves as a member of the Audit Committee in accordance with the Articles of Association. Attendance required: 6 times.

Other required disclosure:					
I.	The date of the board meeting, the term, content of the proposals, opinion of all Independent Directors, and the Company's handling of the opinion of Independent Directors shall be recorded under the following circumstances in the operations of the Board of Directors meeting:				
	(I) Items listed in Article 14-3 of Securities and Exchange Act.				
	1. 1st meeting of the Audit Committee on March 9, 2019				
	Content of proposal:				

- a. Approved the Company's 2017 "Statement of Internal Control System."
- b. Approved the amendments to the Company's Articles of Association.
- c. Approved the Company's 2017 Business Report and Consolidated Financial Statements.
- d. Approved the amendments to the "Rules of Procedures for Board of Directors Meeting."
- e. Approved the amendments to the "Rules of Procedure for Shareholders Meeting."
- f. Approved the amendments to the "Procedures for Election of Directors and Independent Directors."
- g. Approved the amendments to the "Rules Governing the Scope of Powers of Independent Directors."
- h. Approved the proposal for the CPA for the 2018-2020 Group Consolidated Reports.
- i. Approved the replacement of the Company's CPA.
- j. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong).
Resolution: approved by all attending Directors.
2. 2nd meeting of the Audit Committee on May 4, 2018
Content of proposal:
 - a. Approved the Company's First Quarter (Q1) 2018 Consolidated Financial Statements.
 - b. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong) and Airmate Electrical (Shenzhen) Limited.
Resolution: approved by all attending Directors.
3. 3rd meeting of the Audit Committee on June 11, 2018
Content of proposal:
 - a. Approved the nomination of the Convener of the 3rd term of the Audit Committee.
Resolution: Director Fan, Chin-Hwa would assume the positions of Convener and Chair of the Audit Committee upon resolution from all members of the Audit Committee without dissenting opinion.
4. 4th meeting of the Audit Committee on August 3, 2018
Content of proposal:
 - a. Approved the Company's Second Quarter (Q2) 2018 Consolidated Financial Statements.
 - b. Approved the Budget Execution Report and updated the forecasts for the next 6 months.
 - c. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong) and Airmate Electrical (Jiujiang) Limited.
 - d. To maintain the Company's creditworthiness and to protect shareholders' rights, the Committee proposed to implement the 5th share buyback.
 - e. Approved the Company's proposal to amend the "Regulations Governing the Acquisition and Disposal of Assets."
Resolution: the proposal was revoked by all attending Directors.
5. 5th meeting of the Audit Committee on November 2, 2018
Content of proposal:
 - a. Approved the Company's Third Quarter (Q3) 2018 Consolidated Financial Statements.
 - b. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong).
Resolution: approved by all attending Directors.
Resolution: approved by all attending Directors.
Extempore Motion:
Proposed by Director Fan, Chin-Hwa: when the securities exchange was examining practices of internal country, it announced that the Company's loaning of funds did not comply with relevant regulations by mail. Therefore, it is recommended for the management to communicate with relevant individuals including CPA and to propose improvement measures at the next Board of Directors meeting to rectify this deficiency.
6. 6th meeting of the Audit Committee on December 14, 2018
Content of proposal:

- a. Approved the Annual Audit Plan of Airmate (Cayman) International Co Limited.
- b. Approved the Company's renewal of liability insurance for Directors and managers.
- c. Approved the Company's 2019 Budget Plan.
- d. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong).

Resolution: approved by all attending Directors.

(II) In addition to the items in the preceding paragraphs, other resolutions passed by the majority of all Directors but yet to be approved by the Audit Committee: None.

- II. In regards to the recusal of Independent Directors from voting due to conflict of interests, the name of the Independent Directors, the proposal, reasons for recusal due to conflict of interests and voting outcomes should be stated: None
- III. Communications between the Independent Directors and the internal Audit Manager and CPAs (for instance, method and communications over Company finance and business and results): the Company's audit department regularly provides audit reports on internal audits to the Independent Directors, and Independent Directors can also review the Company's financing and business executions at all times as the Board of Directors also reports the latest audit status, and should they have any questions or concerns about the Company's operations, they can immediately communicate with managers of relevant departments and undertake necessary review and improvement. In addition, in terms of communications with CPA, in case an Independent Director has any questions or concerns about the Company's financing and business executions, he or she can communicate with the Company's CPAs at any time and to instruct relevant departments to undertake necessary review and improvement.

(III) Implementation of Corporate Governance and the Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the Reasons

Item	State of operations			Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary	
I. Does the Company establish and disclose its corporate governance practices in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"?		V	The Company has yet to establish a set of Corporate Governance Best Practice Principles.	And relevant principles will be established based on actual needs in the future.
II. Shareholding structure & shareholders' rights (I) Does the Company establish an internal procedure for handling shareholder proposals, inquiries, disputes, and litigation? Are such matters handled according to the internal procedure? (II) Does the Company maintain a register of major shareholders with controlling power as well as a register of persons exercising ultimate control over those major shareholders? (III) Does the Company establish and enforce risk control and firewall systems with its affiliated businesses? (IV) Does the Company stipulate internal rules that prohibit company insiders from trading securities using information not disclosed to the market?	V V V	 V	(I) The Company's spokesperson is responsible for handling shareholder recommendations and disputes, and any questions concerning legal issues will be handled by the Company's lawyers. (II) The Company maintains substantial shareholders with controlling power as well as the persons exercising ultimate control over those substantial shareholders through the shareholders' registry provided by our share transfer agency. (III) Handled in accordance with the Company's relevant internal control system. (IV) The Company has established "Codes of Ethical Conduct for Directors, Supervisors, and Managers" as well as "Ethical Code of Conduct for Employees."	Items (1), (2), and (4) do not contain major deviations from the requirements of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and item (3) will be implemented based on actual needs in the future.
III. Composition and Responsibilities of the Board of Directors (I) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly? (II) Other than the Compensation Committee and the Audit Committee which are required by law, does	 V	V V	(I) The Company has yet to establish a diversification policy for the composition of the Board of Directors. (II) The Company has yet to establish other committees. (III) The Company has yet to establish a methodology. (IV) The Company's CPAs have already made recusal on obligations that either directly or indirectly concern their interests, and the Board of Directors periodically	Item (4) does not contain major deviations from the requirements of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and items (1), (2), and (3) will be implemented based on actual needs in the future.

Item	State of operations			Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary	
the Company plan to set up other Board committees? (III) Has the Company established methodology for evaluating the performance of its Board of Directors on an annual basis? (IV) Does the Company regularly evaluate the independence of its CPAs?			evaluates the independence of the CPAs.	
IV. Does the TWSE/TPEX listed company set up a full/part-time corporate governance unit or personnel to be in charge of corporate governance affairs including, but not limited to, providing directors and supervisors with required information for business execution, handling relevant matters with board meetings and shareholders meetings according to the laws, processing corporate registration and amendment registration, and preparing minutes of board meetings and shareholders meetings?	V		The Company's CFO concurrently serves as the Secretary to the Board of Directors.	In compliance with requirements of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and does not show major deviations.
V. Has the Company set up communication channels for its stakeholders, and set up designated zone for stakeholders on its corporate website, as well as appropriately responds to important CSR issues raised by stakeholders?	V		Relevant departments are responsible for receiving and handling interests and rights related to consumers, suppliers, financial institutions, and other stakeholders of the Company. Employees can provide their opinions and feedback to various levels of the management.	In compliance with requirements of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and does not show major deviations.
VI. Has the Company commissioned a professional stock affair agency to manage shareholders' meetings and other relevant affairs?	V		The Company's share transfer agency is the Share Agency Service at CTBC Bank.	In compliance with requirements of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and does not show major deviations.
VII. Information Disclosure			(I) The Company announces business status on the	In compliance with

Item	State of operations			Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary	
(I) Does the Company establish a website to disclose information on financial operations and corporate governance? (II) Does the Company adopt other means of information disclosure (such as establishing an English language website, delegating a professional to collect and disclose Company information, implement a spokesperson system, and disclosing the process of investor conferences on the Company website)?	V V		Company website and discloses financial information on the Market Observation Post System (MOPS). (II) The Company has established a corporate website in Chinese, and has designated personnel for information collection and disclosure. The spokesperson system is also implemented in practice.	requirements of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and does not show major deviations.
VIII. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing Liability Insurance for Directors)?	V		(I) Employee rights and employee wellness: (II) Investor relations, supplier relations and rights of stakeholders: The Company conducts detailed announcement of various information that shall be disclosed pursuant to laws and regulations to serve as references for the investors and the public. Contracts are periodically signed with suppliers to maintain positive supplier relations. (III) Directors' training: The Company provides training records at all times to aid in Directors' decision-making and regularly announce directors' training status. (IV) Implementation of risk management policies and risk evaluation measures: The Company's management officers are all equipped with adequate understanding of the industry and the Company's positioning as well as the Company development objectives for the future. Every decision is made upon prudent evaluation and then discussed, authorized and implemented by the Board of Directors to ensure Company assets and to	In compliance with requirements of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and does not show major deviations.

Item	State of operations			Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary	
			reduce risks. (V) Implementation of customer relations policies: The Company has set up customer service hotline, and designated personnel will provide consultation services and responses to suggestions and complaints from the consumers. At the same time, relevant departments are also informed via written correspondence. (VI) The Company purchases liability insurance for Directors on an annual basis.	
IX. Has the Company prepared corporate governance self-evaluation reports or asked another professional agency to prepare corporate governance evaluation reports? (If yes, please elaborate on opinions from Directors, self-evaluation or external evaluation results, major deficiencies or recommendations and progress of improvement)	V		The Company has prepared corporate governance self-evaluation report and participated in the corporate governance evaluation from the competent authority. Such evaluations are all carried out in accordance with relevant laws and regulations.	In compliance with requirements of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and does not show major deviations.

(IV) Composition, Duties, and Operations of the Remuneration Committee

1. Composition of the Remuneration Committee

Identity	Conditions Name	Has more than 5 years of work experience and the following professional qualifications			Meets conditions of independence (note)								Concurrently serves as a member of the Remuneration Committee at other publicly listed companies	Note
		Serves in lecturer roles or above in public or private college institutions in one of the following departments: business administration, law, finance, accounting, or another discipline relevant to the company's operations	Currently serving as a judge, prosecutor, lawyer, accountant, or other professional practice or technician that must undergo national examinations and specialized license.	Has work experiences in business administration, law, finance, accounting, or another discipline relevant to the company's operations	1	2	3	4	5	6	7	8		
Independent Director	Chen, Ming-Chang	✓	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	None
Independent Director	Fan, Chin-Hwa	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	—	None
Independent Director	Chiu, Shean-Bii	✓	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	—	None
Independent Director	Chi, Lai-Ping	—	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	None

Note: For any committee member who fulfills the relevant condition(s) 2 years before being elected or during the term of office, please provide the [] sign in the field next to the corresponding condition(s). ✓

- (1) Not employed by the Company or an affiliated company.
- (2) Not a director or supervisor of the Company or any of its affiliated companies. But Independent Directors established by the Company or its parent company or subsidiary pursuant to the national or local laws are excluded from this condition.
- (3) Not a natural-person shareholder who holds more than 1% of issued shares or is ranked top 10 in terms of the total quantity of shares held, including the shares held in the name of the person's spouse, minor children, or in the name of others.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship in the 3 preceding criteria
- (5) Not a director, supervisor, or employee of an institutional shareholder that directly holds more than 5% of the total number of issued shares of the Company or is ranked top 5 in terms of quantity of shares held.
- (6) Not a director, supervisor, managerial officer, or shareholder holding more than 5% of shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
- (8) Not been involved in any of situations defined in Article 30 of the Company Act.

2. Duties of the Remuneration Committee

The Remuneration Committee shall exercise the care of a good administrator to faithfully perform the following duties and present its recommendations to the Board of Directors for discussion.

- (1) Formulate and regularly review the policy, system, standards, and structure of the performance assessment, salary, and remuneration of directors and managerial officers.
- (2) Establishing and periodically reviewing the compensations for directors, supervisors, and managerial officers. The Remuneration Committee shall convene at least two (2) meetings, called by its Convener, in each year, and meetings can also be called whenever necessary.

3. Operations of Remuneration Committee

- (1) The Company's Remuneration Committee consists of four (4) members.
- (2) Term of office of the current Committee: from June 11, 2018 to June 10, 2021. The Remuneration Committee has convened 2 meetings (A) in the most recent year (2018) with the following qualifications and attendance records from its members:

Title	Name	Actual attendance in person (B)	Times of proxy attendance	Actual attendance rate (%) (B/A) (Note)	Note
Convener	Chen, Ming-Chang	2	—	100	
Member	Fan, Chin-Hwa	1	1	50	
Member	Chiu, Shean-Bii	2	—	100	
Member	Chi, Lai-Ping	2	—	100	

Other required disclosure:

- I. In the event the Board of Directors does not adopt or wishes to amend the proposals of the Remuneration Committee, please state the date and number of the Board meeting, the content of the proposals, resolution from the Board of Directors, and the method the opinion from the Remuneration Committee was handled (e.g., if the salaries and compensations approved by the Board was higher than the suggested levels from the Remuneration Committee, please state the differences and reasons): None.
- II. For the decisions made by the Remuneration Committee, if there are documented records of members who veto or withhold from expressing the comment, the date, term, agenda, all members' comments, and the measures for handling these comments shall be elaborated: None.

- (V) Enforcement of Social Responsibility: The Company's systems, measures, and status of implementation for environmental protection, community participation, social contribution, community service, social welfare, consumers' interests, human rights, safety and health and other social responsible activities

Item	State of operations			Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Summary	
I. Implementing corporate governance		V		
(I) Has the Company set out corporate social responsibility (CSR) policies and systems and reviewed the effectiveness of CSR actions?	V		(I) Though the Company has yet to establish a corporate social responsibility policy or system, but in order to realize our obligations as a corporate citizen and to give back to the society, the Company will continue to work toward fulfilling corporate governance, developing a sustainable environment, maintaining social welfare and reinforcing CSR and information disclosure in practice.	Though items (2) and (4) deviate from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, the Company plans to establish relevant social responsibility policy or system and to establish a full-time (or part-time) department to promote CSR in the future to fulfill items (1) and (3).
(II) Does the Company conduct CSR education and training on a regular basis?		V	(II) The Company regularly organizes corporate ethics education and training and promotions for employees.	
(III) Does the Company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the Board of Directors?	V		(III) The Company's administrative department prepares donation budgets and reviews the objects of our donations and grants, and regularly reports to the Board of Directors.	
(IV) Has the Company established a fair compensation policy and linked employee performance evaluation with CSR policy, as well as established a precise and effective incentive and disincentive system?			(IV) 1. Though the Company has already established a fair remuneration policy but the policy is not yet linked to employee performance evaluation with CSR policy. The Company also has yet to establish a precise and effective incentive and disincentive system. 2. The Company advocates for corporate business ethics and the Company's Code of Conduct during new employee training.	

Item	State of operations			Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Summary	
			3. The Company often announces and advocates relevant rules and practices, and gives appropriate bonuses or point deductions based on the attendance of corporate ethics training courses on the annual performance evaluation.	
II. Environmentally sustainable development (I) Is the Company committed to improving resource efficiency and to the use of renewable materials with low environmental impact? (II) Has the Company set an environmental management system designed to industry characteristics? (III) Does the Company monitor the impact of climate change on operations, carry out greenhouse gas (GHG) inventories, and set energy conservation and greenhouse gas reduction strategy?	V V V		(I) To effectively reduce production costs, the Company has always been committed to the effective utilization of various resources over the long-term. Since the wastes resulting from Company production processes are mostly wastewater and gas waste, the Company has already purchased waste water and gas waste treatment facilities; this, potential burden and impacts to the environment are fairly limited. (II) The Company has received numerous ISO certification, and stipulated comprehensive standards on quality management, safety and health, and environmental protection. In addition, the Company is also in compliance with review standards from the competent authority and meet the expectations from the public regarding giving back to the society. (III) The Company is always committed to energy conservation and carbon reduction on a day-to-day basis during operations to conserve power usage during production.	In compliance with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies.
III. Promotion of social welfare (I) Does the Company set policies and procedures in compliance with regulations and internationally recognized human rights principles? (II) Has the Company established employee appeal	V V V		(I) The Company has established management rules pursuant to relevant laws and regulations and clearly states protection of human rights and employee welfare in these rules. Holding true to the philosophy of "achieving synergistic growth of the	Items (1) to (7) are in compliance with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, and (8) and (9) will be established based on actual needs

Item	State of operations			Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Summary	
system and channels, and are employee appeals handled appropriately?	V		Company and its employees," the Company also provides various employee benefits.	in the future.
(III) Does the Company provide employees with a safe and healthy work environment and regularly undertakes employees' safety and health training?	V		(II) The Company has designated personnel to handle customer complaints.	
(IV) Has the Company established a mechanism for regular communication with employees and use reasonable measures to notify employees of operational changes which may cause significant impact to employees?	V		(III) The Company is dedicated to employee safety and health and implements new employee and on-the-job training as well as routine external and internal training. We also organize employee safety and fire safety and rescue drills and regularly provide allowances for employee health checkup as well as provide suitable and adequate protective gear and tools.	
(V) Has the Company established an effective competency development career training program for employees?	V	V	(IV) Each subsidiary within the Group handles worker-related management tasks based on the labor laws and standards of the country of their operations. In addition, labor unions, which serve as tools of communication for the local management level have been set up in our subsidiaries in China to protect the welfare and interests of local employees.	
(VI) Has the company established relevant policies and systems of appeal for consumer rights for the processes of research and development, purchasing, production, operations, and services?		V	(V) The Company has not yet established effective career planning and development plans for its employees and will propose relevant plans in the future.	
(VII) Does the Company follow regulations and international standards in the marketing and labeling of its products and services?			(VI) The Company provides a transparent and effective consumer grievance and complaint procedure to ensure consumer rights and for our products and services, and a Customer Service section has been set up on our corporate website.	
(VIII) Does the company evaluate environmental and social track records before engaging with potential suppliers?			(VII) The Company is in compliance with relevant provisions and international standards for marketing and making of products and services.	
(IX) Does the Company's contracts with major suppliers include termination clauses if they violate CSR policy and cause significant environmental and social impact?				

Item	State of operations			Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Summary	
			(VIII) The Company has promoted the concept and methodology of corporate social responsibility to our suppliers to collectively protect the environment and to enhance employee safety and health. (IX) The Company's contracts with major suppliers currently do not have clear-cut termination clauses if suppliers violate the CSR policy and causes significant environmental and social impact.	
IV. Strengthening information disclosure (I) Does the Company disclose relevant and reliable CSR information on its website and the MOPS?		V	(I) Upon public issuance, the Company will disclose relevant CSR information on the Annual Report or the Prospectus in each year as well as disclose relevant CSR information on the Company website. (II) Currently, the Company has not yet prepared a CSR Report.	Improvements will continue to be made in the future.
V. If the Company has established its own corporate social responsibility code of practice in accordance with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, please describe any deviations from the prescribed code of practice and the actual activities taken by the Company: The Company has not yet established CSR Best Practice Principles.				
VI. Other important information to facilitate better understanding of the Company's implementation of corporate social responsibility: (I) The Company implements and reinforces environmental management pursuant to related environmental protection laws and has achieved stellar performance in this aspect. The Company has repeatedly been honored with accolades from local governments including "Ecological Model Enterprise" and "National Low-Carbon Economy Model Business." (II) The Company responds to community activities from time to time and actively participates in community welfare events. (III) The Company provides channels for employees to provide suggestions and feedback and organizes various meetings including employee relations meeting and employee seminars so that personnel from every level and every department can fully express their opinions.				
VII. Other information regarding the CSR Report, which are verified by certification bodies: None.				

(VI) Implementation of Ethical Corporate Management and Measures for its Implementation

Item	State of operations			Deviation from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and reasons
	Yes	No	Summary	
I. Establishing Corporate Code of Conduct and Ethics Policy and implementation measures (I) Does the company have bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and the commitment regarding implementation of such policy from the Board of Directors and the management team? (II) Does the company establish relevant policies which are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequence of violation and complaint procedures in such policies? (III) Does the company establish appropriate compliance measures for the business activities prescribed in paragraph 2, article 7 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and any other such activities associated with high risk of unethical conduct?	V V	V	(I) The Company has established "Codes of Ethical Conduct for Directors and Managers". The Company advocates for and encourages honest and ethical conduct during meetings from time to time. In addition, Chapter III of the Employee Code of Conduct clearly states our management mission of "integrity, faithfulness, work-related and diligence." (II) The "Codes of Ethical Conduct for Directors and Managers" clearly state that in case a Director or a managerial officer violates the Codes, besides facing legal consequences, the violator will also face administrative liability from the Company's audit department. In case of serious offense, the Company will report to the Board of Directors meeting for discussion. Moreover, to ensure that conduct from Directors and managers are in compliance with the Codes and to foster the understanding of the Company's ethical corporate standards from stakeholders including customers, suppliers, and other external parties, the Company organizes communications meetings and conducts employees' educational training to foster a corporate culture dedicated to ethical conduct. Promotions are undertaken in public areas and other venues and slogans are also designed to advocate for and to remind the internal staff of our corporate culture. (III) The Company has also designed internal control and internal audit systems, and the audit department is in charge of carrying out relevant auditing activities. Important business activities such as sales and	No deviation is found between the Company's measures in (1) and (2) and the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and item (3) will be established based on actual needs in the future.

Item	State of operations			Deviation from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and reasons
	Yes	No	Summary	
			purchasing are treated as key auditing factors, and if material fraudulent or inappropriate conducts are found, incentive/disincentive measures will be carried out immediately.	
II. Ethics management practices (I) Has the Company assessed the integrity records of its business partners, and included business conduct and ethics related clauses in its business contracts? (II) Has the Company established a unit which is dedicated to or tasked with promoting the Company's ethical standards and reports directly to the Board of Directors with periodical updates on relevant matters? (III) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement such policy properly? (IV) Does the Company establish effective accounting and internal control systems that are audited by internal auditors or CPA periodically in order to implement relevant policies on ethical conducts? (V) Does the Company organize internal and external training geared towards business integrity practices on a regular basis?	V V V V	V	(I) Before transacting with key accounts, the Company always verifies the credit of the counterparty to prevent dealing with those with records of unethical conduct. (II) Though the Company has yet to establish a designated unit for promotions of ethical corporate management, the Audit Office conducts audit during each year both regularly and from time to time as needed. Audit results are reported to the Audit Committee and the Board of Directors, and appropriate remedial measures are taken. (III) The Company has established an employee whistleblower and grievance mailbox. When an employee finds any violation of the laws or the Ethical Code of Conduct, any person may report about the incident to the employee grievance mailbox and a designated person will report and handle the matter accordingly. (IV) The design of the Company operations includes an accounting system which provides standards and guidelines for accounting personnel to follow during operations. At the same time, an internal control mechanism has been established pursuant to laws and the Company's actual practices, and audit procedures are carried out accordingly and results are reported to the Audit Committee and the Board	No deviation is found between the Company's measures in items (1), (3), (4), and (5) and Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and item (2) will be established based on actual needs in the future.

Item	State of operations			Deviation from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and reasons
	Yes	No	Summary	
			of Directors. (V) The Company regularly organizes internal and external training geared towards business integrity practices.	
III. Implementation of the whistleblowing system (I) Has the Company established specific whistleblowing and incentive procedures, set up conveniently accessible whistleblowing channels, and designated responsible individuals to handle the complaint received? (II) Does the Company establish standard operation procedures for investigating the whistleblowing incidents or complaints received and ensure relevant protection for confidentiality? (III) Does the Company adopt proper measures to prevent a whistleblower from retaliation for reporting about the incident?	V V V		(I) The Company has established an employee whistleblower and grievance mailbox. When an employee finds any violation of the laws or the Ethical Code of Conduct, any person may report about the incident to the employee grievance mailbox and a designated person will report and handle the matter accordingly.	No deviation is found between the Company's measures and Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies.
IV. Strengthening information disclosure (I) Does the Company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System (MOPS)?	V		(I) The Company has established a corporate website in Chinese, and specific sections which disclose about the Company's operations to investors will be established on the website based on actual needs in the future. (II) The Company has set up designated personnel to be in charge of collection of Company information and to disclose such information on the MOPS.	No deviation is found between the Company's measures and Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies.
V. Where the Company has stipulated its own ethical corporate management best practices according to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any differences between the prescribed best practices and the actual activities taken by the Company: The Company is a foreign enterprise, and though currently the Company has yet to establish its own ethical corporate management best practices. Nevertheless, as stated in the paragraphs above, substantially, the Company has already operated and regulated various operating activities in accordance with the Ethical Corporate				

Item	State of operations			Deviation from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and reasons
	Yes	No	Summary	
Management Best Practice Principles for TWSE/GTSM Listed Companies in practice. In addition, the Company has established four seats of Independent Directors, internal auditing system and formulated the Audit Committee. Currently, no material abnormal violation of the ethical corporate management has occurred, and the Company will amend relevant management methods in accordance with current status and legal regulations to fulfill standards included in the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies.				
VI. Other important information that facilitate the understanding of the implementation of ethical corporate management (such as review and amendment of the Company's Ethical Corporate Management Best Practice Principles):				
1. The Company advocates our determination toward ethical business management and relevant policies to transacting counterparties, and invites them to participate in the Company's educational training:				
(1) The Company often invites suppliers to participate in our meetings, which in addition to reviewing quality problems found in purchases, also promote our management philosophies.				
(2) The Company reviews new suppliers and undertakes onsite and written review in accordance with items included on the "Supplier Evaluation Form." Items include inspections of processes, delivery, and fulfillment of social responsibility. At the same time, we also interview the persons-in-charge of suppliers to understand their management philosophies and whether they are operated in an ethical manner.				
2. Reviewing and amending the Company's Ethical Corporate Management Best Practice Principles:				
Chapter III of the Company's Employee Code of Conduct clearly states our management mission of "integrity, faithfulness, work-related and diligence." The Company has always viewed this mission statement as the highest guiding principle of Company operations and management since inception. Based on the aforementioned management principle, the Company has further established the "Codes of Ethical Conduct for Directors and Managers" to sure that conducts from Directors and managers are in compliance with ethical standards and to foster the understanding of the Company's ethical corporate standards from stakeholders including customers, suppliers, and other external parties.				

(VII) Method of inquiring about the Company's corporate governance policy and relevant regulations:

Though the Company has yet to establish policies of corporate governance and relevant regulations, substantially, the Company has already operated and carried out corporate governance in practice, and the Company will take setting relevant regulations into consideration to further promote the operations of corporate governance in practice.

(VIII) Other material information that can enhance the understanding of corporate governance within the Company:

1. Directors' training records:

Title	Name	Date of Appointment	Date of Training or Continuing Studies	Organizer	Name of course	Length of course (in hours)
Chairman	Shih, Jui Pin	2018.06.11	2018.11.02	Taiwan Corporate Governance Association	Key Points of Amendments to the Company Act in 2018	3
			2018.12.14	Taiwan Corporate Governance Association	2018 Amendments to the Income Tax Act in Taiwan and Amendments to Individual Income Tax Law of the People's Republic of China	3
Director	Cheng, Li-Ping	2018.06.11	2018.11.02	Taiwan Corporate Governance Association	Key Points of Amendments to the Company Act in 2018	3
			2018.12.14	Taiwan Corporate Governance Association	2018 Amendments to the Income Tax Act in Taiwan and Amendments to Individual Income Tax Law of the People's Republic of China	3
Director	Tsai, Cheng-Fu	2018.06.11	2018.11.02	Taiwan Corporate Governance Association	Key Points of Amendments to the Company Act in 2018	3
			2018.12.14	Taiwan Corporate Governance Association	2018 Amendments to the Income Tax Act in Taiwan and Amendments to Individual Income Tax Law of the People's Republic of China	3
Director	Shih Li, Chueh-Chu	2018.06.11	2018.11.02	Taiwan Corporate Governance Association	Key Points of Amendments to the Company Act in 2018	3
			2018.12.14	Taiwan Corporate Governance Association	2018 Amendments to the Income Tax Act in Taiwan and Amendments to Individual Income Tax Law of the People's Republic of China	3
Director	Shih, Jui-Lin	2018.06.11	2018.11.02	Taiwan Corporate Governance Association	Key Points of Amendments to the Company Act in 2018	3
			2018.12.11	Taiwan Corporate Governance Association	Enterprise Management and Strategies of Media Crisis Management	3
			2018.12.14	Taiwan Corporate Governance Association	2018 Amendments to the Income Tax Act in Taiwan and Amendments to Individual Income Tax Law of the People's Republic of China	3
			2018.12.18	Taiwan Corporate Governance Association	Trends and Challenges in Information Security Governance	3
Director	Chen, Shun-Loong	2018.06.11	2018.11.02	Taiwan Corporate Governance Association	Key Points of Amendments to the Company Act in 2018	3

Title	Name	Date of Appointment	Date of Training or Continuing Studies	Organizer	Name of course	Length of course (in hours)
Director	Chen, Yen-Fu	2018.06.11	2018.11.02	Taiwan Corporate Governance Association	Key Points of Amendments to the Company Act in 2018	3
			2018.12.11	Taiwan Corporate Governance Association	Enterprise Management and Strategies of Media Crisis Management	3
			2018.12.14	Taiwan Corporate Governance Association	2018 Amendments to the Income Tax Act in Taiwan and Amendments to Individual Income Tax Law of the People's Republic of China	3
			2018.12.18	Taiwan Corporate Governance Association	Trends and Challenges in Information Security Governance	3
Independent Director	Chiu, Shean-Bii	2018.06.11	2018.11.08	Securities & Futures Institute	Conference on the Advanced Practice of Corporate Directors and Supervisors (including Independent Directors and Supervisors)	3
			2018.12.14	Taiwan Corporate Governance Association	2018 Amendments to the Income Tax Act in Taiwan and Amendments to Individual Income Tax Law of the People's Republic of China	3
Independent Director	Fan, Chin-Hwa	2018.06.11	2018.11.02	Taiwan Corporate Governance Association	Key Points of Amendments to the Company Act in 2018	3
			2018.12.14	Taiwan Corporate Governance Association	2018 Amendments to the Income Tax Act in Taiwan and Amendments to Individual Income Tax Law of the People's Republic of China	3
Independent Director	Chi, Lai-Ping	2018.06.11	2018.03.30	Taiwan Securities Association	Domestic and Foreign Anti-Money Laundering Laws and Countering the Financing of Terrorism	3
			2018.09.19	Taiwan Corporate Governance Association	14th International Corporate Governance Forum	6
			2018.11.02	Taiwan Corporate Governance Association	Key Points of Amendments to the Company Act in 2018	3

2. Managers' training records

Title	Name	Date of Appointment	Date of Training or Continuing Studies	Organizer	Name of course	Length of course (in hours)
Accounting Manager	Ho, Mei-Hsiu	2014.01.01	2018.04.18	Accounting Research and Development Foundation	"Corporate Governance Responses for Amendments to the Labor Standards Act Corporate Governance Practices: Impacts and Responses to the Latest Amendments to the Labor Standards Act	3
			2018.05.30	Accounting Research and Development Foundation	Crisis Management: Key to Success Corporate Governance Practices: Countermeasures to Corporate Crisis and Case Studies	3
			2018.10.04 ~ 2018.10.05	Accounting Research and Development Foundation	Continuing Training Class for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12
Audit Manager	Hsu, Ming-Hsiung	2017.10.11	2018.05.02	Computer Audit Association	Investigation Practices on Money Laundering and Suspicious Transactions	6
			2018.05.07	Accounting Research and Development Foundation	Trends of E-commerce Business Models in the Internet Era and Relevant Internal Audit and Internal Control Mind-sets	6
			2018.06.08	Accounting Research and Development Foundation	Internal Control Concept and Internal Auditing Analysis	6
			2018.06.12	Computer Audit Association	Audit of Cloud-based Service Management	6
			2018.11.06	Accounting Research and Development Foundation	Trends of E-commerce Business Models in the Fintech Era and Relevant Internal Audit and Internal Control Mind-sets	6
			2018.12.17	Accounting Research and Development Foundation	"New Financial Statement Audit Report" Influences on and Responses for Internal Auditing Practices	6
			2018.12.18	The Institute of Internal Auditors - Chinese Taiwan	Analysis of Fulfilling the Three Barriers - Role, Functionalities, and Corporate Ethics of Internal Audit	6

Title	Name	Date of Appointment	Date of Training or Continuing Studies	Organizer	Name of course	Length of course (in hours)
CFO	Chang, Chih-Wei	2015.05.15	2018.07.19 ~ 2018.07.20	Accounting Research and Development Foundation	Continuing Training Class for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12

Note 1: Due to personal career planning goals, Mr. Chang, Chih-Wei has resigned as the Finance and Accounting Manager as of January 10, 2019, and the Accounting Manager position was assumed by Manager Ho, Mei-Hsiu, while the Finance Manager role was assumed by Manager Lin, Huang-Ming.

3. Other material information: To facilitate investors to understand relevant information, all Company information is announced on the Market Observation Post System (MOPS).

(IX) Implementation of Internal Control System

1. Statement of Internal Control System

Airmate (Cayman) International Co Limited
Statement of Internal Control System

Date: March 4, 2019

Pursuant to self-evaluation results, the Company will make the following statement regarding the Company's internal control system for the year ended in 2018:

- I. The Company has clearly stipulated that the establishment, implementation, and maintenance of the internal control system are the responsibilities of the Company's Board of Directors and managers, and the Company has established the internal control system (ICS). Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency of our reporting, and compliance with applicable rulings, laws and regulations.
- II. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and the Company takes immediate remedial actions in response to any identified deficiencies.
- III. The Company evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the Regulations). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities. Each constituent component includes a number of categories. Please see rules from the "Regulations" for details on the aforementioned categories.
- IV. The Company has already adopted the aforementioned ICS assessment items to evaluate the effectiveness of ICS design and implementation.
- V. Based on the findings of such evaluation, the Company believes that, as of December 31, 2018, we have maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable rulings, laws and regulations.
- VI. This Statement is an integral part of the Company's Annual Report for the year 2018 and Prospectus, and is publicly disclosed. 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.
- VII. We hereby declare that this Statement has been approved by the Board of Directors on March 4, 2019. Among the eleven (11) Directors present in the meeting, none held dissenting opinions, and the remaining have all agreed with the contents of this Statement.

Airmate (Cayman) International Co Limited
Chairman: SHIH, JUI PIN
Signed or sealed: SHIH, JUI PIN

2. Any CPA commissioned to conduct a project review of the ICS shall disclose the CPA's audit report: None.

(X) From the most recent fiscal year up to the publication of the Annual Report, explain the circumstances in which the Company and its personnel have been punished by law, the disincentives measures put in place for breaching the internal control system, and any material deficiencies and revisions: None.

(XI) Significant resolutions made in/by the Shareholders' Meeting and the Board of Directors in the most recent fiscal year up to the date of publication of this Annual Report:

1. Material resolutions from the Shareholders' Meeting in 2018 and as of the date of publication of this Annual Report:

Date of meeting	Proposal	Result of Resolution	Status of implementation
2018.06.11	a. Adopted the Company's 2018 Business Report and Consolidated Financial Statements. b. Adopted the Company's 2016 Appropriation of Net Income. c. Approved the amendments to the "Articles of Association." d. Approved the amendments to the "Rules of Procedure for Shareholders Meeting." e. Approved the amendments to the "Procedures for Election of Directors and Independent Directors." f. Approved the Company's general Directors' re-elections (including 4 seats of Independent Directors). g. Approved the Company's general Directors' re-elections (including 4 seats of Independent Directors).	Voting results of the proposal - total voting rights represented at the Shareholders meeting: 99,185,226 votes; total votes in favor of the proposal: 86,274,084 votes, accounting for 86.98% on the total votes. The proposal was approved as proposed. Voting results of the proposal - total voting rights represented at the Shareholders meeting: 99,185,226 votes; total votes in favor of the proposal: 86,366,684 votes, accounting for 87.08% on the total votes. The proposal was approved as proposed. Voting results of the proposal - total voting rights represented at the Shareholders meeting: 99,185,226 votes; total votes in favor of the proposal: 86,322,084 votes, accounting for 87.03% on the total votes. The proposal was approved as proposed. Voting results of the proposal - total voting rights represented at the Shareholders meeting: 99,185,226 votes; total votes in favor of the proposal: 86,384,084 votes, accounting for 87.09% on the total votes. The proposal was approved as proposed. Voting results of the proposal - total voting rights represented at the Shareholders meeting: 99,185,226 votes; total votes in favor of the proposal: 86,384,084 votes, accounting for 87.09% on the total votes. The proposal was approved as proposed. Election results of the proposal. Director: Cheng, Li-Ping; 134,690,631 votes. Director: Tsai, Cheng-Fu; 127,956,099 votes. Director: Shih, Jui Pin; 123,135,142 votes.	— — Implemented in accordance with the amended "Articles of Association." Implemented in accordance with the amended "Rules of Procedure for Shareholders Meeting." Implemented in accordance with the amended "Procedures for Election of Directors and Independent Directors." —

	p. Approved the Company's 2017 Remunerations of Independent Directors. q. Approved the Company's 2017 Compensations for managerial officers. r. Approved the Directors' general re-elections and the list of nominees of Independent Directors. s. Approved the period for accepting nomination of Independent Directors, number of seats to be elected and the venue for accepting nomination. t. Approved the release of newly appointed Directors from non-compete clause. u. Approved the calling of 2018 Annual General Shareholders' Meeting.	Approved by all other attending Directors after recusal from certain Directors to prevent conflicts of interest. Approved by all other attending Directors after recusal from certain Directors to prevent conflicts of interest. After recusal from certain Directors to prevent conflicts of interest, all other Directors have reviewed that the Independent Directors are in compliance with the professional qualifications, status of independence and limitations on concurrent positions pursuant to the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" and have approved the proposal. Approved by all attending Directors. Approved by all attending Directors. Approved by all attending Directors. Approved by all attending Directors.
2018.05.04	a. Approved the Company's First Quarter (Q1) 2018 Consolidated Financial Statements. b. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong) and Airmate Electrical (Shenzhen) Limited. Approved the proposal to set up a subsidiary in Taiwan to meet operating needs.	Approved by all attending Directors. Approved by all attending Directors.
2018.06.11	a. Approved the nominations of the Company Chairman and Deputy Chairman. b. Approved the Company's appointment of the Remuneration Committee.	Proposal was approved by all attending Directors with unanimous vote for Mr. Shih, Jui Pin and Mr. Tsai, Cheng-Fu to serve as the Chairman and Deputy Chairman respectively. Approved by all attending Directors. After recusal from the stakeholders (Independent Directors Chih-Hwa Fan, Chiu, Shean-Bii, Chen, Ming-Chang and Chi, Lai-Ping) before the proposal was put to a vote, Chairman Shih, Jui Pin's proposal for paying a lump sum payment of Directors remunerations and remuneration for

		Independent Directors was approved as proposed by all other attending Directors. After approving the proposal and appointing the members of the Remuneration Committee, members have elected among themselves for Chen, Ming-Chang to serve as the Convener and Chair of the Remuneration Committee.
2018.08.03	a. Approved the Company's Second Quarter (Q2) 2018 Consolidated Financial Statements. b. Approved the 2018 Budget Execution Report and updated the budget for the second half of the year. c. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong) and Airmate Electrical (Jiujiang) Limited. d. Approved the Company's proposal to replace the President. e. Approved the implementation of the 5th share back to maintain the Company's creditworthiness and to protect shareholders' rights. f. Approved the Company's proposal to amend the "Regulations Governing the Acquisition and Disposal of Assets." g. Approved the Company's remunerations for Directors from January to June 2018. h. Approved the Company's remunerations for Independent Directors from January to June 2018. i. Approved the Company's remunerations for managerial officers from January to June 2018.	Approved by all attending Directors. Approved by all attending Directors. Approved by all attending Directors. Approved by all attending Directors. The proposal was revoked by all attending Directors. Approved by all attending Directors. Approved by all attending Directors. After recusal from the stakeholders (Independent Directors Chih-Hwa Fan, Chiu, Shean-Bii, Chen, Ming-Chang and Chi, Lai-Ping) before the proposal was put to a vote, Chairman Shih, Jui Pin's proposal for NT\$100,000 per month as remunerations for Directors was approved as proposed by all other attending Directors. After recusal from the relevant stakeholders, the proposal was approved as proposed by all other attending Directors.
2018.11.02	a. Approved the Company's Third Quarter (Q3) 2018 Consolidated Financial Statements. b. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong).	Approved by all attending Directors. Approved by all attending Directors.
2018.12.14	a. Approved the Annual Audit Plan of Airmate (Cayman) International Co Limited. b. Approved the Company's renewal of liability insurance for Directors and managers. c. Approved the Company's 2019 Budget Plan.	Approved by all attending Directors. Approved by all attending Directors. Approved by all attending Directors. Approved by all attending

	d. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong). e. Approved the Company's remunerations for Directors from January to December 2018. f. Approved the Company's remunerations for Independent Directors from January to December 2018. g. Approved the Company's remunerations for managerial officers from January to December 2018.	Directors. Approved by all attending Directors. Approved by all attending Directors. After recusal from the relevant stakeholders, the proposal was approved as proposed by all other attending Directors.
2019.03.04	a. Approved the Company's 2018 "Statement of Internal Control System." b. Approved the Company's 2018 Business Report and Consolidated Financial Statements. c. Approved the Company's 2018 employee bonus and Directors' bonus allocations. d. Approved the Company's 2018 Statement of Deficit Compensations. e. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong). f. Approved the Company's proposal to amend the "Regulations Governing the Acquisition and Disposal of Assets." g. Approved the amendments to the Company's Articles of Association. h. Approved the Company's proposal to establish "Standardized Operating Procedures to Handle Directors' Requests." i. Approved the Company's subsequent appointment of the Accounting Manager and termination of the Finance Manager. j. Approved the calling of 2019 Annual General Shareholders' Meeting.	Approved by all attending Directors. Approved by all attending Directors. Approved by all attending Directors. Approved by all attending Directors. Approved by all attending Directors and total amount of endorsements/guarantees and estimated costs will be prepared within one week after the meeting. Approved by all attending Directors. Approved by all attending Directors. Approved by all attending Directors. Approved by all attending Directors, and background investigation of Mr. Lin, Huangming will be completed ASAP and reported to the Directors via email. Approved by all attending Directors.
2019.05.03	a. Approved the Company's First Quarter (Q1) 2019 Consolidated Financial Statements. b. Approved the proposal for the endorsement/guarantee for subsidiary Waon Development Limited (Hong Kong) and Airmate Electrical (Shenzhen) Limited and Airmate Electric Appliances (Jiujiang) Co Limited.	Approved by all attending Directors. Approved by all attending Directors.

(XII) In the most recent year and as of the date of publication of the Annual Report, for dissenting opinions from Directors or Supervisors for material resolutions passed by the Board meeting that were recorded or included written statements, please indicate the contents: None.

(XIII) In the most recent fiscal year and as of the date of publication of the Annual Report, a summary of the resignation and dismissal of the Company personnel including Chairman, President, accounting managers, finance managers, internal auditing managers and R&D managers:

April 8, 2019

Title	Name	Date of appointment	Date of dismissal	Resignation or reason of termination
Chairman	Cheng, Li-Ping	2015.06	2018.06	Expiration of term of service
President	Cheng, Li-Ping	2016.01	2018.08	Career planning
President	Luo, Li-Zhen	2015.12	2018.08	Career planning
President	Zhang, Wan-Quan	2014.09	2019.02	Career planning
Vice President	Ting, Ho-Hwa	2012.12	2018.02	Career planning
CFO	Chang, Chih-Wei	2015.05	2019.01	Career planning

V. Information on CPA Professional Fees

Range of compensations for CPA professional fees

Accounting Firm	Name of CPA		Auditing period	Remarks
KPMG Taiwan	Tzu-Hui Lee	Kuan-Wen Lu	From January 1, 2018 to December 31, 2018	-

Unit: NT\$1,000

Category of fees Range of compensations		Audit Fees	Non-audit fees (Note 1)	Total
1	Less than NT\$2,000,000	-	38	38
2	NT\$2,000,000 (inclusive) to NT\$4,000,000	-	-	-
3	NT\$4,000,000 (inclusive) to NT\$8,000,000	-	-	-
4	NT\$6,000,000 (inclusive) to NT\$8,000,000	5,940	-	5,940
5	NT\$8,000,000 (inclusive) to NT\$10,000,000	-	-	-
6	NT\$10,000,000 or above	-	-	-

Note 1: Non-audit fees were mostly attributable to business registration fees.

- (I) Where the Company's non-audit fees paid to the CPAs, accounting firm of the CPAs and its related companies reaches one-fourth (25%) of the audit fees: Not applicable.
- (II) Where the Company replaces the CPA and the auditing fees paid in the year of the replacement is less than that of the previous year: None.
- (III) Auditing fee is 15% or more less than the previous year: None.

VI. Information on Replacement of CPA:

Replacement of CPA in 2018 was in line with KPMG's internal job rotations.

VII. Where the Company's Chairman, President, or any managerial officer in charge of finance or accounting matters who has, in the most recent year, held a position at the accounting firm of its CPA or at an affiliated enterprise: None.

VIII. Conditions of share transfer and changes in equity pledge from the Directors, Supervisors, managers, and shareholders who hold more than 10% of shares, from the past year up to the date printed on the Annual Report:

- (I) Share transfer and changes in equity pledge from Directors, Supervisors, managers, and substantial shareholders holding more than 10% of Company shares

Unit: shares

Title	Name	2018		As of April 8, 2019	
		Changes in shares held	Changes in shares pledged	Changes in shares held	Changes in shares pledged
Chairman and President (Note 2)	Shih, Jui Pin	—	—	13,000	—
Director (Note 2)	Cheng, Li-Ping	—	—	—	—
Director	Tsai, Cheng-Fu	—	—	—	—
Director	Shih Li, Chueh-Chu	15,000	—	11,000	—
Director (Note 3)	Shih, Jui-Lin	—	—	—	—
Director (Note 3)	Chen, Shun-Loong	—	—	—	—
Director (Note 3)	Chen, Yen-Fu	—	—	—	—
Independent Director	Chen, Ming-Chang	—	—	—	—
Independent Director	Fan, Chin-Hwa	—	—	—	—
Independent Director	Chiu, Shean-Bii	—	—	—	—
Independent Director	Chi, Lai-Ping	—	—	—	—
Substantial shareholders holding 10% or more of Company shares	Pearl Place Holdings Ltd	—	—	—	—
Chief Operating Officer (COO) (Note 4)	Tseng, Chao-Ting	36,000	—	34,040	—
Vice President	Tseng, Yan-Min	—	—	—	—
Vice President	Kanai, Mari	—	—	—	—

Title	Name	2018		As of April 8, 2019	
		Changes in shares held	Changes in shares pledged	Changes in shares held	Changes in shares pledged
Assistant Manager	Chen, Yung-Shen	—	—	—	—
Head of China Market Department (Note 5)	Lei Yan	—	—	—	—
Assistant Manager	Piao, Yuan-Zhe	—	—	—	—
Manager	Hsu, Ming-Hsiung	—	—	—	—
Accounting Manager (Note 9)	Ho, Mei-Hsiu	—	—	—	—
Finance Manager (Note 9)	Lin, Huang-Ming	—	—	—	—
Director (Note 3)	Yang, Yu-Fu	—	—	—	—
Director (Note 3)	Tseng Wu, Yu-Hsiang	—	—	—	—
Director (Note 3)	Yu, Yueh-Chiang	—	—	—	—
President (Note 6)	Luo, Li-Zhen	—	—	—	—
President (Note 7)	Zhang, Wan-Quan	—	—	—	—
Vice President (Note 8)	Ting, Ho-Hwa	—	—	—	—
CFO (Note 9)	Chang, Chih-Wei	—	—	—	—

Note 1: Directors were elected at the Shareholders' Meeting on June 11, 2018.

Note 2: Due to personal career planning goals, Mr. Cheng, Li-Ping has assumed the position of Senior Consultant at the Company since August 3, 2018, and the President position was concurrently served by Chairman Shih, Jui-Pin.

Note 3: Directors Shih, Jui-Lin, Chen, Yen-Fu, and Chen, Shun-Loong were elected as Directors of the Company in the Shareholders' Meeting on June 11, 2018; Directors Yang, Yu-Fu, Tseng Wu, Yu-Hsiang, and Yu, Yue-Chiang were released of their duties as Directors of the Company as their terms of office had expired.

Note 4: Since November 14, 2018, Mr. Tseng, Chao-Ting has served as Chief Operating Officer of the Company.

Note 5: Since September 10, 2018, Ms. Lei Yan has served as Vice President of China Market Department.

Note 6: Due to personal career planning goals, Mr. Lou, Li-Zhen resigned as President of the subsidiary Airmate Electrical (Shenzhen) Limited on August 22, 2018, and the President position was concurrently served by Chairman Shih, Jui-Pin.

Note 7: Due to personal career planning goals, Mr. Zhang, Wan-Quan has assumed the position of Senior Consultant at Airmate Electric (Jiujiang) Co., Limited since February 12, 2019, and the President position was concurrently served by Chairman Shih, Jui-Pin.

Note 8: Due to personal career planning goals, Ms. Ting, Ho-Hwa resigned as Vice President of China Market Department on February 28, 2018, and the Vice President position was concurrently served by Chairman Shih, Jui-Pin.

Note 9: Due to personal career planning goals, Mr. Chang, Chih-Wei resigned as Finance and Accounting Manager on January 10, 2019, and the Accounting Manager position was assumed by Manager Ho, Mei-Hsiu, while the Finance Manager position was assumed by Manager Lin, Huang-Ming.

(II) Information on equity transfer from related parties: None.

(III) Information on equity pledge from related parties: None.

IX. Relationship information between 10 largest substantial shareholders

As of April 8, 2019; Unit: shares; %

Name	Shares held in person		Shares held by spouse and minor children		Shares held in others' names		Names and relationships of top ten substantial shareholders who are spouses or second-degree relatives of each other		Total
	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Title (or name)	Relation	
Pearl Place Holdings Limited	25,592,500	20.83	—	—	—	—	—	—	
Representative: Shih, Jui Pin	1,359,522	1.11	247,000	0.20	—	—	—	—	
Superb Rhyme Limited	6,529,096	5.31	—	—	—	—	—	—	
Representative: Tseng, Po-Feng	359,000	0.29	351,250	0.29	—	—	Tseng Wu, Yu-Hsiang	Spouse	
Joyful Will Group Limited	4,834,213	3.94	—	—	—	—	—	—	
Representative: East Network Ltd.	0	0.00	—	—	—	—	—	—	
Strong Fit Holdings Ltd	4,510,495	3.67	—	—	—	—	—	—	
Representative: Lin, Mei-Hsiang	48,250	0.04	3,095,192	2.52	—	—	Cheng, Li-Ping	Spouse	
Tsai, Cheng-Fu	3,666,837	2.98	0	0.00	—	—	Robust View Ltd. Representative: Liu, Tsui-Hui	Spouse	
Cheng, Li-Ping	3,095,192	2.52	48,250	0.04	—	—	Strong Fit Holdings Ltd. Representative: Lin, Mei-Hsiang	Spouse	
Robust View Ltd	2,816,828	2.29	—	—	—	—	—	—	
Representative: Liu, Tsui-Hui	0	0.00	3,666,837	2.98	—	—	Tsai, Cheng-Fu	Spouse	
Dedicated investment account of Sunshine International Co., Ltd, in the custody of CTBC Bank	2,692,745	2.19	—	—	—	—	—	—	
Dedicated investment account of Shih-Hsun Co., Ltd, in the custody of CTBC Bank	2,573,742	2.10	—	—	—	—	—	—	
Dedicated investment account of Jung Wei Co., Ltd, in the custody of CTBC Bank	2,448,625	1.99	—	—	—	—	—	—	

- X. Shares held by the Company, its directors, supervisors, managers, and businesses either directly or indirectly controlled by the Company as a result of investment, and the ratio of consolidated shares held

As of April 8, 2019; Unit: NT\$1,000; shares; %

Reinvestment business	Investments of the Company		Investments of Directors, Supervisors, Managers and directly or indirectly controlled businesses		Total Ownership	
	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio
Airmate International Holding Co Limited	63,974	100.00	—	—	63,974	100.00
Airmate China International Limited (BVI)	69,761	100.00	—	—	69,761	100.00
Wacon Development Limited (Hong Kong)	(Note 1)	100.00	—	—	—	100.00
Airmate Electric (Shenzhen) Co., Limited	(Note 1)	100.00	—	—	—	100.00
Zhejiang Airmate Electrical Sales Limited	(Note 1)	40.00	—	—	—	40.00
Airmate Electric (Jiujiang) Co., Limited	(Note 1)	100.00	—	—	—	100.00
Shenzhen Airmate Technology Co. Limited	5,100	51.00	—	—	5,100	51.00

Note 1: This is a related company and hence does not issue shares.

Chapter 4 Funding Status

I. Capital & Shares

(I) Sources of capital:

1. The process of capital formation

Unit: NT\$1,000/thousand shares

Month/Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Note		
		Number of shares	Amount	Number of shares	Amount	Sources of Share Capital	Capital Increased by Assets Other than Cash	Others
2004.04	HK\$ 0.1	5,000,000	HK\$ 500,000	160,000	HK\$ 16,000	Capital stock at establishment	-	
2008.07	HK\$ 0.1	5,000,000	HK\$ 500,000	160,400	HK\$ 16,040	Capital increase by cash of HKD\$ 40 thousand	-	
2009.12	HK\$ 0.1	5,000,000	HK\$ 500,000	176,100	HK\$ 17,610	Capital increase of HK\$1,570 thousand from employee bonus	-	
2009.03	HK\$ 0.1	5,000,000	HK\$ 500,000	186,600	HK\$ 18,660	Capital increase by cash HK\$ 1,050 thousand	-	
2009.12	HK\$ 0.1	5,000,000	HK\$ 500,000	219,100	HK\$ 21,910	Capital increase of HK\$ 3,250 thousand by retained earnings	-	
2010.07	HK\$ 0.1	5,000,000	HK\$ 500,000	225,900	HK\$ 22,590	Capital increase of HK\$ 680 thousand by employee bonus	-	
2012.02	HK\$ 1	500,000	HK\$ 500,000	225,900	HK\$ 225,900	Capital increase of HK\$203,310 thousand from capital reserve	-	
2012.05	HK\$ 1	500,000	HK\$ 500,000	254,900	HK\$ 254,900	Capital increase by cash of NT\$29,000 thousand	-	
2012.08	NT\$ 10	216,250	NT\$ 2,162,500	110,244	NT\$ 1,102,443	Conversion of denomination from Hong Kong Dollar to NT Dollar	-	Note 1
2013.03	NT\$ 10	216,250	NT\$ 2,162,500	122,494	NT\$ 1,224,942	Capital Increase by Cash		Note 2
2014.09	NT\$ 10	216,250	NT\$ 2,162,500	122,885	NT\$ 1,228,846	convertible bonds of NT\$3,904 thousand	-	Note 3
2016.11	NT\$ 10	216,250	NT\$ 2,162,500	122,844	NT\$ 1,228,436	Write-off of treasury stock of NT\$ 41 thousand for the reduction in capital	-	Note 4

Note 1: On July 26, 2012, the shareholders' meeting approved a resolution to change the company's stock denomination currency from Hong Kong dollar to New Taiwan dollar.

Note 2: The official document No. 1010012865 issued by the FSC on January 3, 2013.

Note 3: September 2014, the date on which the bondholders of convertible corporate bonds exercised of their conversion rights.

Note 4: November 17, 2016, is the record date for the reduction of capital of treasury stock

2. Types of shares issued

Unit: Shares

Type of Shares	Authorized Capital			Note
	Outstanding Shares	Unissued shares	Total	
Registered ordinary shares	122,843,586	93,406,414	216,250,000	Listed Company Stock

Information for Shelf Registration: Not applicable

(II) Shareholder Structure

April 8, 2019; Unit: Shares

Shareholder Structure of Number of Shares	Government agencies	Financial institutions	Other Legal Persons	Individual	Foreign institutions and foreigners	Treasury shares	Total
Number of shareholders	-	-	10	1,812	84	1	1,907
Shareholding (Shares)	-	-	1,232,000	51,700,943	68,652,643	1,258,000	122,843,586
Shareholding Percentage (%)	-	-	1.00	42.09	55.89	1.02	100.00

The percentages of shares held by China investors is: 3.42%

(III) Share Distribution

1. Common Stock

April 8, 2019; Unit: Shares

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Shareholding Percentage (%)
1 ~ 999	189	22,155	0.02
1,000 ~ 5,000	1,181	2,426,144	1.97
5,001 ~ 10,000	166	1,325,008	1.08
10,001 ~ 15,000	66	869,091	0.71
15,001 ~ 20,000	42	770,982	0.63
20,001 ~ 30,000	50	1,271,907	1.04
30,001 ~ 40,000	26	935,483	0.76
40,001 ~ 50,000	26	1,221,888	0.99
50,001 ~ 100,000	52	3,729,905	3.04
100,001 ~ 200,000	36	5,183,151	4.22
200,001 ~ 400,000	25	6,957,291	5.66
400,001 ~ 600,000	12	5,777,210	4.70
600,001 ~ 800,000	6	4,118,032	3.35
800,001 ~ 1,000,000	2	1,705,875	1.39
1,000,001 or more	28	86,529,464	70.44
Total	1,907	122,843,586	100.0

2. Preferred stock: Not applicable.

(IV) List of Major Shareholders

Name, Number of shares held, and shareholding percentage of shareholders who hold more than 5% of the shares or the 10 largest shareholders:

April 8, 2019; Unit: Shares

Name of Major Shareholders	Shares	Nationality/Place of registration	Shareholding (Shares)	Shareholding Percentage (%)
Pearl Place Holdings Limited		British Virgin Islands	25,592,500	20.83
Superb Rhyme Limited		British Virgin Islands	6,529,096	5.31
Joyful Will Group Limited		American Samoa	4,834,213	3.94
Strong Fit Holdings Limited		British Virgin Islands	4,510,495	3.67
Tsai, Cheng-Fu		The Republic of China	3,666,837	2.98
Cheng, Li-Ping		The Republic of China	3,095,192	2.52
Robust View Limited		British Virgin Islands	2,816,828	2.29
Investment account of Sunshine International Co., Ltd.(entrusted to the custody of CTBC Bank)		The Republic of China	2,692,745	2.19
Investment account of Shixun Limited Company (entrusted to the custody of CTBC Bank)		The Republic of China	2,573,742	2.10
Investment account of Zhongwei Limited Company (entrusted to the custody of CTBC Bank)		The Republic of China	2,448,625	1.99

(V) Market Price, Book Value, Earnings, and Dividends in Past 2 Years

Unit: Thousand shares; NT\$

Item \ Year			2017	2018	As of March 31, 2019
Market price per share	High		34.35	26.30	28.70
	Low		22.50	12.05	13.00
	Average		28.05	19.42	22.82
Net value per share	Before distribution		21.02	20.04	21.35
	After distribution		20.92	Not yet distributed	Not yet distributed
Earnings per share	Weighted Average Shares		121,852	121,614	121,586
	Earnings per share	Before retrospective adjustment	0.03	(0.12)	0.36
		After retrospective adjustment	Not applicable	Not yet distributed	Not yet distributed
Dividends per share	Cash Dividends		1.00	Not yet distributed	Not yet distributed
	Stock dividends	Dividends from retained earnings	-	Not yet distributed	Not yet distributed
		Dividend for paid-in capital	-	Not yet distributed	Not yet distributed
	Accumulated Undistributed Dividends		-	Not yet distributed	Not yet distributed
Return on Investments	Price/Earnings Ratio (Note 1)		935.00	(161.83)	63.39
	Price/Dividend Ratio (Note 2)		280.5	Not yet distributed	Not yet distributed
	Cash dividend yield (Note 4)		0.36	Not yet distributed	Not yet distributed

Note 1: Price/Earnings Ratio = Average closing share price of the period/Earnings per share.

Note 2: Price/Dividend Ratio = Average closing share price of the period/Cash dividend per share.

Note 3: Cash dividend yield = Cash dividend per share/average closing share price of the year.

(VI) The Company's dividend policy, implementation status, and expected significant changes

1. Dividend Policies under the Articles of Incorporation

The Board may, subject to approval by the Members by way of Ordinary Resolution or, in the case of Article 12.3(a) hereof, Supermajority Resolution and subject to these Articles and any direction of the Company in general meeting, declare a dividend to be paid to the Members in proportion to the number of shares held by them, and such dividend may be paid in cash, shares or in whole or in part in various assets in accordance with Article 14.2. No unpaid dividend shall bear interest as against the Company. Subject to Article 14.1 of the Constitution, the board of directors may decide to distribute all or part of the dividend in specific assets (shares or securities of other companies) and deal with the related issues arising from the distribution; only, before the board of directors decides the value of such assets, the board of directors shall

obtain the consent of the shareholders who intend to receive the specific assets and send the value of such assets to certified public accountants of the Republic of China for auditing and attestation. The board of directors may issue cash to some shareholders according to the value of such assets in order to adjust the rights and interests of shareholders. Without limiting the generality of the above provisions, the board of directors may deliver such specific assets to the trustee on such conditions as it deems appropriate and issue fractional shares. In the absence of any violation of the Cayman Company Law, the company shall not issue dividends or distribute other dividends except for the realized profits of the Company, the premium account for the issuance of shares or the dividends paid or distributed by the reserve or other funds allowed by the Cayman Company Law. Except as otherwise provided by the rights attached to any shares, all dividends and other distributions shall be paid according to the number of the shares that a Member holds. If any share is issued on terms providing that it shall rank for dividend as from a particular date, that share shall rank for dividends accordingly.

Except as otherwise stipulated in the Cayman Company Law, the Articles of Incorporation or the rights attached to shares, the Company may distribute profits in accordance with a proposal for profit distribution approved by the Board and sanctioned by the Members by an Ordinary Resolution, in annual general meetings.

For so long as the shares are registered on the Emerging Stock Market or listed on the Taipei Exchange (TPEX), if there are profits, in making the profit distribution recommendation, the Board shall set aside out of the profits of the Company for each financial year: (i) a reserve for payment of tax for the relevant financial year; (ii) an amount to offset losses incurred in previous years; (iii) ten percent (10%) surplus reserve (hereinafter referred to as "legal reserve") (unless the legal reserve has reached the Company's paid-in capital) ; and (iv) special surplus reserve required by the Securities Authority in accordance with the Rules of public companies. If there is still a surplus, upon the approval of the shareholders' meeting it may be distributed in the following order:

- a. Five percent (5%) to ten percent (10%) as a bonus to employees, including employees of the Company's subsidiaries.
- b. No more than three percent (3%) as remuneration for the Directors (excluding independent directors);
- c. If there is any surplus, all or part of the undistributed surpluses accumulated in previous years may be distributed to shareholders in proportion to the shareholding ratio; and
- d. Dividends distributed to shareholders are in the forms of share dividends and cash dividends, and the cash dividends shall not be less than fifty percent (50%) shareholders' dividends distributed according to the above. Unless otherwise resolved by the Board of Directors and the Shareholders' Meeting, any remaining profit, which shall not be less than twenty-five percent (25%) of the after-tax earnings of the year, is distributed as shareholders' dividends in accordance with Cayman Company Law and rules and regulations of companies with public issuance after considering factors of finance, business and operation.

2. Proposed dividend distribution:

Due to the loss in 2018, the board of directors has passed a resolution on March 4, 2019, not to distribute the annual surplus, for the time being, but it has yet to be approved by the resolution of the shareholders' meeting.

(VII) Impact of Stock Dividends Issuance by the resolution of the shareholders on the Company's business performance and earnings per share:

Due to the loss in 2018, the board of directors has passed a resolution on March 4, 2019, not to distribute the annual surplus, for the time being. Therefore, this item is not applicable to the Company.

(VIII) Employee remuneration and directors' and supervisors' Remuneration (the Company did not set up a supervisor)

1. The percentage or scope of compensation for employees, directors, and supervisors as prescribed under the Articles of Association:

For so long as the shares are registered on the Emerging Stock Market or listed on the Taipei Exchange (TPEX), if there are profits, in making the profit distribution recommendation, the Board shall set aside out of the profits of the Company for each financial year: (i) a reserve for payment of tax for the relevant financial year; (ii) an amount to offset losses incurred in previous years; (iii) ten percent (10%) surplus reserve; and (iv) special surplus reserve required by the Securities Authority in accordance with the Rules of public companies. If there is still a surplus, upon the approval of the shareholders' meeting it may be distributed in the following order:

- (1) Five percent (5%) to ten percent (10%) as a bonus to employees, including employees of the Company's subsidiaries;
- (2) No more than three percent (3%) as remuneration for the Directors (excluding independent directors);
- (3) Subject to the provisions of the Cayman Company Law and by Article 14.5, the remuneration of employees and directors and the amount of dividends determined by the Board of Directors to conform with the dividend policy stipulated in the preceding paragraph. If there is any surplus, all or part of the undistributed surpluses accumulated in previous years may be distributed to shareholders in proportion to the shareholding ratio.
- (4) Dividends distributed to shareholders are in the forms of share dividends and cash dividends, and the cash dividends shall not be less than fifty percent (50%) shareholders' dividends distributed according to the above. Unless otherwise resolved by the Board of Directors and the Shareholders' Meeting, any remaining profit, which shall not be less than twenty-five percent (25%) of the after-tax earnings of the year, is distributed as shareholders' dividends in accordance with Cayman Company Law and rules and regulations of companies with public issuance after considering factors of finance, business and operation.

2. Accounting treatment for the basis of estimating the amount of the employees' compensation, directors' and supervisors' remuneration for this fiscal period, the basis of calculating the number of shares to be distributed as employees' compensation, and for any discrepancy between the actual amount distributed and the estimated figures.

The bonus to employees and directors' remuneration of the company are determined in accordance with the Articles of Incorporation of the Company and are assessed in each year in accordance with this basis. However, if the accrued amounts are different from the actual distributed amounts resolved by the stockholders at their annual stockholders' meeting subsequently, the differences are recorded as a change in accounting estimate, after the annual adjustment of the shareholders' meeting resolutions, recognized as gain or loss of the shareholders' meeting year.

3. Distribution of compensation to the Board of Directors

- (1) Remuneration to employees, directors, and supervisors allocated in cash or stock If there is any discrepancy between the abovementioned amount and estimated amount of recognized expenses for the current fiscal year, the amount, causes and treatment of such discrepancy shall be disclosed:

Propose to allocate remuneration in cash, NT\$4,026,279 for employees and NT\$748,896 for directors and supervisors. There has been no discrepancy from the amount in estimated annual recognized expenses.

- (1) The amount of any employee compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee compensation: not applicable.

- (2) Estimated earnings per share after proposed allotment of employee remuneration and directors' and supervisors' remuneration:

Since the implementation of expensing employee bonus and the compensation of directors and supervisors since 2008, the employee bonus fees and the remuneration expenses of directors and supervisors have been estimated, so the calculated earnings per share are the same as the consolidated financial statements.

4. Actual distribution of remunerations for employees, directors, and supervisors (including the number, sum, and price of shares distributed), and where there were discrepancies with the recognized compensations for employees, directors, and supervisors, the difference, cause, and treatment of the discrepancy be described:

The company's earnings distribution plan for 2017 was approved by the shareholders' meeting on June 11, 2018. Proposed to allocate remuneration in cash, NT\$616,887 for employees and NT\$123,377 for directors. No difference between the actual distribution of employees' and directors' remuneration in the year and the distribution amount approved by the shareholders' meeting.

(IX) Shares buyback by the Company:

April 8, 2019

Buy-back time	Fourth (term)
Purpose of Repurchase	Transfer ownership of shares to employees
Scheduled buy-back period	January 3, 2018 ~ February 12, 2018
Price range	16.75-38
Type and quantity of shares already bought back	500 thousand common shares
Monetary amount of shares bought	NT\$12,474 thousand
Number of shares voided/transferred	-
The accumulated holding of the Company's shares	1,258 thousand shares
Ratio of the accumulated holding of the Company's shares to total shares issued (%)	1.02

II. Issuance of Corporate Bonds

(I) Overseas corporate bonds: Not applicable.

(II) Domestic corporate bonds:

Type of Corporate Bond	Second (term) Secured Convertible Corporate Bonds
Issue date	September 30, 2017
Par Value	NT\$100,000
Issue Price	NT\$100,000
Total	NT\$500,000 thousand
Interest rate	0%
Duration	Three-year term Maturity date: September 30, 2020
Guarantee Agency	Taishin International Bank, CTBC Bank, Taiwan Shin Kong Commercial Bank, and Far Eastern International Bank
Trustee	Bank of SinoPac
Underwriter	Taishin Securities Co., Ltd.
Certifying Attorney	None
Certifying CPA	None
Redemption method	Except for the bondholders to convert the bonds into ordinary shares of the Company by Article 11 of the Method, or to exercise the put right by Article 22 of the Method, or the Company shall redeem the bonds in advance according to Article 21 of the Method. Or the Company will buy back the bonds and cancel from securities firm's business office. At maturity, it will be repaid in cash based on the par value.
Outstanding Principal Balance	NT\$500,000 thousand
Redemption or Early Repayment Clause	(I) In case of the closing price of the Company's common shares is above the then conversion price by 30% (inclusive) for 30 consecutive trading days during the period from the next day (January 1, 2018) after three months of the bonds issued to 40 days(August 21, 2020) before the maturity date, within the next 30 business days, the Company may send a 30-day-expired "Bond Redemption Notice" (the aforementioned period shall commence from the date of the issuance of the letter by the Company, and the expiration date of the period shall be the redemption recorded date, and the aforementioned period shall not fall within the period of stop accepting conversion as stated in article 9) to the bondholder (the recipient of the Notice shall be the one listed in the bondholders register on the fifth business day prior to the

	date of issuance, and the bondholder who subsequently acquires the convertible bonds for sale or other reasons shall be notified by public announcement) by registered mail to repurchase all the bonds outstanding in cash at the bonds' face value. The Company will also send a letter to the OTC for an announcement purpose. If the Company executes redeem request, the convertible corporate bonds shall be redeemed from holders with cash according to face amount within five operation days after the bonds redeem base date. (II) In case the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the next date (September 16, 2014) after one month of the bonds issue to 40 days (July 6, 2019) before the maturity date. The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time by sending a 30-day-expired "Bond Redemption Notice" (the aforementioned period shall commence from the date of the issuance of the letter by the Company, and the expiration date of the period shall be the redemption recorded date, and the aforementioned period shall not fall within the period of stop accepting conversion as stated in article 9) to the bondholder (the recipient of the Notice shall be the one listed in the bondholders register on the fifth business day prior to the date of issuance, and the bondholder who subsequently acquires the convertible bonds for sale or other reasons shall be notified by public announcement) by registered mail to repurchase all the bonds outstanding in cash at the bonds' face value. The Company will also send a letter to the OTC for an announcement purpose. If the Company executes redeem request, the convertible corporate bonds shall be redeemed from holders with cash according to face amount within five operation days after the bonds redeem base date. (III) If the creditor fails to reply in writing to the company's stock
--	---

		agency (effective upon delivery and based on the postmark date) before the date of the redemption recorded date set out in the "Bond Redemption Notice", the company will redeem the convertible corporate bonds held by the creditor in cash within five business days after the date of the redemption recorded date.
Restrictive clauses		None
Name of credit rating institution, rating date, and corporate bond rating results		None
Other rights	Amount of ordinary shares already converted (swapped or warranted) and global/overseas depositary receipts or other negotiable securities as of the publishing date of the annual report	No conversion applied
	Rules governing issuance or conversion (Exchanged or subscription)	In accordance with the Company's provisions on the issuance and conversion of secured convertible corporate bonds
The issuance and conversion, exchange, or subscription rules, the possible dilution conditions and influence on shareholders' equity caused by the terms of issuance		If the first unsecured conversion of corporate bonds issued in the Republic of China is converted into ordinary shares after the issuance, the maximum dilution ratio of the original shareholders' equity is 12.66%. Moreover, since the conversion price is issued at the excess of par, if the original shareholders wish to maintain the original share ratio, they can obtain the required shares from the trading market at a relatively low price, without actually losing their rights and interests.
Name of the commissioned custodian of exchangeable underlyings		None

1. Information on conversion of corporate bonds

Type of Corporate Bond		Second (term) Secured Convertible Corporate Bonds	
Year		2018	Current year up to March 31, 2019
Item			
Market value of convertible corporate bond	High	109.00	108.20
	Low	100.30	101.25
	Average	103.57	105.90
Conversion Price		(Note)	(Note)
Issue (processing) date and conversion price at issuance.		September 30, 2017 NT\$ 28.3	September 30, 2017 NT\$ 28.3
Methods of fulfilling conversion obligations		Issuance of new shares	Issuance of new shares

Note: As of December 31, 2018 and March 31, 2019, there were no application for conversion

(III) Overseas corporate bonds: None.

(IV) Information on exchange of corporate bonds: Not applicable

(V) Information for shelf registration: Not applicable.

(VI) Information on corporate bonds with stop options: Not applicable.

III. Preferred Stocks: None.

IV. Overseas Depositary Receipt: None.

V. Employee Stock Warrant: Not issued.

VI. New Shares to Employees with Restricted Rights: None.

VII. Issuance of New Shares in Connection with the Merger or Acquisition of Other Companies: None.

VIII. Financing Plans and Implementation: Not applicable.

Chapter 5 Overview of Business Operations

I. Description of the Business

(I) Scope of Business

(1) Major lines of business

As a player in the home appliance industry, the Company mainly engages in the production of electric fans, electric heaters, and other small home appliances, as well as related components and molds, and is committed to the research and development, production, and sale of various types of quality small home appliances.

(2) Weight of major lines of business

Unit: NT\$1,000

Year Product	2017		2018	
	Amount	Weight (%)	Amount	Weight (%)
Electric fans	6,584,020	65.68	6,778,857	63.86
Electric heaters	2,399,374	23.94	2,922,860	27.54
Small home appliances	557,690	5.56	451,012	4.25
Electrical products	251,538	2.51	293,364	2.76
Others	231,580	2.31	168,847	1.59
Total	10,024,202	100.00	10,614,940	100.00

Note: Others include components and molds.

(3) Current products (services)

A. Electric fans, mainly pedestal fans and cooling fans, contain a total of 21 series with 646 kinds of products. The representative models are as follows:

a. Table fans, b. stand fans, c. box fans, d. wall-mounted fans, e. tower fans, f. cooling fans, g. USB fans, h. ceiling fans, i. whole-house fans, and j. industrial fans.

B. Electric heaters, mainly convection heaters and quartz glass tube heaters, contain a total of 20 series with 353 kinds of products. The representative models are as follows:

a. Strip heaters, b. convection heaters, c. PTC heaters, d. quartz glass tube heaters, e. ceramic radar heaters, f. fin heaters, g. motherboard heaters, h. fast heaters, i. halogen heaters, j. washer dryers, k. electric stove heaters, and l. Japanese kotatsu heaters.

C. Small home appliances contain a total of 8 series, including high-speed juicers, induction stoves, humidifiers/dehumidifiers, electric cookers, and air purifiers. The representative models are as follows:

a. Induction stoves, b. humidifiers, c. electric pressure cookers, d. electric cookers, e. air purifiers, f. juicers, g. food processors, h. infrared stoves, i. dehumidifiers, j. vacuum cleaners, and k. germicidal lamps.

D. Electrical products mainly contain integrated ceiling systems and hand dryers. The representative models are as follows:

a. Integrated ceiling systems, b. Control systems, c. bathroom lighting, d. window systems, e. hand dryers, and f. fresh air systems.

(4) New products (services) planned for development

Type of Product	Future Development
Electric thermal storage heaters	In response to China's "Coal-to-Electricity" policy, the Company plans to develop electric thermal storage heaters in replacement of water heating systems and increase revenue and market share in the industry.
Air purifiers	The Company will continue to improve the efficiency of motors and increase market share of brushless DC BMC motors. The Company will continue to optimize 6-pole motors. The Company will develop brushless DC BMC motors to improve the core competitiveness of air purifiers and fresh air systems.
Fresh air systems	As fresh air systems have an explosive increase in the post-smog economy, the Company plans to develop fresh air systems to increase market share in the future.
Health care home appliances	The health care market has potential for growth; in particular, demand for smart high-speed food processors is large. The Company plans to continuously invest in smart high-speed food processors to secure its market share in the high-end kitchen appliance market.
Fresh air systems for medical use	Cross-infection is vital for the medical industry. Fresh air systems for medical use have high potential for growth. At present, the research and development team led by Dr. Zhong Nanshan starts to develop anti-infective devices, which create a new opportunity for another industry.

(II) Overview of the Industry

(1) Current status and development of the industry

A. Overall economy

The Company's main products include electric fans, electric heaters, electrical products (ventilating fans, hand dryers, and bathroom lighting) and other small home appliances (such as juicers, induction stoves, humidifiers/dehumidifiers, electric cookers, and air purifiers); in particular, the sales of electric fans, electric heaters, and other small home appliances account for more than 85% of operating revenue every year. The main function of small home appliances is to bring convenience to people and improve people's quality of life with higher elasticity of demand. Demand for small home appliances is extremely sensitive to the economic cycle and easy to change with the consumption power. The economic environment will lead to an increase or decrease of consumers' demand for small home appliances. Therefore, the overall economy has a significant impact on the small home appliance industry.

Since the third quarter of 2018, global funds have moved toward the U.S. due to the China-US trade war and continuous rate hikes in the U.S.;

financial volatility in emerging markets and developing countries has also intensified, affecting the performance of global stock markets. Looking ahead into 2019, most of the world's major forecasting institutions generally believe that the economic performance in 2019 will not be as good as that in 2018, but the decline will be limited. Global uncertainties will remain, such as the aftermath of the China-US trade war, a contractionary monetary policy adopted by major economies, and the trend of oil prices, and continue to have an impact on the global economy in 2019.

According to the forecast for the global economy provided by the Economic Intelligence Unit (EIU), the global economic growth rate is expected to reach 2.1%~2.6% between 2017 and 2020; in addition, the International Monetary Fund (IMF) also forecast in the World Economic Outlook that the global economic growth rate would reach 3.4%~3.7% between 2017 and 2022 at a mild space.

EIU's Forecast for the Global Economy

Unit: %

Item	2015	2016	2017	2018	2019	2020
Real GDP Growth Rate (Market Exchange Rate)						
World	2.4	2.2	2.4	2.6	2.1	2.5
United States	2.4	1.8	2.2	2.3	1.1	2.1
Euro area	1.6	1.6	1.4	1.6	1.5	1.5
Japan	0.6	0.4	0.2	0.5	0.6	-0.1
China	6.9	6.6	6.0	4.8	4.4	4.2
Asia and Oceania	4.0	3.9	3.8	3.6	3.4	3.3
Latin America	0.1	-0.3	1.9	2.8	2.9	3.1
Middle East and North Africa	2.2	2.0	2.8	3.5	3.2	3.5
Inflation Rate						
World	3.3	4.0	4.2	3.9	3.1	3.1
OECD	0.5	1.0	1.8	1.9	1.5	1.8
United States	0.1	1.3	2.2	2.3	1.3	1.7
Euro area	0.0	0.2	1.2	1.5	1.5	1.6
Japan	0.8	-0.1	0.4	0.3	0.6	1.3
China	1.5	2.3	2.1	2.5	2.0	2.4

Source: EIU, EIU Country Forecast World July 2016 (forecast closing date: July 18, 2016).

Forecast for Economic Growth Rate from 2017 to 2022

Unit: %

	2017	2018	2019	2020	2021	2022
World	3.460	3.647	3.678	3.668	3.724	3.757
Euro area	1.680	1.618	1.579	1.523	1.488	1.454
Emerging market and developing economies	4.485	4.791	4.884	4.940	4.993	5.011
Latin America and the Caribbean	1.103	2.024	2.503	2.612	2.650	2.629
Emerging and developing Asia	6.432	6.360	6.322	6.310	6.306	6.278
ASEAN-5	4.996	5.168	5.254	5.289	5.278	5.292
United States	2.307	2.519	2.121	1.825	1.672	1.703
China	6.582	6.168	6.000	5.900	5.800	5.700
Japan	1.247	0.586	0.846	0.210	0.740	0.638
Taiwan	1.720	1.866	2.022	2.326	2.482	2.500

Source: IMF: World Economic Outlook (April 2017).

In the global economic growth trend, the Asian economic growth rate is higher than other regions', making Asia the main global economic growth momentum. According to the World Economic Outlook published by IMF on January 22, 2018, the Asian economy continued to grow steadily as India, Indonesia, Thailand, and the Philippines had the outstanding economic performance, and China also sustained the medium-speed and high-speed growth.

According to the aforesaid forecasts, the global economy will continue to grow, with the consumption power remaining at a certain level; however, the price level may rise with the economic development. It can be observed from the recovery and growth of countries around the world that the economic growth in Asia is relatively strong with the rapid increase in national consumption power and the huge population. Therefore, demand for home appliances that enhance the quality of basic living in Asian economies, including China, will continue to increase. In the future, the home appliance market will remain a consumer market with significant potential for development.

B. Consumer trends in the small home appliance industry globally and in China

According to the Taiwan Industry Economics Services, in recent years, the global sales volume of major home appliances has not grown significantly against the slow growth of the global economy. According to the Fuji Keizai's statistics, the sales from 2015 to 2020 showed growths and declines. In the long run, it is reasonable to predict that there will be greater growth against the continuous growth of the global economy.

The small home appliance industry in China has significant global share of sales or production. China has the following conditions for the rapid popularization of small appliances: (1) the government's "Home Appliances to the Countryside" policy (which ended in May 2013), (2) rapid increase in consumer spending, and (3) strong capacity for small home appliances production. According to the Profile of Home Appliances Manufacturers and the Dynamics of Home Appliances Manufacturers published by the Taiwan Industry Economics Services,

China is both the main sales market and the major manufacturing country for global home appliances. As a result, the development of China's home appliance industry has a significant impact on the development of the global home appliance industry.

Facing the slowdown in the sales of home appliances in recent years, Chinese manufacturers have continuously upgraded products and production lines and acquired related business from the world's major manufacturers that sold their home appliances business to concentrate their attention on major lines of business.

Year	Chinese Manufacturer	Acquisition Target	Amount
2011	Haier	Sanyo's washing machines and refrigerators in Japan and Southeast Asia	JPY10 billion
2012	Haier	Fisher & Paykel based in New Zealand	US\$0.7 billion
2016	Haier	GE's home appliances	US\$5.4 billion
2016	Midea	80.1% shares of Toshiba	JPY53.7 billion

According to the statistics of All View Cloud (AVC), the total retail sales of China's home appliance market reached RMB832.7 billion in 2018, a slight increase of 1.5% from 2017, mainly because the average penetration of home appliances continued to increase with dominant demand for replacement; however, as the economy has slowed down in recent years, the growth of the home appliance market is estimated to slow down as well.

C. Export of China's small home appliance industry

China is currently the major production site and a big exporter of home appliances globally. At present, there are thousands of small home appliance manufacturers in China. According to the statistics of Tianto Info Consulting, China's export of small home appliances accounts for 40% of the global export market and therefore has a significant impact on the global market.

"Following the significant rebound in the export volume of some small home appliances in 2017, the scale of exports returned to the level before the decline in 2015. In 2018, the export volume of China's major small home appliances maintained varying degrees of growth. In the past two years of market recovery, potential products with low export value, such as humidifiers, air/water purifiers, induction cookers, and small-capacity washer dryers recovered substantially; At the same time, the rapid popularity of robots and handheld vacuum cleaners led to a higher increase in vacuum cleaners", said Zhou Nan. From January to December 2018, the export volume of small home appliances increased by 12.2% YoY; in particular, the export volume of air/water purifiers continued to grow rapidly after 2017. The export volume of air purifiers reached 17.635 million units, up 45.9% YoY, and the export volume of water purifiers reached 28.035 million units, up 9.3% YoY. The export volume of electric fans and humidifiers increased by 5% and 6%, respectively. From January to December 2018, the export volume of vacuum cleaners was 130 million units, an increase of 6.8% YoY, and

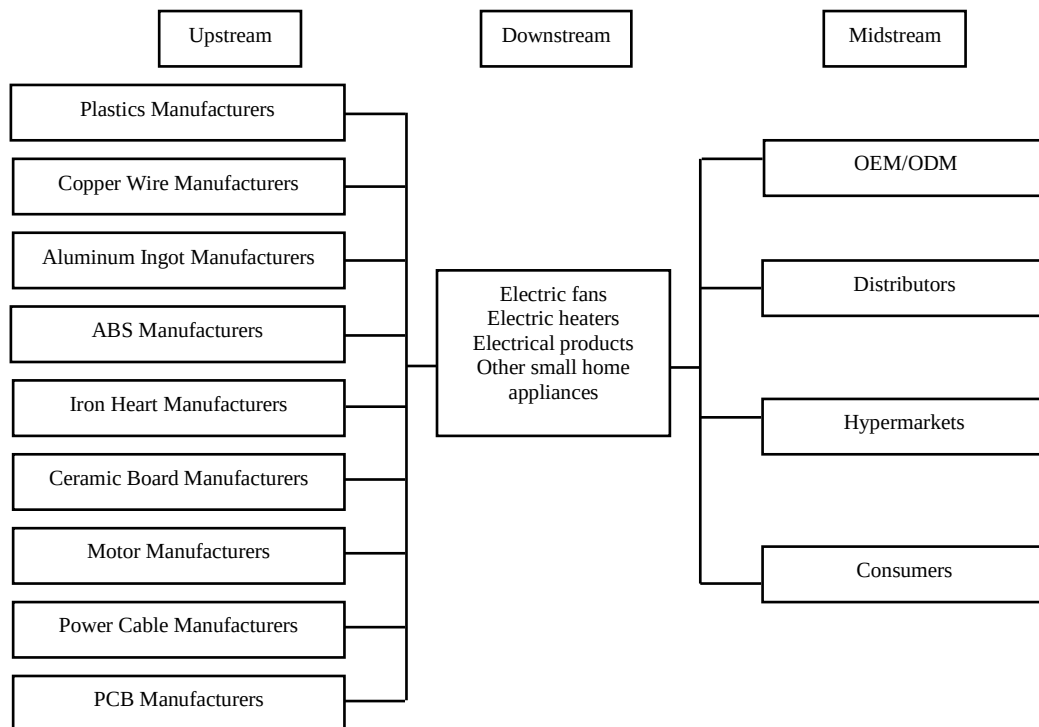
the export value amounted to US\$4.67 billion, up 16.9% YoY. The export of vacuum cleaners was greatly affected by the China-US trade war, and the racket will turn severer in 2019.

D. Economic cycle

Today, small home appliances are staples in developed countries; they are essential for maintaining a good living environment. With higher levels of income in developed countries, demand for novel, well-designed, lightweight or energy-saving products is high. As the main potential market for small home appliances is concentrated in emerging economies and developing countries, the spending power and the prices of small home appliances may affect demand for small home appliances. During the financial crisis in 2008, sales of small home appliances continued to grow with a reduced growth rate, indicating that demand for small home appliances in emerging economies and developing countries has increased in recent years. As these countries were more able to maintain an economic growth rate than other countries during the global downturn, their people's spending power could increase during economic recession. Although the economic cycle has an impact on the small home appliance market, demand for small home appliances is currently less elastic for emerging economies and developing countries with significant potential for consumption; therefore, it is less likely to be affected by the economic cycle. Since many small home appliances are seasonal products, they are more susceptible to peak seasons and off-seasons. For example, in summer, the sales of electric fans will increase, while the sales of electric heaters will decline; in winter, the sales of electric heaters will increase, while the sales of electric fans will decline. This shows that the sales volume of small home appliances will change with seasons, depending on their functions and nature.

In summary, although small home appliances may be affected by the economic cycle, the effect is relatively small as they are mostly daily necessities in major markets, such as emerging economies and developing countries. The sales volume of small home appliances changes with seasons, depending on their functions and nature. The costs of raw materials and labor have gradually increased in recent years, which has a greater impact on the small home appliance industry. In the long run, however, there is no obvious economic cycle of the small home appliance industry.

(2) Links between the upstream, midstream, and downstream segments of the industry



A. Links between the upstream and downstream segments

The Company belongs to the home appliance industry. The upstream segment of the industry includes plastics and copper wire manufacturers; the midstream segment includes the Company, Midea, Singfun, Lianchuang, Haier, Joyoung, and Gree; the downstream segment includes retailers.

The Company mainly engages in the research and development, design, manufacture, and sale of small home appliances and has its own brands. Therefore, the Company falls into to the midstream and downstream segments of the industry. The business model of the Company contains OEM/ODM for export and domestic sales of brand products. As an OEM/ODM for export, the Company designs and manufactures products based on the customers' requirements and sells products to foreign customers through Waon Development Limited (Hong Kong), Taiwan Branch; in terms of domestic sales, as an OBM, the Company sells AIRMATE products directly to customers in Taiwan. **艾美特**

B. Downstream segment and sales channels

Demand for small home appliances in the downstream market will directly affect the sales volume of the industry. Potential customers include distributors, agents, wholesalers, and consumer electronics retailers. Since customers are dispersed and can easily obtain the same specifications in the market, it is difficult to control them; in addition, the quality and after-sales service and maintenance of small home appliances require additional attention.

The Company has been actively developing the small home appliance markets at home and abroad as both an OEM/ODM and an OBM. The exports and domestic sales have helped expand the production line and scale of business. The Company's products are mainly sold through distributors; that is, the ownership of finished products is transferred to distributors, which then are responsible to retail the finished products. At present, the Company works with nearly 300 distributors, among which 20% have formed the cooperation with the Company for more than a decade. Many of the distributors have maintained a long-term business relationship with the Company as they have made profits by selling the Company's home appliances.

(3) Development trends of products

A. Room for growth remains big in the small home appliance market

With the increasing requirements for the quality of life, small home appliances that improve the living standard are recognized by the market. In China, home appliance manufacturers have developed original products built on traditional home appliances, including electric pressure cookers, soybean milk machines, and bathroom heat lamps according to the characteristics of the consumer market. These original products have market value and result in the emergence of distinctive small home appliance brands. In recent years, the growth rate of small home appliances has been continuously improved. Electric cookers are the most common small home appliances with the highest penetration rate (97%) in China, followed by induction cookers with the penetration rate of 77%. Due to extreme weather, the penetration rate of electric kettles and electric heaters reached 64% and 53%, respectively; electric pressure cookers have gained popularity in recent years with the penetration rate of about 41%; however, the number of small home appliances per household was relatively low. Statistics have showed that every household in developed countries has nearly 40 kinds of small home appliances, while every household in major cities across China averaged less than 10 kinds. It shows that the market is not saturated yet, and the small home appliance market in China has great potential for development; in addition, China's 13th Five-year Plan will also lead the small home appliance industry to energy conservation, environmental protection and intelligence, comprehensively upgrading the industry value-chain from raw materials, key components, and manufacture to services.

B. Brand value positioning is the future development goal

Due to the low barriers to entry, numerous small home appliance manufacturers have emerged in China. How to obtain the recognition from consumers, clearly position the brands, and create market segmentation with other competitors is the focus of the small home appliance industry in the future. In addition to product launches, the Company aims to improve the quality of products and adopt a clear pricing strategy, so as to clearly position AIRMATE.

C. Energy-saving and eco-friendly small home appliances will become the mainstream

As the world's population continues to increase, environmental pollution

and damage become more serious, and global warming issues have gradually become a topic of concern. The 2009 United Nations Climate Change Conference held in Copenhagen also discussed how to reduce greenhouse gas emissions. Energy conservation and carbon reduction have become the common goals globally. Energy conservation and environmental protection have become an important indicator for manufacturers and consumers. As electricity prices continue to rise, consumers are heading toward home appliances that have a high rate of electricity conservation. Under the consumers' needs and national policy, eco-friendly small home appliances will become a trend. The government of China has also ordered that home appliances marked "energy-efficient" for identification. In the future, it is inevitable that energy conservation and environmental protection will become the mainstream in the small home appliance market.

D. Product intelligence and functional diversification will become prominent

Electric heaters and humidifiers are popular in winter. Electric heaters are favored by the general public because of the heating effect, and humidifiers are indispensable for dry climate. In recent years, one of the most important features of new products has been the combination of electric heaters and humidifiers; multiple functions of other small home appliances, such as juicers and soybean milk machines, have also become prevalent. Soybean milk machines can be used to make fruit and vegetable drinks, and juicers can be used to make soybean milk. The operations of small home appliances have also become smarter and easier, from touch to control, which brings convenience to a fast paced life. As small home appliances evolve with multi-functionality and intelligence, product features gradually disappear. How to ensure the intelligent and multi-functional development of small home appliances and the distinctive product features at the same time has also become the focus of small home appliance manufacturers.

E. Online shopping for small home appliances will develop at a high speed

Benefiting from the popularization of the Internet, the development of online shopping for small home appliances has gradually become a trend, with the annual growth rate of about 80%. In the era of the widespread network, e-commerce will be the key marketing strategy. At present, online shopping for small home appliances is developing at a high speed, accounting for 60% of the total sales of home appliances, because of low cost, high profitability, small sizes, and easy to distribute, which are the important factors that prompt manufacturers to develop online shopping for small home appliances. The sales model of small home appliances is changing. For small home appliance manufacturers, online shops sell products and show sales promotions, which can increase the visibility of small home appliance manufacturers; in addition, direct supply and underwriting are also adopted to drive sales.

(4) Competition

Due to the low barriers to entry, there are many small home appliance manufacturers. Although the government's "Home Appliances to the Countryside" policy has increased the requirements for product specifications, competition is becoming more intense in China as major home appliance

manufacturers are eager to enter the highly profitable small home appliance market. To secure the brand value in the industry, small home appliance manufacturers must continuously improve niches and develop products of originality and diversity.

In the future, the Company will develop small home appliances that are compact, energy-efficient, silent, and well-designed and equipped with original features to increase the differentiation and brand value; in addition, the Company will develop new technologies in collaboration with technology associations to launch new products ahead of competitors, improve the brand image, and secure leadership.

The Company has been developing quality home appliances and has made progress in electric fans and electric heaters. In terms of electric fans and electric heaters, the Company is second only to the Chinese company, Midea. The biggest feature of the electric fan series is the innovative design of the exterior and functions. The Company's industry-first refrigerated dehumidifiers feature dehumidification and refrigeration, along with the digital remote control technology; the low-energy compressor and eco-friendly refrigerant are adopted to achieve 380W/hour. The series is a well-designed and practical mobile air conditioner. The cooling fan series adopts the water loop spray technology with negative ions in fresh air; the industry's first anti-mosquito fan improves the added value of electric fans in life; in addition, 360-degree oscillating tower fans feature temperature sensing and adjustment. In April 2011, the Company established the Energy-Efficient Motor Technology Research Center in collaboration with the NCKU Electric Motor Technology Research Center to research on energy-efficient motors. The energy-saving DC electric fans developed in the same year can save electricity by nearly 50%. By introducing innovative technology, the Company was able to turn traditional electric fans into eco-friendly products.

In terms of electric heaters, the Company has developed a series of electric heaters, from 3D fast heaters, patented 3D wavy fin oil heaters, and European fast heaters with thermal channels and alloy heating elements to IPX4 waterproof bathroom heaters with APP control, remote control, timing, and power management setup, which can be used in living rooms, bedrooms, and bathrooms. The Company has invested greatly in the research and development expenditures and personnel and built a complete production line for cross-field small home appliances to meet the customers' need for one-stop services. With a competitive niche, the Company will continue to develop and launch products that meet or foresee customers' needs.

(III) Overview of Technologies and Research and Development Works

(1) Technology and research and development of products

A. Ultra-quiet, energy-efficient motors

The Company has engaged in the manufacture of small home appliances for nearly 25 years with mature technical capabilities. In the early years, the Company provided motors for Sanyo and honed manufacturing skills, from the selection of materials, motor winding, and mechanical transmission to component manufacturing and motor manufacturing, up to the standards in the Japan market. Motors manufactured by the Company were eco-friendly, silent, and energy-efficient and highly recognized in the market. In recent years, the Company has developed

new motors with better quality and low cost and has an annual capacity of 15 million motors or more.

B. Smart home appliance control systems

The Company's home appliances are human-oriented and bring comfort and health to consumers. Built on these advantages, the Company has developed China's first smart control fans; multi-speed fans, original plateau/sleep/natural air supply controls, and human-oriented controls, such as temperature sensing, timing, power management setup, have also been developed; in addition to infrared control, high-tech controls, such as Bluetooth control and fuzzy control, are also in place. In 2011, the Company successfully developed automotive motor brakes. At present, the Company is developing automatic face control, motion image control, and other high-tech controls. The Company's R&D Department has a team specific to electronic control systems. With many years of experience in smart home appliance control systems, the team has an outstanding capability of integrating state-of-the-art technologies in the industry or related industries and can master the future development trend of home appliances.

C. Research and applications of aerodynamics

The Company is one of the largest ventilator manufacturers in China. Because of the strong correlation between products and aerodynamics, the Company has developed a series of electric fans that generate wind by air movement, a series of ventilating fans that exchange air by air pressure, a series of fan heaters that heat the air, and a series of air purifiers that filter and purify air. The application of aerodynamics is a long-term research topic of the Company's R&D Department. With years of experience in the design of air passage and air supply parameters with core technologies, the Company has offered ultra-silent, high ventilation, and high-speed fans built on the results of research on aerodynamics.

D. Thermal materials for home appliances

Market share of the Company's electric heaters ranks among the top three in China. The core of electric heaters is the development and application of thermal materials. Since the introduction of the first electric heater in 1993, the Company's R&D Department has developed thousands of electric heaters. AIRMATE is one of the most thermal material-rich brands in the world. A variety of thermal materials, such as superconductivity iron chromium strip, quartz glass tubes, far-infrared heating tubes, near-infrared heating tubes, stainless steel heating tubes, carbon heating tubes, halogen heating tubes, semiconductor thermoelectric films, sheet-based heating films, far-infrared ceramic thermal storage boards, and negative temperature coefficient PTC heating elements, are fully applied to electric heaters. Different thermal materials are used to meet the needs of different consumers and different places.

The Company has also formed the research and development and technology alliances with National Cheng Kung University, National Kaohsiung University of Science and Technology, and Fujian University of Technology to provide more niches for research and development works. Every year, the Company develops about 200 new products and applies for about 40 patents. The average development cycle of new products is about 120 days (that is, a new product is developed every 2 days); in addition, the Company has an

industry-wide product testing center to ensure the quality of products.

(2) Research and development personnel and their education

Unit: Person

Education \ Year	2017	2018	As of March 31, 2019
Ph.D.	—	—	—
Master's degree	1	—	1
Bachelor's degree	139	116	109
Junior college or below	29	17	15
Total	169	133	124

(3) Research and development expenditures in the most recent five years

Unit: NT\$1,000

Education \ Year	2014	2015	2016	2017	2018
Research and development expenditures	206,324	160,384	158,835	164,096	160,820
Net operating revenue	12,117,829	10,967,669	11,032,005	10,024,202	10,614,940
Ratio of research and development expenditures to net operating revenue (%)	1.70	1.46	1.44	1.64	1.52

(4) Technologies or products successfully developed

Year	Major Results of Research and Development
2011	1. The application of brushless DC motors to electric fans improved power efficiency by 80% or more. 2. Anti-mosquito fans were developed. 3. Power-efficient air supply products were developed with the design of air passage and blades. 4. Kitchen appliances, such as vacuum cleaners and ovens, were continuously developed for production.
2012	1. Third-generation DC inverter motors were developed to reduce noise and improve power efficiency by 20% or more. 2. Second-generation high-speed food processors were developed to improve the quality of the food processor series. 3. Infrared sensing brake DC air supply products were developed. 4. Smart energy-saving dehumidifiers were developed. 5. The power efficiency of induction cookers was improved by 10%. 6. Turkey cookers specifier to the U.S. market were developed. 7. The smart sterilization-efficient and dust-collection air purifier series was developed.
2013	1. Three-dimensional heaters were developed. 2. High power ceiling heaters were developed. 3. Washer dryers were developed. 4. Smart phone Bluetooth controlled DC fans were developed. 5. Fruit and vegetable dryers were developed. 6. Mattress vacuum cleaners were developed. 7. Energy-saving fans were developed. 8. Household coffee machines were developed.
2014	1. Coffee machines for Northeast Asian, European, and U.S. markets were developed. 2. Smart home appliances, such as smart air purifiers, were developed. 3. Second-generation heat exchange ventilating fans were certified by DIBT. 4. The Japanese kotatsu heater series was developed. 5. 7-blade silent fan blades were developed. 6. Sensing (energy-saving) fans were developed. 7. Unfolding motors were developed. 8. Cooling/heating tower fans were developed.

Year	Major Results of Research and Development
2015	1. Kitchen tabletop hand dryers were developed. 2. 7-blade silent plume fan blades were developed. 3. USB charging tower fans were developed. 4. UV sterilization humidifiers were developed. 5. CBS2066E food processors specific to the Europe market met the FLGB requirements. 6. Commercial coffee machines were developed. 7. WIFI air purifiers were developed. 8. Unfolding motors were developed. 9. Frequency control systems were developed.
2016	1. The fresh air system series was developed. 2. 5-blade silent crescent fan blades were developed. 3. High humidification silent vaporizer humidifiers were developed. 4. 360-degree PTC heaters were developed. 5. Silent fan blades were developed. 6. Two-in-one fans were developed. 7. Fin oil heaters were developed. 8. Large-interval foot switch fans were developed. 9. Smart high-speed food processors were developed. 10. Low-noise DC motor ventilating fans were developed.
2017	1. Fresh air systems were extended and improved. 2. Coffee machines for the Japan market were developed. 3. Silent exhaust fans were developed. 4. Isolation tables for hospitals were developed. 5. High purification (air multiplier) air purifiers were developed. 6. Electric thermal storage heaters were developed. 7. Cooling/heating tower fans were developed. 8. High humidification humidifiers were developed. 9. Air purifying PTC heaters were developed. 10. Voice control fans and heaters were developed. 11. Mosquito repellent fans were developed. 12. Siri control fans were developed. 13. Oil/PTC heaters were developed. 14. Convection/PTC heaters were developed. 15. Outdoor anti-mosquito fans were developed.

Year	Major Results of Research and Development
	16. 6-pole motors were developed. 17. BMC motors were developed. 18. The brushless DC motor control panel series was developed.
2018	1. New mist fans were developed. 2. Silent blades were developed. 3. Silent tower cooling/heating fans were developed. 4. Double-sided reflector heaters were developed. 5. Humidifiers and air purifiers were developed. 6. Box fans were developed. 7. Quilt dryers were developed. 8. Brushless DC BMC motors were developed. 9. Standard, modular PCBs were developed. 10. Air purifying fans were developed. 11. Humidifying fans were developed. 12. Tower PTC heaters were developed. 13. High humidification vaporizer humidifiers were developed. 14. High humidification PTC vaporizer humidifiers were developed. 15. Tower strip heaters were developed. 16. Cabinet strip heaters were developed. 17. Roller-type natural vaporizing humidifiers were developed. 18. The 50-degree upward oscillating structure was developed.

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

1. Short-term business development plans

- A. In response to China's "Coal-to-Electricity" policy, the Company plans to strengthen the research and development of electric heaters, especially electric thermal storage heaters.
- B. The Company will continue to improve the efficiency of motors and increase market share of brushless DC BMC motors.
- C. The Company plans to expand the research and development of fresh air systems in the domestic market and develop new models based on the needs of different places.
- D. The Company will continue to develop health care home appliances.
- E. The Company plans to invest in the research and development of fresh air systems for medical use.

2. Long-term business development plans

- A. The Company plans to conduct the prospective study on IoT-centered home appliances.
- B. The Company plans to research on the improvement in production efficiency with modular product design.
- C. The Company plans to research on the application of smart home appliance sensors and human-computer interaction (voice control).
- D. The Company plans to research on multi-functional air processors (refrigeration, heating, sterilization, and humidification).
- E. The Company plans to continuously research on the application of aerodynamics, air passage, and blade optimization.

II. Overview of the Industry

(I) Market Analysis

(1) Geographic areas of main products

Unit: Thousand NT\$

Geographic Area \ Year	2017		2018	
	Amount	Percentage (%)	Amount	Percentage (%)
China	5,804,660	57.91	5,847,769	55.09
Northeast Asia	2,659,791	26.53	2,802,772	26.40
Others	1,559,751	15.56	1,964,399	18.51
Total	10,024,202	100.00	10,614,940	100.00

Note: Northeast Asia refers to Japan and South Korean.

(2) Market share

According to the 2018 Annual Report on the Domestic Appliance Industry in China, the retail sales of home appliances in China was RMB810.4 billion; in particular, the retail sales of small home appliances in China reached RMB144.1 billion. Small home appliances covered all categories in the daily life, including home care, personal care, kitchen care, and health care. Based on the statistics, the Company's net sales in 2018 reached NT\$10.615 billion, accounting for 7.37% of the small home appliance market in China.

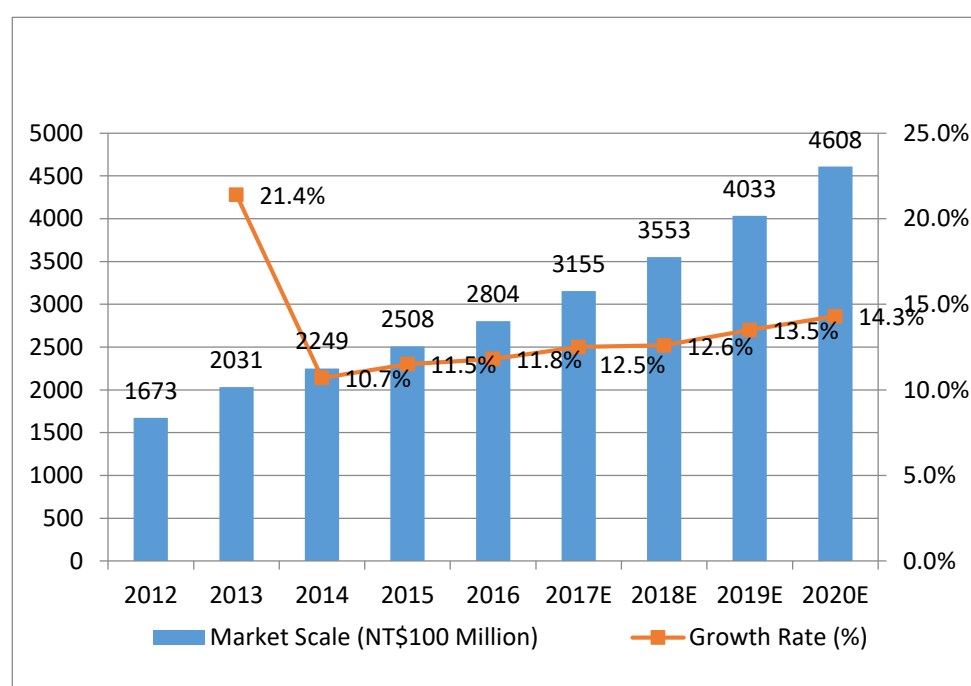
(3) Future demand and supply conditions and growth potential

As the power supply facilities in urban areas of China have been improved gradually, along with the increasing spending power, the main sales market for home appliances remains in cities. The consumption model of residents in urban areas covers staples, entertainment, sport, leisure, and luxury. At present, the urbanization rate of China's administrative districts is only 53%. Due to the large rural population, it is difficult for China to reach an urbanization rate of 80% or more like the developed countries. China is working on the balanced development in remote areas through various initiatives, including the "Home Appliances to the Countryside" policy, which ended in May 2013, and the 12th Five-year Plan aiming to improve the level of urbanization. According to the international experiences in economic development, in the middle and late stages of industrialization and urbanization, the economic development would accelerate due to the industrial upgrade and expansion of urban population. China has abundant human resources, and the quality of labor is gradually improving; industries become more and more diversified; in addition to an increase in basic wages, more start-ups emerge, and the middle-class population expands year by year, which significant improving the consumers' spending power. As a result, demand for small home appliances in China will grow significantly in the future with an increase in the spending power and the

government's support.

According to the 2018 Statistical Communique of the People's Republic of China National Economic and Social Development, due to the implementation of economic plans in China, along with the global economic recovery, China's GDP reached RMB90.03 trillion, and the new population of employment in urban areas reached 13.61 million, an increase of 100,000 from 2017, and the unemployment rate fell from 3.90% to 3.80%. Benefiting from the increase of China's GDP, the growth of employment rate and the development of urbanization, the income level of households in urban areas increased in 2018, with the annual disposable income of households in urban areas averaged RMB28,228, an increase of 8.7% from 2017. It is estimated that residents in urban areas will have higher spending power in the future, which will benefit the home appliance industry and related industries closely relating to people's daily life.

Small Home Appliance Market Scale and Trend Forecast from 2012 to 2020



Market Scale (NT\$100 Million)	Growth Rate (%)	Source: Open data.
--------------------------------	-----------------	--------------------

Statistics have showed that every household in developed countries has nearly 40 kinds of small home appliances, while every household in China averages less than 10 kinds, indicating that the small home appliance market in China has great potential for development. According to the Research on Small Home Appliance Market Trends and Investment Strategies in China from 2017 to 2022 published by Zhiyan Intelligence Research Group, the scale of China's small home appliance market increased by 11% and 12% in 2014 and 2015,

respectively. The growth rate of around 12% per year was estimated between 2016 and 2020. By 2020, the total scale of the small home appliance market should reach RMB460.8 billion. Room for future development of the small home appliance industry is huge.

To expand domestic demand, the government of China has implemented new policies, where energy conservation and carbon reduction heads the list of priorities, including economic development, policy guidance, improvement in manufacturing, development of strategic emerging industries, main-function zoning, development of urbanization, energy conservation and management, and planning of implementation and evaluation mechanisms. This shows that energy-saving products are relevant to the development trend of China's livelihood and economy and boast a great business opportunity, which is in line with the Company's production strategy for energy-saving small home appliances. In addition to households in urban areas, residents in second-tier and third-tier cities and rural areas in China have shown demand for diversified and high-end home appliances in recent years with the accelerating growth of economic development and average income. Although the penetration rate of home appliances in every household remains low in the second-tier and third-tier markets, the home appliance industry is expected to grow in the second-tier and third-tier markets at a speed significantly higher than that in the first-tier market. Therefore, the main growth momentum in the future will be concentrated on the second-tier and third-tier cities and rural areas in China; in addition, sales channels are currently dispersed, and room for market integration is big. As the cost of entry is low, early players can gain market share as early as possible. Given the China's incentive to drive domestic sales, second-tier and third-tier cities have great potential for sales growth, and the prospects are brightening. One of the sales goals of the Company is to reinforce the domestic sales of AIRMATE products in China. With the gradual development of second-tier and third-tier cities and rural areas, the Company has continuously expanded the sales in the existing first-tier cities. Demand for small home appliances will increase significantly. The Company is optimistic about the growth of China's small home appliance market in the future.

(4) Competitive niches

A. Balanced development of export and domestic sales

Over the past three years, the Company's exports and domestic sales have been maintained at a rate of approximately 50%. In the face of an ever-changing economic environment, the Company is able to adapt better; in addition, resources for exports and domestic sales are shared to reduce the research and development expenses and costs of production.

B. Long-term cooperation with customers for export business

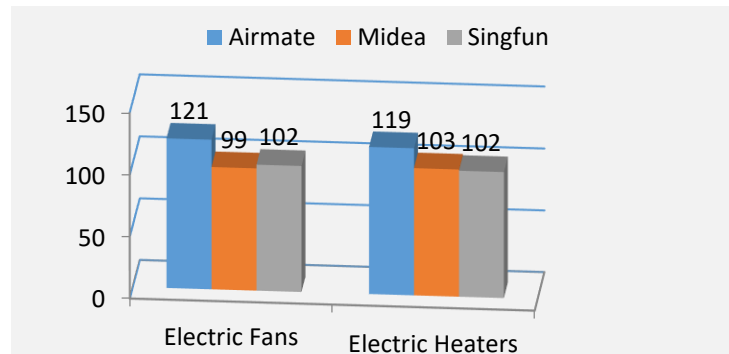
The Company's customers for export business are brands or distributors with enormous potentiality in developed countries. In addition to providing products with excellent quality, stable delivery, and high additional value, the Company develops new products for export and domestic sales through tailor-made industrial designs and provides flexible scheduling and distribution services for different types of containers to minimize the overall operating costs of customers and improve their competitiveness. Although the Company's export quotations are higher than other manufacturers', the comprehensive costs of customers are lower, coupled with the stable and timely supply of products. Therefore, the customers for export business have maintained long-term cooperation with the Company.

C. Robust growth of AIRMATE products in China

a. The Company's main products sold in China include quality electric fans and electric heaters. At present, new categories of products, including air improvement products (humidifiers, air purifiers, and dehumidifiers), kitchen appliances (high-speed food processors, induction cookers, electric pressure cookers, and electric cookers), and ventilation products (ventilating fans and integrated ceiling systems) have been developed. In the future, the Company will develop household appliances.

b. The Company positions itself in mid-end and high-end markets in China, and has developed a variety of well-designed and energy-saving products. According to the statistics of China Market Monitor Co., Ltd., market share of the Company's electric fans and electric heaters has come out on top for consecutive years, with the retail price higher than the market average by more than 20%; market share of the Company's electric fans and electric heaters at the department stores in first-tier cities in China has long been the first, with the sales of high-end models and the price index higher than other brands'. This shows that the Company's products are small home appliances of fine quality.

Price Index Comparison



Airmate	Midea	Singfun
Electric Fans	Electric Heaters	

(Source: China Market Monitor Co., Ltd. CMM407 Survey of 4,328 Retail Stores in Cities.)

- c. Since Airmate was created in 1997, the Company has constantly worked with nearly 300 first-tier distributors, among which 50% have cooperated with the Company for more than 5 years), and 400 odd repair and maintenance service providers and sold products in more than 12,000 stores. The Company has also maintained a good relationship with offline retailers, such as Suning, Gome, and RT-Mart, and online retailers, such as Taobao and Tmall, JD, and Suning. In recent years, the Company has tapped into TV shopping, gift group buying, OEM, and engineering.
- d. Through long-term media publicity, promotion activities and word-of-mouth communication, the Company has established the brand images of “fashion, eco-friendliness, energy conservation, innovation, high quality, and integrity” in the minds of consumers, the media, and the industry.

In summary, the fine brand image, sales channels, and distributors have facilitated the Company's business in China. In the next decade, the improving spending power in China will increase the penetration of AIRMATE products in counties and rural communities. The extensive business experience in China will also bring the Company more opportunities to work with foreign brands.

D. Balanced and flexible production

The Company's main products are electric fans and electric heaters sold in China, Japan, South Korea, Europe, and the U.S. Other products for all seasons include induction cookers, electric cookers, electric pressure cookers, high-speed juicers, and air purifiers. The Company adopts the balanced production of electric fans and electric heaters to cut down overtime and management overheads, maintain the consistent quality of products, and reduce time spent in training for new employees and possible reworking.

In addition, the Company has versatile production equipment and labor that are not limited to the production of specific products and can adapt to different specifications and products at any time. The Company is able to manufacture electric fans, electric heaters or other products based on the market needs, weather, and customers' needs to maximize the production efficiency.

E. Excellent capacity for research and development

The Company's Research and Development Department is capable of developing 200 kinds of products every year with a new product launched every two years on average. New products have been widely recognized, showing that the Company dominates the high-end small home appliance market in terms of technology or quality. As to hardware, the Company has invested in the establishment of a testing laboratory and passed the certification of advanced technology enterprises and their technology centers in Shenzhen.

The Company's customers for export business and domestic sales provide the latest information on the markets and technologies, while the Industrial Design Department and the Research and Development Department develop new products that drive market demand. The Company and customers share the expenses and results of research and development. The Company is keen to develop new products with higher risk. The Company can either develop and sell products in China first to strengthen confidence of customers for export business or develop products with customers for export business to reduce the costs of development. Advanced technology, craft, and design overseas can also be sold to China through the development of customers for export business to keep AIRMATE products well-designed and technology-leading.

F. Combination of OBM, ODM, and OEM

The Company has worked with international major brands (Sanyo, Hitachi, Sharp, Toshiba, TOTO, Samsung, and SEB) as an OEM/ODM for many years and honed the quality of AIRMATE products at the same time. The Company has also sold AIRMATE products in the domestic market. In response to the exports and domestic sales, the Company has expanded the production line and scale of business and cut down the costs of production at the same time, allowing the Company to offer quality products at affordable prices and secure its position in the small home appliance market in China.

a. OBM

The Company has developed AIRMATE products for nearly 15 years. In the top 500 Chinese brands published on the website of 2009 World Brand Summit, the Company has an estimated brand value of RMB1.31 billion; in addition, the domestic sales volume of AIRMATE products grows year by year, showing that AIRMATE has been widely recognized.

b. ODM/OEM

The Company's niches are products with high unit prices and high quality. Operating revenue in Japan and South Korea account for nearly 60% of the Company's total export revenue. As an ODM/OEM, the Company has been improving the quality of products and operations, and only trades with customers having their own brands and sales channels; in addition, the Company provides highly efficient in-depth services for customers, resulting in the repair rate of less than 0.5%. The Company also strives to fully control the timeliness of product launches for customers to stay preemptive, with the entire process, from industrial design, R&D, and molding to trial production, mass production, and delivery, taking only 4~6 months to complete.

G. Energy conservation and carbon reduction

The Company has launched a series of low-carbon electric fans and ultra energy-saving fans with brushless DC motors. The Company's energy conservation performance far exceeds the national level 1 energy efficiency standards. The Company is China's first electric heater manufacturer to develop various high-tech heaters, including European fast heaters, electric film heaters, and multi-functional fast heaters. Compared with traditional electric heaters, these high-tech heaters prevail with fast heating, long constant temperature, energy conservation, and

safety.

H. Upstream and downstream integration

The Company adopts the SRM system to deal with suppliers, 210 of which provide JIT to significantly reduce the Company's inventory; the CRM system is adopted for domestic sales. The Company adopts the SRM and CRM systems to maintain the close cooperation with suppliers and customers so that inventories and payments can be managed more efficiently.

(5) Positive and negative factors for future development and response measures

A. Positive factors

a. The spending power improves as the economy in China grows rapidly

The income of urban households in China has gradually increased since 1995. The average annual disposable income of urban households has increased from RMB11,795 in 2006 to RMB28,228 in 2018, indicating that the government of China has been doing everything in its power to stimulate the growth of domestic demand. With an increase in the spending power, the staple markets, such as the small home appliance market, will definitely expand. Therefore, there is a lot of room for growth in the small home appliance market.

b. The industry meets the trend of environmental protection and government policies

With an increasing awareness of environmental protection and hike in energy prices, energy conservation and carbon reduction is currently a global issue of concern. To improve the utilization of resources and protect the environment, the government of China has successively promulgated environmental laws and regulations. The government made an green declaration in the 2010 China Small Home Appliances Fair to propose manufacturing, distributing, and purchasing low-carbon products. Over the past years, the Company took the initiative to add green materials to the design, production, logistics, and sale of small home appliances to reduce carbon emissions; in addition, the Company has developed products with longer service life to extend the replacement of out-of-date and damaged products and reduce electronic wastage. The Company has also reduced manufacturing processes and set up energy-saving equipment and recycling equipment. With years of experience in green manufacturing, the Company is poised for the green requirements in the small home appliance market.

c. Home appliances of fine quality is a trend

Small home appliances have become intelligent and quality-oriented, showing that manufacturers have transformed themselves into high-end small home appliance manufacturers while seeking high profitability. High-end products mainly feature smart and human-oriented functions and artistic design. With high additional value, high-end products mainly attract the young generation and white-collar households. At present, the gross margin of traditional home appliances is about 10%~25%, the gross margin of small home appliances is about 30%~60%, and the gross margin of high-end small home appliances is even higher. Although the expenses of research and development are relatively high, they can be apportioned by the production volume, so the gross margin is high.

As mentioned above, the small home appliance market is gradually moving towards the home appliances of fine quality, which is same as the Company's position. Boasting the well-established capacity for research and development, the Company has developed quality small home appliances highly recognized by customers, regardless of higher prices. The future trend of high-end small home appliances can rule out low-end small manufacturers and create the barriers to entry; it can also benefit the sales of the Company's quality home appliances. Although China's major home appliance manufacturers have begun to tap into the small home appliance market, they are relatively weak in this field. It will take some time for them to seize the high-end small home appliance market. Therefore, the future trend of small home appliances remains conducive to the Company.

B. Negative factors and response measures

a. Wages change

At present, the processing and assembly of small home appliances still depend on human resources. After the implementation of the Labor Contract Law of the People's Republic of China, labor costs in China rise year by year, resulting in an increase in the Company's production costs.

Response measures:

The Company has invested in Jiangxi Jiujiang Plant, which was put into mass production in October 2014. In addition to the low labor cost, the Company has strived to improve the manufacturing process and automated manufacturing rate, so as to increase the productivity and reduce dependence on labor. The Company has also enhanced

the utilization of employees by improving their capacity for research and development and production design and providing continuing education and training in order to reduce the need of labor in the manufacturing process and increase the added value of products.

b. Prices of raw materials rise

In recent years, raw materials required for the production of home appliances, such as steel, aluminum, and copper, have increased year by year, and it is estimated that the same trend will continue in the future with relative large fluctuations in prices. As international oil prices have increased in recent years, the cost of plastics required by the Company has also increased year by year. If suppliers choose to default when the prices of raw materials rise, the liquidated damages generated are also lower than the rise; therefore, the chance that suppliers choose to default and stop delivering increases.

Response measures:

To prevent suppliers from defaulting in response to the increasing prices of raw materials and to reduce the cost of inventory in case of emergencies, the Company has actively sought cooperation with larger international raw material suppliers because of their stable supply and credibility. In addition, the Company makes price forecasts in response to customers' needs and supply of raw materials. When the raw material market price is about to rise, the Company will reserve the supply in advance to reduce the impact of price fluctuations; the Company also sources from different suppliers and prepares materials in advance to ensure the orders and shipments regardless of the availability of raw materials. The Company has continuously required suppliers to improve the quality of raw materials and develop alternative materials, so as to reduce the risk of hikes in raw material prices and increase the additional value of products.

c. Exchange rates fluctuate significantly

As China's economy has grown stably in recent years, RMB is subject to depreciation. With abundant foreign exchange savings, the government of China can control the RMB exchange rates, but it still cannot compete with the market mechanism. It is estimated that RMB will continue to depreciate slowly, but it will have a limited contribution to the exchange gains on exports of Chinese manufacturers.

Response measures:

The Company has been committed to the development of the domestic market in China for many years and has achieved remarkable results. As domestic demand in China continues to increase, the Company will continue to expand the sales channels in China in the future to reduce the risk of exchange rate fluctuations. In addition to trading in the same currency to reduce exchange losses, the Company has also urged the financial and accounting personnel to strengthen their understanding of hedging and pay attention to the news and reports on real-time exchange rates online and from investment banks. When signing sales contracts with customers, the Company should also pay attention to possible exchange gains or losses at any time to adjust the transaction prices.

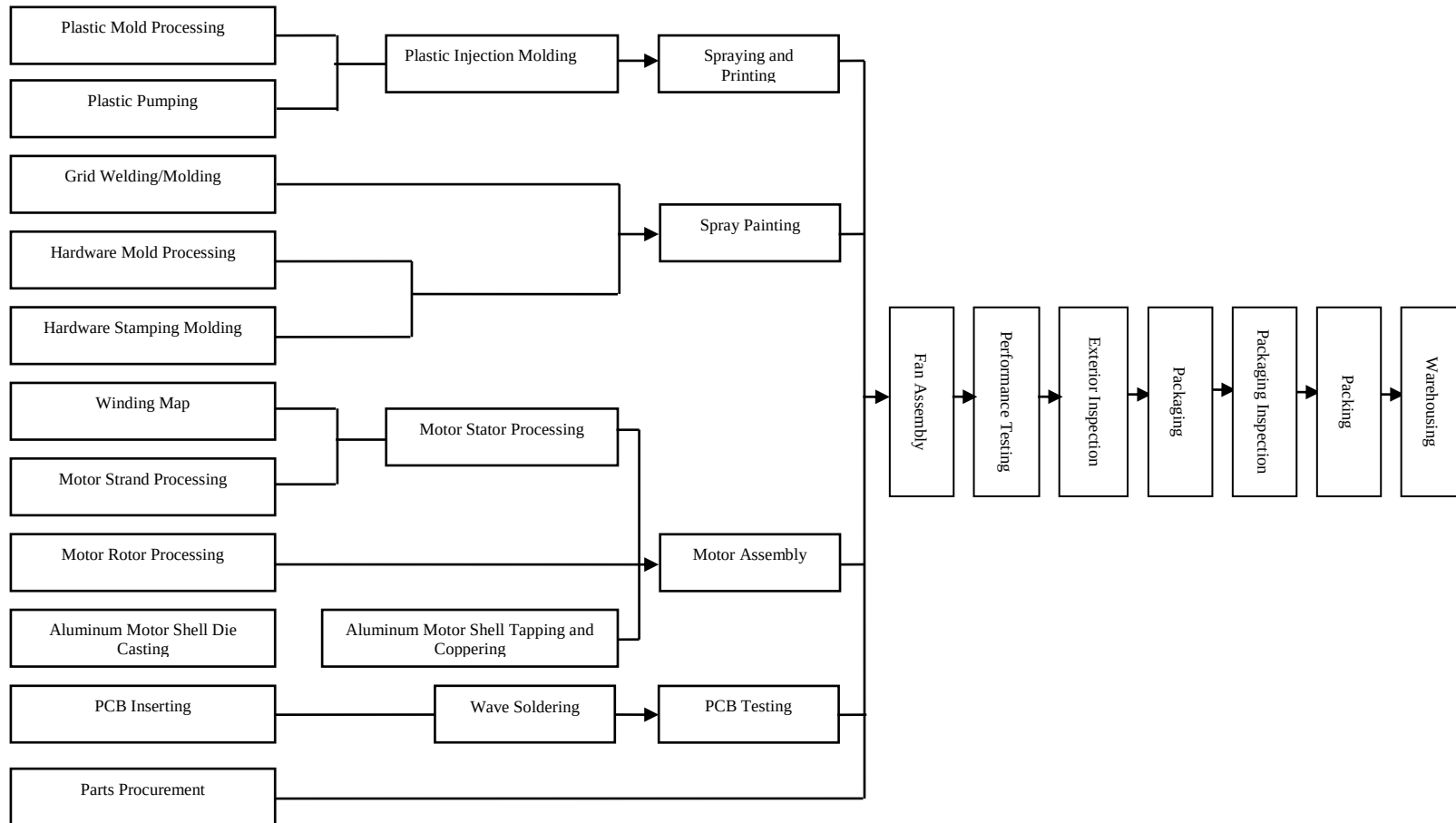
(II) Usage and Manufacturing Processes of Main Products

(1) Usage of main products

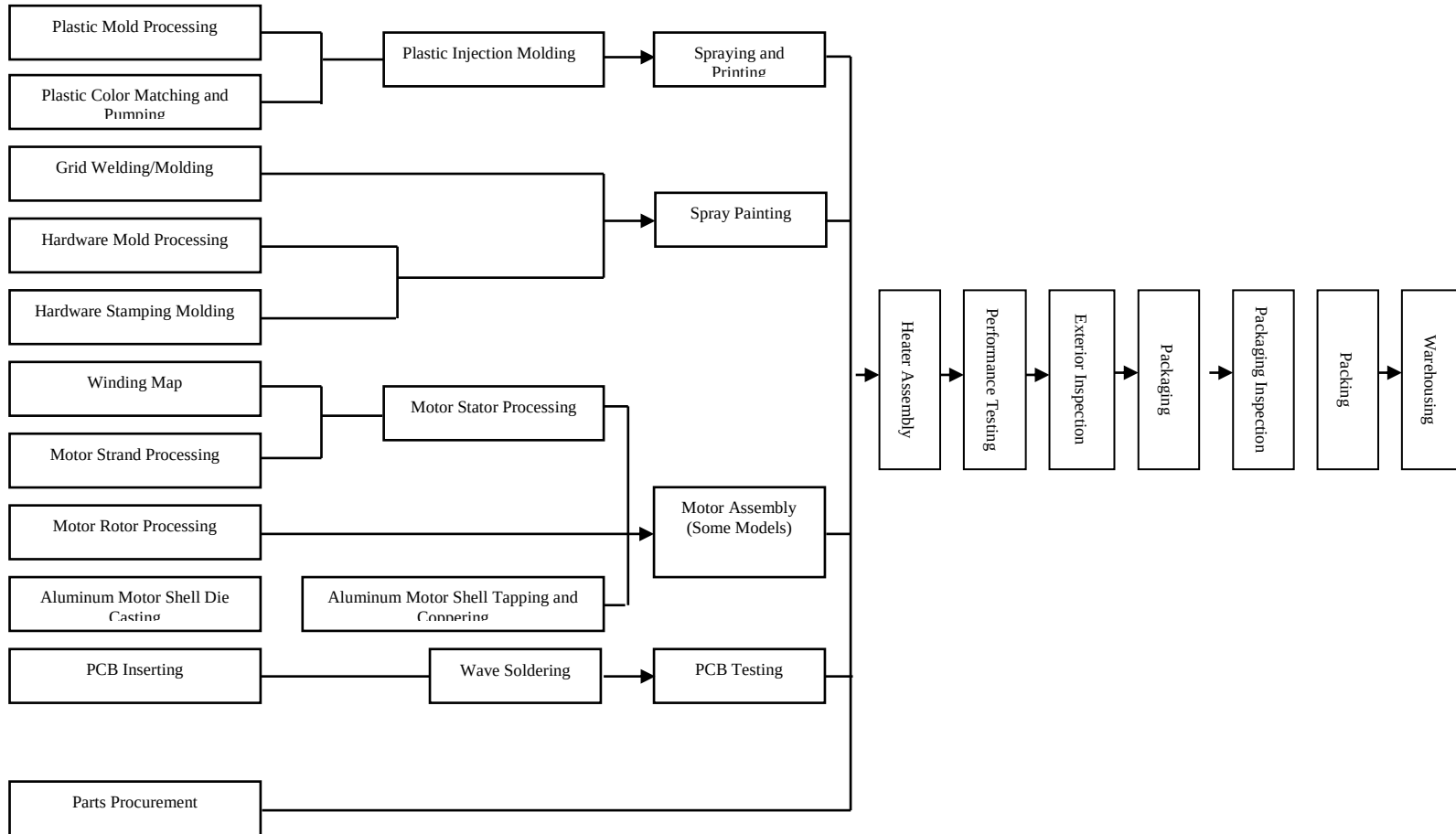
Main Product	Usage
Electric Fans	Cooling, ventilation, humidification, reduction in electricity used in air conditioners, and energy conservation and carbon reduction.
Electric Heaters	Fast warming and physiotherapy.

(2) Manufacturing processes of main products

A. Electric fans



B. Electric heaters



(III) Supply Situation of Major Raw Materials

Major Raw Material	Major Suppliers	Supply Situation
Plastics	LG, CNOOC and Shell Petrochemicals Company Limited, LCY Chemical Corporation, Chi Mei Corporation, and SINOPEC Fuel Oil Sales Corporation Limited East China Branch	Good
Copper wires	Xinlong Enamelled Wire Co., Ltd., Dongguan Yulong Electric Material Co., Ltd., and Feng Ching Metal Corporation	Good
Silicon steel plates	Dynamic Steel Industrial Co., Ltd., Leicong Industrial Co., Ltd, Shenzhen Hongyuan Metal Industry Co., Ltd., and Shenzhen Chun Yuan Steel Industry Co., Ltd.	Good
Power cable	Shenzhen Yuxin Wire & Cable Co., Ltd., Ming Tak Electrical Wiring Co., Ltd., and Shenzhen Baoyuanda Electronics Co., Ltd.	Good

(IV) Any Suppliers and Customers Accounting for More than 10% of Total Procurement (Sales) Amount in the Most Recent Two Years, Amount and Percentage of Procurement (Sales), and Reason for Change (Where the Company Is Prohibited by Contract from Revealing the Name of Customers, or a Transaction Counterpart Is an Individual Other than a Related Party, a Code May Be Used Instead)

1. The Company has thousands of raw materials. To maintain the stability and quality of supply, the Company sources from more than two suppliers. In the most recent two years, there has been no supplier accounting for more than 10% of the Company's total procurement amount.
2. The Company has been expanding the domestic market in China, and customers are dispersed. In the most recent two years, there has been no customer accounting for more than 10% of the Company's total sales amount.

(V) Production Volume and Value for the Most Recent Two Years

Unit: Thousand units; thousand NT\$

Year Production Volume and Value Main Product	2017			2018		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
Electric Fans	3,183	922	5,157,595	2,904	819	5,129,151
Electric Heaters	740	203	1,314,196	847	240	1,611,055
Electrical products	162	79	243,937	144	75	217,932
Other small home appliances	134	33	384,567	125	38	350,406
Total	4,219	1,237	7,100,295	4,020	1,172	7,308,544

Change analysis:

The production capacity and production volume decreased in 2017 mainly because the Company strove to strengthen the zero stock management in 2018. In addition, the domestic and foreign markets were affected by the climate, resulting in a slight decrease in orders. The reason was reasonable.

(VI) Sales Volume and Value for the Most Recent Two Years

Unit: Thousand units/pieces; thousand NT\$

Year Sales Volume and Value Main Product	2017				2018			
	Domestic Sales		Export		Domestic Sales		Export	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Electric fans	5,613	3,825,417	4,047	2,758,603	4,738	3,558,602	4,216	3,220,255
Electric heaters	2,042	1,681,547	1,080	717,826	2,192	2,046,882	1,194	875,978
Other small home appliances	327	142,645	285	415,045	82	66,228	341	384,784
Electrical products	301	140,963	343	110,576	447	164,926	354	128,438
Others (Note)	-	14,088	-	217,492	-	11,130	-	157,717
Total	8,282	5,804,660	5,755	4,219,542	7,459	5,847,769	6,106	4,767,171

Note: Including materials, spare parts, molds, etc.

Change analysis:

In 2018, the increase in the domestic sales value and the decline in the sales volume were mainly due to the global climate and the excessive inventory of distributors. The increase in both the export value and export volume was mainly due to the increase in orders.

III. Employee Information in the Last Two Years Up to the Printing of the Report

Unit: Person

Year		2017	2018	As of March 31, 2019
Number of employees	Regular	4,899	3,714	3,705
	Temporary	1,235	2,433	2,740
	Total	6,134	6,147	6,445
Average age		33.01	32.64	34.32
Average year of service		3.73	3.67	3.39
Educational distribution ratio (%)	Ph.D.	—	—	—
	Master's degree	0.16	0.11	0.09
	Bachelor's degree	11.66	10.66	9.74
	Senior high school	14.02	12.07	10.66
	Below senior high school	74.16	77.16	79.51

IV. Information on Environmental Protection Expenditure

Total losses (including damage awards) and fines for environmental pollution for the most current year up to the date of publication of the Annual Report, response measures (including corrective measures) and possible disbursements in the future (including an estimate of losses, fines, and compensation resulting from any failure to adopt response measures, or if it is not possible to provide such an estimate, state the reason why it is not possible): None.

V. Labor Relations

- (I) Any Employee Benefit Plans, Continuing Education, Training, Retirement Systems, and the Status of Implementation, the Status of Labor-management Agreements and Measures for Preserving Employees' Rights and Interests
 1. The Company has established management methods and regulations for employee benefits, such as salary, promotion, rewards and punishments, leaves, and social insurance, in compliance with related laws and regulations.
 2. The Company provides dormitories under hierarchical management, healthy meals supervised and reviewed by labor unions, and allowances for weddings, funerals, festivals, and celebrations, and organizes regular company trips to promote interaction between employees. The Company has also established the rewards regulations for senior employees to take care of local employees.
 3. The Company attaches great importance to employee training, including pre-service training, on-the-job training, and external professional training, to help employees improve their professional knowledge and skills.
 4. The Company has labor unions as a communication bridge between employees and the management. The Company decides on important employee-related matters with employees through the labor unions and encourages employees to express their opinions and feedback.
- (II) Any Loss Sustained as a Result of Labor Disputes in the Most Recent Year up to the Date of Publication of the Annual Report, an Estimate of Losses Incurred to Date or in the Future, and Response Measures (If the Loss Cannot Be Reasonably Estimated, State the Effect): None.

VI. Important Contracts

Contracting Party, Major Content, Restrictive Clause, and Commencement Date and Expiration Date of Supply/Distribution Contracts, Technical Cooperation Contracts, Engineering/Construction Contracts, Long-term Loan Contracts, and Other Contracts that Would Affect Shareholders' Equity, where the Contracts Were either Effective as of the Date of Publication of the Annual Report or Expired in the Most Recent Year

Important Contract

Nature of Contract	Contracting Party	Commencement Date and Expiration Date	Major Content	Restrictive Clause
Distribution contract	Shanghai Winhome E-commerce Limited	2018.12.01~2019.09.30	Sale of AIRMATE electric fans	None
Distribution contract	Shanghai Winhome E-commerce Limited	2018.08.01~2019.4.30	Sale of AIRMATE electric heaters	None
Distribution contract	Beijing Xinzhongding Network Technology Limited	2018.12.01~2019.09.30	Sale of AIRMATE electric fans	None
Distribution contract	Beijing Xinzhongding Network Technology Limited	2018.08.01~2019.4.30	Sale of AIRMATE electric heaters	None
Distribution contract	Wenzhou Huaan Economic and Trade Limited	2018.12.01~2019.09.30	Sale of AIRMATE electric fans	None
Distribution contract	Wenzhou Huaan Economic and Trade Limited	2018.08.01~2019.4.30	Sale of AIRMATE electric heaters	None
Distribution contract	Zhejiang Airmate Electrical Sales Limited	2018.12.01~2019.09.30	Sale of AIRMATE electric heaters	None
Distribution contract	Zhejiang Airmate Electrical Sales Limited	2018.08.01~2019.4.30	Sale of AIRMATE electric heaters	None
Loan contract	Chailease Finance Co., Ltd.	2018.11.13~2020.11.13	A loan of US\$3 million by Waon Development Limited (Hong Kong) to be repaid in installments every 3 months for 24 months.	None
Loan contract	Bank of China, Longhua Sub-branch	2018.08.20~2019.8.20	A loan of RMB100 million, a bank account of RMB250 million, a non-financial guarantee of RMB3.5 million, counterparty credit risk of RMB1.5 million, and trade finance of RMB5 million by Airmate Electrical (Shenzhen) Limited, with buildings and outbuildings provided by Airmate Electrical (Shenzhen) Limited as collateral and a joint and several guarantee provided by Airmate Electrical (Jiujiang) Limited	None
Loan contract	Bank of China, Longhua Sub-branch	2018.11.07~2019.11.07	A loan of RMB40 million by Airmate Electrical (Shenzhen) Limited	None
Loan contract	Bank of China, Longhua Sub-branch	2018.12.26~2019.12.26	A loan of RMB25 million by Airmate Electrical (Shenzhen) Limited	None
Loan contract	E.SUN Bank (China) Company, Ltd., Shenzhen Branch	2018.11.28~2019.5.28	A loan of RMB10 million by Airmate Electrical (Shenzhen) Limited	None
Loan contract	Jiujiang Rural Commercial Bank, Development Zone Sub-branch	2018.07.09~2019.07.08	A loan of RMB15 million by Airmate Electrical (Jiujiang) Limited	None
Loan contract	Bank of China, Jiujiang Economic and Technological Development Zone Sub-branch	2018.12.25~2019.12.24	A loan of RMB20 million by Airmate Electrical (Jiujiang) Limited	None

Chapter 6 Financial Information

I. Condensed Balance Sheet, Statement of Comprehensive Income and Independent Auditors' Opinions of the Most Recent Five Years

(I) Condensed Financial Statements

(6) Condensed balance sheet

Unit: NT\$1,000

Item	Year	Financial Information in the Most Recent Five Years (Note 1)					Current year as of March 31, 2019 (Note 2)
		2014 (Restated) (Note 1)	2015	2016	2017	2018	
Current assets		6,236,439	4,902,626	4,796,553	4,432,077	4,979,684	5,263,603
Property, plant and equipment		2,928,315	2,987,143	2,591,489	2,426,397	2,206,928	2,197,906
Intangible assets		61,179	45,828	34,712	31,775	20,033	18,225
Other assets		234,621	282,601	272,860	942,887	1,159,507	1,202,955
Total assets		9,460,554	8,218,198	7,695,614	7,833,136	8,366,152	8,682,689
Current liabilities	Before distribution	5,108,242	5,160,001	4,797,191	4,027,148	5,068,804	5,221,713
	After distribution	5,108,242	5,160,001	4,919,593	4,039,307	Not yet distributed	Not yet distributed
Non-current liabilities		1,388,459	266,044	192,028	1,208,846	824,315	828,207
Total liabilities	Before distribution	6,496,701	5,426,045	4,989,219	5,235,994	5,893,119	6,049,920
	After distribution	6,496,701	5,426,045	5,111,621	5,248,153	Not yet distributed	Not yet distributed
Equity attributable to owners of parent company		2,963,853	2,792,153	2,688,781	2,582,747	2,462,371	2,622,611
Capital		1,228,846	1,228,846	1,228,436	1,228,436	1,228,436	1,228,436
Capital surplus		1,057,916	1,021,581	966,919	979,283	979,283	979,283
Retained earnings	Before distribution	431,488	345,304	624,909	500,369	501,835	545,452
	After distribution	431,488	345,304	502,507	488,210	Not yet distributed	Not yet distributed
Other equity		245,603	196,422	(120,258)	(104,764)	(214,132)	(97,509)
Treasury stock		-	-	(11,225)	(20,577)	(33,051)	(33,051)
Non-controlling interests		—	—	17,614	14,395	10,662	10,158
Total equity	Before distribution	2,963,853	2,792,153	2,706,395	2,597,142	2,473,033	2,632,769
	After distribution	2,963,853	2,792,153	2,583,993	2,584,983	Not yet distributed	Not yet distributed

Note 1: The Company has adopted the 2013-version of International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC interpretations and SIC interpretations endorsed and issued into effect by the Financial Supervisory Commission (FSC) (excluding IFRS 9) in the preparation of financial statements and retrospectively restated the consolidated financial statements for the year ended December 31, 2014.

Note 2: The financial statements for the three months ended March 31, 2019 have been reviewed by CPAs.

(7) Condensed statement of comprehensive income

Unit: NT\$ thousands (except for earnings per share)

Item	Year	Financial Information in the Most Recent Five Years					Current year as of March 31, 2019 (Note 2)
		2014 (Restated) (Note 1)	2015	2016	2017	2018	
Operating revenue		12,117,829	10,967,669	11,032,005	10,024,202	10,614,940	2,419,610
Gross profit		2,200,059	2,075,981	2,291,399	1,736,363	1,809,931	409,480
Operating income (loss)		(216,385)	(62,864)	341,281	(46,001)	68,437	40,277
Non-operating income and expenses		(111,627)	(59,457)	16,191	53,336	3,830	5,684
Income before income tax		(328,012)	(122,321)	357,472	7,335	72,267	45,961
Net income of continuing operations		(331,938)	(94,042)	276,946	1,354	(18,083)	42,818
Loss from discontinued operations		—	—	—	—	—	—
Net income (loss) of the period		(331,938)	(94,042)	276,946	1,354	(18,083)	42,818
Other comprehensive income of the period (net of tax)		153,918	(41,323)	(319,020)	8,783	(81,393)	116,918
Total comprehensive income		(178,020)	(135,365)	(42,074)	10,137	(99,476)	159,736
Net income attributable to owners of parent		(331,938)	(94,042)	282,300	4,262	(14,599)	43,617
Net income attributable to non-controlling interests		—	—	(5,354)	(2,908)	(3,484)	(799)
Total comprehensive income attributable to owners of parent		(178,020)	(135,365)	(36,720)	13,356	(95,743)	160,240
Total comprehensive income attributable to non-controlling interests		—	—	(5,354)	(3,219)	(3,733)	(504)
Earnings per share	Before distribution	(2.70)	(0.77)	2.31	0.03	(0.12)	0.36
	After distribution	(2.70)	(0.77)	2.31	0.03	Not yet distributed	Not yet distributed

Note 1: The Company has adopted the 2013-version of IFRS, IAS, IFRIC interpretations and SIC interpretations endorsed and issued into effect by the Financial Supervisory Commission (FSC) (excluding IFRS 9) in the preparation of financial statements and retrospectively restated the consolidated financial statements for the year ended December 31, 2014.

Note 2: The financial statements for the three months ended March 31, 2019 have been reviewed by CPAs.

- (II) Significant items, such as accounting changes, business combination or shutdown of operating segments, which affect the consistency comparison of the aforementioned financial statements and their impact on the financial statements of the current year:

(3) IAS 1 "Presentation of Financial Statements"

The Standard amends the presentation of other comprehensive income. Items within other comprehensive income are classified by their nature into "may not be reclassified subsequently to profit or loss" and "may be reclassified subsequently to profit or loss". The amendment also requires that taxes associated with items expressed in pre-tax amount and classified into the aforementioned two categories under other comprehensive income shall be separately presented. The consolidated entity has changed the presentation of the statements of comprehensive income pursuant to the Standard with comparative periods restated accordingly.

(4) IFRS 13 "Fair Value Measurement"

The Standard changes the definition of fair value, establishes a framework for fair value measurement, and stipulates disclosures associated with fair value measurement. The consolidated entity has provided additional disclosures on fair value measurement in compliance with the amended Standard and prospectively applied the fair value measurement requirements of the new Standard pursuant to the transitional provisions. However, data of comparative period are not required for the newly-added disclosures. Although the new measurement requirements have been prospectively applied since 2015, they have no significant impact on the fair value measurement of the consolidated entity's assets and liabilities.

(5) IAS 19 "Employee Benefits"

The main focus of the amendment is to determine net interest by multiplying the net defined benefit liability (asset) by the discount rate, use it to replace interest cost and expected return on plan assets prior to the amendments, and eliminate the accounting policy option of adopting the "corridor approach" for actuarial gains and losses or recognizing those in profit or loss when incurred. The amendment also stipulates that the remeasurement of defined benefit plan (including actuarial gains and losses) shall be recognized in other comprehensive income and the past service cost shall be recognized in profit or loss when incurred, instead of being recognized as expenses via straight-line method over the average period prior to satisfying the vesting conditions. Moreover, the Company shall recognize termination benefits at the earlier of when the entity can no longer withdraw the offer of those benefits or when the entity recognizes the relevant restructuring costs, instead of recognizing termination benefits as liabilities and expenses when there are explicit commitments related to the termination events. Also, additional disclosures on defined benefit plans are required.

The consolidated entity has changed the accounting policies associated with the measurement and presentation of net defined benefit liability, pension costs and actuarial gains and losses in accordance with the aforementioned amendment and will recognize the unrecognized remeasurement of defined benefit plans in full in compliance with the elimination of "corridor approach" and retrospectively adjust the retained earnings.

(III) Names and audit opinions of CPAs

5. Names and audit opinions of CPAs for the most recent five years

Year	Name of Accounting Firm	Name of CPA	Audit Opinion
2013	Anna Lu, Steven Shih	KPMG Taiwan	Unqualified opinion
2014	Anna Lu, Steven Shih	KPMG Taiwan	Unqualified opinion
2015	Anna Lu, Ethan Chuang	KPMG Taiwan	Modified unqualified opinion
2016	Ethan Chuang, Astor Kou	KPMG Taiwan	Unqualified opinion
2017	Ethan Chuang, Astor Kou	KPMG Taiwan	Standard unqualified opinion
2018	Isabel Lee, Anna Lu	KPMG Taiwan	Unqualified opinion

6. If the CPAs have been changed in the most recent five years, the Company shall list the reasons for replacing the former CPAs with the successor ones: Due to internal rotation of the CPA firm.

II. Financial Analysis of the Most Recent Five Years

1. Financial analysis

Item	Year	Financial Information in the Most Recent Five Years (Note 1)					Current year as of March 31, 2019 (Note 2)
		2014	2015	2016	2017	2018	
Financial structure (%)	Debt ratio	68.59	66.02	64.83	66.84	70.44	69.68
	Long-term fund to property, plant and equipment ratio	148.63	102.38	111.16	156.26	148.93	157.00
Liquidity analysis (%)	Current ratio	122.09	95.01	99.99	112.79	98.28	100.80
	Quick ratio	62.00	46.89	49.13	50.26	55.45	57.80
	Times interest earned	-3.62	-0.38	6.83	1.10	1.66	2.61
Operating performance	Average collection turnover (times)	5.36	5.89	7.28	6.90	6.73	5.02
	Days sales outstanding	68	62	50	53	54	72.66
	Inventory turnover (times)	3.59	3.24	3.59	3.39	3.82	3.70
	Average payment turnover (times)	4.40	4.36	4.17	4.17	4.22	3.60
	Average inventory turnover days	102	113	102	108	95.51	98.64
	Property, plant and equipment turnover (times)	4.14	3.67	4.26	4.13	4.81	4.40
	Total assets turnover (times)	1.28	1.33	1.43	1.28	1.27	1.11
Profitability	Return on assets (%)	-3.12	-0.23	4.20	0.86	0.97	3.19
	Return on equity (%)	-10.51	-3.27	10.30	0.16	-0.58	6.86
	Net income before income tax to paid-in capital ratio (%)	-26.72	-9.95	29.10	0.60	5.88	14.97
	Net margin (%)	-2.74	-0.86	2.56	0.04	-0.14	1.80
	Earnings per share (NT\$) (Note 1)	-2.71	-0.77	2.31	0.03	-0.12	0.36
Cash flow	Cash flow ratio (%)	-3.15	16.20	43.41	8.75	13.26	25.18
	Cash flow adequacy ratio (%)	31.02	37.25	85.26	78.95	100.97	163.36
	Cash flow reinvestment ratio (%)	-6.27	27.33	71.84	6.04	20.01	37.99
Leverage	Operating leverage	-5.19	-18.20	4.37	-22.09	16.85	6.98
	Financial leverage	0.75	0.41	1.22	0.39	-1.64	3.43
Reasons for changes in financial ratios in the most recent two years (Analysis is not required if the change is within 20%). The increase in times interest earned was mainly due to the increase in income before income tax in 2018. The decrease in return on equity was mainly due to the decrease in net income in 2018. The increase in net income before income tax to paid-in capital ratio was mainly due to the increase in income before income tax in 2018. The decrease in net margin was mainly due to the decrease in net income in 2018. The decrease in earnings per share was mainly due to the decrease in net income in 2018. The increase in cash flow ratio was mainly due to the increase in net cash generated by operating activities in 2018. The increase in cash flow adequacy ratio was mainly due to the increase in net cash generated by operating activities in 2018. The increase in cash flow reinvestment ratio was mainly due to the increase in net cash generated by operating activities in 2018. The increase in operating leverage was mainly due to the increase in operating revenue and the change from net loss in 2017 to net income in 2018. The decrease in financial leverage was mainly due to the increase in interest expenses comparing to 2017.							

Note 1: Financial data from 2014 to 2018 are based on numbers in the consolidated financial statements audited and certified by CPAs.

Note 2: The financial statements for the three months ended March 31, 2019 have been reviewed by CPAs.

Note 3: The following lists the formulas used for performing the financial analysis:

1. Financial structure

(1) Debt ratio = Total liabilities / total assets.

(2) Long-term fund to property, plant and equipment ratio = (Net equity + Long-term liabilities) / Net property, plant and equipment.

2. Liquidity analysis

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

(2) Quick ratio = (Current assets - Inventories - Prepaid expenses) / Current liabilities.

(3) Times interest earned = Earnings before interests and taxes / Interest expenses over this period.

3. Operating performance

(1) Average collection turnover (including accounts receivable and notes receivable resulting from

business operations) = Net sales / Average receivable of the period (including accounts receivable and notes receivable resulting from business operations).

(2) Days sales outstanding = 365 / Average collection turnover.

(3) Inventory turnover = Cost of sales / Average inventories.

(4) Average payment turnover (including accounts payable and notes payable resulting from business operations) = Cost of sales / Average payable of the period (including accounts payable and notes payable resulting from business operations).

(5) Average inventory turnover days = 365 / Inventory turnover.

(6) Property, plant and equipment turnover = Net sale / Net property, factory and equipment.

(7) Total assets turnover = Net sales / Total assets.

4. Profitability

(1) Return on assets = (Net income (loss) + Interest expenses * (1 - Tax rate)) / Average total assets.

(2) Return on equity = Net income (loss) / Average total equity.

(3) Net margin = Net income (loss) / Net sales.

(4) Earnings per share = (Net income - Preferred stock dividend) / Weighted average number of shares outstanding.

5. Cash flow

(1) Cash flow ratio = Net cash generated by operating activities / Current liabilities.

(2) Cash flow adequacy ratio = Net cash generated by operating activities in the most recent five years / (Capital expenditure + Inventory increase + Cash dividends) in the most recent five years.

(3) Cash flow reinvestment ratio = (Net cash generated by operating activities - Cash dividends) / (Gross property, plant and equipment + Long-term investments + Other assets + Working capital).

6. Leverage

(1) Operation leverage = (Net operating revenue - Variable operating costs and expenses) / Operating income.

(2) Financial leverage = Operating income / (Operating income - Interest expenses).

Note 4: Special attention shall be paid to the following matters when using the formula of earnings per share above:

1. It shall be based on the weighted average number of common stocks rather than the number of outstanding shares at the end of the year.
2. Where there is capital increase by cash or treasury share transaction, the circulation period shall be considered when calculating the weighted average number of shares.
3. Where there is capital increase by earnings or by capital surplus, the annual and semi-annual earnings per share of previous years shall be retrospectively adjusted in accordance with the proportion of capital increase without considering the issuance period of such capital increase.
4. If the preferred stocks are inconvertible cumulative preferred stocks, dividends of the year (whether paid or not) shall be deducted from net income or included in the net loss. If the preferred stocks are not cumulative, preferred stock dividends shall be deducted from the net income (if any), and no adjustment is required in the case of net loss.

Note 5: Special attention shall be paid to the following matters for cash flow analysis:

1. Net cash generated by operating activities is the net cash inflow from operating activities in the statement of cash flows.
2. Capital expenditure is the annual cash outflow of capital investment.
3. The increase in inventories is included only when the ending balance is greater than the beginning balance. If the year-end inventory balance decreases, it is counted as zero.
4. Cash dividends include the cash dividends of common and preferred stocks.
5. Gross property, plant and equipment shall refer to the balance of property, plant and equipment

before deducting accumulated depreciation.

Note 6: The issuer shall classify operating costs and operating expenses as fixed or variable by their nature. If estimation or subjective judgment is involved, attention shall be paid to its reasonableness and consistency.

III. Supervisors' or Audit Committee's Review Report of the Most Recent Year

Review Report by Audit Committee

The Audit Committee has consented the Company's 2018 consolidated financial statements approved by the Board of Directors and audited by KPMG Taiwan appointed by the Board of Directors, and an audit report with standard unqualified opinion has been issued thereof.

The Audit Committee has the responsibility for overseeing the Company's financial statements approved by the Board of Directors.

The Company's 2018 consolidated financial statements have been audited by the CPAs, who have communicated with the Audit Committee regarding the following matters:

1. There was no significant discovery concerning the audit by the CPAs within the planned audit scope and time period.
2. The CPAs have provided the Audit Committee a declaration of independence where the personnel from the accounting firm are in compliance with the independence norms of CPAs code of professional ethics. Relations and other items that may be considered to affect the independence of the CPAs have not been found.
3. In the communication with the CPAs regarding key audit items, the Audit Committee found no key audit items that have the need to be communicated in the audit report.

The Company's 2018 consolidated financial statements consented by the Audit Committee and approved by the Board of Directors are in compliance with the relevant laws and regulations, and are thereby reported according to Article 219 of the Company Act.

It is hereby submitted for review.

Sincerely,

2018 General Shareholders' Meeting of Airmate (Cayman) International Co., Ltd.

Audit Committee Convener: Fan, Chin-Hwa

- IV. Financial Statements of the Most Recent Year, Including Independent Auditors' Audit Reports, Balance Sheets and Statements of Comprehensive Income, Changes in Equity and Cash Flows with Two-Year Data Available for Comparison, and Notes or Tables: Please refer to #page 136 to 226# of this annual report.**
- V. Audited and Certified Parent Company Only Financial Statements of the Most Recent Year, Excluding Statements of Significant Accounts: Not applicable.**
- VI. Financial Difficulties Experienced by the Company and Its Affiliates in the Most Recent Year up to the Date of Publication of This Annual Report, and Their Impact on the Company's Financial Position: None.**

Chapter 7 Review of Financial Conditions, Operating Results, and Risk Management

I. Analysis of Financial Status

Unit: NT\$1,000

Item \ Year	2018	2017	Difference	
			Amount	%
Current Assets	4,979,684	4,432,077	547,607	12.36
Property, Plant and Equipment	2,206,928	2,426,397	-219,469	-9.05
Intangible Assets	20,033	31,775	-11,742	-36.95
Other Assets	1,159,507	832,760	326,747	39.24
Total Assets	8,366,152	7,833,136	533,016	6.80
Current Assets	5,068,804	4,027,148	1,041,656	25.87
Non-Current Assets	824,315	1,208,846	-384,531	-31.81
Total Liabilities	5,893,119	5,235,994	657,125	12.55
Capital	1,228,436	1,228,436	0	-
Capital Surplus	979,283	979,283	0	-
Retained Earnings	501,835	500,369	1,466	0.29
Other Equity	(214,132)	(104,764)	-109,368	104.39
Treasury Shares	(33,051)	(20,577)	-12,474	60.62
Non-Controlling Equity	10,662	14,395	-3,733	-25.93
Total Shareholders' Equity	2,473,033	2,597,142	-124,109	-4.78
Explain any difference in increase/decrease percentage that exceeds 20% and amount that reaches NT\$83 million (1% of total assets) in assets, liabilities and shareholders' equity in the past 2 years:				
- Other assets: Mainly due to increase in land use rights and deferred income tax assets. - Current liabilities: Mainly due to increase in short-term borrowings, the increase in matured or redeemed secured convertible corporate bonds in 2018 or in one operating cycle that were part of the second issuance in 2017, and the compensation of the old plant development in 2016 that was recognized as Other Non-Current Liabilities. - Non-current liabilities: Mainly due to the issuance of second secured convertible corporate bonds in 2017 that were matured or redeemed in 2018 or within one operating cycle that were recognized as current liabilities. - Other equity: Mainly caused by the increase in exchange difference from financial reports of foreign operations in 2018.				

II. Financial Performance

Material changes over the most recent 2 fiscal years in operating revenue, operating income, and income before tax; forecast the company's expected sales volume and provide the basis for the forecast; and describe the possible impact of such changes upon the company's financial and business affairs, and how the company plans to respond

- (I) Reasons for any material changes over the most recent 2 fiscal years in operating revenue, operating income, and income before tax

1. Comparison Table for Operating Results

Unit: NT\$1,000

Item \ Year	2018	2017	Difference	
			Amount	%
Net Operating Revenue	10,614,940	10,024,202	590,738	5.89
Operating Cost	8,805,119	8,284,819	520,300	6.28
Gross Profit	1,809,931	1,736,363	73,568	4.24
Operating Expenses	1,741,494	1,782,364	-40,870	-2.29
Operating Profit	68,437	(46,001)	114,438	-248.77
Non-Operating Income and Expenses	3,830	53,336	-49,506	-92.82
Net Profit Before Tax	72,267	7,335	64,932	885.24
Income Tax Expense	90,350	5,981	84,369	1,410.62
Net Income	(18,083)	1,354	-19,437	-1,435.52
Other Comprehensive Net Income After Tax	(81,393)	8,783	-90,176	-1,026.71
Total Comprehensive Income	(99,476)	10,137	-109,613	-1,081.32
Net profit attributable to owners of the parent	(14,599)	4,262	-18,861	-442.54
Total comprehensive income attributable to owners of the parent	(95,743)	13,356	-109,099	-816.85

Explain any difference in increase/decrease percentage that exceeds 20% and amount that reaches NT\$83 million (1% of total assets):

- Operating profit: Mainly due to the increase in gross profit and expense control in 2018.
- Income tax expense: Mainly due to the supplementary tax payment of a subsidiary, Waon Development Limited (Hong Kong), to the Inland Revenue Department.
- Other comprehensive income (net after tax): Mainly due to the increase in exchange difference from the financial reports of foreign operations in 2017.
- Total comprehensive income: Please refer to the descriptions in item 1, 2 and 3.
- The comprehensive income attributable to owners of the parent: Please refer to the descriptions in item 1, 2 and 3.

2. Forecast of the expected sales volume and the basis for the forecast

The Company expects that the sales volume will increase in the coming year due to the steady growth of the domestic market and the continuous growing consumption in China, where important subsidiaries have their operations and productions, as well as the steadily growing ODM/OEM export markets.

3. Possible impact of such changes upon the company's financial and business affairs, and how the company plans to respond

The competition in the industry is increasingly fierce. The Company plans to

increase capital expenditure in order to expand the scale of operation in the main production bases, and continue to strengthen management and reasonable cost control for its subsidiaries in order to boost growth and profitability.

III. Cash Flow

(I) Liquidity Analysis for the Most Recent Two Years

1. Cash Flow Analysis for the Current Year

Unit: NT\$1,000

Item \ Year	2018	2017	Difference	
			Increases (decreases)	Variance %
Net cash flow from operating activities:	672,080	352,304	319,776	90.77
Net cash flow from investment:	(773,832)	(1,091,077)	317,245	-29.08
Net cash flow from financing activities	280,426	666,902	-386,476	-57.95
Analysis of financial ratio change:				
1. Cash flow from operating activities: Mainly due to the decrease in profit before tax and inventory in 2018.				
2. Cash flow from investing activities: Mainly due to the increase in prepaid land use rights of the subsidiary in Jiujiang and the compensation received for land development for the old plant in Shenzhen.				
3. Cash flow from financing activities: Mainly due to the issuance of second secured convertible corporate bonds in 2017 that were matured or redeemed in 2018 or within one operating cycle that were recognized as current liabilities.				

2. Improvement Plan for Insufficient Liquidity: The Company does not suffer from insufficient liquidity.

3. Liquidity Analysis for the Coming Year:

Estimated Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Cash Outflow (3)		Cash Surplus (Deficit) (1) + (2) - (3)	Remedy for Cash Inadequacy	
		Investment activities	Financing activities		Investment activities	Financing activity
417,768	972,958	(277,719)	(688,156)	424,851	None	None
1. Cash Flow Analysis for the Coming Year:						
(1) Operating activities: Mainly refer to the net cash inflow from the Company's operations.						
(2) Investment activities: Mainly refer to net cash outflow for the purchase of property, plant and equipment.						
(3) Financing activities: Mainly due to the net cash outflow for buying back corporate bonds and bank repayments.						
2. Remedy for Cash Deficit and Liquidity Analysis: Not applicable.						

IV. Impact of Major Capital Expenditures on Corporate Finances and Business for the Most Recent Year

The amount of fixed assets purchased between 2014 and 2018 amounted to NT\$991,154,000, NT\$ 636,863,000, NT\$ 349,247,000, NT\$ 421,247,000 and NT\$ 401,667,000 respectively, due to the Company's continuous expansion and replacement of equipment with new capacity in order to response to market demand. The comparison of the fixed assets and total asset turnover from 2014 to 2018 is shown below, showing that the Company's capital expenditure increase has not resulted in any negative impact on financial operations.

Turnover	2014	2015	2016	2017	2018
Property, Plant and Equipment Turnover (Times)	4.14	3.67	4.26	4.13	4.81
Total Asset Turnover (Times)	1.28	1.33	1.43	1.28	1.27

V. Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

1. Investment Policy in the Last Year

Besides complying with the investment cycle regulations from the internal control systems, the Company's investment management follows "Guidelines for Business and Financial Operations for the Group, Specific Companies and Related Parties", "Operational Procedures for the Supervision of Subsidiaries" and the "Operational Procedures for the Management of Subsidiaries' Operations" while taking into account the local laws and regulations of each invested company and the actual operating conditions and assisting each invested company in establishing an appropriate internal control system. In terms of organizational structure, the directors of the invested companies shall be elected in accordance with local laws and regulations. and appointed by the parent company. In addition, regarding the management of each invested company (with more than 50% of the shareholding), the Presidents shall be appointed by the parent company, and the invested companies shall be authorized to appoint or recruit other managers. For the financial manager however, it does not have to be reported to the parent company for approval or appointment. In addition, the Company regularly obtains financial statements, operational reports and financial statements audited by CPAs from the invested companies for the analysis of the operations and profitability. The Company's internal auditing unit shall also conduct regular audits of the subsidiaries, as well as formulating relevant auditing plans and submitting audit reports to track the flaws and improvement of the internal control systems.

2. Main Causes for the Profits or Losses from Investment in the Most Recent Year

Investment	Profits or Losses from Investment in the Most Recent Year	Description
Airmate International Holding Limited	66,242	Recognition of the investment profits of Airmate China International Limited (BVI) and Waon Development Limited (Hong Kong).
Airmate China International Limited (BVI)	66,313	Recognition of the investment profits of Airmate Electrical (Shenzhen) Limited and Waon Development Limited (Hong Kong)
Waon Development Limited (Hong Kong)	35,605	Recognition of the investment losses from Airmate Electrical (Shenzhen) Limited and investment profits and revenue from Airmate Electrical (Jiujiang) Limited.
Airmate Electrical (Shenzhen) Limited	(34,664)	Supplementary tax payment from previous years to State Tax Administration, China.
Zhejiang Airmate Electrical Sales Limited	3,234	The reduction in operating costs generated profits.
Airmate Electrical (Jiujiang) Limited	4,918	Profits were generated by reaching the economies of scale.
Shenzhen Airmate Technology Co Limited	(7,072)	The high costs of initial operations and having not yet reached the economies of scale.

3. Investment Plans for the Coming Year: None.

VI. Analysis of Risk Management for the Most Recent Year up to the Printing Date of the Annual Report

(I) Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

1. Interest Rate

The Company's interest expenses for 2018 and 2017 were NT\$ 110,051,000 and NT\$73,115,000 respectively, representing 1.04% and 0.73% of the net operating revenue for the years. The small percentage means the impact caused by interest rate change is insignificant for the Company. Although the interest rate at the currency market has been slowly climbing in recent years, it is still on the low end, so there has been no material change in the Company's loan interest rate. If the interest rate trend sees material fluctuations in the future and the Company has continuous needs for loans, apart from adopting other capital market financing tools to raise funds, the Company will also observe the interest rate trend and choose to borrow at a fixed rate or a floating rate to avoid the risk of interest rate fluctuations.

2. Foreign Exchange Rates

55% of the Company's sales is concentrated in Mainland China in recent years and quoted in RMB, approximately 42% is in Europe, Japan and South Korea and quoted in USD and JPY. The procurement is mainly quoted in RMB. Therefore, in addition to the natural hedging of the RMB due to the sales and purchase of goods, the exchange rate fluctuations of different currencies also have an offsetting effect. In addition to natural hedging, the Company also engages in forward foreign exchange transactions for hedging purposes. The Company's exchange gains (losses) for 2018 and 2017 were \$7,978,000 and \$4,716,000 respectively, representing 0.08% and 0.05% of the net operating revenue for the years. In general, there has been no significant risks caused by

exchange rate fluctuations. However, with future growth of operations, the holding position of foreign currencies by the Company will continue to increase. Moreover, both the domestic financing and future distribution of dividends to domestic investors will also need to be converted in USD. Therefore, exchange rate risks of USD to NTD will arise. The Company will strengthen control over foreign exchange position, and the possible measures are as follows:

- A. Continue to strengthen the concept of exchange hedging among the financial staff, make judgement regarding the exchange rate trend through online real-time system over exchange rates and close contact with financial institutions as the basis for reference.
- B. Use the sales revenue in the same currency as much as possible to support the expenditures for procurement and so on to achieve natural hedging.
- C. Decide whether to adopt derivatives for hedging to avoid exchange rate risks according to the Company's operational status.

3. Inflation/Deflation

With the 2008 financial crisis and the recent European debt crisis, the global economic activities have been slowing down. However, the pressure of inflation has been eased with the governments maintaining order of the financial market order and price stability. The Company will continue to maintain close interactions with its suppliers and customers in order to make timely adjustments of the procurement and sales strategies, as well as staying abreast of market price fluctuations and upstream material prices to mitigate the impact of inflation on the Company's profit and loss. There has been no significant change in the financial market and prices in the most recent year up to the publication date of this annual report, nor has there been any significant impact on the Company's profit and loss.

(II) Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

The Company has always focused on growing the business without engaging in high-risk and high-leveraged investments and transactions. The priority of the financial policy is staying prudent. Therefore, relevant risks are limited. The Company's policies and procedures for handling loans to other parties, endorsements and guarantees and derivative transactions are conducted in accordance with the Company's "Operational Procedures for Acquisition or Disposal of Assets", "Operational Procedures for Loaning Funds and Making Endorsements and Guarantees for Others" and "Operational Procedures for the Supervision of Subsidiaries."

As of the date of printing, all endorsements, guarantees and loans have stayed between the Company and its subsidiaries or among subsidiaries. The above-mentioned endorsements and guarantees and capital loans are handled in accordance with the relevant operational procedures. In general, they have no significant impact on the consolidated profit and loss. Moreover, the Company has always focused on growing the business without engaging in high-risk and high-leveraged investments and transactions. The priority of the financial policy is staying prudent. Therefore, relevant risks are limited.

(III) Future Research & Development Projects and Corresponding Budget

The future R&D plans are focused on continuous innovation of the technologies related to small household appliances. The Company actively works towards developing energy-saving and smart home appliances, as well as becoming the world's top enterprise for green solutions that provides customers with diverse product design, applications and technologies. With rapid response to the market trend, we will strive to improve the production process capability, strengthen product functionality and reduce costs, as well as jointly developing products that meet the market demand and achieve mature production technologies.

The R&D expenses for 2018 and 2017 were NT\$ 160,820,000 and NT\$ 164,096,000 respectively, taking up 1.52% and 1.64% of the Group's annual revenue. In the future, R&D resources will be dedicated depending on the projects. In addition to developing new products and core technologies, the Company will continue to make improvement and advancement as well as developing new products in accordance with the customer and market demands to become a supplier with sustainable operations.

(IV) Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

The Company is registered in the Cayman Islands with the main operations in China and Hong Kong. The Cayman Islands' principal economic activity is financial service, and China is one of the world's major economies. The Company's business activities are conducted in accordance with the important domestic and foreign policies, laws and regulations. The Company shall always pay attention to the development trends and changes in domestic and foreign policies, laws and regulations. In case of changes, the Company's lawyers and accounts will be consulted or engaged in the evaluation and planning of measures to make appropriate responses in a timely manner. In the most recent year up to the publication date of this annual report, the Company has not experienced any significant impact on its financial operations due to changes in major local policies and laws in the Cayman Islands, China or Hong Kong.

(V) Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales

With the continuous improvement in the technology, appearance and build of small household appliances as well as the carbon reduction attempt all over the world, the Company has stayed updated with market trends and evaluated the impact on the Company's operations. The Company has had a close cooperation with many export customers who are leaders in small electronics products all over the world, and the Company is also a well-known brand in China. In the most recent year up to the publication date of this annual report, the Company has not experienced any significant adverse impact on its financial operations due to changes in technology or the industry.

(VI) The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures

The Company has always been committed to the business philosophy of honesty, integrity, fairness and diligence since its establishment, the Company has continued to actively strengthen its internal management and quality management capabilities to build the company's brand image in order to further increase the customer trust. Therefore, there has been no impact of changes in corporate image.

(VII) Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans

There has been no plan for merger and acquisition in the most recent year and up to the publication date of the prospectus.

(VIII) Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans

There has been no factory expansion plans in the most recent year and up to the publication date of the prospectus.

(IX) Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

1. Purchases

The Company has thousands of raw materials. The main procurement items include plastic materials, copper wires, power cords, silicon sheets, printed circuit boards (PCB), paint, weight plates and carton packaging materials. For the procurement of major raw materials, the principle is purchasing from multiple suppliers to disperse the risks and ensure sufficient supply for production. Price inquiries and negotiations are conducted according to procurement and payment procedures. For the most recent year up to the publication date of the annual report, there has been no single supplier accounting for more than 10% of the total purchase amount; therefore. Therefore, there is no risk of excessive concentration of purchases as a whole.

2. Sales

The Company's sales strategy focuses on both the domestic and export markets. Own brand products are for the domestic markets while the ODM/OEM products are for export. Currently, the domestic sales network has over 10,000 channels in 31 provinces, autonomous regions and municipalities as well as 265 distributors. The export customers are located in 89 countries around the world with nearly 200 customers, most of which are internationally renowned manufacturers. In addition, no single customer accounts for more than 15% of the total sales in the most recent year and up to the printing date of the annual report. There is no risk of over-concentration in terms of sales, but the Company will continue to pay attention to and assess the credit risks of customers in order to make timely responses.

(X) Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%

In the most recent year up to the publication date of this annual report, the Company has not experienced any major share transfer of directors and shareholders with shareholdings of over 10%.

(XI) Effects of, Risks Relating to and Response to the Changes in Management Rights

In the most recent year up to the date of publication of this annual report, the Company has not changed its management rights. However, in order to enhance corporate governance, the Company has introduced the systems of independent directors and the Audit Committee to protect the shareholders' interests. On the other hand, with the exception of independent directors, the Company's current directors and employees are mostly long-term partners that agree with the Company's development and directions. Therefore, the Company has maintained good operating performance in recent years. In the future, the Company will adhere to its business philosophy and good management ethics to create growth in the Company's operations and profits, in order to win the approval of all shareholders of the management team. In short, the Company's operations are stable and well-approved,

so there is no risk of changes in management rights.

(XII) Litigious and non-litigious matters. List major litigious, non-litigious or administrative disputes that involve the company and/or any company director, any company supervisor, the general manager, any person with actual responsibility for the firm, any major shareholder holding a stake of greater than 10 percent, and/or any company or companies controlled by the company; and have been concluded by means of a final and unappealable judgment, or are still under litigation. Where such a dispute could materially affect shareholders' equity or the prices of the company's securities, the annual report shall disclose the facts of the dispute, amount of money at stake in the dispute, the date of litigation commencement, the main parties to the dispute, and the status of the dispute as of the date of printing of the annual report: None.

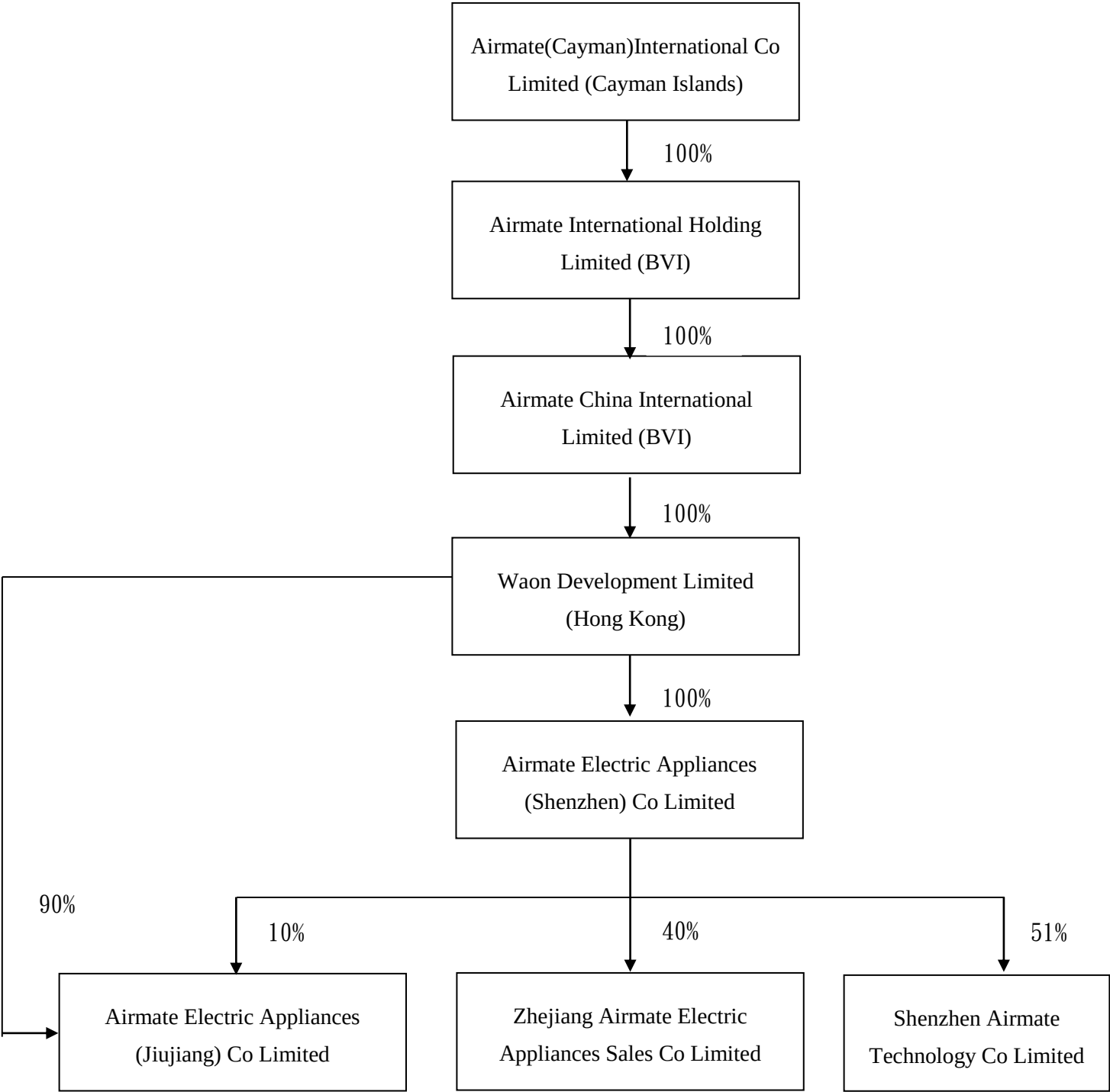
(XIII) Other Major Risks and Response Measures: None.

VII. Other Important Matters: None.

Chapter 8 Special Disclosures

I. Affiliated Companies:

- (I) Consolidated Business Report of Affiliated Enterprises for the Most Recent Year
 - 1. Organizational Chart of Affiliated Companies



2. Summary of Affiliated Companies

As of December 31st, 2018; Unit: NT\$ (foreign currency) 1,000

Name	Date of Incorporation	Address	Paid-In Capital		Main Operations
			Currency	Amount	
Airmate (Cayman) International Co Limited	2004.3	Cayman	NTD	122,843	Holding company
Airmate (Cayman) International Co Limited, Taiwan Branch	2017.10	Taiwan	—	—	Trading company
Airmate International Holding Limited	1998.12	B.V.I	USD	63,974	Holding company
Airmate China International Limited (BVI)	1997.10	B.V.I	USD	69,761	Holding company
Wacon Development Limited (Hong Kong)	1990.10	H. K.	HKD	820,298	Trading company
Wacon Development Limited (Hong Kong), Taiwan Branch	1998.8	Taiwan	—	—	Trading company
Airmate Electrical (Shenzhen) Limited	1991.5	China	USD	32,000	Household appliances production and sales
Airmate Electrical (Jiujiang) Limited	2014.1	China	USD	72,800	Household appliances production and sales
Shenzhen Airmate Technology Co Limited	2015.12	China	RMB	10,000	Research and development and sales of kitchen appliances

3. For companies defined as holding company and its subordinate, relevant Information on shareholders shall be listed: None.

4. Operational Highlight of Affiliated Companies

Unit: NT\$1,000

Name	Capital (Note 1)	Total Assets (Note 1)	Total Liabilities (Note 1)	Net Worth (Note 1)	Operating Revenue (Note 2)	Operating Profit (Note 2)	Current Profit and Loss (Note 2)	Earnings Per Share (NT\$)
Airmate (Cayman) International Co Limited	1,228,436	8,366,152	5,893,119	2,473,033	10,614,940	68,437	(14,599)	(0.12)
Airmate (Cayman) International Co Limited, Taiwan Branch	—	103	3	100	—	—	—	—
Airmate International Holding Limited	1,964,977	3,674,875	270	3,674,605	—	—	—	—
Airmate China International Limited (BVI)	2,142,716	3,675,044	237	3,674,807	—	—	—	—
Wacon Development Limited (Hong Kong)	3,216,389	6,094,814	3,036,416	3,058,398	4,576,945	212,506	35,268	—
Wacon Development Limited (Hong Kong), Taiwan Branch	—	11,235	9,493	1,742	35,120	378	337	—
Airmate Electrical (Shenzhen) Limited	982,880	5,707,086	3,526,378	2,180,708	5,330,679	(321,665)	(34,664)	—
Airmate Electrical (Jiujiang) Limited	2,236,052	4,775,316	2,538,735	2,236,581	5,849,983	17,367	4,918	—
Shenzhen Airmate Technology Co Limited	44,664	67,463	45,793	21,670	134,780	(5,783)	(7,072)	—

Note 1: Note 1: If the affiliate company is a foreign company, the liabilities in foreign currency shall be converted into NTD at the exchange rate at the reporting date. (CNY: HKD = 1.1391; HKD: NTD = 3.9210)

Note 2: Note 2: If the affiliate company is a foreign company, its profit and loss is translated into NTD at the average exchange rate for 2018. (CNY: HKD = 1.1848; NTD: HKD = 3.8462)

5. Overall business scope of affiliated businesses

The business operations of the Company and its affiliates focus on the manufacturing and sales of household appliances. A small number of affiliated companies are engaged in investment. Overall, the division of labor between the companies is based on mutual support of technology, production capacity, marketing and services to create maximum synergy.

6. Directors, Supervisors and Presidents of Affiliated Companies

Unit: Thousand Shares; %

Name	Job Title	Name or Representative	Shareholding/Investment	
			Number of Shares	Shareholding Ratio
Airmate (Cayman) International Co Limited	Chairman and President	Shih, Jui Pin	1,373	1.12
	Director	Tsai, Cheng-Fu	3,667	2.98
	Director	Cheng, Li-Ping	3,095	2.52
	Director	Shih Li, Chueh-Chu	1,891	1.54
	Director	Shih, Jui-Lin	260	0.21
	Director	Chen, Yen-Fu	15	0.01
	Director	Chen, Shun-Loong	2,254	1.83
	Independent Director	Fan, Chin-Hwa	5	—
	Independent Director	Chiu, Shean-Bii	—	—
	Independent Director	Chi, Lai-Ping	—	—
	Independent Director	Chen, Ming-Chang	—	—
Airmate International Holding Limited	Director	Shih, Jui Pin (Representative of Airmate (Cayman) International Co Limited)	US\$63,974,000	100
Airmate China International Limited (BVI)	Director	Shih, Jui Pin (Representative of Airmate International Holding Limited)	US\$69,761,000	100
Waon Development Limited (Hong Kong)	Chairman and President	Shih, Jui Pin (Representative of Airmate China International Limited)	HK\$820,298,000	100
	Director	Cheng, Li-Ping (Representative of Airmate China International Limited)	HK\$820,298,000	100
	Director	Tsai, Cheng-Fu (Representative of Airmate China International Limited)	HK\$820,298,000	100
	Director	Shih Li, Chueh-Chu (Representative of Airmate China International Limited)	HK\$820,298,000	100
Waon Development Limited (Hong Kong), Taiwan Branch	—	—	—	—
Airmate Electrical (Shenzhen) Limited	Chairman and President	Shih, Jui Pin (Representative of Waon Development Limited (Hong Kong))	US\$32,000,000	100
	Director	Tsai, Cheng-Fu (Representative of Waon Development Limited (Hong Kong))	US\$32,000,000	100
	Director	Yen-Ming Tseng (Representative of Waon Development Limited (Hong Kong))	US\$32,000,000	100
	Director	Shih, Jui-Lin (Representative of Waon Development Limited (Hong Kong))	US\$32,000,000	100
	Director	Kanai, Mari (Representative of Waon Development Limited (Hong Kong))	US\$32,000,000	100
Airmate Electrical (Jiujiang) Limited	Chairman	Tsai, Cheng-Fu (Representative of Waon Development Limited (Hong Kong))	US\$61,300,000	100
	Director	Shih, Jui Pin (Representative of Waon Development Limited (Hong Kong))	US\$61,300,000	100
	Director	Cheng, Li-Ping and Yang, Yu-Fu (Representatives of Waon Development Limited (Hong Kong))	US\$61,300,000	100
	Director	Chao Ting Tseng (Representative of Waon Development Limited (Hong Kong))	US\$61,300,000	100
	Director	Huang, Ching-Tien (Representative of Waon Development Limited (Hong Kong))	US\$61,300,000	100

Name	Job Title	Name or Representative	Shareholding/Investment	
			Number of Shares	Shareholding Ratio
Shenzhen Airmate Technology Co Limited	Chairman	Tsai, Cheng-Fu (Representative of Airmate Electrical (Shenzhen) Limited)	RMB5,100,000	51
	Director	Cheng, Li-Ping (Representative of Airmate Electrical (Shenzhen) Limited)	RMB5,100,000	51
	Director	Shih, Jui Pin (Representative of Airmate Electrical (Shenzhen) Limited)	RMB5,100,000	51
	Supervisor	Tseng, Yen-Ming (Representative of Airmate Electrical (Shenzhen) Limited)	RMB5,100,000	51
	Supervisor	Ho, Mei Hsiu (Representative of Airmate Electrical (Shenzhen) Limited)	RMB5,100,000	51

(II) Consolidated Financial Statements of Affiliated Companies: Please refer to page 137 to 226

(III) Consolidated Statements of Affiliated Companies:

Declaration of Declaration

The affiliated companies that shall be incorporated into the consolidated financial statement of affiliated companies in 2018 (from January 1st to December 31, 2018) in accordance with "Consolidated Business Report of Affiliated Companies, Consolidated Financial Statement of Affiliated Companies, and Relationship Report Preparation Guidelines" are the same with affiliated companies that shall be incorporated into the consolidated financial statements of parent and affiliated companies in accordance with Article 10 of International Financial Reporting Standards recognized by the Financial Supervisory Commission. Moreover, information that shall be disclosed in consolidated financial statement of affiliated companies is disclosed in the aforementioned consolidated financial statements of parent and affiliated companies. Thus, a separate consolidated financial statement of affiliated companies will not be prepared.

Hereby Declared by

Company: Airmate (Cayman) International Co
Limited

Chairman: Shih, Jui Pin

Date: March 4, 2019

(IV) Affiliation Report: Not applicable.

- II. Private Placement of Securities of the Most Recent Year up to the Publication Date of this Annual Report: None.**
- III. Holding or Disposal of the Company's Shares by the Subsidiaries of the Most Recent Year up to the Date of Publication of This Report: None.**
- IV. Other Necessary Supplements: None.**
- V. Events of Considerable Impact on Shareholders' Equity or on Prices of Securities as Specified in Subparagraph 2, Paragraph 2 of Article 36 of the Securities and Exchange Act: None.**
- VI. Major Differences from the Domestic Protective Provisions for Shareholders' Interests: None.**

Appendix

Representation Letter

The entities that are required to be included in the combined financial statements of AIRMATE (CAYMAN)INTERNATIONALCO LIMITED as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated Financial Statements. " In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, AIRMATE (CAYMAN) INTERNATIONALCO LIMITED and Subsidiaries do not prepare a separate set of combined financial statements.

Hereby Declared by

Company name: AIRMATE (CAYMAN)
INTERNATIONALCO LIMITED

Chairman: Rui-Bin Shih
Date: March 4, 2019

Independent Auditors' Report

Presented to Board of Director, Airmate (Cayman) International Co Limited

Opinion

The consolidated balance sheets of Airmate (Cayman) International Co Limited and Subsidiaries(hereinafter referred to as Airmate Group) as of December 31, 2017 and 2018, consolidated statements of comprehensive income as of 2018 and from January 1 to December 31, 2017, consolidated statements of changes in equity, consolidated statements of cash flows, and the notes of consolidated financial statements (including summary description of significant accounting policies) have been audited by the accountant.

Based on our review, the above Consolidated Financial Statements have been compiled in accordance with Regulations Governing the Preparation of Financial Reports, IFRSs and IAS with relevant interpretations and announcement approved and published by Financial Supervisory Commission. These financial statements are sufficient in presenting the Consolidated Financial Position of Airmate Group as of December 31, 2017 and 2018 and the Consolidated Financial Performance and the Consolidated Cash Flow for the period of January 1 to December 31, 2017 and 2018.

Basis of Audit Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Individual Financial Statements by Certified Public Accountants and Generally Accepted Auditing Standards (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Airmate Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The accountant believes that sufficient and appropriate evidences for the audit have been obtained as the basis for expressing opinion.

Key Audit Matters

Key audit matters refer to most vital matters in the process of auditing of 2018 Consolidated Financial Statement of Airmate Group based on our professional judgment. These matters have been dealt with in the process of auditing the overall consolidated financial report and forming a review opinion. The accountant does not express separate opinions on these matters. The accountant's

judgment should communicate the key audit matters on the audit report as follows:

I. Revenue recognition

For the accounting policy of revenue recognition, please refer to the revenue of the customer contract in Note 4 (16) of the consolidated financial statements. For the description of the revenue and expected return assessment, please refer to rights of pending returning products in Note 6 (9), refund liabilities in Note 6 (11), and revenue from customer contracts in Notes 6 (20) of the consolidated financial statements.

Description of Key Audit Matters:

Airmate Group is principally engaged in the sales of household appliances made in-house, and its operating revenue is one of the important items in the financial statement and is a matter of concern to users or recipients of the financial statement. Thus, revenue recognition is one of the important evaluated items when the accountant is auditing Airmate Group.

In response to the auditing procedures:

The main review procedures for the above-mentioned key audit matters performed by the accountant, including the accounting policies for assessing revenue recognition, are handled in accordance with the relevant communiques and have properly disclosed revenue information; The relevant manual control of the sales and collection operations cycle were tested, and the sales system data and general ledger entry were audited and amended; The sales contracts and terms between the important affiliated companies of the Group and customers are reviewed, the consistency with accounting policies was tested, and the accounting treatment and disclosure of expected sales returns were considered; A biennial analysis of the product categories and revenues from top ten customer was conducted to assess whether there is any significant abnormality; The sales return amount estimated by the management of the Group was obtained to compare with relevant internal or external data to assess the rationality of relevant parameters and key assumptions; The correctness of the sales return amount in the previous year was reviewed to assess whether there is any significant abnormality in the sales return amount estimated by the management; Sales transactions for a period of time before and after the balance sheet date were selected to audit the relevant internal and external information and evaluate whether sales revenues are covered in the appropriate period.

II. Note receivables and account receivables and impairment evaluation

For the accounting policies of impairment evaluation of account receivables, please refer to financial tools in Note 4 (17) of the consolidated financial statements; For the descriptions of accounting estimates of the allowances loss for accounts receivables and uncertainty of the assumptions, please refer to Note 5 (1) of the consolidated financial statements; For the impairment evaluation of accounts receivables and the transfer of obligations for note receivables, please refer to Note 6 (III) and 9 (2) of the consolidated financial statements.

Description of Key Audit Matters:

Airmate Group reserves expected credit losses in accordance with the stipulated accounts receivable allowance for bad debt policy. The reserves are conducted based on customer's credit risk and historical credit loss experience and reasonable expectations of customers' future economic conditions. In addition, Airmate Group discounts its notes receivables, or transfers the notes receivables to the supplier as payment in accordance with transaction practice. The discounted and transferred notes receivables are all bank acceptances. It is not expected that the financial institution will refuse to pay the payment. Therefore, the discounted and transferred notes receivables are presented as a deduction for the notes receivables. In summary, the evaluation of the notes receivables and the impairment evaluation of accounts receivable is one of the important evaluation items for the accountant to audit the consolidated financial statement.

In response to the auditing procedures:

The accountant's main audit procedures for the above key auditing matters include understanding the accounting policies of Airmate Group in relate to notes receivables and account receivables and their impairments; Perform sampling procedures to check the correctness of the aging of accounts receivable and analyze the changes in the age of accounts receivable in each period; Review the status of collections after the accounts receivables came due to assess the reasonableness of the allowance for impairment losses and the amount of the allowance; Obtain and review the accounts receivable and sales contract, audit the relevant documents, confirm whether the contracts have right of recourse and send a letter of inquiry to understand the rights and obligations of Airmate Group and determine whether the nature of the transaction is a sale or secured loan.

III. Inventory Valuation

For the accounting policies of inventories, please refer to Note 4 (8) of the consolidated financial statements; For the accounting estimates of the inventory evaluation and the description of the uncertainty of the assumptions, please refer to Note 5 (2) of the consolidated financial statements; For the description of important accounting items in inventories, please refer to Note 6 (5) of the consolidated financial statements.

Description of Key Audit Matters:

Inventory is measured by the lower of cost and net realizable value. Since the inventories of Airmate Group are mainly household appliances such as electric fans and electric heaters, the characteristics of its products are affected by weather changes, which will result in unsalable inventory. The Group may sell its products at a lower price to reduce inventory. This may induce a risk that the cost of investory is higher than net realizable value. Therefore, inventory evaluation is one of the important evaluation items in accountant's auditing on the financial review of Airmate Group.

In response to the auditing procedures:

The accountant understood the recognition policies of inventory depreciation loss of Emmett Group and assessed whether its inventory evaluation has been implemented in accordance with established accounting policies, including the implementation of sampling procedures to check the correctness of inventory age, and to analyze the changes in inventory age of each period; The reasonableness of past reserves for inventory depreciation loss withheld by the management was reviewed and was compared with the methods and assumptions on the reserves for inventory depreciation loss for the current period to assess whether the valuation method and assumptions of the reserves for inventory depreciation loss for the current period are appropriate. The inventory sales status after the period is reviewed to assess the reasonableness of the estimation of the reserves for inventory depreciation loss.

Responsibility of the management and the governing body for the Consolidated Financial Statements

The responsibilities of management are to prepare an appropriately expressed consolidated financial report in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, and standing interpretation recognized and published by Financial Supervisory Commission, and maintain the necessary internal controls related to the preparation of the consolidated financial statements to ensure that the consolidated financial report does not contain significant misrepresentation due to fraud or error.

In preparing the Consolidated Financial Statements, the responsibility of management includes assessing Airmate Group ability to continue as a going concern, disclosing going concern matters, as well as adopting going concern accounting, unless the management intends to liquidate Airmate Group or terminate the business, or no practicable measure other than liquidation or termination of the business can be taken.

The governing bodies of Airmate Group (including the Audit Committee) have the responsibility to oversee the procedures for financial reporting.

Accountant's responsibility in auditing consolidated financial statement

The purpose of our audit is to provide reasonable assurance that the Consolidated Financial Statements as a whole contains no material misstatements, 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 Generally Accepted Auditing Standards (GAAS) will always detect a material misstatement in consolidated financial statements when it exists. Misstatement may be caused by fraud or error. If it could be reasonably anticipated that the misstated individual amounts or aggregated sums could have influence on the economic

decisions made by the users of the consolidated financial statements, they will be deemed as material.

When the accountant is auditing in accordance with generally accepted auditing standards, the accountant uses professional judgment and maintains professional suspicion. The accountant will also perform the following duties:

1. Identifying and assessing the risk of material misstatement in a consolidated financial statement due to fraud or error; Moreover, obtain sufficient and appropriate audit evidence as the basis for the auditing. The risk for not being able to detect misstatement that is caused by fraud is higher than that caused by mistakes because fraud may involve conspiracy, forgery, intentional omission, false statement or overstepping internal control.
2. Obtaining 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 internal control of Airmate Group.
3. Evaluating the appropriateness of the accounting policy adopted by the management and the reasonableness of the accounting assessment and related disclosures made accordingly.
4. Concluding on the appropriateness of the management's use of going concern basis of accounting, and determining whether there existed events or circumstances that might cast significant uncertainty over Airmate Group's ability to continue as a going concern. If the accountant believes that there are material uncertainties in the events or circumstances, it is necessary to remind the users of the consolidated financial statements to pay attention to the relevant disclosures of the consolidated financial statements in the audit report, or to amend the audit opinions when the disclosure is inappropriate. The accountant's conclusions are based on the audited evidence obtained as of the date of the audit report. However, future events or circumstances may cause Airmate Group to no longer have the capacity to function as a going concern.
5. Evaluating the overall expression, structure, and contents of the consolidated financial statements (including related notes) and whether the consolidated financial statements could appropriately express related transactions and events.
6. Obtained adequate and appropriate audit evidence regarding financial information of members of the Group so as to express opinions for the Consolidated Financial Statements. The CPA is responsible for the guidance, supervision, and implementation of Airmate Group's audit and responsible for forming audit opinions on Airmate Group.

Items that have been communicated by the accountant to the governance bodies, including the planned scope and timing of the audit, as well as major audit findings (including significant internal control deficiencies identified during the audit).

We have also provided the statement pertaining to our accounting firm's personnel under

governance of independence to the governance unit, and communicated with governance unit over relations and other items (including relevant protective measures) that could affect the CPA's independence.

From the matters communicated with the governing bodies, we determined the key audit matters for Airmate Group's Consolidated Financial Statements for 2018. The accountant has stated those items in the audit report unless the law does not allow public disclosure of certain matters, or under extreme rare cases, the accountant decided not to communicate specific matters in the audit report because it can be reasonably assume the negative impact of communication is greater than the promoted public interest.

KPMG

Taipei, Taiwan(Republic of China)

March 4,2019

Note to Readers

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Airmate (Cayman) International Co Limited and Subsidiaries
Consolidated Balance Sheets
December 31, 2018 and 2017

Unit: thousand NT\$

		2018.12.31		2017.12.31				2018.12.31		2017.12.31	
		Amount	%	Amount	%			Amount	%	Amount	%
	Asset						Liabilities and Equities				
	Current Asset:						Current Liabilities:				
1100	Cash and cash equivalents (Note 6 (1))	\$ 417,768	5	300,850	4	2100	Short-Term Borrowings(Note 6 (10), 8)	\$ 1,289,239	15	1,071,992	13
1110	Financial Assets at Fair Value Through Profit or Loss - Current (Note 6 (2))	129,526	2	243	-	2120	Financial Liabilities at Fair Value Through Profit or Loss - Current (Note 6 (2) (14))	8,734	-	-	-
1150	Amount of Notes Receivables,Net (Note 6 (3), 8)	482,292	6	163,405	2	2131	Sales Revenue Received in Advance	359,937	4	159,452	2
1170	Amount of Account Receivables, Net (Note 6 (3))	1,173,297	14	1,190,060	15	2150	Notes Payable (Note 6 (11), 8)	1,177,486	14	832,685	11
1180	Account Receivable from Related Parties, Net (Note 7)	101,447	1	45,030	1	2170	Accounts Payable	928,657	11	1,237,741	16
130X	Inventories (Note 6 (5))	2,130,614	25	2,477,652	32	2200	Other Payables (Note 6 (11))	514,676	6	576,919	7
1470	Other Current Assets (Note 6 (4) (9) and 8)	544,740	7	254,837	3	2220	Other Payables to Related Parties (Note 7)	6,320	-	8,522	-
	Total Current Assets	4,979,684	60	4,432,077	57	2230	Current Tax Liabilities	157,993	2	17,850	-
	Noncurrent Asset:					2250	Provisions-Current (Note 6 (12))	6,871	-	118,633	2
1550	Investment accounted for Using the Equity Method (Note 6 (6))	30,045	-	34,854	-	2300	Other Current Liabilities (Note 6 (11))	84,138	1	3,354	-
1600	Property, Plant and Equipment (Note 6 (7), 8 and 12(3))	2,206,928	26	2,426,397	31	2321	Bonds Payable or Put Option Execution - Current Portion (Note 6 (2) (14))	488,687	6	-	-
1780	Intangible Asset (Note 6 (8))	20,033	-	31,775	-	2322	Long-Term Borrowings - Current Portion (Note 6 (13))	46,066	1	-	-
1840	Deferred income tax assets (Note 6 (17))	161,209	2	65,394	1		Total Current Liabilities	5,068,804	60	4,027,148	51
1900	Other Non-current Assets (Note 6 (9), 8)	968,253	12	842,639	11		Non-current Liabilities:				
	Total Non-current Assets	3,386,468	40	3,401,059	43	2500	Financial Liabilities at Fair Value Through Profit or Loss - Non-liquid (Note 6 (2) (14))	-	-	2,550	-
						2530	Bonds Payable (Note 6 (14))	-	-	482,338	6
						2540	Long-term borrowings (Note 6 (13))	46,076	1	-	-
						2640	Net Defined Benefit Liability - Non-current (Note 6 (16))	38,850	-	62,484	1
						2645	Guarantee Deposits Received	84,181	1	69,421	1
						2670	Other Non-current liabilities - Others (Note 6 (11) and 12 (3))	655,208	8	592,053	8
							Total Noncurrent Liabilities	824,315	10	1,208,846	16
							Total Liabilities	5,893,119	70	5,235,994	67
							Equities Attributable to Owners of Parent Company (Note 6 (18))				
						3110	Common Stock	1,228,436	15	1,228,436	16
						3200	Capital Surplus	979,283	12	979,283	12
						3300	Retained Earnings	501,835	6	500,369	6
						3400	Other equities	(214,132)	(3)	(104,764)	(1)
						3500	Treasury Shares	(33,051)	-	(20,577)	-
							Equities Attributable to Shareholders of the Company	2,462,371	30	2,582,747	33
						3600	Non-controlling interests	10,662	-	14,395	-
							Total Equity	2,473,033	30	2,597,142	33
							Total liabilities and equity	\$ 8,366,152	100	7,833,136	100
	Total assets	\$ 8,366,152	100	7,833,136	100						

(See the attached note for the consolidated financial report)

Chairman of Board: SHIH, JUI PIN

Manager: SHIH, JUI PIN

Chief Accountant: ZHANG, ZHI WEI

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Airmate (Cayman) International Co Limited and Subsidiaries

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2018 and 2017

Unit: thousand NT\$

		2018		2017	
		Amount	%	Amount	%
4000	Operating Revenue (Note 6 (20) (21), 7)	\$ 10,614,940	100	10,024,202	100
5000	Operating Cost (Note 6 (5), 7)	8,805,119	83	8,284,819	83
	Gross profit	1,809,821	17	1,739,383	17
5910	Less: Unrealized profit and loss on sales	10,393	-	10,586	-
5920	Gain: Realized profit and loss on sales	10,503	-	7,566	-
	Realized Gross Profit	1,809,931	17	1,736,363	17
	Operating expenses:				
6100	Selling Expense (Note 6 (16), 7)	1,159,539	11	1,200,820	12
6200	Administrative Expense (Note 6 (16))	427,149	4	417,448	4
6300	Research & Development Expense	160,820	1	164,096	2
6450	Expected credit loss (profit) (Note 6 (3))	(6,014)	-	-	-
	Total Operating Expense	1,741,494	16	1,782,364	18
	Operating profit (loss)	68,437	1	(46,001)	(1)
	Non-operating income and expenses:				
7010	Other incomes (Note 6 (23))	168,544	2	142,840	2
7020	Other gains and losses (Note 6 (23))	(55,956)	(1)	(19,054)	-
7050	Financial Costs (Note 6 (23))	(110,051)	(1)	(73,115)	(1)
7060	Share of profit of associates and joint ventures (Note 6 (6))	1,293	-	2,665	-
	Total non-operating income and expenses	3,830	-	53,336	1
7900	Net Income before taxes	72,267	1	7,335	-
7950	Less: Income tax expense (Note 6 (17))	90,350	1	5,981	-
	Net Income (loss)	(18,083)	-	1,354	-
8300	Other comprehensive gain or loss:				
8310	Items that may not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans (Note 6 (16))	28,224	-	(6,400)	-
8349	Income tax expenses (gains) related to items that are not reclassified subsequently to profit or loss:	-	-	-	-
		28,224	-	(6,400)	-
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(109,617)	(1)	15,183	-
8399	Income tax expenses (gains) related to items that may be reclassified subsequently to profit or loss:	-	-	-	-
	Total items that will may be reclassified subsequently to profit or loss:	(109,617)	(1)	15,183	-
8300	Other comprehensive income (loss)	(81,393)	(1)	8,783	-
	Total comprehensive income (loss)	\$ (99,476)	(1)	10,137	
	Attribution of net income:				
8610	Parent company	(14,599)	-	4,262	
8620	Non-controlling equity	(3,484)	-	(2,908)	-
		\$ (18,083)	-	1,354	
	Total Comprehensive Income Attributable to:				
8710	Parent company	(95,743)	(1)	13,356	-
8720	Non-controlling equity	(3,733)	-	(3,219)	-
		\$ (99,476)	(1)	10,137	-
	Earnings per share (Note 6 (19))				
9750	Basic EPS (Unit: NT\$)	\$ (0.12)		0.03	
9850	Diluted EPS (Unit: NT\$)	\$ (0.12)		0.03	

(See the attached note for the consolidated financial report)

Chairman of Board: SHIH, JUI PIN Manager: SHIH, JUI PIN

Chief Accountant: ZHANG, ZHI WEI

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Airmate (Cayman) International Co Limited and Subsidiaries
Consolidated Statement of Changes in Equity
For the years ended December 31, 2018 and 2017

Unit: thousand NT\$

Equity attributable to owners of parent company

	<u>Capital stock</u>		<u>Retained earnings</u>				<u>Other equity items</u>		<u>Total owner equity attributable to the parent company</u>	<u>Non-controlling Interests</u>	<u>Total equity</u>
							<u>Exchange differences on translation of foreign financial statements</u>	<u>Treasury shares</u>			
	<u>Common stocks</u>	<u>Capital Surplus</u>	<u>Legal reserve</u>	<u>Special reserve</u>	<u>Undistributed surplus</u>	<u>Total</u>					
Balance as of January 1, 2017	\$ 1,228,436	966,919	110,770	182,381	331,758	624,909	(120,258)	(11,225)	2,688,781	17,614	2,706,395
Net income	-	-	-	-	4,262	4,262	-	-	4,262	(2,908)	1,354
Other comprehensive income (loss)	-	-	-	-	(6,400)	(6,400)	15,494	-	9,094	(311)	8,783
Total comprehensive income (loss)	-	-	-	-	(2,138)	(2,138)	15,494	-	13,356	(3,219)	10,137
Appropriation and distribution of retained earnings (Note 6 (18)):											
Legal reserve	-	-	28,230	-	(28,230)	-	-	-	-	-	-
Special reserve	-	-	-	120,258	(120,258)	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(122,402)	(122,402)	-	-	(122,402)	-	(122,402)
Equities recognized arising from the issuance of convertible corporate bonds-	-	12,364	-	-	-	-	-	-	12,364	-	12,364
Treasury shares repurchase (Note 6 (18))	-	-	-	-	-	-	-	(9,352)	(9,352)	-	(9,352)
Balance as of December 31, 2017	1,228,436	979,283	139,000	302,639	58,730	500,369	(104,764)	(20,577)	2,582,747	14,395	2,597,142
Net income (loss)	-	-	-	-	(14,599)	(14,599)	-	-	(14,599)	(3,484)	(18,083)
Other comprehensive income (loss)	-	-	-	-	28,224	28,224	(109,368)	-	(81,144)	(249)	(81,393)
Total comprehensive income (loss)	-	-	-	-	13,625	13,625	(109,368)	-	(95,743)	(3,733)	(99,476)
Appropriation and distribution of retained earnings											
Legal reserve	-	-	426	-	(426)	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(12,159)	(12,159)	-	-	(12,159)	-	(12,159)
Special reserve reversal	-	-	-	(15,494)	15,494	-	-	-	-	-	-
Treasury shares repurchase (Note 6 (18))	-	-	-	-	-	-	-	(12,474)	(12,474)	-	(12,474)
Balance as of December 31, 2018	<u>\$ 1,228,436</u>	<u>979,283</u>	<u>139,426</u>	<u>287,145</u>	<u>75,264</u>	<u>501,835</u>	<u>(214,132)</u>	<u>(33,051)</u>	<u>2,462,371</u>	<u>10,662</u>	<u>2,473,033</u>

(See the attached note for the consolidated financial report)

Chairman of Board: SHIH, JUI PIN

Manager: SHIH, JUI PIN

Chief Accountant: ZHANG, ZHI WEI

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Airmate (Cayman) International Co Limited and Subsidiaries
Consolidated Statement of Cash Flows
For the years ended December 31, 2018 and 2017

Unit: thousand NT\$

	<u>2018</u>	<u>2017</u>
Cash flow of operating activities:		
Profit before tax	\$ 72,267	7,335
Adjustment items:		
Profit expense item		
Expected credit loss/bad debt expenses reserves	(6,014)	(8,064)
Depreciation expense	457,090	444,652
Amortization expense	13,062	15,723
Interest expense	110,051	73,115
Interest revenue	(66,896)	(55,055)
Recognized share of the profit of the affiliated enterprises and joint ventures using equity method	(1,293)	(2,665)
Measure net profits and losses of financial assets and liabilities by fair value through profits and losses	4,008	10,375
Loss on disposal of property, plant and equipment	6,514	3,904
Property, plant and equipment expenses transferred	11,811	83,693
Unrealized sales profit	10,393	10,586
Realized sales profit	(10,503)	(7,566)
Unrealized foreign exchange profit	(1,268)	-
Other incomes	(2,309)	(2,370)
Total income expense items	<u>524,646</u>	<u>566,328</u>
Changes in assets and liabilities related to operating activities:		
Net changes in assets related to operating activities:		
Loss in financial assets held for trading	-	64,804
Loss in financial assets at fair value through profit or loss	1,933	-
(Gain) loss in notes receivable	(318,887)	464,480
Loss (gain) in accounts receivable	34,896	(306,503)
Gain in accounts receivable - affiliated	(56,417)	(39,764)
Gain (less) in inventories	347,038	(63,797)
(Gain) less in other current assets	(2,412)	162,098
Total net changes in assets of operating activities:	<u>6,151</u>	<u>281,318</u>
Net changes in liabilities related to operating activities:		
Gain (loss) in notes payable	344,801	(200,913)
Loss in accounts payable	(309,100)	(177,031)
Loss in other payables	(67,328)	(158,246)
(Loss) Gain in other payables - affiliated	(2,202)	2,286
Loss in liability reserve	(3,985)	(44,676)
Gain in advance	200,485	124,427
Loss in other current liabilities	(26,993)	(19,368)
Gain in net defined benefit liabilities	4,590	4,716
Decrease in other non-current liabilities	-	(721)
Total net changes in liabilities related to operating activities	<u>140,268</u>	<u>(469,526)</u>
Total net changes in assets and liabilities related to operating activities	<u>146,419</u>	<u>(188,208)</u>
Total adjusted items	<u>671,065</u>	<u>378,120</u>

(See the attached note for the consolidated financial report)

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Airmate (Cayman) International Co Limited and Subsidiaries
Consolidated Statement of Cash Flows
2018 and January 1 to December 31, 2017

Unit: thousand NT\$

	2018	2017
Cash inflow from operations	743,332	385,455
Interest received	66,896	55,055
Interest paid	(98,617)	(72,233)
Income tax paid	(39,531)	(15,973)
Net cash inflow from operating activities	<u>672,080</u>	<u>352,304</u>
Cash flows from investing activities:		
Acquisition of financial assets at fair value through profit and loss	(129,040)	-
Acquisition of property, plant and equipment	(401,667)	(421,150)
Disposal of property, plant, and equipment	1,671	17,872
Acquisition of intangible assets	(1,549)	(13,549)
Gain in other noncurrent assets	(273,928)	(564,124)
Gain in other financial assets	(177,365)	(110,126)
Gain in other noncurrent liabilities	208,046	-
Net cash outflow from investing activities	<u>(773,832)</u>	<u>(1,091,077)</u>
Cash flows from financing activities:		
Gain in short-term loans	3,488,197	2,847,207
Loss in short-term loans	(3,285,728)	(2,525,006)
Corporate bonds issued	-	494,578
Increase in long-term loan	92,285	-
Increase (decrease) in guarantee deposits received	10,554	(17,812)
Cash dividends distributed	(12,159)	(122,402)
Cost to repurchase treasury shares	(12,474)	(9,352)
Change in non-controlling equities	(249)	(311)
Net cash inflow from financing activities	<u>280,426</u>	<u>666,902</u>
Effect of exchange rate changes on cash and cash equivalents	(61,756)	(10,075)
Net increase (decrease) in cash and cash equivalents	116,918	(81,946)
Cash and cash equivalents at beginning of the period	300,850	382,796
Cash and cash equivalents at end of the period	<u>\$ 417,768</u>	<u>300,850</u>

(See the attached note for the consolidated financial report)

Chairman of Board: SHIH, JUI PIN Manager: SHIH, JUI PIN

Chief Accountant: ZHANG, ZHI WEI

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Airmate (Cayman) International Co Limited and Subsidiaries

Notes of Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(The unit for all amounts expressed are in thousands of NTD unless otherwise stated)

I. Company History

Airmate (Cayman) International Co Limited (hereinafter as the “Company”) was established in March 2004 as an overseas holding company in the Cayman Islands in the British Virgin Islands. The main businesses of the Company and its affiliated companies (hereinafter as the “Consolidated Company”) are manufacturing household appliances and precision moulds treatment. Please refer to Note 14 for details. The shares of the Company have been listed on the Taiwan Stock Exchange since March 21, 2013.

II. Approval Date and Procedures of Financial Statements

The consolidated financial statements were released on March 4, 2019 by the Board of Directors.

III. Application of Newly Released and modified Guidelines and Interpretations

(I) Impact of adopting newly released and modified guidelines and interpretations by Financial Supervisory Commission

The consolidated company has adopted International Financial Reporting Standards approved by the Financial Supervisory Commission (hereinafter as FSC) since 2018 to prepare the consolidated financial statements. The newly issued, revised and amended guidelines and interpretations are summarized below:

Newly issued/revised/amended guidelines and interpretations	Effective date released by International Accounting Standards Board
Amendment to IFRS 2: "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 amended by 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
Amendment to IAS 7: "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12: "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IAS 20142016:-	
Amendments to IAS 12	January 1, 2018
Amendments to IFRS 1 and IAS 28	January 1, 2018
IFRIC 22: "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the application of the newly recognized IFRSs will not have a material impact on the consolidated financial statements. The nature and effect of significant changes in the financial statements are described below:

1. IFRS 15: "Revenue from Contracts with Customers"

The standard replaces "Revenue" of IAS 18 and "Construction Contract" of IAS 11 and the related interpretations. The method that companies recognize revenues, the timing, and the amount are determined based on 5 steps of a single analysis model. The Consolidated Company adopts cumulative effects, which is suitable to IFRS 15. Therefore, the comparative information for the previous period is not required to be restated and it's suitable to IAS 18, IAS 11 and relevant explanation. The cumulative effects of the initial application of IFRS 15 is the adjustment of the retained surplus on January 1, 2018.

The Consolidated Company adopted practice expedient approach for the contracts that had been carried out. This means, contracts that were carried out before January 1, 2018 will not be restated.

The nature and effect of this change in accounting policy are described below:

(1) Sales of goods

For sales of products, revenue was recognized when the product has been delivered to the customer's site in the past. At that point, customer has accepted the product, and the significant risks and rewards of ownership have been transferred to the customer. Revenue is recognized at that point of time because the revenue and costs can be measured reliably at that point in time, the consideration is likely to be recovered, and no longer participates in the management of the products. Under IFRS 15, revenue is recognized when the customer obtains control of the products.

Some contracts allow customers to make a return, the revenue is recognized when the return of products can be reasonably estimated along with fulfilling other recognition conditions. When the return of products can not be reasonably estimated, the revenue recognition will be deferred until the return period has expired or when it can be reasonably estimated. Under IFRS 15, revenue of a contract is recognized under the range that cumulative income height is not likely to face significant reversal. The relevant refund liabilities and the right to return the products of the estimated return under the contract are recognized as refund liabilities under the current liabilities and right to return the products under other current assets

(2) Commission

The commission received by the Consolidated Company in accordance with previous standards is classified as agent rather than the principal in some transactions. Under IFRS 15, the basic evaluation is based on whether

the Consolidated Company has control of the product before it is transferred to the end customer rather than whether the product are exposed under major risks of ownership and remuneration that are related to the sales of products.

(3) Impact on financial statements

The impacts of adopting IFRS 15 on the consolidated financial statements of the Consolidated Group for the year 2018 are described below:

Impacted Items on the Consolidated Balance Sheet	2018.12.31			2018.1.1		
	Carrying amount if IFRS 15 is not applied	Variables impacts in accounting policy	Carrying amount if IFRS 15 is applied	Carrying amount if IFRS 15 is not applied	Variables impacts in accounting policy	Carrying amount if IFRS 15 is applied
Other current liabilities	\$ 7,934	76,204	84,138	3,354	107,777	111,131
Liabilities reserve current-	83,075	(76,204)	6,871	118,633	(107,777)	10,856
Impact on Liabilities		<u>-</u>			<u>-</u>	

Impacted Items on the Consolidated Cash Flow Statement	2018		
	Carrying amount if IFRS 15 is not applied	Variables impacts in accounting policy	Carrying amount if IFRS 15 is applied
Cash flow of operating activities:			
Adjusted items:			
Gain (loss) in other current liabilities	\$ 4,580	(31,573)	(26,993)
Gain (loss) in liabilities reserve	(35,558)	<u>31,573</u>	(3,985)
Cash inflow (outflow) impacted from operations		<u>-</u>	
Net cash inflow (outflow) impacted from operating activities		<u>-</u>	

2. IFRS 9 "Financial Instruments"

International Financial Reporting Standard 9 "Financial Instruments" (hereinafter as International Financial Reporting Standard No. 9 or IFRS 9) replaces IAS 39 "Financial Instruments: Recognition and Measurement" (hereinafter as International Accounting Standards No. 39 or IAS 39), amend the classification and measurement of financial instruments, loss and hedge accounting.

As the adoption of IFRS 9, the Consolidated Company adopts the modified IAS 1 "Presentation of Financial Statements", which lists the loss of financial assets in the consolidated income statement as a single item whereas the loss of account receivables has been listed in administrative expenses by the Consolidated Company previously. In addition, the Consolidated Company adopted the amended IAS 7 "Financial Instruments: Disclosures" to disclose information on the 2018 information, which is generally not applicable to comparative information.

The following is a summary of significant changes in accounting policies resulting from the adoption of IFRS 9 by the Consolidated Company:

(1) Categorization of financial assets and liabilities

The standard is based on the classification of financial assets at amortised

cost, measured at fair value through other comprehensive income, and financial assets at fair value through other comprehensive income, and the financial assets under IFRS 9 are classified as held-for-sale and are classified as held-to-maturity, loans and receivables and available-for-sale financial assets. Under the standard, if the main contract containing the hybrid contract contains financial assets that are within the scope of the standard, then the embedded derivatives are not separated, and the entire hybrid financial instrument is assessed. For accounting policies recognized by the Consolidated Company for the classification, measurement and related gains and losses of financial assets under IFRS 9, please refer to Note 4 (7).

The adoption of IFRS 9 has no significant impact on the accounting policies of the Consolidated Company for financial liabilities.

(2) Loss of financial assets

The standard is designed to replace the expected credit losses model in order to replace the existing IAS 39 impairment loss model, with the new impairment model being applied to financial assets at amortised cost, contract assets and debt instrument investments measured at FVTOCI, but not applicable for equity instruments. Under IFRS 9, an impairment loss is recognised in accordance with the recognition criteria set out in Note 4(7).

(3) Transition

IFRS 9 is usually applied retroactively except for the following items:

- The difference in carrying amount financial assets arising from the application of the IFRS 9 is recognized as retained earnings and other equity items on January 1, 2018. The information expressed in 2017 will not reflect IFRS 9 accordingly. Thus, the information disclosed in the application of IFRS 9 in 2018 is not comparable.
- The following items are assessed on the basis of the facts and circumstances prevailing on the date of first application:
 - Determining financial assets were held in which business model.
 - Designation and cancellation of financial assets and financial liabilities previously designation as at fair value through profit or loss.
 - Partial non-holding of equity instrument investments for trading is specified at fair value through other comprehensive gains and losses.
- If the credit risk of debt securities investments on the initial application date of the IFRS 9 is low, the Consolidated Company assumes that the credit risk of the asset has not increased significantly since the original

recognition date.

(4) Classification of financial assets on the first application date of IFRS 9.

Financial assets that are applicable under IAS 39 assessment type are converted to financial assets under IFRS 9 assessment type. The new assessment type, carrying amount and description of the financial assets as of January 1, 2018 (the assessment type of financial liabilities and the book value have not changed):

	IAS 39		IFRS 9	
	Assessment type	Carrying Amount	Assessment type	Carrying Amount
Financial assets				
Cash and Cash Equivalents	Loans and Receivables	300,850	Amortized cost	300,850
Derivative	Financial assets held for trade	243	Mandatory measured at FVTPL	243
Net receivables and other receivables	Loans and receivables (Note 1)	1,425,293	Amortized cost	1,425,293
Other financial assets	Loans and receivables	188,281	Amortized cost	188,281

Note 1: When IAS 39 is applicable, notes receivable, accounts receivable and other accounts receivable are classified as loans and receivables, which is now classified as financial assets assessed by amortized cost. When IFRS 9 is first applicable, the retained earning as of January 1, 2018 is not affected in accordance with transition policy of the standard.

3. Amendment to IAS 7: "Disclosure Initiative"

The amendments require companies to provide disclosures that enable users of financial statements to assess changes in liabilities from financing activities, including changes in cash flows and non-cash changes.

The Consolidated Company has adjusted the beginning and end balances of the liabilities from the financing activities in Note 6 (27) to meet the above new requirements.

(II) Impacts for yet to adopt IFRS recognized by FSC

The aforementioned public listed companies shall fully adopt IFRS recognized by FSC and became effective on 2019 in accordance with Decree No. 1070324857 of FSC which is published on July 17, 2018. The newly issued, revised and amended guidelines and interpretations are summarized below:

<u>Newly issued/revised/amended guidelines and interpretations</u>	<u>Effective date released by International Accounting Standards Board</u>
IFRS 16: "Leases"	January 1, 2019
IFRS 23 "Uncertainty of Income Tax Treatment"	January 1, 2019
Amendments to IFRS 9, "Prepayment Features with Negative Compensation"	January 1, 2019
Amendments to IAS 19 "Plan correction, reduction or settlement"	January 1, 2019
Amendments to IAS 28, "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
Annual Improvements to IFRS 2015-2017-	January 1, 2019

Except for the following items, the application of the newly recognized IFRSs will not have a material impact on the consolidated financial statements. The nature and effect of significant changes in the financial statements are described below:

1. IFRS 16: "Leases"

The standard will replace the existing IAS 17 "Leases", IFRS 4 "Determination of Whether A Certain Arrangement Contains Lease", IFRS 15 "Operation Lease: Cause" and IFRS 27 "Evaluation of Essential Nature of Legal Form of Lease"

The standard adopts single accounting treatment mode for lessees to recognize lease transaction into the balance sheet, and represents their right of using underlying assets with right-of-use assets and the obligation of paying lease with lease liability. Besides, the lease-related expenses will be represented in the form of recognizing rent on the basis of straight line by using depreciation and interest to replace current operation lease. There is additional provision of recognition exemption for short-term lease and low-value underlying asset lease. The accounting treatment for lessors is similar to the current standard, that is, the lessors shall still classify lease into operation lease and financing lease.

(1) Judgement of whether contract contains lease

During the transition to new standards, the consolidated company has to choose:

- Definition of lease for all contracts applicable to the new standard

- Adoption of practical expediency method instead of re-evaluating whether the contract is or contains lease.

The consolidated company is expected to adopt practical expediency method to exempt the re-evaluation of the definition of lease, that is, all contracts signed by the consolidated company before December 31, 2018 (included) are applicable to the existing definition of lease.

(2) Transition treatment

For all contracts in which the consolidated company acts as lessee, it has to choose:

- complete retrospection; or
- modified retrospection and one or more practical expediency methods

The consolidated company is expected to adopt modified retrospection for transition to the new standard, so the cumulative effects will be recognized as opening retained earnings as of January 1, 2019 instead of restating the information of comparative periods.

Upon adopting modified retrospection, contracts classified into operation lease in accordance with the existing standards have to be based on individual ones, and choose whether to adopt one or more practical expediency methods or not at the time of transition. The consolidated company evaluation will adopt the following practical expediency methods:

- Single discount rate is adopted for lease portfolio with similar characteristics
- For lease ended within 12 months after the date of application for the first time during the lease period, exemption is applicable without recognizing right-of-use assets and lease liabilities;
- Original direct cost is not included into the measurement of right-of-use assets on the date of application for the first time;
- When the lease contract contains option for extension or termination, hindsight is adopted in determining the lease period.

(3) By far, the consolidated company has evaluated that the application of new standards has no material influence upon the operation lease rented domicile, plant and storage. Besides, the consolidated company expects that the application of new standards will not influence its conformity ability to the maximal leverage percentage agreed on in the borrowing contract. For contracts of intermediary lessors by the consolidated company for sublease transaction,

there is no need for any adjustment after evaluation.

The above estimated influence of adopting new communicate may vary with the changes of environment or situation.

- (III) The newly released and modified standards and interpretations have not yet gotten the endorsement of FSC

The table below lists the already released and modified standards and interpretations by IASB that are to be endorsed by FSC.

Newly released/amended/modified standards and interpretations	Effective date of releases by IASB
Amendment to IFRS 3 "Definition of Business"	January 1st, 2020
Amendment to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be decided by IASB
IFRS 17 "Insurance Contracts"	January 1st, 2021
Amendment to IAS 1 and IAS 8 "Definition of Materialness"	January 1st, 2020

The above newly released and revised standards and interpretations to be endorsed by FSC have no bearing upon the consolidated company.

IV. Summary Description of Material Accounting Policies

The significant accounting policies applied for the consolidated financial report is as follows. Unless otherwise specified, the following accounting policies are consistently applicable to all expression periods of the consolidated financial report

- (I) Compliance to announcement

The consolidated financial report is prepared in accordance with the Securities Issuer Financial Report Preparation Standard (hereinafter referred to "Preparation Standard"), IFRS recognized and released by FSC, IAS, interpretations and announcement (hereinafter referred to as IFRS recognized by FSC).

- (II) Basis of Preparation

1. Basis of measurement

Except for the important items in the following balance sheet, the consolidated financial report is prepared on the basis of historical cost:

- (1) Financial assets measured at fair value through profit or loss; and
- (2) Net determined benefit liability (or asset), which means the fair value of retirement fund asset less the present value of defined benefit obligations

2. Functional currency and presentation currency

Every individual entity of the consolidated company takes the currency of the economic environment its operation domiciles are in as the functional currency.

The consolidated financial report presents NT dollar as the functional currency. All financial information represented in NT dollar is in the unit of one thousand TWD.

(III) Basis of consolidation

1. Principle of consolidated financial report preparation

The preparation subjects of consolidated financial report include the Company and individuals controlled by it (that is, affiliated companies) When the Company is exposed to the varied remunerations participated by investees or is entitled to the varied remunerations and is capable of affecting the remunerations through the authority over the investees, the Company controls the individual entity.

From the date of exercising control over the affiliated company, the financial report will be incorporated into the consolidated financial report, until the control is lost. The transaction, balance and any unrealized income and cost expense among consolidated companies have been eliminated at the time of preparation of consolidated financial report. A subsidiary's total comprehensive income is attributed to the shareholders of the Company and non-controlling interests, even if non-controlling interests become deficit balance in the process.

The financial report of affiliated companies has been reorganized to bring uniformity in the accounting policies with consolidated company.

If change of ownership equity to affiliated companies by consolidated company does not cause lost control over them, it will be considered equity transaction between shareholders. The difference between the adjustment amount of non-controlling interests and the fair value of consideration paid or collected shall be directly recognized in equity attributable to the shareholders of the Company.

2. Subsidiaries included in the consolidated financial statements were as follows:

Name of investing companies	Name of affiliated companies	Nature of business	Percentage of equity held		Description
			2018.12.31	2017.12.31	
The Company (including Taiwan affiliated companies)	Airmate (Cayman) International Co Limited (hereinafter referred to as Airmate International)	Overseas holding company	100%	100%	(Note)
Airmate International	Airmate International Co Limited China (Airmate China)	Overseas holding company	100%	100%	
Airmate China	Wacon Development Company Limited (hereinafter referred to as Wacon Company (including Taiwan affiliated companies))	Transaction business	100%	100%	
Wacon Company (including Taiwan affiliated companies)	Airmate Electric Appliances (Shenzhen) Co. Limited (hereinafter referred to as Shenzhen Airmate)	Manufacturing and sales of household appliances and precision mold processing	100%	100%	
Wacon Company (including Taiwan affiliated companies) / Shenzhen Airmate	Airmate Electric Appliances (Jiujiang) Co. Limited (hereinafter referred to as Jiujiang Airmate)	Manufacturing and sales of household appliances and precision mold processing	100%	100%	
Shenzhen Airmate	Shenzhen Airmate Technology	Sales, research and	51%	51%	

Note: The Taiwan Affiliated Company of Airmate (Cayman) International Co. Limited completed incorporation and registration on July 10, 2017.

3. Affiliated companies not included into the consolidated financial report: none

(IV) Foreign currency

1. Foreign currency transaction

Foreign currency transaction is translated into functional currency according to the exchange rate of the transaction date. The foreign currency items at the terminal date of report (hereinafter referred to as reporting date) are translated into functional currency according to the exchange rate of the date. And the exchange profit or loss refers to the amortized cost after pricing with functional currency, the amount after adjusting the effective interest of the current period and making the payment, and the difference in the amount of exchange rate translation of amortized cost on the reporting date after pricing with foreign currency.

Foreign currency items measured at fair value are re-translated into functional currency according to the exchange rate on the date of fair value, and foreign currency non-currency items measured through historical cost will be translated according to the exchange rate on the date of transaction.

Except for the foreign currency exchange difference in translation that will be recognized into other comprehensive income for (available-for-sales) equity instruments at fair value through other comprehensive incomes or financial liabilities designated as net investment hedge for foreign operation or conforming cash flow hedge, the remaining items will be recognized as profit or loss.

2. Foreign operation

The assets and liabilities of foreign operation, including the business reputation and fair value adjustment are translated into functional currency according to the exchange rate on the reporting date; the profit or loss and cost expense items are translated into functional currency according to the average exchange rate of the period. And the exchange difference amount will be recognized as other comprehensive incomes.

When the disposal of foreign operation leads to loss of control, joint control or material influence, the cumulative exchange difference amount related to them will be re-classified into profit or loss. When partially disposing of affiliated companies containing foreign operation, the cumulative exchange difference amount will be re-attached to non-controlling equity according to proportion. When partially

disposing of affiliated enterprises or joint investments containing foreign operation, the cumulative exchange difference amount will be re-classified into profit or loss according to proportion.

For receivable or payable items in currency of foreign operation, if there is no plan of paying off or it cannot be paid off in the foreseeable future, the foreign currency exchange profit or loss arising therefrom will be deemed as part of net investment of them and hence recognized as other comprehensive income.

(V) Assets and liabilities classified as current and non-current

Any asset meeting one of the following conditions is current asset, and other assets not falling into current asset are noncurrent asset.

1. The asset is expected to be realized within normal operation cycle, or it is intended to be sold or consumed;
2. The asset held for the purpose of transaction;
3. The asset is expected to be realized within twelve months after the reporting period; or
4. The asset is cash or cash equivalent, but it will be used for exchange or clearing off liability at least twelve months after the reporting period, unless otherwise limited.

Any liability meeting one of the following conditions is current liability, and other liabilities not falling into current liability are noncurrent liability:

1. Liabilities to be cleared off within the normal operation cycle;
2. Liabilities held primarily for the purpose of trading;
3. Liabilities that is due to be settled within twelve months after the reporting period; or
4. Liabilities whose settlement can be deterred unconditionally for at least twelve months after the reporting period. If the term of liability, at the discretion of transaction party, causes it to be cleared off by issuing equity instruments, the classification will not be influenced

(VI) Cash and cash equivalents

Cash includes inventory cash and current deposit. Cash equivalents refer to the short-term and high-flow investment that can be converted into certain amount of cash at any time with low risk in change of value Time deposits are classified as cash equivalents only when they satisfy the aforementioned definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(VII) Financial instruments

1. Financial assets (applicable after January 1, 2018 (inclusive))

The financial assets of the consolidated company can be classified as: financial assets measured through amortized cost and financial assets measured at fair value through profit or loss.

The consolidated company only re-classifies the influenced financial assets according to requirements when the operation mode of financial assets management is varied.

(1) Financial assets measured through amortized cost

Financial assets meeting all the following conditions and without being designated for measurement at fair value through profit or loss are to be measured through amortized cost:

- The financial assets are held under the operation mode with the purpose of collecting contract cash flow.
- The cash flow on certain date arising out of the contract term of the financial assets is completely for paying the capital and the interest of capital circulating outside.

In initial recognition, it is measured at fair value plus corresponding transaction cost; the effective interest rate method is adopted for follow-up measurement according to amortized cost, which has already deducted the impairment loss. Interest income, foreign currency profit or loss and impairment loss are recognized as profit or loss. When derecognition, benefit or loss is recognized as profit or loss.

(2) Financial assets measured at fair value through profit or loss

Financial assets not measured according to the above amortized cost fall into measurement at fair value through profit or loss, including derivative financial assets and accounts receivable. Only accounts measured at fair value through profit or loss are recognized under the accounts receivable. In initial recognition, the consolidated company has to irrevocably designate financial assets conforming to measurement by amortized cost as financial assets measured at fair value through profit or loss, to remove or significantly lower accounting mismatch.

In initial recognition, it is measured at fair value, and transaction cost is recognized as profit or loss upon occurrence; later it is measured at fair value, and the benefit or loss (including relevant dividend income and interest income) arising out of re-measurement is recognized as profit or loss.

(3) Impairments of financial assets

The expected credit loss for financial assets measured through amortized cost by consolidated company (including cash and cash equivalents, financial assets measured through amortized cost, notes receivable, accounts receivable, other receivables, refundable deposit and other financial assets, etc.) is recognized as allowance loss.

The credit risk of bank deposit means measurement of allowance loss with 12 month expected credit loss amount, and the credit risk of financial assets measured through amortized cost is measured through lifetime expected credit losses except for cash and cash equivalents.

Lifetime expected credit loss refers to the expected credit loss out of all possible defaults during the expected survival period of financial instruments

12 month expected credit loss refers to the expected credit loss of financial instruments out of possible defaults within 12 month after the reporting date (or within shorter period, if the expected duration of financial instruments is shorter than 12 months).

The longest period for measurement of expected credit loss is the same with the longest contract period in which the consolidated company is exposed to credit risk.

In judging whether the credit risk has significantly increased after initial recognition, the consolidated company will consider reasonable and verifiable information (without the need of transition cost or input), including qualitative and quantitative information as well as analysis based on historical experience, credit evaluation and prospective information.

If the contract payment is overdue for more than ninety days, the consolidated company will assume that the credit risk of financial assets has significantly increased.

If the contract payment is overdue for more than one year, or the borrower is not likely to perform its credit obligation by making full payment to the consolidated company, the consolidated company deems that there is default for the financial asset.

Expected credit loss refers to the weighted estimate of credit loss probability during the expected survival period of financial instruments. Credit loss is measured by the current value of all cash deficiency, namely difference between cash flow receivable by consolidated company according to contract and the cash flow expected to be received by consolidated company. Expected credit loss is discounted at the effective interest rate of financial assets.

The consolidated company evaluates whether there is credit impairment in measuring financial assets through amortized cost on every reporting date. When there is one or more events arising that will bring unfavorable influence to expected future cash flow, there is already credit impairment to the financial asset. The evidences for credit impairment of financial assets include the observable data for the following events:

- Material financial hardship for borrower or issuer;
- Default, such as arrearage or delinquency for more than ninety days;
- Compromise made by consolidated company to borrower that would not be considered before, because of economic or contract reason related to borrower's financial difficulty;
- The borrower is most likely to file for bankruptcy or conduct other financial arrangement; or
- Disappearance of active market for the financial asset due to financial difficulty.

The allowance loss of financial assets measured through amortized cost is deducted from the carrying amount of assets.

When consolidated company fails to carry out reasonable expectation of recovery of financial assets in part or whole, the total carrying amount of the financial assets directly decreases. It normally refers to that the consolidated company judges that the asset or income source of debtor can not produce sufficient cash flow to pay back the writeoff amount. However, already written-off financial assets can still be mandatorily executed to conform to the procedure of the consolidated company in recovering overdue amount.

(4) Derecognition of financial assets

The consolidated company derecognizes financial assets when the contractual rights to the cash flow of the asset expire or when the transferred financial asset and the risk and reward related to its ownership have been transferred to other enterprise.

2. Financial assets (applicable before December 31, 2017 (inclusive))

The financial assets of the consolidated company can be classified as: financial assets, loans and receivables.

(1) Financial assets measured at fair value through profit or loss

This type of financial assets refers to financial assets held for transaction or designated to be measured at fair value through profit or loss.

The acquisition or occurrence of financial assets held for transaction are for

the purpose of sales or repurchase within short term. Except for the financial assets held for transaction, the consolidated company designates as measurement at fair value through profit or loss under one of the following conditions:

- Elimination or significant decrease of inconsistency in measurement or recognition arising out of different bases adopted for measurement of assets or liabilities and recognition of related benefits and losses.
- Financial assets take fair value as the basis to evaluate performance.
- Hybrid instrument includes embedded derivative instrument.

This type of financial assets are measured at fair value in initial recognition, and the transaction cost is recognized as profit or loss upon occurrence; later, it is measured as fair value, and the benefit or loss (including relevant dividend income or interest income) arising out of re-measurement is recognized as profit or loss and further reported under nonoperating income and expense "financial assets impairment at fair value through profit or loss". When purchasing or selling financial assets according to transaction practice, accounting treatment on the transaction date is adopted.

(2) Loans and receivables

Loans and receivables are financial assets with open quotation in nonactive market and with fixed or determinable payment amount, including receivables, other receivables and liability instrument investment in nonactive market. In initial recognition, it is measured at fair value plus corresponding transaction cost; the effective interest rate method is adopted for follow-up measurement according to amortized cost, which has already deducted the impairment loss, except for non-materialness of interest recognition of short-term receivables. When purchasing or selling financial assets according to transaction practice, accounting treatment on the transaction date is adopted.

Interest income is recognized under the nonoperating income and expense "interest income".

(3) Impairments of financial assets

Financial assets not measured at fair value through profit or loss are evaluated for impairment on every reporting date. When there is objective evidence showing that there arise one or more events after initial recognition of financial assets leading to loss of estimated future cash flow, there is already impairment to the financial asset.

The objective evidence for financial assets impairment includes material

financial hardship of issuer or debtor, default (arrearage or non-payment of interest or capital), increasing possibility of debtor going into bankruptcy or other financial reorganization, disappearance of the financial asset at active market due to financial hardship.

Accounts receivable, if found no impairment in some evaluation, will be evaluated on group basis for impairment. Evidence of objective impairment of accounts receivable portfolio may include the consolidated company's fund collection experience, overdue payments above the average period, and observable changes in national or regional economic conditions related to accounts receivable arrears.

The impairment loss of all financial assets is directly deducted from the carrying amount of financial assets, and only for accounts receivable is the carrying amount adjusted through allowance accounts. When it is judged that accounts receivable cannot be recovered, the allowance accounts will be written off. For payment previously written off yet later collected, the allowance accounts are credited. Changes in carrying amount of allowance accounts are recognized as profit or loss.

The bad account loss and recovery of accounts receivable are recognized under the operation expense "promotion expense". The impairment loss and recovery of financial assets except for accounts receivable are recognized under nonoperating income and expense "financial assets impairment loss and financial assets less return benefit".

(4) Derecognition of financial assets

The consolidated company derecognizes financial assets when the contractual rights to the cash flow of the asset expire or when the transferred financial asset and the risk and reward related to its ownership have been transferred to other enterprise.

3. Financial liabilities and equity instruments

(1) Classification of liabilities or equities

The consolidated company classifies its issuance of debts and financial instruments as financial liabilities or equity in accordance with the definition of financial liabilities and equity instruments, as well as the contractual substance.

Equity instruments refer to any contracts containing the consolidated company's residual interest after subtracting liabilities from assets. Equity instruments issued by the consolidated company are recognized as the net of proceeds less direct issuance costs.

The composite financial instruments issued by the consolidated company refer to corporate bonds for which holders enjoy the option to convert them into capital, and the number of issued shares will not change with variation of fair value.

For the components of composite financial instruments liability, the originally recognized amount is measured at fair value through similar liability of equity conversion option. For the components of equity, the originally recognized amount is measured by the difference between fair value of overall composite financial instruments and fair value of components of liability. Any directly attributable transaction cost will be amortized to liability and equity components according to the carrying amount ratio of original liability and equity.

After initial recognition, the liability components of composite financial instruments are measured through amortized cost with effective interest rate method. The components of composite financial instruments will not be re-measured after initial recognition.

Interest and loss or benefit related to financial liability are recognized as profit or loss, and recognized under the nonoperating income and expense "interest expense".

Financial liability is re-classified as equity upon conversion, and it does not produce any profit or loss.

(2) Financial liabilities measured at FVTPL

This type of financial liabilities refers to the financial liabilities held for transaction or designated to be measured at fair value through profit or loss.

The acquisition or occurrence of financial liabilities held for transaction are for the purpose of sales or repurchase within short term. Except for the financial assets held for transaction, the consolidated company designates as measurement at fair value through profit or loss under one of the following conditions.

- Elimination or significant decrease of inconsistency in measurement or recognition arising out of different bases adopted for measurement of assets or liabilities and recognition of related benefits and losses.
- Financial liabilities take fair value as the basis to evaluate performance
- Hybrid instrument includes embedded derivative instrument.

This type of financial liabilities is measured at fair value in initial recognition, and the transaction cost is recognized as profit or loss upon

occurrence; later, it is measured as fair value, and the benefit or loss (including relevant interest expense) arising out of re-measurement is recognized as profit or loss and further reported under nonoperating income and expense "financial liabilities impairment at fair value through profit or loss".

(3) Other financial liabilities

Financial liabilities not falling to the category of holding for transaction and being designated to be measured at fair value through profit or loss (including long and short-term loan, accounts payable and other payables) are measured by fair value plus directly attributable transaction cost upon initial recognition; later effective interest rate method is adopted for measurement after amortized cost. Interest expense uncapitalized into capital cost is recognized as profit or loss and further reported under nonoperating income and expense "interest expense".

(4) Derecognition of financial liabilities

The consolidated company derecognizes financial liabilities when the contract obligations have been performed, cancelled or expired.

In derecognizing financial liabilities, the difference between the carrying amount and the paid or payable consideration total amount (including any transferred non-cash assets or undertaken liabilities) is recognized as profit or loss, and further reported under nonoperating income and expense "other incomes" and "assorted expenses".

(5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset when the consolidated company has the legal right and the intention for netting settlement or realization of assets and liabilities clearing happen at the same time, and the net amount is represented in the balance sheet.

4. Derivative financial instruments and hedge accounting (applicable after January 1, 2018 (inclusive))

The consolidated company holds derivative financial instruments to avoid risks of foreign currency and interest rate. In initial recognition, it falls into measurement at fair value, and transaction cost is recognized as profit or loss; later it is measured at fair value, and the benefit or loss arising out of re-measurement is recognized as profit or loss, and further reported under nonoperating income and expense; for designated derivative instruments for effective avoidance of risk, its recognition is determined by the hedge relationship at the timing of profit or loss. When the fair value of derivative instruments is positive, they are recognized as financial assets;

when it is negative, they are recognized as financial liabilities.

The risk and characteristics of embedded derivative instruments are not closely related to those of non-financial assets main contract, and when the main contract is not measured at fair value through profit or loss, the derivative instrument is deemed as independent derivative instrument.

5. Derivative financial instruments and hedge accounting (applicable before December 31, 2017 (inclusive))

Except for the following items applicable before December 31, 2017 (inclusive), the remaining ones are consistent with accounting policies applicable after January 1, 2018 (inclusive).

For risk avoidance of all cash flows, including hedged expected transaction recognized as non-financial assets or non-financial liabilities, it was previously recognized as other comprehensive income and included into equity amount, which will further be re-classified into profit or loss during the same period when the hedged expected cash flow influences profit or loss. Besides, the application to cash flow risk avoidance has been suspended before December 31, 2017 (inclusive), so the fair value change in future parts will directly be recognized as profit or loss.

(VIII) Inventory

Inventory is measured by cost or net realized value, whichever is lower. Cost includes cost and other costs for acquisition, manufacturing or processing to reach the usable place and status, and is calculated through weighted averaging. Cost of finished products and manufactured products inventory includes the manufacturing expenses amortized according to normal productivity in certain ratio.

The NRV is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

(IX) Investment in the associates

Associates refer to those for which the consolidated company has material influence upon their financial and operation policies but without controlling or joint controlling.

The consolidated company adopts equity method for handling the equity of associates. Under equity method, it is recognized through cost in original acquisition, and investment cost includes transaction cost. The carrying amount of invested associates includes identified business reputation at original investment less any cumulative impairment loss.

The consolidated financial report includes recognition of profit or loss and other comprehensive income amount of invested associates by consolidated company according to equity ratio after adjustment for consistency of accounting policies from the

date of material influence to the date of losing such influence. When associates undergo non-equity or other comprehensive income equity changes without influencing the shareholding proportion of the consolidated company, the consolidated company will recognize the equity change in the share of affiliated enterprises attributable to it as capital reserve according to shareholding proportion.

The unrealized benefit arising out of the transaction between consolidated company and associates is eliminated within the equity scope of the consolidated company in the invested company. The elimination method of unrealized loss is the same with unrealized benefit, but only limited to where there is no impairment evidence.

When the loss share of associates to be recognized by consolidated company is equal to or over the its equity in them, the recognition of the loss is suspended, and only in the case of legal obligations, constructive obligations or within the scope of making payment for the invested company, additional loss or relevant liability will be recognized.

(X) Property, plant and equipment

1. Recognition and measurement

The recognition and measurement of property, plant and equipment adopt the cost mode, and are measured by the amount of cost less cumulative depreciation and cumulative impairment. Cost includes directly attributable expenses of acquiring the assets.

When the service years of property, plant and equipment varies, they are deemed as independent items (main components) for treatment.

When property, plant and equipment contain different components, and it is more appropriate to adopt different depreciation rate or method when it is significant when compared with the total cost, they are deemed as independent items (main components) for treatment.

The disposal profit or loss of property, plant and equipment is determined by the difference between carrying amount and disposal amount, and recognized under the item of profit or loss as net amount "other benefit and loss".

2. Subsequent cost

If the subsequent expected future economic benefits of property, plant and equipment are most likely to flow into the consolidated company and the amount can be reliably measured, this expense will be recognized as part of the carrying amount, and the restated part of carrying amount will be derecognized. The daily service cost of property, plant and equipment is recognized as profit or loss upon occurrence.

3. Depreciation

The depreciation is calculated in straight line method by capital cost less scrap value based on service years, and evaluated according to individual material components. If the service years of one component are different from other parts, this part will be separately recognized as depreciation. Depreciation is recognized as profit or loss.

There is no need to recognize land into depreciation.

Estimated service years of current period and comparative periods are as follows:

- (1) House and building: 5-50 years
- (2) Machinery and equipment: 5-10 years
- (3) Transportation equipment: 3-6 years
- (4) Office facilities: 2-5 years
- (5) Other equipment: 5 years

Main components of house and building include main structures, electromechanical equipment and works which are respectively recognized into depreciation according to their service years.

The consolidated company has to check the depreciation method, service years and scrap value at least on the reporting date every year. If the expected value and previous estimate vary, appropriate adjustment has to be made if necessary. And the change will be treated according to accounting provisions on estimated changes.

(XI) Lease

1. Lesser

The operation lease is recognized as income on straight line basis during the lease period. The original direct cost arising out of operation lease for negotiation and arrangement is added into the carrying amount of lease assets, and recognized into expenses on straight line basis during the lease period. The incentive total benefits provided for lessee to reach the lease arrangement is recognized as decrease in lease income through straight line method during the lease period.

Contingent rent payments are recognized as revenue when the adjustments are determined.

2. Lessee

According to the rent conditions the consolidated company undertakes almost all risks and rewards of the leased asset ownership, it is classified into financial lease. In initial recognition, the leased asset is measured by fair value or lowest lease payment current value, whichever is lower. Later, it is treated by accounting policies related to the asset.

The lowest lease payment of financing lease is amortized to financial cost in

ratio and to lower the unpaid liability. The financial cost is amortized to each lease period according to the interest rate of fixed intervals based on liability balance.

Other lease falls into operation lease, which is not recognized into the balance sheet of consolidated company.

The rent payment for operation lease (excluding service cost like insurance and maintenance) is recognized into expense on straight line basis during the lease period. The incentive total benefits provided by lesser to reach the lease arrangement is recognized as decrease in rent expense in straight line method during the lease period.

Contingent rent payments are recognized as expense when the adjustments are determined.

(XII) Intangible assets

1. Other intangible assets

Other intangible assets acquired by the consolidated company is measured by cost less cumulative amortization and cumulative impairment.

2. Subsequent expenses

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenses are recognized as profit or loss upon occurrence.

3. Amortization

In amortization, the amount of capital cost less scrap value is the amortizable amount.

Except for intangible assets like business reputation and those without determined service years, intangible assets are amortized in straight line method according to the following estimated service years, and the number of amortization is recognized as profit or loss:

(1) Computer software and network engineering works: 5 years

(2) Golf license: 10 years.

The consolidated company has to audit the residual value, amortization period, and amortization method for an intangible asset at least annually on the reporting date every year. Any change shall be accounted for as a change in accounting estimate.

(XIII) Impairments of non-financial assets

For non-financial assets except for assets arising out of inventory, deferred income tax assets and employees welfare, the consolidated company has to evaluate at the ending date of every reporting period whether there is impairment, and estimate the

recoverable amount of asset with traces of impairment. If the recoverable amount of individual asset cannot be determined, the consolidated company will have to determine the recoverable amount for the asset's cash-generating unit (CGU) for impairment assessment.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less costs to sell, and its value in use. If the recoverable amount of individual asset or cash generating unit is lower than the carrying amount, then the carrying amount is reduced to the recoverable amount and recognized into impairment loss. Impairment loss is immediately recognized as current profit or loss.

The consolidated company has to re-assess on every reporting date whether there are traces indicating that the impairment loss of non-financial assets except for business reputation no longer exists or lowers when compared with the year before. If there is any change to the estimate for determining the recoverable amount, the impairment loss will be returned, to increase the carrying amount of individual asset or cash generating unit to the recoverable amount; under the condition of not exceeding the unrecognized impairment loss of it the year before, the carrying amount after depreciation or amortization has to be deducted.

(XIV) Liability provision

The recognition of liability provision means current obligation for past events, so that in the future the consolidated company is most likely to outflow resources with economic benefits to settle it, and the amount of the obligation can be reliably estimated. Liability provision is discounted by the before tax discounting rate of reflecting the current market to the time value of currency and evaluation of certain risk in liability, and the amortization of discount is recognized as interest expense.

1. Warranty

Warranty liability provision is recognized at selling product or service. The liability provision is measured by relevant probability weight according to historical warranty data and all possible results.

2. Sales return provision

Sales return provision is recognized at selling product. The provision is possible product return according to estimate based on historical experience.

(XV) Treasury stock

The issued stock recovered by consolidated company is recognized as "treasury stock" as after-tax net amount according to the consideration paid at repurchase (including directly attributable cost), as the deduction of equity. If the disposal price of treasury stock is higher than the carrying amount, the difference is recognized as capital

reserve-treasury stock transaction; if the disposal price is lower than the carrying amount, the difference will offset the capital reserve arising out of transaction of the same type of treasury stock; if insufficient, the retained earnings will be debited. The carrying amount of treasury stock is calculated by weighted averaging according to reason of recovery

In writing off treasury stock, the capital reserve will be debited according to equity ratio-for shares issuance premium and capital, if the carrying amount is higher than the sum of face value and shares issuance premium, the difference will offset the capital reserve arising out of the same type of treasury stock; if insufficient, the retained earnings will be offset; if the carrying amount is lower than the sum of face value and shares issuance premium, the capital reserve arising out of transaction of the same type of treasury stock will be credited.

(XVI) Income of customer contract (applicable after January 1, 2018 (included))

The income is measured by the expected consideration in transferring product or labor. The consolidated company recognizes the income when the control over product or labor is transferred to customer meeting the performance of obligation. The main income items of consolidated company are described as follows:

1. Sales of products

The consolidated company recognizes the income upon transfer of control over product. The transfer of control over product means delivery of product to customer, and complete decision by customer for the sales channel and price, without influencing the unperformed obligation for the customer to accept the product. Delivery means conveying the product to designated place, whereby its outdatedness and loss risk has been transferred to customer, and the customer has accepted the product according to sales contract while the acceptance inspection term goes invalid, or the consolidated company has objective evidences to believe that all acceptance inspection conditions have been met.

The consolidated company grants sales return period to customer, so expected return part has to be adjusted in recognizing income and return liability and right of product to be returned are recognized as well. The consolidated company estimates expected return at the timing of sales by adopting cumulative past experience. The consolidated company re-evaluates the estimate of expected return on every reporting date.

The consolidated company undertakes the obligation of defect refund for provision of standard warranty, and the obligation is recognized as warranty liability provision. Please refer to Note 6 (12) for details.

The consolidated company recognizes accounts receivable upon delivery of

goods, because it enjoys the entitlement of collecting consideration unconditionally at this timing.

2. Financial components

The interval between expected time of transferring commodity or labor to customer by consolidated company and the time of customer in making payment for the commodity or labor cannot exceed one year, so the consolidated company will not adjust the time value of currency for transaction price.

(XVII) Income recognition (applicable before December 31, 2017 (included))

Sales of goods

In normal activities, the income arising out of selling commodity is measured by the fair value of received or receivable consideration after considering the return, business discount or quantity discount. The income is only recognized through reliable measurement of existence of convincing evidences (normally signed sales agreement), material risk and reward of ownership transferred to buyer, possible recovery of payment, reliable estimate of relevant cost and possible commodity return, non-continued participation in commodity management and income amount. If the discount is most likely to happen and the amount can be reliably measured, it will be recognized upon sales recognition as deduction of income.

The timing of risk and reward transfer is determined by the individual term of sales contract.

(XVIII) Cost of customer contract (applicable from January 1, 2018)

1. Incremental cost of acquiring contract

If the consolidated company expects to recover the incremental cost for acquiring the customer contract, the cost will be recognized as asset. The incremental cost of acquiring contract is cost that will arise in acquiring customer contract and will not arise otherwise. The contract acquisition cost no matter the contract will happen or not is recognized as expense, unless the cost is explicitly collectable from customer no matter the contract is acquired or not.

If the incremental cost of acquiring contract is recognized by asset and the asset amortization period is within one year by consolidated company using practical expediency method, the incremental cost will be recognized as expense upon occurrence.

2. Cost of performing contract

If the cost arising out of performing customer contract falls out of the scope of other standards (IAS 2 "inventory", IAS 16 "property, plant and equipment", or IAS 38 "intangible assets"), the consolidated company only recognizes the cost as asset

when the cost is directly related to contract or explicitly identifiable expected contract, will produce or enhance resources for future satisfaction (continuous satisfaction) of obligations, and expected to be recoverable.

Common management cost, cost of wasted materials, manpower and other resources not reflected on contract price, cost related to satisfied (or partially satisfied) obligation, and cost related to unidentifiable and unsatisfied obligation or satisfied (or partially satisfied) obligation are recognized as expense upon occurrence.

(XIX) Employee benefits

1. Defined promotion plan

The promotion obligation of determining promotion and retirement fund plan is recognized as employees benefit expense under profit or loss during the period of employees provision of labor service.

2. Defined benefit plan

Retirement benefit plan not falling to defined promotion plan is a defined benefit plan. The consolidated company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any unrecognized previous service cost and various plan assets should be deducted. The discount rate is mostly the yield at the reporting date on government bonds that have maturity dates approximating the terms of the consolidated company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The corporate net obligation is calculated by qualified actuary every year. When the calculation result is favorable to the consolidated company, the recognition of asset is limited by the total amount of obtainable economic benefits current value through returned fund from the plan or decreased promotion of the plan in the future. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the consolidated company. If one benefit can be realized within the plan period or upon planned clearing of liabilities, it has economic benefit to the consolidated company.

When the benefit in the plan improves, the relevant expense for the part of incremental benefit for previous services by employees is immediately recognized as profit or loss.

The number of remeasurement of net defined benefit liabilities (assets) includes (1) actuarial profit or loss; (2) planned asset rewards, excluding the amount contained in net interest of net defined benefit liability (asset); and (3) any change in upper limit influence number of asset, excluding amount contained in net interest of net defined benefit liability (asset). The number of re-measurement of net defined benefit liability (asset) is recognized under the item of other comprehensive income. The consolidated company recognizes the number of re-measurement of defined benefit plan into retained earnings.

The consolidated company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gains or losses on the curtailment or settlement include any change in fair value of planned assets and current value of defined benefit obligations.

3. Short-term employee benefits

The obligation for short-term employee benefits is measured on undiscounted basis, and recognized as expense at the time of provision of relevant services.

For expected payment amount under short-term cash bonus or bonus plan, if the consolidated company undertakes current obligation of legal or constructive payment for the previous provision of services by employees and the obligation can be reliably estimated, the amount is recognized as liability.

(XX) Income taxes

Income taxes include current and deferred income taxes. Except for items related to the consolidated company and directly recognized into equity or other comprehensive incomes, current and deferred income taxes shall be recognized as profit or loss.

Current income taxes include the expected payable income taxes or receivable tax refunds based on the levy duty gain (loss) of the year calculated according to the legal tax rate on reporting date or fundamental legislative tax rate, and any adjustment made to the payable income tax for the year before.

Deferred income tax is measured and recognized through the temporary difference between the carrying amount of liabilities and assets for the purpose of financial reporting and the levy duty basis. The temporary difference for the following conditions will not be recognized as deferred income tax:

1. Originally recognized asset or liability not falling to transaction of corporate consolidation, without influencing accounting profit and levy duty gain (loss) at transaction.
2. Any difference that arises out of investment affiliated companies and joint venture equity, and is most likely not to be returned in foreseeable future.

3. Initial recognition of business reputation.

The deferred income tax is measured by the tax rate of the period of expected asset realization or liability clearing off based on the legal tax rate or fundamental legislative tax rate on reporting date.

The consolidated company only offsets the deferred income tax asset and deferred income tax liability for meeting the following conditions at the same time.

1. The entity has the legal right to settle tax assets and liabilities on a net basis; and
2. The deferred income tax asset and liability is related to one of the tax-paying subjects of income tax for the same tax authority.

(1) Same tax-paying subject; or

(2) Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

At the late period of unused levy duty loss and unused income tax deduction, the deductible temporary difference is recognized as deferred income tax asset within the usable scope of mostly likely future levy duty gain. It is re-evaluated on every reporting date, and adjusted within the possibly realizable scope of relevant income tax benefits.

(XXI) Earnings per share

The consolidated company presents the basic and diluted earnings per share of shareholders of common stock equity. The consolidated company's basic earnings per share signifies that the profit and loss of the common shareholders of the Company divided by the weighted average number of common shares outstanding during the period. The diluted earnings per share is calculated by adjusting the influence of all potential diluted common shares with profit or loss of the Company's common stock holders and weighted average number of common shares outstanding. The potential diluted common stock of consolidated company includes convertible bonds.

(XXII) Department information

Operation department, as part of the consolidated company, is engaged in operation activities for gaining income or incurring expense (including income and expense related to transaction with other departments in the company). The operation results of all operation departments are regularly re-checked by major operation decision-makers of the consolidated company, to make decisions on resources allocation and assess the performance. Every operation department possesses independent financial information.

V. The Primary Sources of Uncertainties in Major Accounting Judgments, Estimates, and Assumptions

When preparing the consolidated financial statements according to preparation standards and IFRS recognized by FSC, the management may have to make judgement, estimate and assumption, which may influence the adoption of accounting policies, and the reporting amount of assets, liabilities, incomes and expenses. Therefore, actual results and estimates may have disparities.

The management has to continuously check the estimate and basic assumptions, and the accounting estimate is recognized during the period of change and during future influenced period.

In the uncertainties of assumption and estimate, relevant information about material adjustment for significant risk is as follows:

(I) Allowance loss of accounts receivable

The allowance loss of accounts receivable for the consolidated company is estimated on the basis of assumption upon default risk and expected loss rate. The consolidated company judges upon the adoption of assumption and selection of input in calculating impairment by considering historical experience, current market status and prospective estimate on every reporting date. Please refer to Note 6 (3) for details of relevant assumptions and input.

(II) Inventory Valuation

As inventory shall be measured based on the cost or realizable value, whichever is lower; if on the consolidated company's evaluation report date, the inventory has suffered normal wear and tear, is outdated or has no market value, the inventory cost shall be offset to net realizable value. The assessment of this inventory valuation is mainly based on the product requirements within a specific future period. Hence, it may have significant changes. See Note 6 (5) for details of inventory valuation.

The accounting policy and disclosure of the consolidated company include adopting fair value to measure financial, non-financial assets and liabilities. The consolidated company has established internal control system for fair value measurement. It includes establishing a valuation team to take charge of the re-checking of all material fair value measurement (including third level fair value) and the team will directly report to the chief financial officer. The valuation team will regularly re-check major input and adjustment that are unobservable. If the input for measurement of fair value is to apply third-party information (such as broker or pricing service institution), the valuation team will evaluate the evidence for supporting the input provided by the third party, so as to determine whether the valuation and fair value level classification conform to the provisions of IFRS. The valuation team will report major valuation topics to the audit

committee of the consolidated company.

In measuring the assets and liabilities, the consolidated company will try its best to use market observable input. The level of fair value is classified as follows according to the input used by valuation technique.

- (I) First level: open quotation of same asset or liability on active market (without adjustment).
- (II) Second level: except for the open quotation covered by first level, the input parameters of assets or liabilities is directly (price) or indirectly (obtained through price deduction) observable.
- (III) Third level: the input parameters of assets or liabilities is not based on observable market data (unobservable parameters).

If there is any transition event or situation among the levels of fair value, the consolidated company shall recognize it on the reporting date.

See Note 6 (24), Financial Instruments, for details about assumptions adopted for measurement of fair value.

VI. Description of major accounting items

- (I) Cash and Cash Equivalents

	<u>2018.12.31</u>	<u>2017.12.31</u>
Cash in treasury	\$ 1,354	1,311
Cheque and demand deposit	416,414	195,957
Fixed term deposit	-	103,582
Cash and cash equivalents listed in consolidated cash flow statement	<u><u>\$ 417,768</u></u>	<u><u>300,850</u></u>

Please refer to Note 6 (24) for the disclosure of interest rate risk and sensitivity analysis of financial assets and liabilities of the consolidated company.

(II) Financial Assets and Liabilities Measured at FVTPL

	<u>2018.12.31</u>	<u>2017.12.31</u>
Financial assets mandatory at FVTPL-current		
Non-break even financial products	\$ 129,526	-
Financial assets held for transaction - current		
Derivative instruments - forward exchange contract	-	243
Financial assets at FVTPL	<u>\$ 129,526</u>	<u>243</u>
Financial liabilities held for transaction - current		
Derivative instruments - forward exchange contract	\$ (1,234)	-
Financial liabilities at FVTPL - current		
Corporate bonds reverse repurchase right and redemption right (note 6 (14))	(7,500)	-
Financial liabilities at FVTPL - noncurrent	-	-
Corporate bonds reverse repurchase right and redemption right (note 6 (14))	-	(2,550)
Financial liabilities at FVTPL	<u>\$ (8,734)</u>	<u>(2,550)</u>
Current	\$ 120,792	243
Noncurrent	-	(2,550)
Total	<u>\$ 120,792</u>	<u>(2,307)</u>

Engagement in transaction of derivative financial instruments is for avoiding the risks in exposed exchange rate in operating activities and price changes in materials market. The details of derivative instruments for financial assets and liabilities held for transaction for no application of hedge accounting reporting were as follows (financial assets mandatory at FVTPL reported on December 31, 2018; financial assets held for transaction reported on December 31, 2017):

	<u>2018.12.31</u>			
	<u>Contract amount (NT\$ thousand)</u>		<u>Type of currency</u>	<u>Maturity period</u>
Derivative financial liabilities				
Purchase of delivery forward	US\$ 16,500		JPY to USD	2019.4~2019.7
Purchase of delivery forward	US\$ 5,800		RMB to USD	2019.4
	<u>2017.12.31</u>			
	<u>Contract amount (NT\$ thousand)</u>		<u>Type of currency</u>	<u>Maturity period</u>
Derivative financial assets				
Purchase of delivery forward	US\$ 10,720		JPY to USD	2018.1~2018.5

By December 31, 2018 and 2017, there is no provision of pledge guarantee for financial assets at FVTPL in the consolidated company.

(III) Notes Receivable and Accounts Receivable

	2018.12.31	2017.12.31
Notes receivable - arising out of operation	<u>\$ 482,292</u>	<u>163,405</u>
Accounts receivable - measured through amortized cost	1,231,146	1,255,073
Less: Allowance loss	<u>(57,849)</u>	<u>(65,013)</u>
	<u>\$ 1,173,297</u>	<u>1,190,060</u>

The consolidated company adopted simplified method to estimate expected credit loss for notes receivable and accounts receivable from December 31, 2018, namely measurement through expected credit loss during the survival period. For this purpose of measurement, the notes receivable and accounts receivable are grouped by the joint credit risk characteristics of the ability of paying due amount according to contract term of representative customers, and incorporated into prospective information like historical credit loss experience and reasonable expectation of future economic conditions. The expected credit loss analysis of notes receivable and accounts receivable of the consolidated company as of December 31, 2018 was as follows:

	Carrying amount of notes receivable and accounts receivable	Weighted average expected credit loss rate	Expected credit loss of allowance survival
Not overdue	\$ 1,457,303		-
Overdue for 1-90 days	179,765		-
Overdue for 91-180 days	16,462	25%	4,116
Overdue for 181-270 days	10,019	50%	5,009
Overdue for 271-365 days	4,660	75%	3,495
Overdue for more than 366 days	<u>45,229</u>	100%	<u>45,229</u>
	<u>\$ 1,713,438</u>		<u>57,849</u>

Already occurred credit loss mode was adopted to consider the allowance for bad debts of accounts receivable and notes receivable on December 31, 2017. The aging analysis of overdue yet non-impaired notes receivable and accounts receivable of the consolidated company as of December 31, 2017 was as follows:

	2017.12.31
Overdue for less than 30 days	\$ 311,172
Overdue for 31-60 days	64,365
Overdue for 61-90 days	<u>1,220</u>
	<u>\$ 376,757</u>

The allowance loss change statement of notes receivable and accounts receivable of the consolidated company was as follows:

		2017		
	2018	Impairment loss of individual evaluation	Impairment loss of group evaluation	Total
Opening balance (IAS No.39)	\$ 65,013	18,600	61,207	79,807
Adjustment of IFRS N0.9 for first application	-			
Opening balance (IFRS No.9)	65,013			
Impairment loss recognized	82,348	-	51,121	51,121
Impairment loss return	(88,362)	-	(59,185)	(59,185)
Gain or loss of foreign currency translation	(1,150)	438	(7,168)	(6,730)
Closing balance	<u>\$ 57,849</u>	<u>19,038</u>	<u>45,975</u>	<u>65,013</u>

The average credit granting period for commodity sales of consolidated company is 60 days. From the date of invoice issuance, there is no interest accrual for accounts receivable. Already occurred credit loss mode was adopted to consider the allowance for bad debts of accounts receivable and notes receivable on December 31, 2017; in determining the recoverability of accounts receivable and notes receivable, the consolidated company will consider any changes in credit quality of them from the original credit granting date to the reporting date. Historical experience shows that accounts receivable and notes receivable with an age of over 365 days cannot be recovered, so the consolidated company has recognized 100% of the accounts receivable and notes receivable over 365 days as bad debts. For accounts receivable and notes receivable with an age between 91 to 365 days, the allowance for bad debts is the amount that cannot be recovered by reference to the past default record of the other transaction party and analysis of its current financial status.

The consolidated company believes that except for the above situations, there is no need to recognize receivable payment into allowance impairment loss based on historical default rate in the case of being not overdue or overdue within 90 days.

Please refer to Note 6 (24) for details of remaining credit risk information.

As of December 31, 2018 and 2017, the consolidated company had NT\$ 302,287 thousand and NT\$ 191,014 thousand of notes receivable discount as well as NT\$ 1,108,856 thousand and NT\$ 1,059,073 thousand notes receivable transferred to suppliers that were not due. The notes receivable for the discount and transfer are bank acceptance bills submitted by customers; without any expectation of rejecting to make payment by financial institutions, the notes payable for the discount and transfer are

recognized as deduction of notes receivable.

The accounts receivable factoring contract without right of recourse signed between the consolidated company and financial institutions stipulates that the former does not need to bear the risk of non-recoverableness of accounts receivable, so it meets the condition of financial assets derecognition. Relevant information about undue factoring accounts receivable on the reporting date was as follows:

<u>2018.12.31</u>								
<u>Underwriter</u>	<u>Resale amount</u>	<u>Underwriting limit</u>	<u>Advanced amount</u>	<u>Contract period</u>	<u>Interest rate range</u>	<u>Provision Guarantee items</u>	<u>Material transfer terms</u>	<u>Derecognized amount</u>
Chinatrust Commercial Bank Hong Kong Branch	USD323,428	USD1,000,000	USD230,404 (NT\$ 7,066 thousand)	2018.06.05~ 2019.05.31	-	-	· Underwriting without right of recourse · Handling fee 0.6% · Financing percentage 85% · Underwriting percentage 90%	USD 323,428 (NT\$ 9,892 thousand)

<u>2017.12.31</u>								
<u>Underwriter</u>	<u>Resale amount</u>	<u>Underwriting limit</u>	<u>Advanced amount</u>	<u>Contract period</u>	<u>Interest rate range</u>	<u>Provision Guarantee items</u>	<u>Material transfer terms</u>	<u>Derecognized amount</u>
Chinatrust Commercial Bank Hong Kong Branch	USD296,976	USD1,000,000	USD250,000 (NT\$ 7,440 thousand)	2017.05.05~ 2018.04.30	-	-	· Underwriting without right of recourse · Handling fee 0.6% · Financing percentage 85% · Underwriting percentage 90%	USD296,976 (NT\$ 8,838 thousand)

The above amount of accounts receivable for factoring was derecognized from accounts receivable; besides, the difference between derecognized amount and advanced amount as of December 31, 2018 and 2017 was respectively USD 93,024 (NT\$ 2,826 thousand) and USD 46,976 (NT\$ 1,398 thousand), and shifted to be recognized under the items of "Other current assets-other receivables".

As of December 31, 2018 and 2017, there was no situation where the consolidated company provided pledge guarantee to notes receivables and accounts receivable.

(IV) Other Receivables

	<u>2018.12.31</u>	<u>2017.12.31</u>
Other receivables - others	\$ 82,344	80,952
Less: Allowance loss	<u>52,953</u>	<u>54,154</u>
	<u>\$ 29,391</u>	<u>26,798</u>

Other receivables are measured for impairment through expected credit loss during the survival period. The situations of whether there was credit impairment in allowance loss recognized on December 31, 2018 were as follows:

	<u>2018.12.31</u>	
	<u>Expected loss during the survival period - non-impaired</u>	<u>Expected loss during the survival period - impaired</u>
Not overdue	\$ 29,391	-
Overdue for more than 361 days	-	<u>52,953</u>
Total carrying amount	29,391	52,953
Allowance loss	-	<u>(52,953)</u>

Amortized cost (namely carrying amount)	<u>\$</u>	<u>29,391</u>	<u>-</u>
---	-----------	---------------	----------

The changes in allowance loss for other receivables in 2018 were as follows:

	2018		
	Credit loss during the survival period-no credit impairment	Credit loss during the survival period-credit impairment	Total
Opening balance (IAS No.39)	\$ -	54,154	54,154
Adjustment of IFRS No.9 for first application	-	-	-
Foreign currency translation gain or loss	-	(1,201)	(1,201)
Closing balance (IFRS No.9)	<u>\$ -</u>	<u>52,953</u>	<u>52,953</u>

The allowance loss change statement of other receivables from January 1, 2017 to December 31, 2018 of the consolidated company was as follows:

	Impairment loss of individual evaluation	Impairment loss of group evaluation	Total
Balance as of January 1, 2017	\$ 53,124	-	53,124
Foreign currency translation gain or loss	1,030	-	1,030
Balance as of December 31, 2017	<u>\$ 54,154</u>	<u>-</u>	<u>54,154</u>

(V) Inventory

	2018.12.31	2017.12.31
Raw materials	\$ 330,271	339,570
Supplies	5,971	6,144
Products being processed	368,410	441,431
Finished products	1,425,962	1,690,507
	<u>\$ 2,130,614</u>	<u>2,477,652</u>

The inventory cost recognized as sales cost from January 1 to December 31, 2018 and 2017 was respectively NT\$ 8,806,310 thousand and NT\$ 8,283,250 thousand, and the main items were sold, of which the inventory was previously included into the cost measured. Due to the improvement of factors that caused inventory net realized value to be lower than cost in 2018, the net realized value increased and the lowered sales cost recognized was NT\$ 1,191 thousand; in 2017, the inventory written down to net realized value recognition causing inventory price drop loss of NT\$ 1,569 thousand, which was already recognized as sales cost.

As of December 31, 2018 and 2017, there is no provision of pledge guarantee for inventory in the consolidated company.

(VI) Investments Accounted for Using Equity Method

1. Affiliated enterprises

Affiliated enterprises in which the consolidated company adopts equity method are individual non-material ones, whose financial information was as follows:

	2018.12.31	2017.12.31
The carrying amount of equity at the end of the period of individual non-significant affiliated enterprises	\$ 30,045	34,854

	2018	2017
Share attributable to the consolidated company:		
Total comprehensive revenue amount of continuous operation units	1,293	2,665

2. Guarantee

As of December 31, 2018 and 2017, there was no situation where the consolidated company provided pledge guarantee to investments accounted for using equity method.

(VII) Property, Plant and Equipment

The details of cost, depreciation and impairment loss changes of property, plant and equipment in 2018 and 2017 for the consolidated company were as follows:

	House and building	Machinery and equipment	Transportation equipment	Office facility	Other equipment	Equipment to be inspected and construction in progress	Total
Cost or identified cost:							
Balance as of January 1, 2018	1,308,722	1,392,610	61,434	252,476	2,560,383	48,789	5,624,414
Addition	35,319	65,869	3,710	16,030	220,884	59,855	401,667
Re-classification	(210,751)	(766)	-	(1,399)	39,055	(40,012)	(213,873)
Shifted expense	-	-	-	-	-	(11,811)	(11,811)
Disposal	(6,884)	(37,572)	(6,180)	(8,542)	(73,801)	-	(132,979)
Influence of exchange rate change	(29,338)	(63,586)	(1,442)	(6,052)	(114,238)	(2,036)	(216,692)
Balance as of December 31, 2018	\$ 1,097,068	1,356,555	57,522	252,513	2,632,283	54,785	5,450,726
Balance as of January 1, 2017	1,303,666	1,570,578	59,587	252,038	2,668,056	75,972	5,929,897
Addition	14,258	20,294	6,025	17,013	65,767	297,793	421,150
Re-classification	14,932	8,071	997	5,129	216,696	(240,083)	5,742
Shifted expense	-	-	-	-	-	(83,351)	(83,351)
Disposal	(4,166)	(158,524)	(4,151)	(9,966)	(319,960)	-	(496,767)
Influence of exchange rate change	(19,968)	(47,809)	(1,024)	(11,738)	(70,176)	(1,542)	(152,257)
Balance as of December 31, 2017	\$ 1,308,722	1,392,610	61,434	252,476	2,560,383	48,789	5,624,414

	House and building	Machinery and equipment	Transportation equipment	Office facility	Other equipment	Equipment to be inspected and construction in progress	Total
Depreciation and impairment loss:							
Balance as of January 1, 2018	399,014	772,323	39,268	186,424	1,800,988	-	3,198,017
Depreciation for the year	30,368	104,619	6,598	23,672	291,833	-	457,090
Shifted expense	-	-	-	-	-	-	-
Re-classification	(120,010)	(882)	-	(1,208)	(500)	-	(122,600)
Disposal	(2,000)	(31,972)	(5,872)	(8,095)	(76,855)	-	(124,794)
Influence of exchange rate change	(9,337)	(49,954)	(948)	(4,921)	(98,755)	-	(163,915)
Balance as of December 31, 2018	<u>\$ 298,035</u>	<u>794,134</u>	<u>39,046</u>	<u>195,872</u>	<u>1,916,711</u>	<u>-</u>	<u>3,243,798</u>
Balance as of January 1, 2017	371,349	851,566	37,247	183,241	1,895,005	-	3,338,408
Depreciation for the year	34,138	102,990	6,677	23,140	277,707	-	444,652
Shifted expense	-	-	-	-	342	-	342
Disposal	(1,142)	(138,975)	(3,972)	(9,415)	(321,487)	-	(474,991)
Influence of exchange rate change	(5,331)	(43,258)	(684)	(10,542)	(50,579)	-	(110,394)
Balance as of December 31, 2017	<u>\$ 399,014</u>	<u>772,323</u>	<u>39,268</u>	<u>186,424</u>	<u>1,800,988</u>	<u>-</u>	<u>3,198,017</u>
Book value:							
December 31, 2018	<u>\$ 799,033</u>	<u>562,421</u>	<u>18,476</u>	<u>56,641</u>	<u>715,572</u>	<u>54,785</u>	<u>2,206,928</u>
January 1, 2017	<u>\$ 932,317</u>	<u>719,012</u>	<u>22,340</u>	<u>68,797</u>	<u>773,051</u>	<u>75,972</u>	<u>2,591,489</u>
December 31, 2017	<u>\$ 909,708</u>	<u>620,287</u>	<u>22,166</u>	<u>66,052</u>	<u>759,395</u>	<u>48,789</u>	<u>2,426,397</u>

The consolidated company's old plant land development project at the Shenzhen industrial zone has commenced the demolition of superstructures after obtaining the "Application Form for Renovation Execution Subject Confirmation" approved by the local government on July 10, 2018. Therefore, the consolidated company shifted the carrying amount of RMB 20,435 thousand (NT\$ 91,273 thousand) to deferred development cost. Please refer to Note 6 (11) and Note 12 (3) for details.

Please refer to Note 8 for details of short-term loan and financing limit guarantee as of December 31, 2018 and 2017.

(VIII) Intangible Assets

The details of cost, amortization and impairment loss of intangible assets in 2018 and 2017 of the consolidated company were as follows:

	Computer software and network	Golf license	Total
Cost:			
Balance as of January 1, 2018	\$ 147,801	19,573	167,374
Acquisition for the period	1,549	-	1,549
Re-classification	(18,903)	-	(18,903)
Influence of exchange rate change	(3,275)	(433)	(3,708)
Balance as of December 31, 2018	<u>\$ 127,172</u>	<u>19,140</u>	<u>146,312</u>
Balance as of January 1, 2017	\$ 136,337	19,875	156,212
Acquisition for the period	13,549	-	13,549
Influence of exchange rate change	(2,085)	(302)	(2,387)
Balance as of December 31, 2017	<u>\$ 147,801</u>	<u>19,573</u>	<u>167,374</u>

	Computer software and network	Golf license	Total
Amortization and impairment loss:			
Balance as of January 1, 2018	\$ (118,336)	(17,263)	(135,599)
Amortization for the period	(12,462)	(600)	(13,062)
Re-classification	19,287	-	19,287
Influence of exchange rate change	<u>2,702</u>	<u>393</u>	<u>3,095</u>
Balance as of December 31, 2018	<u>\$ (108,809)</u>	<u>(17,470)</u>	<u>(126,279)</u>
Balance as of January 1, 2017	\$ (104,927)	(16,573)	(121,500)
Amortization for the period	(14,795)	(928)	(15,723)
Influence of exchange rate change	<u>1,386</u>	<u>238</u>	<u>1,624</u>
Balance as of December 31, 2017	<u>\$ (118,336)</u>	<u>(17,263)</u>	<u>(135,599)</u>
Carrying amount:			
December 31, 2018	<u>\$ 18,363</u>	<u>1,670</u>	<u>20,033</u>
January 1, 2017	<u>\$ 31,410</u>	<u>3,302</u>	<u>34,712</u>
December 31, 2017	<u>\$ 29,465</u>	<u>2,310</u>	<u>31,775</u>

1. Recognition of amortization and impairment

Amortization expense of intangible assets in 2018 and 2017 was respectively recognized under the following items of consolidated comprehensive revenue statement:

	2018	2017
Operating cost	\$ 2,175	1,830
Operating cost-various amortization	10,887	13,893
	<u>\$ 13,062</u>	<u>15,723</u>

2. Guarantee

As of December 31, 2018 and 2017, there was no provision of pledge guarantee for intangible assets in the consolidated company.

(IX) Other Current Assets and Other Noncurrent Assets

	2018.12.31	2017.12.31
Other receivables	\$ 29,391	26,798
Income tax assets for the period	3,962	12,764
Advance payment		
Advanced payment for goods	22,566	38,906
Advanced payment for fees	38,246	40,518
Retained tax amount	107,078	135,705
Other financial assets-current	287,491	-
Provisional payment	144	146
Right of products to be returned	<u>55,862</u>	<u>-</u>
Total of other current assets	<u>\$ 544,740</u>	<u>254,837</u>

	2018.12.31	2017.12.31
Advance payment for equipment	\$ 20,927	34,820
Refundable deposit	87,540	78,155
Long-term advance payment of rent	50,176	62,166
Other financial assets - noncurrent	-	110,126
Advance payment for land use right	803,954	548,117
Others	5,656	9,255
Total of other noncurrent assets	<u>\$ 968,253</u>	<u>842,639</u>

1. Other financial assets - current and noncurrent

Bank loan restricted

Please refer to Note 8 for details of guarantee for the consolidated company to use assets to pledge corporate bonds to ensure limit, bank loan and notes payable as of December 31, 2018 and 2017.

2. Long-term advance payment of rent

The consolidated company has signed agreement respectively with Shenzhen Land Resources Bureau and Administrative Bureau of House Property Baoan Branch to acquire the land at the Huangfengling industrial zone for the construction of plants and employee dormitories. The land use right transfer amount was NT\$ 85,541 thousand. Besides, the land at the center of North Point City King's Road Hong Kong is used as domicile with Hong Kong Land Registry. The land use right transfer amount was NT\$ 14,693 thousand, and the use period expires fifty years later from the year of acquisition.

The consolidated company's old plant land development project at the Shenzhen industrial zone has commenced the demolition of superstructures after obtaining the "Application Form for Renovation Execution Subject Confirmation" approved by the local government on July 10, 2018. Therefore, the consolidated company shifted the carrying amount of RMB RMB 1,159 thousand (NT\$ 9,643 thousand) to deferred development cost. Please refer to Note 6 (11) and Note 12 (3) for details.

Please refer to Note 8 for details of guarantee for bank acceptance bill, short-term loan, financing limit and endorsement as of December 31, 2017.

3. Advance payment for land use right

The consolidated company and Jiujiang economic development zone signed a business solicitation project contract, to the commitment that from 2015 the sales revenue of Airmate in the territory of China should not be less than RMB 1.4 billion, and the settlement share of marketing sales for domestic sales of products should

increase every year, all should be transferred from Shenzhen to Jiujiang, and the cumulative sales revenue of RMB 4.5 billion for domestic sales in the territory of China should be realized. If the above conditions were met, Jiujiang economic and technological development management committee agreed to transfer the plant and land use right at RMB 360 million with a period of 50 years; if otherwise, relevant preferences for the consolidated company will be cancelled.

As of December 31, 2018, the amount of RMB 180 million (NT\$ 803,954 thousand) had been paid. Please refer to Note 9 (1) for relevant material unrecognized contract commitment.

(X) Short-term Loan

	2018.12.31	2017.12.31
Credit loan	\$ 998,922	871,016
Pledge loan	290,317	200,976
Total	<u>\$ 1,289,239</u>	<u>1,071,992</u>
Loan limit not used	<u>\$ 1,027,488</u>	<u>1,085,988</u>
Interest rate range	<u>2.87%~6.09%</u>	<u>0.72%~5.30%</u>

Please refer to Note 6 (24) for details of critical risk information like interest rate, exchange rate and mobility risk.

Please refer to Note 8 for details of guarantee for the consolidated company to use assets to pledge for bank loan.

(XI) Notes Payable, Other Payables and Other Current Liabilities

	2018.12.31	2017.12.31
Notes payable	<u>\$ 1,177,486</u>	<u>832,685</u>
Payable salary	\$ 131,349	177,130
Payable employee dividend and remuneration for directors and supervisors	5,515	740
Payable tax	13,879	19,468
Payable contribution expense	159,212	188,341
Payable transportation expense	42,868	33,930
Payable vacation payment	2,510	9,633
Other expenses payable	122,295	116,365
Other payables	37,048	31,312
Total of other payables	<u>\$ 514,676</u>	<u>576,919</u>
Advances received	\$ 7,934	3,354
Refund liability	76,204	-
Total of other current liabilities	<u>\$ 84,138</u>	<u>3,354</u>
Other compensation	\$ 614,554	548,117
Long-term deferred revenue	40,654	43,936
Other noncurrent liabilities - total of others	<u>\$ 655,208</u>	<u>592,053</u>

1. Notes payable

As of December 31, 2018 and 2017, the notes payable were respectively NT\$ 1,170,175 thousand and NT\$ 830,955 thousand, guaranteed or accepted by financial institutions.

The above notes payable and other payables are expected to be settled within one year.

2. Refund liability

The sales of goods return provision of the consolidated company is mainly related to domestic sales of electric appliances by distributors at Mainland China, and it is estimated according to the historical return data of similar products and services. The consolidated company estimates that the liability is mostly happening in the following year of sales.

3. Other compensation

Advance collection of compensation for old plant land development at Shenzhen industrial zone. Please refer to Note 12 (3) for details.

(XII) Liability provision - current

	Warranty	Sales of goods return	Total
Balance as of January 1, 2018	\$ 10,856	-	10,856
Newly increased liability provision for the period	86,824	-	86,824
Used liability provision for the period	(90,809)	-	(90,809)
Balance as of December 31, 2018	<u>\$ 6,871</u>	<u>-</u>	<u>6,871</u>
Balance as of January 1, 2017	\$ 22,425	140,884	163,309
Newly increased liability provision for the period	104,108	328,319	432,427
Used liability provision for the period	(115,677)	(361,426)	(477,103)
Balance as of December 31, 2017	<u>\$ 10,856</u>	<u>107,777</u>	<u>118,633</u>

The warranty and sales of goods return liability provision of the consolidated company as of December 31, 2017 were mainly related to domestic sales in Mainland China and export sales of electric appliances by distributors, and they were estimated according to the historical warranty and return data of similar product and service. The consolidated company estimates that the liability is mostly happening in the following year of sales.

Please refer to Note 6 (11) for details of sales of goods return liability provision amount as of December 31, 2018, in the refund liability under other current liabilities.

(XIII) Long-term Loan

The details, conditions and terms for long-term loan of consolidated company were as follows:

	2018.12.31			
	Type of currency	Interest rate range	Due year	Amount
Pledge loan	USD	3.64143%	2020	\$ 92,142
Less: part due within one year				(46,066)
Total				<u>\$ 46,076</u>
Unused limit				<u>\$ -</u>

Please refer to Note 8 for details of guarantee for the consolidated company to use assets to pledge for bank loan.

(XIV) Corporate Bonds Payable

The information about the guaranteed convertible corporate bonds issued by the consolidated company was as follows:

	2018.12.31	2017.12.31
Total amount of issuing convertible corporate bonds	\$ 500,000	500,000
Less: unamortized payable corporate bond discount	(11,313)	(17,662)
Payable corporate bond balance at the end of the period	488,687	482,338
Less: part for which reverse repurchase right can be executed within one year (Note 1)	(488,687)	-
	<u>\$ -</u>	<u>482,338</u>
	2018.12.31	2017.12.31
Embedded derivative instruments-repurchase right and reverse repurchase right (recognized into financial liability at FVTPL)	\$ 7,500	2,550
Less: part for which reverse repurchase right can be executed within one year	(7,500)	-
	<u>\$ -</u>	<u>2,550</u>
Equity components - conversion right (recognized into capital reserve - subscription right)	<u>\$ 12,364</u>	<u>12,364</u>
	2018	2017
Embedded derivative instruments - reverse repurchase right/redemption right evaluation benefits (recognized into financial liability loss at FVTPL)	<u>\$ 4,950</u>	<u>1,100</u>
Interest expense (effective interest rate is 0.1090%)	<u>\$ 6,349</u>	<u>1,574</u>

Note 1: The Company has issued guaranteed convertible corporate bonds for the second time at home, and according to the provisions of corporate bonds issuance term, the holders can exercise the reverse repurchase right on September 30, 2019 (two years after issuance). Therefore, the Company shifted the convertible corporate bonds balance into "Corporate bonds for which the reverse repurchase right can

be executed within one year"; relevant embedded derivative financial instruments were also shifted under the item of current liability.

1. The Company issued for the second time the guaranteed convertible corporate bonds amounting to NT\$ 500,000 thousand within the territory of the Republic of China to pay back bank loan and enrich the operation fund, and the main issuance terms were as follows:

- (1) Issuance period: three years, from September 30, 2017 to September 30, 2020.
- (2) Total amount of issuance and book value of every bond: NT\$ 500,000 thousand, and NT\$ 100 thousand for the book value of every bond; it is issued in sufficient face amount, and the number is 5,000.
- (3) Face interest rate: 0%.
- (4) Conversion right and object: creditors, in accordance with the provisions of this method, request to the Company to convert the convertible corporate bonds based on face amount and convert into common stock of the Company based on the conversion price at the time of conversion. The Company will perform its conversion obligation by issuing new shares.
- (5) Conversion period: from the next day following three months after issuance of convertible corporate bonds (January 1, 2018) to the due date (September 30, 2020).
- (6) Conversion price and adjustment:
 - A. Conversion price at issuance was NT\$ 28.3.
 - B. If the number of issued common stock increases after issuance of convertible corporate bonds, the Company has to adjust the conversion price according to the formula listed on the issuance method.
- (7) Bonds redemption and reverse repurchase method:
 - A. Redemption method:

From the next day following three months after issuance of convertible corporate bonds (January 1, 2018) to forty days before expiry of the issuance period (August 21, 2020), if the closing price of common stock of the Company at the over-the-counter market of judicial person Republic of China Securities goes over 30% (included) over the conversion price of convertible corporate bonds at the time, or the circulating balance of convertible corporate bonds is lower than 10% of the total amount of issuance, redemption right will be exercised according to the provisions of the conversion method. If the Company executes redeem request, the convertible corporate bonds shall be redeemed from holders with cash according to face amount within five operation days after the bonds redeem

base date.

B. Reverse repurchase method:

Two years after issuance of convertible corporate bonds (September 30, 2019) is the reverse repurchase base date for creditors' reverse repurchase of convertible corporate bonds in advance. Creditors may require the Company for redemption of held convertible corporate bonds according to face amount plus interest compensation, and the interest compensation for two years is 101.0025% face amount (reverse repurchase right yield rate 0.50%). If the Company executes redeem request, the convertible corporate bonds shall be redeemed from holders with cash according to face amount within five operation days after the bonds redeem base date.

Please refer to Note 8 for details of guarantee for the consolidated company to use assets to pledge for guarantee limit.

2. Situations of redemption and reverse repurchase

As of December 31, 2018, there has been no reverse repurchase of convertible corporate bonds for the second time.

(XV) Operation Lease

The payable rent payment situations for irrevocable operation lease:

	2018.12.31	2017.12.31
Within one year	\$ 29,172	64,406
1-5 years	9,914	2,482
	<u>\$ 39,086</u>	<u>66,888</u>

The consolidated company accepts lease of warehouse through operation lease. The lease period is normally one year, with renewal right upon expiry.

The expenses of operation lease in 2018 and 2017 for profit and loss were respectively NT\$ 73,426 thousand and NT\$ 67,558 thousand.

(XVI) Employee benefits

1. Defined benefit plan

The present value of defined benefit obligations and the fair value adjustments of the plan assets for the Company were as follows:

	2018.12.31	2017.12.31
Present value of defined benefit obligations	\$ 41,963	65,398
Fair value of plan assets	(3,113)	(2,914)
Net defined benefit liabilities (assets)	<u>\$ 38,850</u>	<u>62,484</u>

Defined benefit plan of the consolidated company is contributed to the pension fund account at Bank of Taiwan that provides pensions for employees upon

retirement. The plans covered by the Labor Standards Act entitle a retired employee to receive retirement benefits based on years of service and average salary for the six months prior to retirement.

(1) Components of plan assets

The retirement fund contributed by the consolidated company in accordance with the Labor Standards Act is managed by the Bureau of Labor Funds Utilization, Ministry of Labor (hereinafter referred to as Bureau of Labor Funds), and utilized according to the provisions of "Regulations on Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund"; with regard to the utilization of the funds, lowest earnings in final settlement shall not be less than the earnings attainable from two- year time deposits with interest rates offered by local banks.

By the reporting date, the balance at the special account of employee retirement provision fund at Bank of Taiwan for the consolidated company was NT\$ 3,087 thousand. The data for utilization of employee retirement fund includes fund yield rate and fund asset allocation. Please refer to the information released on the website of Bureau of Labor Funds for details.

(2) Change in present value of defined benefit obligation

The changes in present value of defined benefit obligation in 2018 and 2017 of the consolidated company were as follows:

	2018	2017
Defined benefit obligation on January 1	\$ 65,398	60,558
Current service cost and interest	3,469	2,866
Remeasurements of the net defined benefit liability (asset)		
Actuarial gains or losses arising out of experience adjustments (excluding current interests)	269	5,686
Actuarial gains or losses arising out of changes in demographic assumptions	(29,003)	713
Actuarial gains or losses arising out of changes in financial assumptions	85	-
Conversion difference of foreign plan	1,745	(4,425)
Defined benefit obligation as of December 31	<u><u>\$ 41,963</u></u>	<u><u>65,398</u></u>

(3) Changes in fair value of plan assets

The changes in fair value of defined benefit plan assets of the consolidated

company in 2018 and 2017 were as follows:

	2018	2017
Fair value of plan assets on January 1	\$ 2,914	2,790
Remeasurements of the net defined benefit liabilities (assets)		
Return on plan assets (excluding current interest)	83	(5)
Amount contributed to plan	84	96
Expected return on plan assets	33	32
Conversion difference of foreign plan	(1)	1
Fair value of plan assets on December 31	<u><u>\$ 3,113</u></u>	<u><u>2,914</u></u>

(4) Change of asset upper limit impacts

In 2018 and 2017, the consolidated company saw no impact from the asset upper limit of defined benefit plan.

(5) Expenses recognized as profit or loss

The details of recognition of gain or loss in 2018 and 2017 of the consolidated company were as follows:

	2018	2017
Service cost for the period	\$ 2,727	2,220
Net interest of net defined benefit liability (asset)	742	646
Expected return on plan assets	(33)	(32)
	<u><u>\$ 3,436</u></u>	<u><u>2,834</u></u>
Amortization expense	\$ 338	583
Management expense	3,098	2,251
	<u><u>\$ 3,436</u></u>	<u><u>2,834</u></u>

(6) Re-measurements of the net defined benefit liability recognized as other comprehensive revenue

Re-measurements of net defined benefit liability recognized as other comprehensive revenue was as follows:

	2018	2017
Cumulative balance on January 1	\$ (1,963)	4,437
Recognition (return) for the period	28,224	(6,400)
Cumulative balance on December 31	<u><u>\$ 26,261</u></u>	<u><u>(1,963)</u></u>

(7) Actuarial assumption

The main actuarial assumptions adopted by Waon Company at the closing financial reporting date were as follows:

2018	2017
-------------	-------------

Discount rate	1.125%	1.125%
Future salary increase	2.00%	2.00%

The main actuarial assumptions adopted by Waon Company Taiwan Branch at the closing financial reporting date were as follows:

	2018	2017
Discount rate	1.000%	1.125%
Future salary increase	2.00%	2.00%

The expected contribution to be made by the consolidated company to the defined benefit plans within one year after 2018 reporting period is NT\$ 2,587 thousand.

The weighted average survival period of defined benefit plan is 9-12 years.

(8) Sensitivity analysis

As of 2018 and December 31, 2017, the influence of changes in actuarial assumptions on the present value of the defined benefit obligations was as follows:

	Influence of Waon Company upon defined benefit obligation	
	<u>Increase by 0.25%</u>	<u>Decrease by 0.25%</u>
December 31, 2018		
Discount rate	\$ (704)	728
Future salary increase	710	(690)
December 31, 2017		
Discount rate	(999)	1,032
Future salary increase	1,008	(980)

	Influence of Waon Company Taiwan Branch upon defined benefit obligation	
	<u>Increase by 0.25%</u>	<u>Decrease by 0.25%</u>
December 31, 2018		
Discount rate	\$ (169)	175
Future salary increase	170	(165)
December 31, 2017		
Discount rate	(207)	214
Future salary increase	208	(203)

The above sensitivity analysis is based on analyzing the influence of single assumption change with others remaining the same. In practice the change of many assumptions may be serial. Sensitivity analysis is conducted in the same

method of calculating the net retirement fund liability in the balance sheet.

The method and assumptions used in preparing the sensitivity analysis for the period are the same as before.

2. Defined contribution plan

Wacon Company Taiwan Branch, in determining the contribution plan, follows the provisions of employee retirement fund ordinance by paying 6% monthly salary to the individual special account with Bureau of Labor Insurance; the retirement fund payment obligation of Shenzhen Airmate falls into definite contribution system by contribution of insurance fund every month from the company to be deposited into the individual pension insurance special account. This account is completely detached from the company, and will be transferred upon dismissal. The amount to be contributed is recognized as expense for the period; Wacon Company also contributes retirement fund to special account of accumulation fund according to local ordinance of Hong Kong. Under this defined contribution plan, the consolidated company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The retirement fund expenses under the definite contribution of retirement fund method in 2018 and 2017 of the consolidated company were respectively NT\$ 96,210 thousand and NT\$ 127,333 thousand, which were already contributed to the Bureau of Labor Insurance.

(XVII) Income Taxes

1. Income tax expenses

The details of expenses (gains) of the consolidated company in 2018 and 2017 were as follows:

	2018	2017
Income tax expenses (gains) for the period		
Generation for the period	117,469	8,407
Income tax for the period at the prior period of adjustment	<u>68,696</u>	<u>-</u>
	<u>186,165</u>	<u>8,407</u>
Deferred income tax expense (gains)		
Occurrence and return of temporary difference	(58,910)	(2,426)
Change in income tax rate	<u>(36,905)</u>	<u>-</u>
	<u>(95,815)</u>	<u>(2,426)</u>
Income tax expense	<u>90,350</u>	<u>5,981</u>
	2018	2017
Net profit before tax	<u>\$ 72,267</u>	<u>7,335</u>

Income tax calculated according to the domestic tax rate where the Company is located	-	-
Impact of tax rate difference in foreign administrative areas	13,522	2,315
Change in income tax rate	(36,905)	-
Verified difference	52,884	-
Non-creditable expense	10,228	-
Temporary difference of unrecognized deferred income tax asset	67,225	-
Levy duty loss of using previous unrecognized ones	(37,033)	-
Previous undervaluation	15,812	-
Others	4,617	3,666
Income tax expense	<u><u>\$ 90,350</u></u>	<u><u>5,981</u></u>

2. Deferred income tax asset and liability

(1) Unrecognized deferred income tax asset; the items the consolidated company has not recognized as deferred income tax asset were as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Deductible temporary difference	\$ 65,889	-
Levy duty loss	-	36,297
Loss of unused levy duty	<u><u>\$ 65,889</u></u>	<u><u>36,297</u></u>

(2) Recognized deferred income tax assets

The changes in deferred income tax asset and liability in 2018 and 2017 were as follows:

Deferred income tax asset:

	<u>Receivable payment impairment loss recognition</u>	<u>Unrealized inventory price drop Slow-moving loss</u>	<u>Other compensation</u>	<u>Others</u>	<u>Total</u>
January 1, 2018	\$ 17,611	29,419	-	18,364	65,394
(Debit) credit revenue statement	5,728	12,888	88,125	(10,926)	95,815
December 31, 2018	<u><u>\$ 23,339</u></u>	<u><u>42,307</u></u>	<u><u>88,125</u></u>	<u><u>7,438</u></u>	<u><u>161,209</u></u>
Balance as of	\$ 15,213	26,839	-	20,916	62,968
January 1, 2017					
(Debit) credit revenue statement	2,398	2,580	-	(2,552)	2,426
Balance as of	<u><u>\$ 17,611</u></u>	<u><u>29,419</u></u>	<u><u>-</u></u>	<u><u>18,364</u></u>	<u><u>65,394</u></u>
December 31, 2017					

3. Situations of income tax verification

The corporate income tax of Waon Company, Shenzhen Airmate and Jiujiang Airmate had been reported to local tax authority up to 2017; the report of profitable business income tax for Waon Company Taiwan Branch had been reviewed by tax

authority up to 2016.

4. Income tax administrative relief

The consolidated affiliated company Shenzhen Airmate started to engage in export sales in 1998 of its own brands through the consolidated affiliated company Waon Company, generating transferred pricing related income tax of RMB 5,497 thousand (NT\$ 25,049 thousand). Shenzhen tax authority verified on April 18, 2018. Shenzhen Airmate had also adjusted the entry and made supplementary payment.

Given that the consolidated affiliated company Waon Company and Hong Kong Tax Bureau had different views on the offshore transaction identification for 2002 to 2006, the former was asked to make a supplementary payment of taxes. Relevant income tax expense had been recognized upon estimate at the time of supplementary payment, reply was given to Hong Kong Tax Bureau to withdraw the offshore tax exemption application on February 28, 2018, and objection to some taxable years was unconditionally recalled to terminate the long-standing disputes on taxes.

Besides, on October 6, 2017, Waon Company didn't obtain deduction for the paid commission from 2002 to 2003 according to provisions. The consolidated company had deliberated over the previously verified facts and reasons, actively provided relevant data and entrusted Hong Kong accountant to communicate with Hong Kong Tax Bureau. Hong Kong Tax Bureau issued the letter of decision, decision reasons and statement of facts against the objection raised by Waon Company on June 13, 2018. As for the decision, Waon Company had authorized Hong Kong accountant to make an appeal to the tax appellate committee on July 13, 2018, and make adjusted entry of the undervaluated income tax HKD 7,237 thousand (NT\$ 27,835 thousand) by Hong Kong Tax Bureau. As of March 4, 2019, the case is still being reviewed by the Tax Appellate Committee.

(XVIII) Capital and other equity

On December 31, 2017 and 2018, the total number of authorized capital stock of the Company was NT\$ 2,162,500 thousand, the face amount of every share was NT\$ 10, and the number of shares was 216,250,000. The above authorized capital stock was only common stock, and the issued stock was all common stock with a number of 122,844,000 shares. The stock capital for issued stock had been all collected.

1. Capital reserve

The details of capital reserve were as follows:

	2018.12.31	2017.12.31
Share premium	\$ 966,919	966,919
Subscription right to convertible corporate	12,364	12,364

bonds

\$ 979,283 979,283

In accordance with the Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The above-mentioned realized capital reserve includes overage from shares issuance over the face amount and acceptance of bestowal. In accordance with the processing standards regarding issuers collecting and issuing negotiable securities, the capital reserve for capital has to be appropriated, and the total amount of appropriation every year shall not exceed 10% of the paid-in capital.

2. Retained earnings

In accordance with the Articles of Association of the Company, during the period of over-the-counter transaction or the period listed at stock exchange as well as in making the proposal for allocation of earnings by the Board of Directors, the following has to be recognized in advance from the earnings of every accounting year:

- (i) Payment for provision of tax of relevant accounting period;
- (ii) Amount to offset previous loss;
- (iii) 10% earned surplus;
- (iv) Special earned surplus required by securities regulatory authority in accordance with the rules and regulations of companies with public issuance.

If there is surplus, it shall be combined with cumulative undistributed surpluses in part or whole over the previous years to be distributed to shareholders as dividend according to shareholding ratio in accordance with the previously formulated dividend policy confirmed by the Board of Directors under the precondition of following the Cayman Company Law, after the rewards to employees and bonuses to directors are contributed. Dividends distributed to shareholders are in the forms of share dividends and cash dividends, and the cash dividends shall not be less than fifty percent (50%) shareholders dividends distributed according to the above. Unless otherwise resolved by the Board of Directors and the Shareholders' Meeting, any remaining profit, which shall not be less than twenty-five percent (25%) of the after-tax earnings of the year, is distributed as shareholders dividends in accordance with Cayman Company Law and rules and regulations of companies with public issuance after considering factors of finance, business and operation.

(1) Legal reserve

In accordance with provisions of Company Law, the Company shall contribute 10% after-tax net profit as legal reserve until equalization with the total amount of capital. When there is no loss in the Company, the legal reserve will be used to issue

new shares or cash upon resolution by the Shareholders' Meeting, to the limit of the part of the reserve that has exceeded 25% of the paid-in amount.

(2) Special reserve

The amount of interest arising out of retained earnings of cumulative translation adjustment generated due to financial statement translation of foreign operation under the item of shareholders equity by the Company when applying the exemption item in IFRS No.1 "First-time Adoption of International Financial Reporting Standards" was NT\$ 185,271 thousand. Besides, in accordance with the provision of FSC No. 1010012865 on April 6, 2012, the net increase of retained earnings generated from the adoption of IFRS recognized by FSC was recognized as special reserve, and when relevant assets are used, handled and re-classified, the earnings are distributed according to the ratio of original recognized special reserve.

If the net amount of deduction of other shareholders' equity occurred in 2014 was lower than the balance of "special reserve recognized for first time application of IFRS" as of December 31, 2014 of the Company in accordance with the provision of FSC No. 1010012865 issued on April 6, 2012, supplementary recognition of special reserve was not necessary; and the balance of recognized special reserve on December 31, 2014 over the balance of "special reserve recognized for the first application of IFRS" was returned to undistributed earnings through special reserve amounting to NT\$ 2,890 thousand through regular Shareholders' Meeting on June 29, 2015. As of December 31, 2018 and 2017, the balance of the special reserve was NT\$ 182,381 thousand.

In accordance with the above provisions, in distributing distributable earnings by the Company, the difference between the net amount recognized of other shareholders equity deduction occurred in the year and the special reserve balance mentioned above is supplementarily recognized as special reserve from current gain or loss and previous undistributed earnings; amount of other shareholders' equity deduction through previous cumulation is supplementarily recognized as special reserve that couldn't be distributed from previous undistributed earnings. Afterward, if other shareholders' equity deduction has been reversed, the reversal shall be applicable to earnings distribution. The undistributed earnings (reversal) and recognized special capital reserve passing the resolution of regular Shareholders' Meeting in 2017 and 2018 were respectively NT\$ 15,494 thousand and NT\$ 120,258 thousand.

(3) Earnings distribution

The Company had passed the earnings distribution plan for 2017 and 2016

through resolution by the Shareholders' Meeting on June 15, 2018 and May 22, 2017, and the amount distributed to owners as dividend was as follows:

	2017		2016	
	Shares allotment rate (NT\$)	Amount	Shares allotment rate (NT\$)	Amount
Dividend distributed to common stock owners				
Cash dividend	\$ 0.1000	<u>12,159</u>	1.0026	<u>122,402</u>

3. Treasury stock

(1) The changes of treasury stock in 2018 and 2017 of the Company were as follows (unit: thousand shares):

Reason of recovery	2018						
	Opening number of shares	Opening amount	Number of increased shares	Increased amount	Holding purpose conversion	Decreased amount	Closing number of shares
Treasury stock transferred to employees	<u>758</u>	<u>\$ 20,577</u>	<u>500</u>	<u>12,474</u>	<u>-</u>	<u>-</u>	<u>1,258</u>
							<u>33,051</u>

Reason of recovery	2017						
	Opening number of shares	Opening amount	Number of increased shares	Increased amount	Holding purpose conversion	Converted amount	Closing number of shares
To maintain company credit and shareholders' equity	442	\$ 11,225	-	-	(442)	(11,225)	-
Treasury stock transferred to employees	-	-	316	9,352	442	11,225	758
	<u>442</u>	<u>\$ 11,225</u>	<u>316</u>	<u>9,352</u>	<u>-</u>	<u>-</u>	<u>758</u>
							<u>20,577</u>

Note: The Company repurchased the shares of the Company within the limit of 1,000 thousand shares through the Board of Directors on November 4, 2016, and repurchased 442 thousand shares during the reporting execution period. The original purpose lied in "maintain company credit and shareholders' equity", and it was varied to "transfer to employees" for repurchase of treasury stock on March 6, 2017 for considering the limited cancellation benefits.

(2) In accordance with the provisions of Securities Transaction Law, the repurchase rate of shares by the Company shall not be more than the 10% total number of shares issued by it; the total amount of repurchased shares shall not be more than the amount of retained earnings plus share premium and realized capital reserve. The date September 30, 2017 and 2016 was taken as the calculation basis for 2018 and 2017; the maximal upper limit of number of shares to be repurchased by the Company was 12,284 thousand shares, and the maximal

upper limit of amount of shares to be repurchased was NT\$ 1,216,997 thousand and NT\$ 1,335,883 thousand.

- (3) In accordance with the provisions of Securities Transaction Law, the treasury stock held by the Company cannot be pledged, and before transfer no right of shareholders shall be enjoyed.

4. Other equity

	Exchange differences on translation of foreign financial statements
January 1, 2018	\$ (104,764)
Exchange differences in translation of foreign currency (after-tax net amount)	
Consolidated company	(109,368)
Balance as of December 31, 2018	<u><u>\$ (214,132)</u></u>
	Differences in translation of financial statements of institutions running overseas
January 1, 2017	\$ (120,258)
Exchange differences on translation of foreign currency (after-tax net amount)	
Consolidated company	15,494
Balance as of December 31, 2017	<u><u>\$ (104,764)</u></u>

(XIX) Earnings per Share

The net profit (loss) of basic earnings per share of the consolidated company attributable to common stock holders in 2018 and 2017 was respectively NT\$ 14,599 thousand and NT\$ 4,262 thousand, and the weighted average number of shares circulating outside for common stock was respectively 121,614 thousand shares and 121,852 thousand shares as basis for calculation. Relevant calculation was as follows:

	2018	2017
Basic earnings per share		
Net profit (loss) attributable to the Company for the period	\$ (14,599)	4,262
Net profit attributable to the common stock holders of the Company	<u><u>\$ (14,599)</u></u>	<u><u>4,262</u></u>
Weighted average number of shares circulating outside for common stock	121,614	121,852
Basic earnings per share (NT\$)	<u><u>\$ (0.12)</u></u>	<u><u>0.03</u></u>
Diluted earnings per share		
Net profit (loss) attributable to the Company for the period	\$ (14,599)	4,262
Influence of potential common stock with diluting effect		
Net profit attributable to the common stock holders of the Company	<u><u>(14,599)</u></u>	<u><u>4,262</u></u>
Weighted average number of shares circulating outside for common stock	121,614	121,852

Influence of potential common stock with diluting effect		
Influence of employees' share bonus	-	317
Influence of convertible corporate bonds	-	-
Weighted average number of shares circulating outside for common stock (after adjusting the impact of diluting potential common stock)	<u>121,614</u>	<u>122,169</u>
Diluted earnings per share (NT\$)	<u>(0.12)</u>	<u>0.03</u>

The employee stock dividend and convertible corporate bonds with diluting effect in 2018 and 2017 of the consolidated company were not recognized into diluted earnings per share for calculation for anti-diluting effect.

(XX) Revenue of Customer Contract

1. Details of revenue

	<u>2018</u>
Main regional markets	
Mainland China	\$ 5,847,769
Other countries	4,767,171
	<u>\$ 10,614,940</u>
Main products:	
Electric fan	\$ 6,778,857
Electric heater	2,922,860
Others	913,223
	<u>\$ 10,614,940</u>

Please refer to Note 6 (21) for details of revenue amount for 2017.

2. Contract balance

	<u>2018.12.31</u>	<u>2018.1.1</u>
Accounts receivable	\$ 1,231,146	1,255,073
Less: allowance loss	(57,849)	(65,013)
Total	<u>\$ 1,173,297</u>	<u>1,190,060</u>

Please refer to Note 6 (3) for details of accounts receivable and the impairment.

(XXI) Revenue

The details of revenue of the consolidated company in 2017 were as follows:

	<u>2017</u>
Sale of goods	\$ 10,556,909
Others	44,356
Sales discount	(253,772)
Sales return	(323,291)
	<u>\$ 10,024,202</u>

Please refer to Note 6 (20) for details of revenue amount in 2018.

(XXII) Remunerations for employees and directors

In accordance with the Company's Articles of Association, the Company has to contribute profit (defined afterwards), if any, in general final settlement for employees' and directors' remunerations, unless otherwise stipulated by Cayman Company Law, rules and regulations of companies with public issuance or the Articles of Association;

only when there is cumulative loss in the Company, it shall be retained to fill the amount of loss.

Five percent (5%) to ten percent (10%) as employees' remunerations (hereinafter referred to "employees' remunerations"), including employees in affiliated companies; and

Less than and equal to three percent (3%) as directors' (excluding independent directors) remunerations (hereinafter referred to as "directors' remunerations"); the employees and directors remunerations plan shall be executed after being agreed upon by more than half directors at the board meeting where two thirds directors have to attend, and reported to meeting of shareholders. However, when there is cumulative loss to the Company, it shall be retained to fill the amount, and then contributed for employees' and directors' remunerations at the percentage mentioned above. The above "profit" refers to the net profit before tax of the Company. To eliminate doubt, net profit before tax refers to the amount before contribution to remunerations for employees and directors.

Without violating the provisions of prevalent law, the above mentioned employees' remunerations shall be in cash or shares.

The estimated amount for employees' remunerations in 2018 and 2017 of the Company were respectively NT\$ 4,026 thousand and NT\$ 617 thousand, and that for directors' remunerations were respectively NT\$ 749 thousand and NT\$ 123 thousand. The estimate was based on the amount of net profit before tax without deduction for employee and director remunerations multiplied by the percentage for the same, and it was recognized as the operating cost or operating expense in 2018 and 2017. Relevant information can be inquired into at public information observation stations.

There was no difference between the amount of employees' and directors' remunerations distributed according to the resolution of the Board Meeting and the estimated amount in the consolidated financial report of 2017.

(XXIII) Nonoperating Revenue and Expense

1. Other revenues

The details of revenue of the consolidated company in 2018 and 2017 were as follows:

	2018	2017
Interest revenue	\$ 66,896	55,055
Government subsidy revenue	52,617	29,238
Other revenues	49,031	58,547
Total other revenues	<u>\$ 168,544</u>	<u>142,840</u>

2. Other gains and losses

The details of other gains and losses of the consolidated company in 2018 and

2017 were as follows:

	2018	2017
Gain (loss) from disposal of property, plant and equipment	\$ (6,514)	(3,904)
Gain (loss) from conversion of foreign currency	7,978	4,716
Gain (loss) on financial assets (liabilities) at FVTPL	(4,008)	(10,375)
Miscellaneous expenses	<u>(53,412)</u>	<u>(9,491)</u>
Net amount of other gain and loss	<u>\$ (55,956)</u>	<u>(19,054)</u>

3. Financial cost

The details of financial costs of the consolidated company in 2018 and 2017 were as follows:

	2018	2017
Interest expense	<u>\$ 110,051</u>	<u>73,115</u>

(XXIV) Financial Instrument

1. Credit risk

(1) Credit risk exposure

The carrying amount of financial assets represents the maximal amount of credit risk exposure. The maximal amount of credit risk exposure as of December 31, 2018 and 2017 was respectively NT\$ 2,712,858 thousand and NT\$ 1,927,577 thousand.

(2) Credit risk concentration

The credit risk exposure of the consolidated company is influenced by the conditions of every individual customer. The management also considers the statistical data on the basis of consolidated company customers, including the default risk of industry and country, because these factors can also influence credit risk. The sales to single transnational customer in revenue of the consolidated company for 2018 and 2017 didn't each 10%; and 55% and 59% were concentrated in the region of Mainland China.

(3) Please refer to Note 9 (2) for details of credit risk the consolidated company might be exposed to for compliance with bank operation practice in China.

2. Liquidity risk

The following table presents the due date of financial liability contract, including estimated interest to the exclusion of influence of net amount

agreement.

	Carrying Amount	Contract cash flow	Within 1 year	12 years-	23 years-	More than 3 years
December 31, 2018						
Non-derivative financial liabilities						
Short-term loan	\$ 1,289,239	1,301,418	1,301,418	-	-	-
Notes payable	1,177,486	1,177,486	1,177,486	-	-	-
Accounts Payable	928,657	928,657	928,657	-	-	-
Other payables (including related party)	520,996	520,996	520,996	-	-	-
Payable corporate bonds	488,687	505,013	505,013	-	-	-
Long-term loan (long-term loan due within one year)	92,142	92,586	46,510	46,076	-	-
Derivative financial liabilities	8,734	8,734	8,734	-	-	-
Financial liabilities at FVTPL - current						
	<u>\$ 4,505,941</u>	<u>4,534,890</u>	<u>4,488,814</u>	<u>46,076</u>	<u>-</u>	<u>-</u>

December 31, 2017						
Non-derivative financial liabilities						
Short-term loans	\$ 1,071,992	1,072,302	1,072,302	-	-	-
Notes payable	832,685	832,685	832,685	-	-	-
Accounts payable	1,237,741	1,237,741	1,237,741	-	-	-
Other payables (including related party)	585,441	585,441	585,441	-	-	-
Payable corporate bonds	482,338	505,013	-	505,013	-	-
Derivative financial liabilities						
Financial liabilities at FVTPL - noncurrent						
	2,550	2,550	-	2,550	-	-
	<u>\$ 4,212,747</u>	<u>4,235,732</u>	<u>3,728,169</u>	<u>507,563</u>	<u>-</u>	<u>-</u>

The consolidated company does not expect that the occurrence timing of cash flow analyzed on due date would arrive significantly earlier, or the actual amount would significantly vary.

3. Exchange rate risk

(1) Exchange rate risk exposure

The financial assets and liabilities (including monetary items of non-functional monetary valuation already written off in the consolidated financial report) of the consolidated company exposed to material exchange rate risk were as follows:

	2018.12.31			2017.12.31		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
Monetary items						
USD	\$ 36,577	30.7150	1,123,458	26,470	29.7600	787,754
JPY	27,012	0.2782	7,515	16,157	0.2642	4,269
HKD	545,937	3.9210	2,140,619	377,039	3.8070	1,435,387
<u>Financial liabilities</u>						
Monetary items						
USD	35,318	30.7150	1,084,792	23,461	29.7600	698,199
JPY	120,044	0.2782	33,396	122,753	0.2642	32,431
HKD	129	3.9210	506	351	3.8070	1,336

(2) Sensitivity analysis

The exchange rate risks of the consolidated company mainly come from cash and cash equivalents valued in foreign currency, accounts receivable and other receivables, loan, accounts payable and other payables, which will generate foreign currency conversion impairment upon translation. If the NTD depreciated or appreciated 5% to USD, HKD or JPY on December 31, 2018 and 2017, with other factors remaining the same, the net gain (loss) after tax would respectively increase or decrease by NT\$ 6,995 thousand and NT\$ 9,203 thousand. The analysis for the two periods adopted the same basis.

(3) Conversion impairment of monetary items

Given that the consolidated company has various types of functional currency, summation is adopted to reveal the conversion impairment information of monetary items. The foreign currency conversion gain (loss) (realized and unrealized) in 2018 and 2017 of the company were respectively NT\$ 7,978 thousand and NT\$ 4,716 thousand.

4. Interest rate analysis

The interest rate risk exposure of financial assets and financial liabilities of the consolidated company is described in the liquidity risk management of this Note.

The following sensitivity analysis is determined by the interest rate risk exposure of derivative and non-derivative instruments on the reporting date. For floating interest rate liabilities, the analysis is based on the assumption that the liability amount circulating outside on the reporting date has been circulating outside all year round. In reporting the interest rate to senior management, the rate of change adopted is 50 basic points increase or decrease over the interest rate, which also represents the management evaluation of reasonable possible change scope of interest rate.

If the interest rate increased or decreased by 0.5% (50 basic points), with the other variables remaining the same, the net profit in 2018 and 2017 of the consolidated company would respectively decrease or increase by NT\$ 128 thousand and NT\$ 172 thousand, this is mainly due to the variable interest rate of the loans.

5. Fair value

(1) Type and fair value of financial instruments

The financial assets and liabilities at FVTPL of the consolidated company are measured at fair value on the basis of repetition. The carrying amount and fair value of various financial assets and financial liabilities

(including fair value level information; the carrying amount of financial instruments not measured at fair value is the reasonable approximate of fair value, and the fair value information of equity instruments investment without quotation at active market that cannot be reliably measured at fair value does not have to be revealed according to provisions) are listed as follows:

2018.12.31					
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at FVTPL					
Non-guaranteed financial products	\$ 129,526	-	129,526	-	129,526
Financial liabilities at FVTPL					
Derivative financial instruments - forward exchange contract	\$ 1,234	-	1,234	-	1,234
Convertible corporate bonds - repurchase right and redemption right	7,500	-	7,500	-	7,500
	\$ 8,734	-	8,734	-	8,734
Financial liabilities through amortized cost					
Convertible corporate bonds - liability components	\$ 488,687	-	493,250	-	493,250
2017.12.31					
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at FVTPL					
Derivative financial instruments - forward exchange contract	\$ 243	-	243	-	243
Financial liabilities at FVTPL					
Convertible corporate bonds repurchase right and redemption right	\$ 2,550	-	2,550	-	2,550
Financial liabilities through amortized cost					
Convertible corporate bonds-liability components	\$ 482,338	-	487,800	-	487,800

(2) Fair value evaluation technique of financial instruments at fair value

A. Non-derivative financial instruments

If there is open quotation to financial instruments at active market, then the open quotation will be taken as fair value. The market price released by the central government bonds over-the-counter market for popular bonds as judged by major stock exchange serves as the basis for the fair value of public (counter) equity instruments and liability

instruments with open quotation at active market.

If the open quotation can be timely and regularly obtained from stock exchange, broker, underwriter, industrial union, pricing service institution or competent authority, and the price represents actual and regular transaction at fair market, then the financial instrument is deemed to have open quotation at active market. If the above conditions are not met, the market is deemed not active. Generally speaking, large difference in buying and selling price, significant increase of buying and selling price, and few transactions are indexes of market not active.

If the financial instruments held by the consolidated company fall into the active market, the type and nature according to fair value are listed as follows:

The public redeemable corporate bonds are financial assets and financial liabilities traded on active market according to standard terms and conditions, and the fair value is determined by reference to market quotation.

Except for the financial instruments at active market, the fair value of remaining financial instruments is obtained through evaluation technique or reference to the quotation of the other transaction party. The fair value obtained through evaluation technique can refer to the current fair value, cash flow discount method or other evaluation techniques for financial instruments with similar conditions and characteristics in essence, including utilization of market information model for calculation on the consolidated reporting date (for example, the over-the-counter market can refer to the yield rate curve and average quotation of Reuters commercial promissory note interest rate).

B. Derivative financial instruments

It is evaluated with evaluation model widely accepted by market users, such as discount method and option pricing model. Forward exchange contract is evaluated according to current forward exchange rate.

There is no event of fair value level shift of financial assets and financial liabilities in 2018 and 2017.

(XXV) Financial Risk Management

1. Overview

The consolidated company is exposed to the following risks due to use of financial instruments:

(1) Credit risk

(2) Liquidity risk

(3) Market risk

The Note represents the above risk exposure information, objectives of risk measurement and management, policies and procedures. Please refer to the Note in consolidated financial report for further quantitative information.

2. Risk management framework

The financial management department of consolidated company provides service to businesses, plans and coordinates operations in domestic and international financial market, and supervises and manages financial risks related to operation according to internal risk report of risk degree and risk exposure. The consolidated company avoids risk exposure through derivative financial instruments, to ease the influence. The utilization of derivative financial instruments is regulated by policies passed by the board meeting of the consolidated company, which serve as the written principle for utilization of exchange rate risk, interest rate risk, credit risk, derivative financial instruments and non-derivative financial instruments as well as investment of remaining working capital. Internal audit staff will continuously review the conformity to policies and risk exposure limit. The consolidated company hasn't conducted any transaction of financial instruments (including derivative financial instruments) for the purpose of speculation.

3. Credit risk

Credit risk refers to the risk of financial loss arising out of the failure to perform contract obligations on the part of customer or the other transaction party of financial instruments, mainly from accounts receivable from customers.

(1) Accounts receivable and other receivables

The financial department will establish credit granting policy with market department, and conduct analysis of credit rating of every individual customer before the consolidated company makes standard payment and delivery conditions and terms. The consolidated company review includes external ratings, if any, and under some conditions, bank note. The procurement limit is established for individual customers, namely the maximal uncollected amount without the approval from general manager. The limit is regularly reviewed. Customers not conforming to the standard credit rating of the Group can only conduct transaction with the consolidated company on the receivable in advance basis.

In monitoring the credit risk of customers, the consolidated company will group according to the credit characteristics of customers, including whether they are individual person or legal person; whether they are dealer,

retailer or final customer; and operation scale, goal realization rate of dealers, whether there is delayed payment. The main subject for accounts receivable and other receivables of the consolidated company is Group dealers. Customers rated with high risk will be included into the list of restricted customers and put under the monitoring of market department, and future sales with this type of customers will be conducted on the receivable in advance basis.

The consolidated company sets up allowance impairment loss account to reflect the estimated incurred cost in accounts receivable and other receivables. The main components of allowance account include specific loss components related to individual material risk exposure and portfolio loss components for already incurred yet unidentified loss in similar asset group. The portfolio loss allowance account is determined by historical payment statistical data of similar financial assets.

(2) Investment

The credit risks of bank deposit, fixed-revenue investment and other financial instruments are measured and monitored by the financial department of the consolidated company. Given that the transaction subject and other contract performing parties are banks with sound credit, financial institutions with investment level or above, corporate organizations and government authorities, there is no material credit risk for no material doubt about contract performance.

(3) Guarantee

The policy of consolidated company stipulates that financial guarantee can only be provided to fully-owned affiliated companies and companies with business interaction. Please refer to Note 13 (1) for details of endorsement or guarantee information for others by the consolidated company as of December 31, 2018.

4. Liquidity risk

Liquidity risk refers to the risk of the consolidated company failure to deliver cash or their financial assets to settle financial liabilities, or failure to perform relevant obligations. The method of the consolidated company in management of liquidity lies in ensuring as much as possible sufficient working capital to pay for due liabilities under normal and pressuring conditions, instead of undergoing unacceptable loss or risk of business reputation damage.

The consolidated company uses activity-based costing method to estimate the cost of its product and service, to assist in monitoring the cash flow demand

and most suitable investment cash return. Generally speaking, the consolidated company ensures to have sufficient cash to pay for expected operation expense demand for 60 days, including performance of financial obligations, but the potential influence that cannot be reasonably expected under extreme conditions is excluded, such as natural disaster. Besides, the unused loan limit as of December 31, 2018 and 2017 of the consolidated company was respectively NT\$ 1,027,488 thousand and NT\$ 1,085,988 thousand.

5. Market risk

Market risk refers to the risk of the value of revenue or held financial instruments being influenced by market price changes, such as exchange rate, interest rate, changes in price of equity instruments. The objective of market risk management lies in optimizing the investment return by controlling the market risk exposure within the bearable scope.

The consolidated company engages in transaction of derivative instruments to manage market risk, hence generating financial liabilities. The execution of all transactions must abide by the designated and authorized staff by the board of directors.

(1) Exchange rate risk

The consolidated company is exposed to exchange rate risk arising out of sales, procurement and loan transaction through functional currency valuation of the Group enterprises. The functional currency of the Group enterprises is mainly NTD, followed by RMB and HKD. The main valuation currency for this type of transaction includes NTD, JPY, USD and HKD.

To avoid decrease of foreign currency asset value and fluctuation of future cash flow caused by exchange rate change, the consolidated company uses short-term loan and derivative financial instruments to avoid it. The use of this type of derivative financial instruments can assist the consolidated company in lowering but not completely eliminating the influence caused by foreign exchange rate change. In recent years, 50% sales regions of the consolidated company come from China in valuation with RMB while the other 50% come from Europe, America, Japan and South Korea in valuation with USD and JPY; however, the purchase is mostly valued with RMB, so apart from the natural hedge between sales and purchase for RMB, there is same effect for changes of exchange rate in different currencies. Apart from the natural hedge, the consolidated company still needs forward exchange transaction for hedge. However, with future growth of operation, the holding part of foreign currency by the consolidated company will continue to increase, and the domestic financing and future distribution of dividend to domestic investors will also need conversion in USD, so there will arise the

exchange rate change risk of USD to NT\$. Therefore, the consolidated company will enhance the control over foreign exchange, and the possible measures were as follows:

- A. Continue to enhance the concept of exchange hedge among financial staff, make judgement upon the exchange rate trend through online real-time system over exchange rate and relation with financial institutions as the basis for reference.
- B. Use the sales revenue in the same currency as much as possible to support the expenditures for procurement and other expenses, to reach the effect of independent hedge.
- C. Decide whether to adopt derivative financial instruments with hedge nature to avoid exchange rate risk according to the Company's operation status.

(2) Interest rate risk

The interest rate risk of the consolidated company mainly comes from fixed-interest rate loan. Although the interest rate at the currency market slowly climbs in recent years, it is still in the low end, so the loan interest rate of the consolidated company doesn't have material change. Only if the interest rate trend sees material fluctuation in the future and the consolidated company has continuous demand for loan, the consolidated company, apart from adopting other financing instruments at the capital market, has to also select fixed-interest rate or floating interest rate loan to avoid the risk of interest rate fluctuation.

(XXVI) Capital Management

The objective of capital management of the consolidated company lies in perfecting fundamental basis, maintaining the confidence of investors, creditors and market, and supporting the development of future operation. Capital includes the stock capital, capital reserve, retained earnings and other equity of the consolidated company. The Board of Directors controls the capital return rate and the common stock dividend level.

The capital management strategy of the consolidated company in 2018 was the same as in 2017. The liability capital ratio as of December 31, 2018 and 2017 was as follows:

	2018.12.31	2017.12.31
Total amount of liability	\$ 5,893,119	5,235,994
Less: cash and cash equivalents	<u>(417,768)</u>	<u>(300,850)</u>
Net liability	<u>\$ 5,475,351</u>	<u>4,935,144</u>
Total equities	<u>\$ 2,473,033</u>	<u>2,597,142</u>
Liability capital ratio	221.40%	190.02%

(XXVII) Financing Activities for Non-cash Transaction

The adjustment of liability for self-financing activities in 2018 of the consolidated company was as follows:

	2018.1.1	Cash flow	Non-cash changes Changes in exchange rates	2018.12.31
Short-term loan	\$ 1,071,992	202,469	14,778	1,289,239
Long-term loan (including long-term loan due within one year)	-	92,285	(143)	92,142
Refundable deposit	69,421	10,554	4,206	84,181
Total amount of liability out of self-financing activities	<u>\$ 1,141,413</u>	<u>305,308</u>	<u>18,841</u>	<u>1,465,562</u>

VII. Transaction among Related Party

(I) Parent Company and Ultimate Controller

The Company is the ultimate controller of the consolidated company.

(II) Name and Relation of Related Party

Name of related party	Relationship with the consolidated company
Zhejiang Airmate Electric Appliances Sales Co Limited (hereinafter referred to as Zhejiang Airmate)	Affiliated enterprise invested by the consolidated company through equity method
Tung Fu Electric Co Limited (hereinafter referred to Tung Fu Electric)	Its chairman of board is the same for the Company.
All directors, supervisors, main management like general manager and deputy general manager of the consolidated company	

(III) Substantial Transaction with Related Party

1. Operation revenue

The substantial sales amount of the consolidated company to related party were as follows:

	2018	2017
Affiliated enterprises		
Zhejiang Airmate	170,085	184,561
Other related party		
Tung Fu Electric	181,896	62,056
	<u>351,981</u>	<u>246,617</u>

There is no significant difference between the sales conditions and general sales prices from consolidated company to related party. There is no significant difference between the payment collection period and general dealers. Payment receivable among related party, for which no collateral security has been received, does not need to be recognized into impairment loss after evaluation.

2. Payment receivable from related party

The details of payment receivable from related party by the consolidated

company were as follows:

Recognition items	Type of related party	2018.12.31	2017.12.31
Notes receivable and accounts receivable	Affiliated enterprises	\$ 49,817	42,380
Notes receivable and accounts receivable	Other related party	51,630	2,650
		\$ 101,447	45,030

3. Advance paid to related party

Relevant expenses arising from services provided by related party to the consolidated company were as follows:

	Transaction amount		Other payable payment to related party	
	2018	2017	2018.12.31	2017.12.31
Affiliated enterprises	\$ 12,231	12,750	6,312	8,516
Other related party	68	51	8	6
	\$ 12,299	12,801	6,320	8,522

The outstanding balance with this type of related party shall be settled with cash three days within the reporting date, and for common expenses the payment has to be made in that same month. There is no significant difference between the transaction price and general transaction.

4. For the financing from financial institutions as of December 31, 2018 and 2017 by the consolidated company, its main management and other related party act as the joint guarantor.

(IV) Major Managerial Personnel Transactions

Remuneration of major managers includes:

	2018	2017
Short-term employee benefits	\$ 31,968	43,576
After-retirement benefits	20,245	146
	\$ 52,213	43,722

VIII. Pledged Assets

The details of carrying value of pledged assets by the consolidated company were as follows:

Name of assets	Pledge guarantee object	2018.12.31	2017.12.31
Other current assets:			
Other financial assets-current (account for compensation)	Short-term loan and financing limit	\$ 19,652	-
Other financial assets-current (account for compensation)	Notes payable	61,891	-
Other financial assets-current (pledged)	Corporate bonds guarantee	205,932	-

deposit and account for compensation)	limit		
Property, plant and equipment	Short-term loan and financing limit	290,317	356,597
Advanced rent and long-term advanced rent:			
Land use right	Short-term loan and financing limit	-	9,630
Other noncurrent assets			
Other financial assets-noncurrent (pledged deposit and account for compensation)-	Corporate bonds guarantee limit	-	110,126
Refundable deposit	Long-term loan	13,843	-
		<u>\$ 591,635</u>	<u>476,353</u>

IX. Significant contingent liability and unrecognized contract commitment

(I) Significant unrecognized contract commitment

The consolidated company and Jiujiang economic development zone signed a business solicitation project contract, to the commitment that from 2015 the sales revenue of Jiujiang Airmate in the territory of China should not be less than RMB 1.4 billion, and the settlement share of marketing sales for domestic sales of products should increase every year, all should be transferred from Shenzhen to Jiujiang within three years, and the cumulative sales revenue for domestic sales in the territory of China of RMB 4.5 billion shall be realized. If the above conditions were met, Jiujiang economic and technological development management committee agreed to transfer the plant and land use right at RMB 360 million with a period of 50 years. The transfer payment would be paid in three years starting from July 2017, and by December 31, 2018, the already paid amount reached RMB 180 million (NT\$ 803,954 thousand) and was recognized into advance of land use right. Please refer to Note 6 (9) for details.

(II) Contingent Liability

1. The accepted bank acceptance bills for tri-partisan sales contract signed with the consolidated company followed the bank operation and practice in China. As of December 31, 2018, there was still NT\$ 421,266 thousand remaining to obtain the "delivery notice" from bank, hence exposing itself to possible credit risk. If the consolidated company conducts evaluation based on previous operation experience, cooperation practice and credit rating of dealers, there is no high possibility for occurrence of the risk.

2. Endorsement and guarantee

- (1) The amount of endorsement and guarantee provided by the consolidated company to the Company and affiliated companies was as follows:

	2018.12.31	2017.12.31
Endorsement and guarantee limit	<u>\$ 6,279,328</u>	<u>6,118,066</u>

Actual disbursement amount \$ 3,402,001 2,234,294

- (2) The house property mortgage amount by Airmate Electric Appliances (Shenzhen) Co Limited to Shenzhen Baoan TLC Haichuanggu Technological Park Development Co Limited for business demand was as follows:

	2018.12.31	2017.12.31
Endorsement and guarantee limit	\$ -	548,117
Actual disbursement amount	\$ -	548,117

X. Material Disaster Loss: None

XI. Material Subsequent Events: None

XII. Others

- (I) A summary of personnel costs, depreciation, depletion, and amortization according to type of function was as follows:

Type of function Type of nature	2018			2017		
	Falling into operation cost	Falling into operation expense	Total	Falling into operation cost	Falling into operation expense	Total
Employee benefit expense						
Salary expense	1,478,811	407,403	1,886,214	1,417,179	402,910	1,820,089
Labor protection expense	45,184	49,964	95,148	35,713	12,987	48,700
Retirement fund expense	57,980	41,666	99,646	96,287	33,880	130,167
Other employee benefit expenses	3,525	12,874	16,399	3,002	10,146	13,148
Depreciation expense	396,154	60,936	457,090	381,028	63,624	444,652
Amortization expense	2,175	10,887	13,062	1,830	13,893	15,723

(Note): including insurances like local medicare, disemployment, work injury and birth for affiliated companies in Mainland China.

- (II) Operation Seasonality:

The consolidated company is mainly engaged in sales of bi-seasonal products like electric fan and electric heater, so it will see seasonal fluctuation for influence of weather. Among them, the sales of electric fan in Q1 every year is unfavorably influenced by winter weather conditions; downstream customers will order in

advance in Q2 for demand of electric fan in summer and in Q4 for demand of electric heater in winter; in July it will depend on the weather changes; and in August to September, it will maintain. The consolidated company has flexibly adjusted the production of electric fan, electric heater and other categories according to market adjustment, weather changes and customer demand, and attempted to satisfy the supply-demand with inventory management, to lower the seasonal influence.

(III) Old plant land development project

The consolidated company signed the Shenzhen industrial zone old plant land development plan with Shenzhen Baoan TCL Haichuanggu Technological Park Development Co Limited (hereinafter referred to as TCL Haichuanggu) and Shenzhen TCL Real Estate Co Limited for joint cooperation and development on June 3, 2016, and would collect compensation of RMB 200 million (NT\$ 893,282 thousand), for moving resettlement, transition resettlement, property relocation and production loss. After the agreement came into force and effect, TCL Haichuanggu had already paid the consolidated company RMB 120 million (NT\$ 535,969 thousand, recognized into other noncurrent liability-others). The consolidated company had completed all land acquisition and buildings relocation and handover within the demolition scope of old plant by July 10, 2018, signed "application form for renovation execution subject confirmation", and cooperated in handling commissioned notary procedures of property right cancellation and updating the construction application work. Through resolution of meeting of shareholders on January 6, 2018, Shenzhen LuoZu Cooperation Co Limited decided to cooperate with TCL Haichuanggu for the Shenzhen industrial zone old plant land development project. It was passed through resolution of meeting of shareholders of Shenzhen LuoZu Cooperation Co Limited that within five work days after the consolidated company obtained relevant notarization, TCL Haichuanggu needed to pay demolition compensation of RMB 33,420 thousand (NT\$ 149,267 thousand). So on July 20, 2018, remaining compensation was received from TCL Haichuanggu, mounting to RMB 80,000 thousand (NT\$ 357,313 thousand), less the demolition compensation of RMB 33,420 thousand (NT\$ 149,267 thousand) disbursed by TCL Haichuanggu to Shenzhen LuoZu Cooperation Co Limited, making the compensation RMB 46,580 thousand (NT\$ 208,046 thousand).

In accordance with the provisions of "accounting disposal doubts about participation in urban upgrading" in IFRS Q&A set released by Accounting Research Development Fund on October 2, 2017, the carrying amount of old buildings and

demolition compensation and resettlement expenses collected from construction company is calculated as right transformation expense to be undertaken (offset by distributed land and building discount after it), and based on returnable building and the land, so it falls into part of urban upgrading with participation of land holders in essence, and enterprise has to adjust it as old land carrying amount. Therefore, the consolidated company after commencement of the development project would expect to collect in advance compensation RMB 200,000 thousand (NT\$ 893,282 thousand) from for Shenzhen industrial zone old plant land development project and carrying amount of deferred development cost for fixed assets old building RMB 20,435 thousand (NT\$ 91,273 thousand), long-term advanced rent RMB 2,159 thousand (NT\$ 9,643 thousand) and the carrying amount of other input cost for relevant development project RMB 39,811 thousand (NT\$ 177,812 thousand), which should be represented into other noncurrent liability-others as net amount. Please refer to Note 6 (7), 6 (9) and 6 (11) for details.

XIII. Note of Disclosures

(I) Information about significant transactions:

Relevant information about significant transactions to be re-disclosed by the consolidated company in 2018 in accordance with the securities issuer financial report preparation standards was as follows:

1. Capital loaned to others

Unit: thousand NT\$

S/N (Note 1)	Loaned capital Companies	Loan Subject	Transaction Accounts	Whether related or not Person	The most...for the period High amount	At the end of the period Balance	Actual disbursement Outgoing amount	Interest rate Range	Capital Loan Nature (Note 2)	Transaction Incoming amount	Short-term financing capital Main reason	Must be recognized as allowance loss Amount	Collateral security		Capital loan to some subjects Limit amount (Note 3, 4)	Capital loans Total limit (Note 3, 4)
													Name	Value		
1	Airmate International Co Limited China	Airmate Electric Appliances (Shenzhen) Co Limited	Long-term receivable payment - related party	Yes	617,467	615,797	615,797	2.5%	2	-	Operating turnover	-		-	1,837,404	3,674,807
2	Woon Development Co Limited	Airmate Electric Appliances (Jiujiang) Co Limited	Long-term receivable payment-related party	Yes	561,215	535,969	397,849	2.5%	2	-	Operating turnover	-		-	1,529,589	3,059,177
2	Woon Development Co Limited	The Company	Other receivable payment - related party	Yes	1,380,000	1,000,000	892,267	-	2	-	Operating turnover	-		-	1,223,671	3,059,177

Note 1: The filling method of S/N is as follows:

1. Fill 0 for company.
2. The invested company is numbered according to type from the Arabic number 1 in sequence.

Note 2: The filling method of capital loan is as follows:

- Fill 1 for business transaction.
- Fill 2 for necessary short-term financing capital.

Note 3: The highest limit of capital loan is 40% net value in the latest financial report of the Company, and the limit of capital loan for single enterprise cannot go over 20% net value of the Company. In affiliated companies where the Company directly or indirectly holds voting shares, for the same loan subject the authorization from the chairman has to be obtained for not going over 40% net value of the Company. Among the affiliated company where the Company directly or indirectly holds 100% voting shares, the capital loan and limit are not restricted by the above provision, but the financing amount cannot go over 100% net value in the latest financial statement; only for some subjects, the

financing amount cannot go over 50% net value in the latest financial statement of the loan company to a period of 10 years. In the event of business transactions with the Company, the individual capital loan and amount is limited by the capital loan and business transaction amount in the latest one year or in the same year between the two parties. The business transaction amount refers to the purchase or sales amount between them, whichever is higher.

Note 4: Te above transactions have been written off in preparing the consolidated financial report.

2. Endorsement or guarantee for others

Unit: NT\$000

S/N (Note 1)	Endorsement or guarantee	Subject of endorsement or guarantee (Note 2)		Single enterprise	Highest endorsement or guarantee amount for current period	Endorsement at the end of the period	Actual disbursement	Guarantee with property	Cumulative endorsement or guarantee amount	Endorsement or guarantee	to parent company	to affiliated company	to Mainland China
		Name of company	Relation		Endorsement or guarantee limit (Note 3)	Endorsement or guarantee balance (Note 4)							
0	The Company	Wacon Development Co Limited	2	4,924,742	2,847,860 (USD 92,000 thousand)	2,549,345 (USD 83,000 thousand)	657,563	-	103.53%	12,311,855	Y		
0	The Company	Airmate Electric Appliances (Shenzhen) Co Limited	2	4,924,742	186,801 (RMB 40,000 thousand)	178,656 (RMB 40,000 thousand)	156,324	-	7.26%	12,311,855	Y		Y
0	The Company	Airmate Electric Appliances (Shenzhen) Co Limited, Airmate Electric Appliances (Jiujiang) Co Limited	2	4,924,742	56,122 (RMB 12,000 thousand)	53,597 (RMB 12,000 thousand)	53,597	-	2.18%	12,311,855	Y		Y
0	The Company	Airmate Electric Appliances (Jiujiang) Co Limited	2	4,924,742	44,960 (RMB 10,000 thousand)	44,664 (RMB 10,000 thousand)	44,664	-	1.81%	12,311,855	Y		Y
1	Airmate Electric Appliances (Shenzhen) Co Limited	Airmate Electric Appliances (Jiujiang) Co Limited	4	4,361,414	1,453,712 (RMB 328,000 thousand)	1,389,054 (RMB 311,000 thousand)	699,880	-	63.70%	10,903,535			Y
2	Airmate Electric Appliances (Jiujiang) Co Limited	Airmate Electric Appliances (Shenzhen) Co Limited	4	4,473,164	1,739,767 (RMB 372,000 thousand)	1,661,505 (RMB 372,000 thousand)	1,387,466	-	74.29%	11,182,910			Y
3	Wacon Development Co Limited	Airmate (Cayman) International Co Limited	3	6,118,354	402,507 (NT\$ 402,507 thousand)	402,507 (NT\$ 402,507 thousand)	402,507	-	13.16%	15,295,885		Y	

Note 1: The filling method of S/N is as follows:

1. Fill 0 for company.
2. The invested company is numbered according to type from the Arabic number 1 in sequence.

Note 2: The relation between endorsement guarantor and the subject of endorsement or guarantee is as follows:

1. Companies with business transactions.
2. Companies where the Company directly or indirectly holds over 50% voting shares.
3. Companies which directly or indirectly hold over 50% voting shares in the Company.
4. Among companies where the Company directly or indirectly holds over 90% voting shares.
5. Companies endorsement guaranteed by all contributing shareholders according to their shareholding ratio for joint investment relation.
6. Mutually guaranteed companies among counterparts or co-constructors based on the need for undertaking projects.
7. Joint and several guarantee for performance in engaging in preselling house contract among counterparts in accordance with consumer protection law.

Note 3: For companies with business transaction, the ceiling of endorsement or guarantee is 40% net value in the latest financial report of the Company, and for individual subjects it is the amount of business transaction; the total amount of endorsement or guarantee for companies where the Company directly or indirectly holds over 50% voting shares, it is limited by 40% net value of the Company, and for individual subjects, it is limited by the investment amount. Among the affiliated companies 100% invested by the Company, the endorsement or guarantee limit is 500% net value in the latest financial report, and for individual subjects it is 200% net value in the latest financial report. For those with business transaction with the Company, individual endorsement or guarantee amount is limited by the amount of business transaction among them. The above mentioned amount of business transaction refers to purchase or sales amount, whichever is higher.

Note 4: exchange rate in financial report: USD:NTD=1:30.7150, RMB:HKD=1:1.1391, HKD:NTD=1:3.9210 in translation.

3. Holding of negotiable securities at the end of the period (excluding the part of invested affiliated companies, associated enterprises and joint ventures equity): none.
4. Cumulative amount of buying or selling negotiable securities to reach NT\$ 300 million or over 20% of actually received capital: none.
5. The amount of acquiring property to reach NT\$ 300 million or over 20% of actually received capital: none.
6. The amount of disposing of property to reach NT\$ 300 million or over 20% of actually received capital: none.
7. The amount of purchase and sales with related party to reach NT\$ 100 million or over 20% of actually received capital:

Unit: NT\$ thousand

Purchase (sales) companies	Transaction subject Name	Relation	Transaction situation				Situation and reason for difference between transaction condition and common transaction		Notes and accounts receivable (payable)		Note
			Purchase (sales)	Amount	Ratio of total purchase (sales)	Credit granting period	Unit price	Credit granting period	Balance	Ratio in total notes and accounts receivable (payable)	
Airmate Electric Appliances (Shenzhen) Co Limited	Waoon Development Co Limited	Parent-subsidiary company	Sales	(4,257,750)	(80) %	Collection according to operation status	-		1,977,978	89%	
Airmate Electric Appliances (Shenzhen) Co Limited	Airmate Electric Appliances (Jiujiang) Co Limited	Affiliated companies	Sales	(922,417)	(17) %	Collection according to operation status	-		201,303	9%	
Airmate Electric Appliances (Jiujiang) Co Limited	Zhejiang Airmate Electric Appliances Sales Co Limited	Invested companies where the affiliated companies hold 40% equity	Sales	(170,085)	(3) %	Monthly payment 30-90 days	-		49,816	4%	
Airmate Electric Appliances (Jiujiang) Co Limited	Airmate Electric Appliances (Shenzhen) Co Limited	Affiliated companies	Sales	(97,040)	(1) %	Collection according to operation status	-		-	-%	
Waoon Development Co Limited	Airmate Electric Appliances (Shenzhen) Co Limited	Parent-subsidiary company	Purchase	4,257,750	99 %	Collection according to operation status	-		(1,977,978)	(91)%	
Airmate Electric Appliances (Jiujiang) Co Limited	Airmate Electric Appliances (Shenzhen) Co Limited	Affiliated companies	Purchase	922,417	32 %	Collection according to operation status	-		(201,303)	(27)%	
Zhejiang Airmate Electric Appliances Sales Co Limited	Airmate Electric Appliances (Jiujiang) Co Limited	Invested companies where the affiliated companies hold 40% equity	Purchase	170,085	88 %	Monthly payment 30-90 days	-		(49,816)	(52)%	
Airmate Electric Appliances (Shenzhen) Co Limited	Airmate Electric Appliances (Jiujiang) Co Limited	Affiliated companies	Purchase	97,040	3 %	Collection according to operation status	-		-	-%	

Note: The above transactions, except for Zhejiang Airmate Electric Appliances Sales Co Limited, had been written off in preparing the consolidated financial report.

8. The receivables from related party to reach NT\$ 100 million or 20% of actually received capital amount:

Unit: NT\$ thousand

Recognition of receivables Company	Transaction subject Name	Relation	Receivable related party Payment balance (Note): including insurances like local medicare, disemployment, work injury and birth for affiliated companies in Mainland China.	Turnover rate	Overdue receivables from related party		Accounts receivable from related party Recovered amount after the period	Recognition of allowance Lost amount
					Amount	Disposal means		
Wacon Development Co Limited	the Company	Parent-subsidiary company	892,267	-%	-		-	-
Wacon Development Co Limited	Airmate Electric Appliances (Jiujiang) Co Limited	Parent-subsidiary company	397,849	-%	-	-	-	-
Airmate International Co Limited China	Airmate Electric Appliances (Shenzhen) Co Limited	Parent-subsidiary company	615,797	-%	-	-	-	-
Airmate Electric Appliances (Shenzhen) Co Limited	Wacon Development Co Limited	Parent-subsidiary company	1,977,978	215.26%	-		-	-

Note: the above transactions had been written off in preparing the consolidated financial report.

9. Engagement in derivative instruments transaction:

Please refer to Note 6 (2) for details of consolidated financial report.

10. Parent-subsidiary company business relation and important transactions:

S/N	Name of transaction party	Transaction subject	Transaction Relation	Transaction			
				Accounts	Amount	Transaction condition	Ratio in total revenue or assets
0	The Company	Wacon Company	1	Other receivables	892,267	Collection according to its own collection	11%
1	Airmate China	Airmate Shenzhen	1	Long-term receivables	615,797	Collection according to its own collection	7%
1	Airmate China	Airmate Shenzhen	1	Interest revenue	11,899	Collection according to its own collection	-%
2	Airmate Shenzhen	Airmate Jiujiang	3	Other receivables	121,299	Collection according to its own collection	1%
2	Airmate Shenzhen	Airmate Jiujiang	3	Sales	922,417	Collection according to its own collection	8%
2	Airmate Shenzhen	Airmate Jiujiang	3	Other revenues	60,057	Collection according to its own collection	1%
2	Airmate Shenzhen	Wacon Company	2	Sales	4,257,750	Collection according to its own collection	40%
2	Airmate Shenzhen	Wacon Company	2	Accounts receivable	1,977,978	Collection according to its own collection	24%
3	Wacon Company	Airmate International	2	Other receivables	270	Collection according to its own collection	-%
3	Wacon Company	Airmate China	2	Other receivables	237	Collection according to its own collection	-%
3	Wacon Company	Airmate Shenzhen	1	Accounts payable	1,977,978	Collection according to its own collection	24%
3	Wacon Company	Airmate Shenzhen	1	Other payables	162,490	Collection according to its own collection	2%
3	Wacon Company	Airmate Jiujiang	1	Long-term receivables	397,849	Collection according to its own collection	5%
4	Airmate Jiujiang	Airmate Shenzhen	3	Sales	97,040	Collection according to its own collection	1%

Note 1: The filling method of S/N is as follows:

- 0 represents parent company.
- The subsidiaries are coded from "1" in the order presented in the table above.

Note 2: The type of relations with transaction party is marked as follows:

- Parent company to subsidiary.
- Subsidiary to parent company.

3. Subsidiary to subsidiary.

Note 3: For business relations and important transactions between parent-subsidiary companies, only the date about sales and accounts receivable is disclosed, to the exclusion of the other party's sales and accounts receivable.

(II) Relevant information about reinvestment business

The information about reinvestment business of the consolidated company in 2018 (excluding invested companies in Mainland China) is as follows:

Unit: thousand NT\$/thousand shares

Investment companies Name	Invested companies Name	Location Region	Main business Project	Initial investment amount		Holding at the end of the period			Highest during the period Shareholding or Contribution	Invested companies Profit or loss for the period (Note 4)	Recognized for this period Investment profit or loss (Note 2)	Note
				At the end of the period (Note 1)	End of last year (Note 1)	Number of shares	Ratio	Carrying amount (Note 2)				
The Company	Airmate International Holding Co Limited	Virgin Islands	Controlling company	1,964,977 (USD 63,974 thousand)	1,964,977 (USD 63,974 thousand)	63,974	100.00%	3,674,605	100.00%	66,242	66,242	Directly invested subsidiary companies of the Company
Airmate International Holding Co Limited	Airmate International Co Limited China	Virgin Islands	Controlling company	2,142,716 (USD 69,761 thousand)	2,142,716 (USD 69,761 thousand)	69,761	100.00%	3,674,807	100.00%	66,313	66,313	Directly invested subsidiary companies of the Company
Airmate International Co Limited China	Woon Development Co Limited	Hong Kong	Trading company	3,216,389 (HKD 820,298 thousand)	3,216,389 (HKD 820,298 thousand)	-	100.00%	3,059,177	100.00%	35,605	35,605	Directly invested subsidiary companies of the Company

Note 1: The exchange rate on financial reporting date: USD:NTD1.30.7150, RMB:HKD1:1.1391, HKD:NTD=1:3.9210 in translation.

Note 2: The above transactions had been written off in preparing the consolidated financial report.

(III) Mainland China investment information:

1. Relevant information about name, main business items of invested companies in Mainland China

Unit: NT\$ thousand

Invested companies in Mainland China Name of company	Main business Item	Actual receipt Capital amount (Note 4)	Investment Mode (Note 1, 5)	Cumulative remittance from Taiwan at the beginning of the period Cumulative investment amount (Note 2)	Remitted or recovered investment amount for the period		Cumulative remittance from Taiwan at the end of the period Cumulative investment amount (Note 2)	Invested companies Profit or loss for the period	Direct or indirect investment by the Company Shareholding ratio	Highest during the period Share holding or Contribution	Investment recognized for the period Profit or loss (Note 3, 6)	Investment at the end of the period Carrying amount of capital Value (Note 6)	Repatriation by the end of the period Investment return
					Remittance	Recovery							
Airmate Electric Appliances (Shenzhen) Co Limited	Manufacturing and sales of household appliances and processing precision mold	NT\$ 982,880 (USD 32,000 thousand)	(II)	-	-	-	-	(34,664)	100.00%	100.00%	(34,664)	2,180,707	-
Zhejiang Airmate Electric Appliances Sales Co Limited	Sales of electric appliances	46,897 (RMB 10,500 thousand)	(III)	-	-	-	-	3,234	40.00%	40.00%	1,293	30,045	-
Airmate Electric Appliances (Jiujiang) Co Limited	Manufacturing and sales of household appliances and processing precision mold	2,236,052 (USD 72,800 thousand)	(II) (III)	-	-	-	-	4,918	100.00%	100.00%	4,918	2,236,582	-
Shenzhen Airmate Technology Co Limited	Sales, research and development of household appliances	NT\$ 44,664 thousand (RMB 10,000 thousand)	(III)	-	-	-	-	(7,072)	51.00%	51.00%	(3,607)	11,009	-

2. Investment ceiling in Mainland China

Cumulative investment amount remitted from Taiwan to Mainland China at the end of the period	Investment amount approved by Investment Review Committee of Ministry of Economy	Investment ceiling in Mainland China according to provisions of Investment Review Committee of Ministry of Economy
(Note 2)	(Note 2)	(Note 2)

Note 1: Investment modes can be divided into the following three types:

1. Going directly to Mainland China for investment.
2. Reinvestment in Mainland China through a third region (Waon Development Co Limited).
3. Others

Note 2: The Company is an overseas company, so it is not bound by the limitations of "review principles on investment or technological cooperation in Mainland China".

Note 3: The financial reports audited by CPAs of the invested company during the same period will be recognized.

Note 4: Exchange rate on financial reporting date: USD:NTD1:30.7150, RMB:HKD=1:1.1391, HKD:NTD=1:3.9210 in translation.

Note 5: For the above transactions, the invested mode of Airmate Electric Appliances (Jiujiang) Co Limited included: (II) reinvestment in Mainland China through a third region (Waon Development Co Limited) and (III) other modes (reinvestment through Airmate Electric Appliances (Shenzhen) Co Limited).

Note 6: The above transactions, except for Zhejiang Airmate Electric Appliances Sales Co Limited, had been written off in preparing the consolidated financial report.

3. Substantial transactions:

Please refer to the description of "relevant information about substantial transactions" and "business relation and substantial transactions between parent-subsidiary companies" for direct or indirect substantial transaction between the consolidated company and invested companies in Mainland China in 2018.

XIV. Department Information

(I) General information

The consolidated company has two report departments: domestic sales market and export sales market, with the former responsible for sales in Mainland China. The latter is responsible for sales in Northeast Asia, Europe and America.

(II) Information involving profit or loss, asset, liability and measurement basis and adjustment of report department

The consolidated company takes the departmental before-tax profit or loss (excluding income tax, non-frequently occurring profit or loss, financial asset (liability) profit or loss at fair value and exchange profit or loss) in internal management report reviewed by major operation decision-makers as the basis for resources allocation and evaluation of performance by the management. Because the income tax, non-frequently occurring profit or loss, financial asset (liability) profit or loss at fair value and exchange profit or loss are managed on the Group basis, so the consolidated company has not apportioned them to report departments. The reported

amount is consistent with report used by operation decision-makers.

The accounting policies of operation department are the same as the "summary description of substantial accounting policies" in Note 4. Transfer pricing among departments of the consolidated company is based on similar conventional transaction with a third party.

The information and adjustment of operation department of the consolidated company were as follows:

2018				
	Domestic sales market	Export sales market	Adjustment and elimination	Total
Revenue:				
Revenue from external customers	\$ 6,037,995	4,576,945	-	10,614,940
Inter-departmental revenue	1,019,458	4,257,988	(5,277,446)	-
Interest revenue	56,541	22,254	(11,899)	66,896
Total revenue	\$ 7,113,994	8,857,187	(5,289,345)	10,681,836
Interest expense	\$ (86,270)	(35,680)	11,899	(110,051)
Depreciation and amortization	\$ (289,076)	(181,076)	-	(470,152)
Share of affiliated enterprises and joint ventures profit or loss using equity method	\$ 1,293	-	-	1,293
Report department profit or loss	\$ 103,591	(35,294)	3,970	72,267

2017				
	Domestic sales market	Export sales market	Adjustment and elimination	Total
Revenue:				
Revenue from external customers	\$ 5,945,645	4,078,557	-	10,024,202
Inter-departmental revenue	2,283,801	3,962,131	(6,245,932)	-
Interest revenue	53,367	12,379	(10,691)	55,055
Total revenue	\$ 8,282,813	8,053,067	(6,256,623)	10,079,257
Interest expense	\$ (67,419)	(16,386)	10,690	(73,115)
Depreciation and amortization	\$ (293,903)	(166,472)	-	(460,375)
Share of affiliated enterprises and joint ventures profit or loss using equity method	\$ 2,665	-	-	2,665
Report department profit or loss	\$ 19,245	(6,251)	(5,659)	7,335

The total revenue amount of report department in 2018 and 2017 should eliminate inter-departmental revenue 5,289,345 thousand NT\$ and 6,256,623 thousand NT\$, respectively; the profit or loss adjustment item of report department in 2018 and 2017 was financial asset net loss at fair value and exchange gain (loss) amounting to respectively NT\$ 3,970 thousand and NT\$ 5,659 thousand.

(III) Information of product category

The information of revenue from external customers for the consolidated company was as follows:

Product name	2018	2017
Electric fan	\$ 6,778,857	6,584,020
Electric heater	2,922,860	2,399,374
Others	913,223	1,040,808
	\$ 10,614,940	10,024,202

(IV) Regional information

Region	2018	2017
Revenue from external customers:		
Mainland China	\$ 5,847,769	5,804,660
Japan	1,662,518	1,449,474
South Korea	1,144,974	1,210,317
Other countries	1,959,679	1,559,751
Total	\$ 10,614,940	10,024,202
Noncurrent Assets:		
Mainland China and Hong Kong	\$ 3,225,259	3,225,539

The noncurrent assets include investments accounted using equity method, properties, plants and equipment, intangible assets and other assets, to the exclusion of financial instruments and deferred income tax assets.

(V) Information of major customers

	2018	2027
Customer of export sales market department	\$ 834,022	752,633