



Stock Code: 4943

CONCRAFT HOLDING CO., LTD

2018 Annual Report

Enquiry Website:

Market Observation Post System <http://mops.twse.com.tw>

Published on May 31, 2019

I. Information of the Company's Spokesperson and Deputy Spokesperson

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Name of Deputy Spokesperson: Wei-Lun Dai
Telephone: 02-2268-9558
Title: Accounting Manager
E-Mail Address: allan.tai@concraft.com.tw

Name of Deputy Spokesperson: Ya-Jing Hu
Telephone: 02-2268-9558
Title: Assistant Manager, Finance Department
E-Mail Address: jing.hu@concraft.com.tw

II. Address and Telephone of Headquarter, Branches and Plants

(I) The Company

Name: Concraft Holding Co., Ltd.

(hereinafter referred to as "the Company" or "Concraft Holding")

Address: The Grand Pavilion Commercial Centre ,Oleander Way, 802 West Bay Road, P.O. Box 32052,
Grand Cayman KY1-1208, Cayman Islands.

Telephone: 02-2268-9558

Website: <http://www.concraft.com.tw>

(II) Main Places of Operation:

1. Contact Place in Taiwan:

Name: Dragonstate International Technology Co., Ltd.

Website: <http://www.concraft.com.tw>

2F, No. 35, Chengtian Rd., Tucheng Dist., New Taipei City, Taiwan

Telephone: 02-2268-9558

Name: OBO Pro.2 Inc.

Website: <http://www.obopro2.com/m/>

Address: No. 18 YanWu Road, Bianzhou Li, Taoyuan District, Taoyuan City

Telephone: 03-358-5399

2. Subsidiaries and Second-Tier Subsidiaries:

Name: Dragonstate Technology Co., Ltd. Website: -

Address: 3rd Floor, Raffles Tower, Cybercity, Ebene, Mauritius

Telephone: (230) 464 2668

Name: Concraft Technology Co., Ltd. Website: -

Address: 31/F., Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong

Telephone: (0852)2573-6277

Name: Concraft Precision Co., Ltd. Website: -

Address: 31/F., Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong

Telephone: (0852)2573-6277

Name: OP (VIRGIN) INTERNATIONAL GROUP CORPORATION

Website: -

Address: Intershore Chambers, P.O.BOX 4342, Road Town, Tortola, British Virgin Islands

Telephone: (03)-358-5399

Name: OP (Virgin) International Group Corporation

Address: Suite No. 21, Metro Centre (II), No. 21, Lam Hing Street, 7th Floor, Kowloon Bay, Kowloon,
Hong Kong

Telephone: (852)-2758-2553

(III) Address of Plants:

Name: Kunshan Dragonstate Electronic Technology Co., Ltd. Website: -

Address: No.688 Huangpu River N. Rd., Zhoushi Town, Kunshan City, Jiangsu Province, China

Telephone: (86)-512-57646508

Name: Concraft Precision Electrical (Kunshan) Co., Ltd. Website: -

Address: Western Town, Huangpu River Rd., Zhoushi Town, Kunshan City, Jiangsu Province, China

Telephone: (86)-512-57646508

Name: Concraft Precision Electronics (Baoying) Co., Ltd. Website: -

No. 28, Suzhong North Rd., Baoying County, Jiangsu Province, China

Telephone: (86)-514-8825-7778

Name: Kunshan Haojun Precision Electronics Co.,Ltd. Website: -

Address: No.688 Huangpu River N. Rd., Zhoushi Town, Kunshan City, Jiangsu Province, China

Telephone: (86)-512-5764-6508

Name: OBO Pro.2 (Dongguan) Inc. Website:-

Address: 5th Industry Zone, Xie-Gang Town, Dongguan City Guang-Dong, China

Telephone: (86) 769-8776-5668

III. Institution of the Share Registration

Name: Transfer Agency Department, CTBC Bank Website: <https://ecorp.ctbcbank.com/cts/index.jsp>

Address: 5F., No. 83, Sec. 1, Chongqing S. Rd., Taipei City

Telephone: 02-6636-5566

IV. Financial Reports' CPAs in the Most Recent Year:

Names of CPAs: Xian-Zheng Chen, Jin-Mu Xiao

Name of Firm: PWC Taiwan Website: <http://www.pwc.tw>

Address: 27F., No. 333, Sec. 1, Keelung Rd., Taipei City Telephone: 02-2729-6666

V. Domestic Agent of Litigation and Non-litigation

Name: Chao-Sheng Lu

Telephone: 02-2268-9558

Title: Representative of Director

E-Mail Address: bart@concraft.com.tw

VI. List of Board of Director

<u>Title</u>	<u>Name</u>	<u>Nationality</u>	<u>Major Experiences</u>
Chairperson	Monster Holding Co., Ltd. (Representative: Chao-Sheng Lu)	British Virgin Islands	Chairperson, Concraft Holding Co., Ltd.
Director	Agi Holding Co., Ltd. (Representative: Guo-Ji Li)	British Virgin Islands	President, Concraft Holding Co., Ltd.
Director	Zhu-Qing Li	Republic of China	Director of Manufacturing Department, Concraft Holding Co., Ltd.
Independent Director	Zi-Yin Zhang	Republic of China	CPA, Weichungdelin Accounting Firm
Independent Director	Wei-Jun Chen	Republic of China	Attorney, Chenyin Attorneys-At-Law
Independent Director	Ben-Hua Zhang	Republic of China	Representative, ZBest S&T Limited

VII. Overseas Securities Exchange Traded / Enquiry Method: Not applicable.

VIII. Corporate Website: <http://www.concraft.com.tw/>

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One. Letter to Shareholders

CONCRAFT HOLDING CO., LTD

2018 Business Report

Because the US trade protectionism lifted up in 2018, the global supply system was forced to restructure, and jointly the resources of the production was driven to be redistributed as well, resulted in impeding every industry' development and significantly dampening the development of innovation in the coming two to three years. 2018 was just the beginning year of the biggest global faithful crisis in the past decade. In the face of such crisis, since second half of 2018, the Company has been shifting the resources of the production to the third county, slowing down the investment of equipment and process, issuing the convertible corporate bond to repay the bank loan and transferring to loan in euro in order to reduce the overall interest expenses. The personnel of the production base in China has been downsized by 50% as well to face the reduction of the demand of the end-customers. In Taiwan, the Company purchased the preserved-value commercial real estate in order to accumulate the hard power of the Group. In addition, the Company reinvested in OBO PRO.2 Inc. to deepen the modularization of the acoustic products for the Group. As a whole, deepening the strength of the Group is the only way in 2018 to confront the global crisis.

The Company's consolidated sales in 2018 was NT\$ 5,757,902 thousand which was ahead of NT\$ 5,274,434 thousand in 2017 with a growth of about 9.17%. The profit after-tax was NT\$ 976,545 thousand in 2018 which decreased by about 10%, compared with NT\$ 1,096,100 thousand in 2017. However profit before-tax was NT\$ 1,483,535 thousand in 2018 which was almost in line with NT\$ 1,446,824 thousand in 2017. So profit after-tax in 2018 decreased mainly due to the consolidated tax expenses of NT\$ 506,990 thousand in 2018 which was higher than NT\$ 350,724 thousand in 2017 with a growth of about 44%. The tax expenses increased in 2018 because the main profits of the Group were over-concentrated on the production base in Kunshan as well as the major Chinese subsidiaries transferred 2017 earnings to increase the capital and appropriated the tax expenses for 2017 retained earnings.

Starting from the fourth quarter of 2018, the components' development projects and the intent of purchase from the end-customers of the consumer electronics and the customers of automobiles have achieved the historically highest quantity and amount since the foundation of the Company. It proves that the Group's capability of the technology has won the customers' trust and support deeply. Looking forward to 2019, the development of the global economy is still under difficulties. The key points

of development for the Group in 2019 will be continuing to enhance its strengths and deepen the technical cooperation with end-customers. The important events of the Company's operation in 2019 are described as follows:

Important Operational Events:

- I. Build up the production base of automotive components to meet the demand of the intent of purchase from customers.
- II. Prepare to build the second generation of injection production base and plan to build the capability of fast-upgrade process.
- III. Promote the technical cooperation with investees and create the integrated value of production and design.
- IV. Deepen the technical cooperation with end-customers as well as adjust and strengthen the structure of the customers.
- V. Continuously pay close attention to and lift up the free cash flow.

Concraft Holding Co., Ltd.

Chairperson: Chao-Sheng Lu

President: Guo-Ji Li

Chief Financial Officer: Qiao-Sheng Huang

Two. Company Profile

I. Brief Introduction of the Company and the Group

Concraft Holding Co., Ltd (hereinafter referred to as "Concraft Holding" or "the Company") was founded on September 1, 2009 who is a holding company in the British Cayman Islands (hereinafter referred to as "Caymans"). The founders are Chao-Sheng Lu and Guo-Ji Li. In 2002, the Company reinvested in Kunshan Dragonstate Electronic Technology Co., Ltd. in the names of the founders and through Dragonstate Technology Co., Ltd. who was registered in Mauritius, and the restructure the framework of investment after remedy in 2009 by the consent of Investment Commission. The main business items of the investees of the Company are focused on the research/development, production and sale for the products of electrical connector with private brand of "CONCRAFT". The Company's paid-in capital is NT\$ 1,184,190 thousand as of December 31, 2018. The Company's operational headquarter is currently located in Taiwan, which is mainly responsible for integration of research/development, finance and information technology. Its sale is mainly run through Dragonstate Technology Co., Ltd. who is registered in Mauritius and responsible for the sale business in Europe, America and Asia (except for China and Taiwan) as well as Kunshan Dragonstate Electronic Technology Co., Ltd. who is responsible for the sale business in China. At the end of December 2010, the Company acquired Dragonstate International Technology Co., Ltd. who is mainly engaged in the sale business in Taiwan. The production is mainly based in China through Kunshan Dragonstate Electronic Technology Co., Ltd. who is mainly responsible for the production of connector and acoustic component for notebook as well as Concraft Precision Electronics (Baoying) Co., Ltd. who is mainly responsible for the production of PCMCIA, MINI PCI EXPRESS and SMART CARD for the application of network communication and consumer electronics. In the beginning of 2013, the Company reinvested in Kunshan Haojun Precision Electronics Co.,Ltd., Ltd. through its second-tier subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., to engage in stamping for hardware product. The Group completed the vertical integration. In 2014, the Company's acoustooptic components are successfully entered into mass production and its sales percentage has increased from 46% in 2015 to 54% in 2018. This reveals that the Company has expanded the application technology of silica gel from acoustics to the industries of automobiles and optics, and establishes the foundation of development and opportunity of growth in the future.

II. Date of Incorporation: September 1, 2009

III. Company History

Year	Description of History
1992	Founded the Weijin Steel Mold Co., Ltd. in Sanchong City, Taipei County, Taiwan, engaging in the manufacture and sale of general mold in the initial stage.
1994	Started to add the OEM business for injection products.
1999	Transformed to the development, manufacture and sale of connector.
2000	Successfully developed the variable products for PCMCIA series to meet the demand of consumer products in the industries of satellite communication and

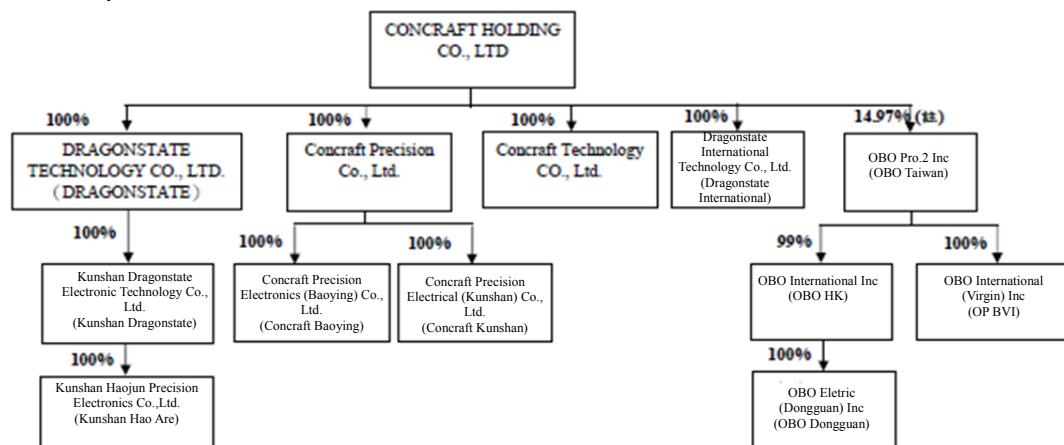
Year	Description of History
	wireless network communication.
2001	Successfully developed the products of Connector series to meet the demand of mobile phone consumer products.
2002	Chao-Sheng Lu and Guo-Ji Li reinvested in Kunshan Dragonstate Electronic Technology Co., Ltd. in their personal names through Dragonstate Technology Co., Ltd. who was registered in Mauritius.
2003	Successfully developed the products of MINI PCI series and completely introduced the products into automatized production.
2004	Completely introduced the RoHS Compliance for the production/manufacture for the purpose of environmental protection.
2005	Successfully develop the connector products for notebook and started to deliver the samples for the certification from large notebook manufacturers.
2006	Certified the ISO1400 and QC080000, involved into the production/manufacture of precision machinery and introduced the components of micro precision into production/manufacture and sale.
2007	Successfully developed the products of HDMI and SFP series to meet the demand of high-frequency consumer products.
2008	Successfully innovated the low-cost and high reliable products of USB series. And started to plan the new plant for Kunshan Dragonstate Electronic Technology Co., Ltd.
2009	<ol style="list-style-type: none"> 1. The Investment Commission of MOEA approved Chao-Sheng Lu and Guo-Ji Li to reinvest overseas in the Kunshan Dragonstate Electronic Technology Co., Ltd. through the Dragonstate Technology Co., Ltd. who was registered in Mauritius. 2. The Investment Commission of MOEA approved the Company to establish the Concraft Precision Electronics (Baoying) Co., Ltd. in Baoying County, Jiangsu Province, mainly engaged in the manufacture and sale of connector. 3. The Investment Commission of MOEA approved the Company to establish Concraft Holding Co., Ltd. in British Cayman Islands to proceed the restructuring the Group's organization. 4. New plant of Kunshan Dragonstate Electronic Technology Co., Ltd. began construction. The measurements of the first phase plant was 24,681.7 square meters. 5. The Investment Commission of MOEA approved the Company to establish the Concraft Precision Electrical (Kunshan) Co., Ltd. in Kunshan City, Jiangsu Province, engaged in the production/manufacture of

Year	Description of History
	stamping and molding.
2010	<ol style="list-style-type: none"> 1. The Investment Commission of MOEA approved the Company to reinvest in Concraft Precision Industry Co., Ltd. in Taiwan to deeply cultivate in Taiwan. 2. The first phase new plant of Kunshan Dragonstate Electronic Technology Co., Ltd. completed construction in October, 2010. The second phase new plant of Kunshan Dragonstate Electronic Technology Co., Ltd. began construction. 3. At the end of December of 2010, the Company acquired 100% of shareholding of Dragonstate Technology Co., Ltd. through its subsidiary and completed the deployment of three places across the Taiwan Straits.
2011	<ol style="list-style-type: none"> 1. The Concraft Precision Electronics (Baoying) Co., Ltd. began to mass-produce the connectors for NB series. 2. The Group's products successfully penetrated into the supply chain systems of Samsung and Hitachi. 3. Cooperated with the Industrial Technology Research Institute and Intel to successfully convene a seminar for high-frequency technique. 4. The headquarter's laboratory in Taiwan officially began to operate. 5. The IPO for Concraft Holding was approved with the stock code of 4943 and Chinese emerging code of F-康控(F-Concraft Holding).
2012	<ol style="list-style-type: none"> 1. The second-phase plant of Kunshan Dragonstate Electronic Technology Co., Ltd. was completed and began to operate. 2. The molding department began to introduce the precision grinding and measuring equipments from Germany and Switzerland to enhance the technical capability for the molding department. 3. Started to join the molding exhibitions in Germany, Japan and Shanghai to expand the business eyeshot and proceed the transformation for the Company's business and technology. 4. Began to touch the potential customers of acoustics in US, optics in Japan and automotive components.
2013	<ol style="list-style-type: none"> 1. Completed the Group's vertical integration and acquired the Kunshan Haojun Precision Electronics Co.,Ltd., through the Kunshan Dragonstate Electronic Technology Co., Ltd. who specialized in stamping. 2. Cooperated with large acoustic manufacturers in the US to develop the acoustic components and successfully mass-produced for smart phone. 3. Began to cooperate with customers to develop the optical components.
2014	<ol style="list-style-type: none"> 1. The optical components began to ship to TDK. 2. The sales of acoustic components exceeded 30% of the sales.

Year	Description of History
	3. The Group's annual consolidated sales exceeded NT\$ 2 billion.

Year	Description of History
2015	<ol style="list-style-type: none"> 1. The plant of the Concraft Precision Electrical (Kunshan) Co., Ltd. began construction and estimated to be completed in March 2016. 2. The sales of the acoustic components exceeds 50% of the sales. 3. Obtained the supplier qualification from German large manufacturers for automotive components and cooperated to develop the vehicle-use components.
2016	<ol style="list-style-type: none"> 1. The Concraft Holding was approved to be publicly listed company in Taiwan Stock Exchange with the stock code of 4943 and Chinese code of KY-Concraft Holding. 2. Cooperated with tier 1 large manufacturers in Germany, Japan and US to develop the vehicle-use components. 3. Began to develop the medical auxiliary components.
2017	<ol style="list-style-type: none"> 1. Contributed to the cooperation of automotive industry from different country and accelerated the development of technology for automotive components to excel the technical plane of the competitors in Asia. 2. Built up the moats of the patent wall and continued to develop the application technology of silica gel. 3. The Group's consolidated sales exceeded NT\$ 5 billion.
2018	<ol style="list-style-type: none"> 1. Build up the production base of automotive components to meet the demand of the intent of purchase from customers. 2. Prepare to build the second generation of injection production base and plan to build the capability of fast-upgrade process. 3. Promote the technical cooperation with investees and create the integrated value of production and design. 4. Deepened the technical cooperation with end-customers, adjusted and strengthened the structure of the customers.

IV. Group Structure



Note: The Company held the election of the new Board in a special session of the Board of Directors and Supervisors of OBO Pro.2 Inc. (hereinafter referred to as “OBO”) on April 1 2019, and acquired 3 of the 5 seats of the Board. The Board convened on April 2 2019. The Chairman of the Company was elected the Chairman of OBO. According to IFRS 10 – “Consolidated Financial Statements”, the Company has de facto control over OBO, which made OBO and its subsidiaries incorporated into the group as separate entities with effect on April 1 2019.

V. Risk Matters: Please refer to Paragraph 6, Seven in this annual report.

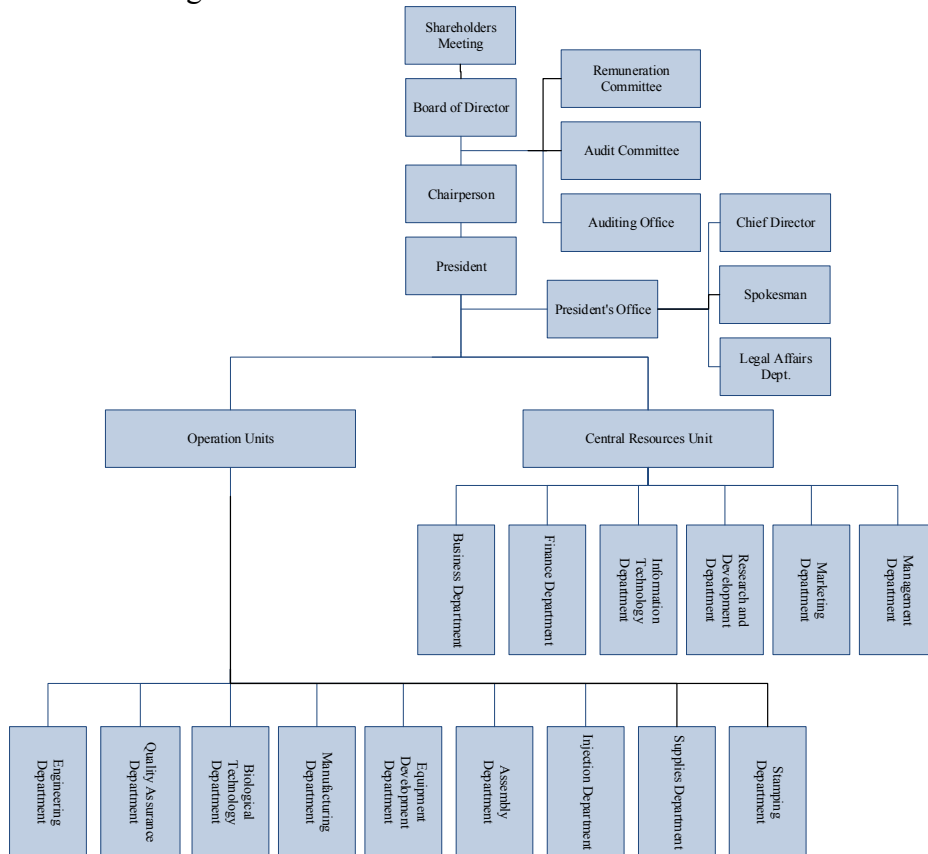
Three. Corporate Governance

I. Organization

The Company is registered in British Cayman Islands in 2009. Its major business is a holding company and investment. And the main production bases for its reinvestees are located in Kunshan City, Jiangsu Province and Yangzhou City, Baoying County. The organization structure for the Company and production base is as follows:

(I) The Company

1. Organization Structure



The Company's operation is divided into three segments: the highest authority is the shareholder's meeting, the next is the board of director and then the management organization. The organization sets up chairperson, president, president office, finance department, information technology department, business department and marketing department. The president office sets up directors, legal office and spokespersons and all offices under the president office shall report to the president. The directors are the chiefs of administration to station in every plant (or profit center) and shall directly report to the president. In addition, the audit office shall directly report to the board of director and the audit committee.

2. Major Departments' Businesses

Name of Department	Business and Scope of Authority
President's Office	Director: Assist the president in implementing the projects of research/development. Legal Office: Handle the legal affairs and review contracts for all companies of the Group. Spokesperson: Plan the external speaking and manuscripts.
Business Department	Handle the business affair for every investee of the Group.
Finance Department	Handle accounting information summary and fund deployment for every investee of the Group.
Information Technology Department	Handle the ERP, network and other related equipments for every investee of the Group.
Research and Development Department	Handle the products' research and development for the Group.
Marketing Department	Plan the marketing affairs for the Group.
Management Department	Handle the administration, human resource, automobile projects and plants affairs.

(II) Production Base in China

1. Organization Structure: Please refer to the headquarter's organization chart for the operational business units.

2. Major Departments' Businesses

Name of Department	Business and Scope of Authority
Supplies Department	Integrate purchase and price inquiry for the raw materials of the production.
Manufacturing Department	Design and manufacture the mold and the jig for the production.
Injection Department	Produce the plastic components and design the injection molding machine for production.
Assembly	Assemble and produce the electronic connectors and the

Name of Department	Business and Scope of Authority
Department	acoustic components.
Engineering Department	Design the electronic connectors and the acoustic components for the existing customers and the research/development affairs.
Stamping Department	Stamp for hardware product.
Biological Technology Department	<ol style="list-style-type: none"> 1. Research and manufacture the technical process of the production for the electronic connectors and the acoustic components designed by the engineering department. 2. Reconstruct the technical process of the production that is currently used by the assembly department.
Equipment Development Department	Manufacture the jig and develop/manufacture the automatic assembling machine based on the technical process of the production researched and manufactured by the Biological Technology Department.
Quality Assurance Department	<ol style="list-style-type: none"> 1. Establish and control the product's quality standards for each link of production. 2. Deal with the quality abnormal cases from the customers. 3. Establish and amend the ISO files and procedures.

II. Information of Directors, Supervisors, Presidents, Vice Presidents, Assistant Vice Presidents and Chiefs of Departments and Branches

(I) Basic Information for Directors

Unit: share; %, April 19, 2019

Title	Nationality or Places of Registration	Name	Sex	Date Elected (Assumed)	Term of Office	Date Elected First Time	Shareholding When Elected		Shareholding at Present		Shareholding of Spouses, Minor Children At Present		Shareholding in the Name of Other Persons		Main Experiences (Educations)	Hold the Position of the Company and Other Companies at Present	Spouses or Within Second-Degree of Kinship Served as Other Managerial Positions, Directors or Supervisors		
							Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage			Title	Name	Relationship
Chairperson	British Virgin Islands	Monster Holding Co., Ltd	Male	2017.06.23	3	2009.09.01	22,258,269	22.33	25,708,300	21.71	-	-	-	-	-	Chairperson, Concraft Holding Co., Ltd.	-	-	-
	Republic of China	Representative: Chao-Sheng Lu					130,100	0.13	117,409	0.10	836,306	0.71	-	-	Department of Business Administration, NCHU Weijin Steel Mold Co., Ltd.	Chairperson of Dragonstate International Technology Co., Ltd., Kunshan Dragonstate Electronic Technology Co., Ltd. and Concraft Precision Electrical (Kunshan) Co., Ltd.; as well as Executive Director of Concraft Precision Electronics (Baoying) Co., Ltd. and Kunshan Haojun Precision Electronics Co.,Ltd.; Director of Dragonstate Technology Co., Ltd, Concraft technology Co.,Ltd and Concraft Precision Co.,Ltd	-	-	-
Director	British Virgin Islands	AGI Holding Co., Ltd.	Male	2017.06.23	3	2009.09.01	15,991,424	16.04	18,470,094	15.60	-	-	-	-	-	-	-	-	-
	Republic of China	Representative: Guo-Ji Li					603,165	0.61	925,087	0.78	1,000,771	0.85	-	-	Zhuyin Precision Industry Co., Ltd. Heyue Industry Co., Ltd. Zhipin Mold Co., Ltd. Weijin Steel Mold Co., Ltd.	Director and President, Dragonstate International Technology Co., Ltd. Director and President, Kunshan Dragonstate Electronic Technology Co., Ltd. Director and President, Concraft Precision Electrical (Kunshan) Co., Ltd. President, Kunshan Haojun Precision Electronics Co.,Ltd. Supervisor, Concraft Precision Electronics (Baoying) Co., Ltd. Director, Concraft Precision Co., Ltd. Director, Concraft Technology Co., Ltd.	-	-	-
Director	Republic of China	Zhu-Qing Li	Male	2017.06.23	3	2017.06.23	784,080	0.79	1,007,869	0.85	20,370	0.02	-	-	Director of Manufacturing Department for Dragonstate International Technology Co., Ltd and Kunshan Dragonstate Electronic Technology Co., Ltd.	Director of Manufacturing Department for Dragonstate International Technology Co., Ltd and Kunshan Dragonstate Electronic Technology Co., Ltd.	-	-	-

Title	Nationality or Places of Registration	Name	Sex	Date Elected (Assumed)	Term of Office	Date Elected First Time	Shareholding When Elected		Shareholding at Present		Shareholding of Spouses, Minor Children At Present		Shareholding in the Name of Other Persons		Main Experiences (Educations)	Hold the Position of the Company and Other Companies at Present	Spouses or Within Second-Degree of Kinship Served as Other Managerial Positions, Directors or Supervisors		
							Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage			Title	Name	Relationship
Independent Director	Republic of China	Zi-Yin Zhang	Female	2017.06.23	3	2011.03.25	-	-	-	-	-	-	-	-	Department of Finance Management, National Central University Qualified Senior Examination of CPA Assistant Manager, PWC Taiwan	CPA, Weichungdelin Accounting Firm	-	-	-
Independent Director	Republic of China	Wei-Jun Chen	Male	2017.06.23	3	2014.06.23	-	-	-	-	-	-	-	-	Master, Department of Law, National Taipei University Qualified Senior Examination of Lawyer Attorney, Baker & McKenzie Legal Firm Attorney, Chungtao Legal Firm Attorney, Jonesday Legal Firm	Attorney, Chenyin Attorneys-At-Law	-	-	-
Independent Director	Republic of China	Ben-Hua Zhang	Male	2017.06.23	3	2016.01.06	-	-	-	-	-	-	-	-	Doctor, Institute of NanoEngineering and MicroSystems, National Tsing Hua University Researcher, Material and Chemical Research Laboratories, Industrial Technology Research Institute	Representative, ZBest S&T Limited	-	-	-

2. Basic Information for Supervisor: The Company has established the audit committee, so this is not applicable.

(II) Major Shareholders of Corporate Shareholders

1. Name of Top 10 Shareholders Who Hold the Highest Shareholding Percentage for Corporate Shareholders

April 19, 2019

Name of Corporate Shareholders	Major shareholders of Corporate Shareholders
Monster Holding Co., Ltd.	Chao-Sheng Lu 100%
AGI Holding Co., Ltd.	Guo-Ji Li 100%

2. If Major Shareholders of Corporate Shareholders are Legal Persons, the Top 10 Shareholders Who Hold the Highest shareholding Percentage for Such Legal Persons: Not Applicable.

(III) Professional Knowledge and Independence for Directors and Supervisors:

April 19, 2019

Name	Conditions	More Than Five Years of Work Experiences and the Following Professional Qualifications			Meet the Independence (Note)										Number of Other Publicly Issued Company in Which the Person is Concurrently Serving as an Independent Director
		A Lecturer or Higher Position in a Department of Business, Legal, Finance, Accounting or the Other Relevant Department needed by the Company's Business	A Judge, Public Procurator, Attorney, CPA or Other Professional and Technical Personnel Who Has Passed the National Examination with a Certificate in a Professional Necessary for the Business of the Company.	Work Experience in Business, Legal, Finance, Accounting or Other Experiences Needed by the Company's Business	1	2	3	4	5	6	7	8	9	10	
Monster Holding Co., Ltd. Representative: Chao-Sheng Lu	-	-	✓				✓				✓	✓	✓	✓	None
AGI Holding Co., Ltd. Representative: Guo-Ji Li	-	-	✓				✓				✓	✓	✓	✓	None
Zhu-Qing Li	-	-	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Zi-Yin Zhang	-	✓	-		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Wei-Jun Chen	-	✓	-		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Ben-Hua Zhang	-	-	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None

Note: If any of the directors or supervisors meets the following conditions during the two year prior to being elected or during the term of office, please tick "✓" in the blank space of the corresponding condition below.

- (1) Not an employee of the Company or its affiliates.
- (2) Not a director or supervisor of the Company's affiliates (except for an independent director of the Company or its parent company or its subsidiaries that is established according to the Securities and Exchange Act or the local laws).
- (3) Not a natural-person shareholder who holds shares, together with those shares held by the person's spouse, minor children or held in the name of other persons, in an aggregate amount of 1% or more of the Company's total shares issued or ranks in the top 10 in shareholding.
- (4) Not a spouse, relative within the second-degree of kinship or lineal relative within the third-degree of kinship, of any of the persons listed in the preceding three subparagraphs.
- (5) Not a director, supervisor or employee of a corporate shareholder who holds 5% or more of the Company's shares issued directly, or ranks the top 5 in shareholding.
- (6) Not a director, supervisor, manager or shareholder with 5% or more of shareholding of a specific company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor or manager of a sole proprietorship, partnership, company or institution that, provides the services or consultation of business, legal, finance or accounting to the Company or any affiliate of the Company, or a spouse thereof. However, this shall not be applicable to any member of the remuneration committee who exercises powers according to Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
- (8) Not a spouse or a relative within the second-degree of kinship with any other director of the Company.
- (9) Not a person who has any one of the circumstances defined in Article 30 of the Company Act.
- (10) Not a government, legal person or its representative that is elected as defined in Article 27 of the Company Act.

(IV) Basic Information of Presidents, Vice Presidents and Chiefs of Departments

Unit: Shares; %; April 19, 2019

Title	Nationality	Name	Sex	Date Elected (Assumed)	Proportion of shareholding		Shareholding Held by Spouses, Minor Children		Shareholding in the Name of Other Persons		Main Experiences (Educations)	Hold the Position of Other Companies at Current	Spouses or Within Second-Degree of Kinship Served as Manager		
					Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage			Title	Name	Relationship
President	Republic of China	Guo-Ji Li	Male	2009.09.01	925,087	0.78	1,000,771	0.85	-	-	Zhuyin Precision Industry Co., Ltd. Heyue Industry Co., Ltd. Zhipin Mold Co., Ltd. Weijin Steel Mold Co., Ltd.	Director and President, Dragonstate International Technology Co., Ltd. Director and President, Kunshan Dragonstate Electronic Technology Co., Ltd. Director and President, Concraft Precision Electrical (Kunshan) Co., Ltd. President, Kunshan Haojun Precision Electronics Co., Ltd. Supervisor, Concraft Precision Electronics (Baoying) Co., Ltd. Director, Concraft Precision Co., Ltd. Director, Concraft Technology Co., Ltd.	-	=	=
Vice President of Project	Republic of China	Jin-Xing Li	Male	2011.11.01	421,014	0.36	424,600	0.36	-	-	Department of Mold and Die Engineering, National Kaohsiung Institute of Technology Engineer, Chi Cheng Enterprise Co., Ltd. Assistant Manager, Hon Hai Precision Industry Co., Ltd.	Assistant Vice Presidents of Project, Kunshan Dragonstate Electronic Technology Co., Ltd., as well as, director, Dragonstate International Technology Co., Ltd.	=	=	=
Director of Supplier Management	Republic of China	Ya-Hui Xie	Female	2009.09.01	1,631,014	1.38	-	-	-	-	Department of Industrial Management, National United University Section Manager of Quality Assurance, Acron Precision Industrial Co., Ltd. Vice President, Baoying Plant of Concraft Holding Co., Ltd.	Director, Kunshan Dragonstate Electronic Technology Co., Ltd. and Director of Supplier Management Department, Kunshan Dragonstate Electronic Technology Co.	=	=	=
Director of Manufacturing Department	Republic of China	Zhu-Qing Li	Male	2014.05.09	1,007,869	0.85	20,370	0.02	-	-	Mituo Junior High School	Director of Manufacturing Department for Dragonstate International Technology Co., Ltd and Kunshan Dragonstate Electronic Technology Co., Ltd.	=	=	=
Assistant Vice Presidents of	Republic of China	Si-Qing Cai	Male	2012.12.17	232,155	0.20	-	-	-	-	Doctor, Institute of Mechanical	Manager of Engineering Department, Kunshan	=	=	=

Title	Nationality	Name	Sex	Date Elected (Assumed)	Proportion of shareholding		Shareholding Held by Spouses, Minor Children		Shareholding in the Name of Other Persons		Main Experiences (Educations)	Hold the Position of Other Companies at Current	Spouses or Within Second-Degree of Kinship Served as Manager		
					Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage			Title	Name	Relationship
Engineering											Engineering, National Taiwan University Chief of Engineering Department, Hon Hai Precision Industry Co., Ltd.	Dragonstate Electronic Technology Co., Ltd.			
Engineering Manager	Republic of China	Yi-Hui Xiao	Male	2011.06.01	57,750	0.05	-	-	-	-	Department of Engineering, Hsinpu Institute of Technology Engineering Manager, Chee Chen Hi-Technology Co., Ltd. PM Manager, Kunming Electronics Co., Ltd.	<u>Manager of Engineering Department, Kunshan Dragonstate Electronic Technology Co., Ltd.</u>	=	=	=
Assistant Vice Presidents of Project	Republic of China	Jian-Kai Peng	Male	2017.07.20	-	-	-	-	-	-	Department of Mechanical Engineering, Ching Yun Institute of Technology Vice Section Manager, G-Shank Enterprise Co. Ltd. Project Manager, Foxconn Interconnect Technology Limited	=	=	=	=
Chief Financial Officer	Republic of China	Qiao-Sheng Huang	Male	2009.09.01	35,558	0.03	186,200	0.16	-	-	Department of Public Finance, Feng Chia University Business Assistant Manager of Capital Market Department, President Securities Corp. Assistant Manager of Finance Department, Pou Chen Corporation	Spokesperson of the Group	=	=	=
Accounting Manager	Republic of China	Wei-Lun Dai	Male	2018.02.09	-	-	-	-	-	-	Department of Accounting, Soochow University Deloitte Taiwan Team Leader Assistant Manager, PWC Taiwan	=	=	=	=
Auditing Managerial Officer	Republic of China	Bi-Ning Chen	Female	2016.8.12	-	-	-	-	-	-	Master, Institute of Accounting, National Changhua University of Education Team Leader, PWC Taiwan	=	=	=	=

III. Remuneration Paid to Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Year

(I) Remuneration Paid to Directors

Unit: NT\$ Thousand; Shares in Thousand; %, Data Period: 2018

Title	Name	Remuneration Paid to Directors								Total of A, B, C and D as a Percentage of Profit After Tax		Related Compensation for Serving as Employee Concurrently						Total of A, B, C, D, E, F and G as a Percentage of Profit After-Tax		Compensation from Investees Other Than Subsidiaries		
		Compensation (A)		Severance Pay and Pension (B)		Compensation to Directors (C) (Note 1)		Allowances for Performing Duties (D)				Salary, Bonus and Other Special Allowances (E)		Severance Pay and Pension (F)		Compensation to Employee (G)						
		The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	Cash Amount	Stock Amount	Cash Amount	Stock Amount		The Company	All Companies in the Financial Report
Chairperson	Monster Holding Co., Ltd. Representative: Chao-Sheng Lu																					
Director	AGI Holding Co., Ltd. Representative: Guo-Ji Li	1,224	3,473	-	-	15,255	15,255	544	544	1.74	1.97	1,100	6,566	-	207	5,000	-	5,000	-	2.37	3.18	-
Director	Zhu-Qing Li																					
Independent Director	Zi-Yin Zhang																					
Independent Director	Wei-Jun Chen																					
Independent Director	Ben-Hua Zhang																					

Remuneration Range Table

Range for Remuneration Paid to Directors of the Company	Name of Director			
	Total of the Preceding 4 Items (A+B+C+D)		Total of the Preceding 7 Items (A+B+C+D+E+F+G)	
	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report
Less than NT\$ 2,000,000	Chao-Sheng Lu, Guo-Ji Li	Guo-Ji Li	Chao-Sheng Lu	
NT\$2,000,000(inclusive) to NT\$4,999,999	Monster Holding Co., Ltd., AGI Holding Co., Ltd., Zhu-Qing Li, Zi-Yin Zhang, Wei-Jun Chen, Ben-Hua Zhang	Monster Holding Co., Ltd., AGI Holding Co., Ltd., Chao-Sheng Lu, Zhu-Qing Li, Zi-Yin Zhang, Wei-Jun Chen, Ben-Hua Zhang	Monster Holding Co., Ltd., AGI Holding Co., Ltd., Guo-Ji Li, Zi-Yin Zhang, Wei-Jun Chen, Ben-Hua Zhang,	Monster Holding Co., Ltd., AGI Holding Co., Ltd., Chao-Sheng Lu, Zi-Yin Zhang, Wei-Jun Chen, Ben-Hua Zhang,
NT\$5,000,000(inclusive) to NT\$9,999,999	-	-	Zhu-Qing Li	Guo-Ji Li, Zhu-Qing Li
NT\$10,000,000(inclusive) to NT\$14,999,999	-	-	-	-
NT\$15,000,000(inclusive) to NT\$29,999,999	-	-	-	-
NT\$30,000,000(inclusive) to NT\$49,999,999	-	-	-	-
NT\$50,000,000(inclusive) to NT\$99,999,999	-	-	-	-
NT\$100,000,000 or Above	-	-	-	-
Total	8 Persons	8 Persons	8 Persons	8 Persons

Note: the amount for 2018 remuneration paid to directors and compensation paid to employees that are approved by the board of director.

(II) Remuneration Paid to Supervisor: The Company has established the audit committee to replace the function of the supervisor, so this is not applicable.

(III) Compensation Paid to President and Vice Presidents

Unit: NT\$ Thousand; %; Shares in Thousand, Data Period:

2018

Title	Name	Salary (A)		Severance Pay and Pension (B)		Bonus and Other Special Allowances (C)		Compensation to Employee (D) (Note)				Total of A, B, C and D as a Percentage of Profit After Tax (%)		Compensation from Investees Other Than Subsidiaries
		The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company		All Companies in the Financial Report		The Company	All Companies in the Financial Report	
								Cash Amount	Stock Amount	Cash Amount	Stock Amount			
President	Guo-Ji Li													
Vice President of Project	Jin-Xing Li													
Director of Supplier Management	Ya-Hui Xie	-	10,050	-	416	2,100	2,702	8,500	-	8,500	-	1.09	1.35	-
Director of Manufacturing Department	Zhu-Qing Li													
Director of Engineering	Shi-Jia Lai													

Note: the amount for 2018 compensation paid to employees that are approved by the board of director.

Remuneration Range Table

Range of Compensation Paid to President and Vice Presidents of the Company	Name of President and Vice Presidents	
	The Company	All Companies in the Financial Report
Less than NT\$ 2,000,000	Ya-Hui Xie, Shi-Jia Lai	Shi-Jia Lai
NT\$2,000,000(inclusive) to NT\$4,999,999	Guo-Ji Li, Jin-Xing Li, Zhu-Qing Li	Ya-Hui Xie
NT\$5,000,000(inclusive) to NT\$9,999,999	-	Guo-Ji Li, Jin-Xing Li, Zhu-Qing Li
NT\$10,000,000(inclusive) to NT\$14,999,999	-	-
NT\$15,000,000(inclusive) to NT\$29,999,999	-	-
NT\$30,000,000(inclusive) to NT\$49,999,999	-	-
NT\$50,000,000(inclusive) to NT\$99,999,999	-	-
NT\$100,000,000 or Above	-	-
Total	5 Persons	5 Persons

(IV) Name of Managers to Whom the Employees' Compensation Will Be Appropriated and Its Appropriation Status: The board of director has approved the appropriation of 2018 employees' compensation of NT\$15,255,152 by cash. Before implementing the appropriation, its detail will be reported to the remuneration committee for resolution and submitted to the board of director for approval.

(V) Analysis of total remuneration paid to directors and supervisors and the compensation paid to president and vice presidents by the Company and all entities in the consolidated financial statement in the latest two years as a percentage of profit after-tax, and Explanation of the policies, standards and composition of the remuneration and compensation, the formulas for setting up the remuneration and compensation, as well as its correlation with the business performance and future risks:

1. Analysis of total remuneration paid to directors and supervisors and the compensation paid to presidents and vice presidents by the Company in the latest two years as a percentage of profit after-tax:

Title	Total 2018 remuneration/compensation as a percentage of profit after-tax		Total 2017 remuneration/compensation as a percentage of profit after-tax	
	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report
Director	2.37	3.18	1.51	2.66
President and Vice Presidents	1.09	1.35	3.69	5.09

2. The policies, standards and composition of the remuneration and compensation, the formulas for setting up the remuneration and compensation, as well as its correlation with the business performance and future risks:

- (1) The director's remuneration will be determined based on its position in the Company, its involvement in the Company's operation and its contribution to the Company.
- (2) The compensation to the president, vice presidents and other managers will be determined based their positions, their personal operational performance and their contribution to the Company as well as will refer to the standards in the same industry and the Company's scale.
- (3) The Company is an overseas enterprise. The social welfare for Taiwanese or other overseas managerial staffs has already reflected into their compensation, so there is no other consideration.

IV. Corporate Governance Implementation

(I) Operation of the Board of Director:

In the most recent year and as of the date of the annual report published, the board of director held 10 meetings. The directors' attendance situation is as follows:

Title	Name	Number of Attendance In Person	Number of Attendance By Proxy	Attendance Rate In Person (%)	Remark
Director	Monster Holding Co., Ltd. Representative: Chao-Sheng Lu	10	0	100	
Director	AGI Holding Co., Ltd. Representative: Guo-Ji Li	9	1	90	
Director	Zhu-Qing Li	10	0	100	
Independent Director	Zi-Yin Zhang	9	1	90	
Independent Director	Wei-Jun Chen	9	1	90	
Independent Director	Ben-Hua Zhang	9	1	90	
Other Events That Shall be stated:					
<p>I. If the operation of the board of director has the following circumstances, the date and session of the board of director, the contents of the motion, all opinions of the independent directors and actions taken by the Company regarding to the opinions of the independent directors:</p> <p>(I) The events listed in the Article 14-3 of the Securities and Exchange Act are as follows. All independent directors have no objections and approved the matters listed in the Article 14-3 of the Securities and Exchange Act.</p> <ol style="list-style-type: none"> 1. Passed by 4th meeting of the 4th board of director on February 9, 2018: <ol style="list-style-type: none"> (1) Resolution to increase the capital for the subsidiary, Dragonstate Technology Co., Ltd., and reinvest in the second-tier subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., and increase the capital for the subsidiary, Concraft Precision Co., Ltd., as well as reinvest in the second-tier subsidiary, Concraft Precision Electronics (Baoying) Co., Ltd. (2) Resolution for the subsidiary to purchase a batch of the machineries and equipments. (3) Resolution to lend funds to the subsidiaries, Kunshan Dragonstate Electronic Technology Co., Ltd. as well as Concraft Precision Electronics (Baoying) Co., Ltd.. (4) Resolution for the proposal to change the accounting managerial office. (5) Resolution to merge the Company's subsidiary, Concraft Precision Industry Co., Ltd., and the second-tier subsidiary, Dragonstate International Technology Co., Ltd.. 2. Passed by 5th meeting of the 4th board of director on March 20, 2018: <ol style="list-style-type: none"> (1) Resolution to amend the partial articles for the "Procedure for Lending Funds to Others". (2) Resolution to amend the partial articles for the internal control system and the rules for execution of internal audit. (3) Resolution for the second-tier subsidiary, Dragonstate International Technology Co., Ltd., to purchase the real estate. (4) Proposal for the Company to issue the employee restricted stock awards. 3. Passed by 6th meeting of the 4th board of director on May 11, 2018: <ol style="list-style-type: none"> (1) Resolution to provide the endorsements and guarantees for the subsidiary, Dragonstate Technology Co., Ltd.. (2) Resolution for the Company's subsidiary, Dragonstate Technology Co., Ltd. to engage in derivatives trading with CTBC bank with the equal value of USD 1 million of transaction limit. (3) Resolution to amend the partial articles for the "Remuneration Committee Charter". 4. Passed by 7th meeting of the 4th board of director on July 2, 2018: <ol style="list-style-type: none"> (1) Resolution for the Company to issue new shares for acquisition of shares of OBO PRO.2 Inc. (hereinafter refers to as "OBO PRO.2"). The new shares issued will be proceeded to exchange the shares with the partial shareholders of the OBO PRO.2 (hereinafter refers to as "Participated Shareholders") to acquire the reciprocal value of the shareholding. (2) Resolution for the Company's subsidiary, Concraft Precision Electronics (Baoying) Co., Ltd. to transfer earnings to increase capital. (3) Resolution for the Company to provide the endorsements and guarantees for its subsidiary. 5. Passed by 8th meeting of the 4th board of director on August 8, 2018: <ol style="list-style-type: none"> (1) Resolution for the Company to lend funds to its subsidiary. 6. Passed by 9th meeting of the 4th board of director on November 12, 2018: <ol style="list-style-type: none"> (1) Resolution for the Company to increase the capital for its subsidiary, Dragonstate International Technology Co., Ltd.. (2) Resolution for the Company's subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., to transfer its earnings to increase capital. (3) Resolution to fit out the car to the Company's chairperson. (4) Resolution for the Company's subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., to purchase a batch of the machineries and equipments. (5) Resolution for the Company to provide the endorsements and guarantees for its subsidiary. (6) Resolution for first buy-back program of the Company's shares. (7) Resolution for the Company to issue the first unsecured convertible corporate bond in the territory of Republic of China. (8) Resolution for the Company to purchase the liability insurance for its directors and supervisors. 7. Passed by 10th meeting of the 4th board of director on January 21, 2019: <ol style="list-style-type: none"> (1) Resolution for the second-tier subsidiary, Dragonstate International Technology Co., Ltd., to purchase the real estate. (2) Resolution to enlarge the Company's internal control system. 8. Passed by 11th meeting of the 4th board of director on March 22, 2019: <ol style="list-style-type: none"> (1) Resolution to amend the partial articles for the "Procedure for Acquisition or Disposal of Assets". (2) Resolution to amend the partial articles for the "Procedure for Lending funds to Others". (3) Resolution to amend the partial articles for the "Procedure of the endorsements and guarantees". (4) Resolution to amend the partial articles for the internal control system and the rules for execution of internal audit. (5) Resolution to lend funds to the subsidiary. (6) Resolution to increase capital for the subsidiary, Dragonstate Technology Co., Ltd.. (7) Resolution to sign the certificate of appointment with PWC Taiwan to audit the financial statements. 9. Passed by 12th meeting of the 4th board of director on April 13, 2019: <ol style="list-style-type: none"> (1) Resolution to cancel and conduct the lending funds to the subsidiary. (2) Proposal for the Company to increase the capital to its subsidiary, Dragonstate International Technology Co., Ltd.. (3) Proposal for the Company's subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., to purchase a batch of the machineries and equipments. <p>(II) Except for the aforesaid events, an independent director's objection or qualified opinion has records or written statement for any of the</p>					

	resolutions of the board of director: No such circumstance.
II.	For the recusal of a director from a proposal because of a conflict of interest, the name of director, the contents of a proposal, the reasons of recusal and its participation in voting shall be stated: (I) The appropriation of the year-end bonus for the employees has been passed by the 4th meeting of the 4th board of director of the Company. Guo-Ji Li and Zhu-Qing Li who are the representatives and director respectively of corporate director, the AGI Holding Co., Ltd., recused this proposal to avoid a conflict of interests because of serving as managers of the Company concurrently. (II) The proposal for fitting out a car to the chairperson has been approved by the 9th meeting of the 4th board of director. Chao-Sheng Lu who is the representative of corporate director, Monster Holding Co., Ltd., recused this proposal to avoid the conflict of interests because of serving as the Company's chairperson concurrently.
III.	Objectives to strengthen the functionality of the board of director (e.g. establish the audit committee and enhance information transparency etc.) and its implementation in the current year and the recent years: (I) The Company has established the "Rule for Board of Directors Meetings" according to "Regulations Governing Procedure for Board of Directors Meetings of Public Companies", and the information of the directors' attendance for the board of director has been entered in the Market Observation Post System, as well as has disclosed the significant resolutions of the board of director in the Company's website.

(II) Operation Status of the Audit Committee

In the most recent year and as of the date of the annual report published, the audit committee held 11 meetings and the attending status of the independent directors is as follows:

Date: May 31, 2019

Title	Name	Number of Attendance In Person	Number of Attendance By Proxy	Attendance Rate In Person (%)	Remark
Independent Director	Zi-Yin Zhang	11	0	100	
Independent Director	Wei-Jun Chen	10	1	91	
Independent Director	Ben-Hua Zhang	11	0	100	

Other Events That Shall be stated:

I. If the operation of the audit committee has following circumstances, the date and session of the board of director, the contents of the motion, the resolution of the audit committee and actions taken by the Company regarding to the opinions of the audit committee shall be stated.

(I) The events listed in the Article 14-5 of the Securities and Exchange Act: has been approved by the audit committee and then has been reported to the board of director.

1. Passed by 4th meeting of the 4th board of director on February 9, 2018:

- (1) Resolution to increase the capital for the subsidiary, Dragonstate Technology Co., Ltd., and reinvest in the second-tier subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., and increase the capital for the subsidiary, Concraft Precision Co., Ltd., as well as reinvest in the second-tier subsidiary, Concraft Precision Electronics (Baoying) Co., Ltd..
- (2) Resolution for the subsidiary to purchase a batch of the machineries and equipments.
- (3) Resolution to lend funds to the subsidiaries, Kunshan Dragonstate Electronic Technology Co., Ltd. as well as Concraft Precision Electronics (Baoying) Co., Ltd..
- (4) Resolution for the proposal to change the accounting managerial office.
- (5) Proposal to merge the Company's subsidiary, Concraft Precision Industry Co., Ltd., and the second-tier subsidiary, Dragonstate International Technology Co., Ltd..

2. Passed by 5th meeting of the 4th board of director on March 20, 2018:

- (1) Resolution to amend the partial articles for the "Procedure for Lending Funds to Others".
- (2) Resolution to amend the partial articles for the internal control system and the rules for execution of internal audit.
- (3) Resolution for the second-tier subsidiary, Dragonstate International Technology Co., Ltd., to purchase the real estate.
- (4) Proposal for the Company to issue the employee restricted stock awards.
- (5) The Company's 2017 business report and the consolidated financial statement have been prepared.

3. Passed by 6th meeting of the 4th board of director on May 11, 2018:

- (1) Resolution to provide the endorsements and guarantees for the subsidiary, Dragonstate Technology Co., Ltd..
- (2) Proposal for the Company's subsidiary, Dragonstate Technology Co., Ltd. to engage in derivatives trading with CTBC bank with the equal value of USD 1 million of transaction limit.
- (3) Proposal to amend the partial articles for the "Remuneration Committee Charter".

4. Passed by 7th meeting of the 4th board of director on July 2, 2018:

- (1) Proposal for the Company to issue new shares for acquisition of shares of OBO PRO.2 Inc. (hereinafter refers to as "OBO PRO.2"). The new shares issued will be proceeded to exchange the shares with the partial shareholders of the OBO PRO.2 (hereinafter refers to as "Participated Shareholders") to acquire the reciprocal value of the shareholding.
- (2) Proposal for the Company's subsidiary, Concraft Precision Electronics (Baoying) Co., Ltd. to transfer earnings to increase capital.
- (3) Proposal to provide the endorsements and guarantees for the subsidiary, Dragonstate Technology Co., Ltd..

5. Passed by 8th meeting of the 4th board of director on August 8, 2018:
 - (1) Proposal to lend funds to the subsidiaries, Kunshan Dragonstate Electronic Technology Co., Ltd..
 6. Passed by 9th meeting of the 4th board of director on November 12, 2018:
 - (1) Proposal for the Company to increase the capital to its subsidiary, Dragonstate International Technology Co., Ltd..
 - (2) Proposal for the Company's subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., to transfer its earnings to increase capital.
 - (3) Proposal for fitting out the car to the Company's chairperson.
 - (4) Proposal for the Company's subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., to purchase a batch of the machineries and equipments.
 - (5) Proposal to provide the endorsements and guarantees for the subsidiary, Dragonstate Technology Co., Ltd..
 - (6) First buy-back program of the Company's shares.
 - (7) Proposal for the Company to issue the first unsecured convertible corporate bond in the territory of Republic of China.
 - (8) Proposal for the Company to purchase the liability insurance for its directors and supervisors.
 7. Passed by 10th meeting of the 4th board of director on January 21, 2019:
 - (1) Proposal for the Company's second-tier subsidiary, Dragonstate International Technology Co., Ltd., to purchase the real estate.
 - (2) Proposal to enlarge the Company's internal control system.
 8. Passed by 11th meeting of the 4th board of director on March 22, 2019:
 - (1) Resolution to amend the partial articles for the "Procedure for Acquisition or Disposal of Assets".
 - (2) Resolution to amend the partial articles for the "Procedure for Lending funds to Others".
 - (3) Resolution to amend the partial articles for the "Procedure of the endorsements and guarantees".
 - (4) Resolution to amend the partial articles for the internal control system.
 - (5) Resolution to lend funds to the subsidiary.
 - (6) Resolution to increase capital for the subsidiary, Dragonstate Technology Co., Ltd..
 - (7) Resolution to sign the certificate of appointment with PWC Taiwan to audit the financial statements.
 - (8) The Company's 2018 business report and the consolidated financial statement have been prepared.
 9. Passed by 12th meeting of the 4th board of director on April 13, 2019:
 - (1) Resolution to cancel and conduct the lending funds to the subsidiary.
 - (2) Proposal for the Company to increase the capital to its subsidiary, Dragonstate International Technology Co., Ltd..
 - (3) Proposal for the Company's subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., to purchase a batch of the machineries and equipments.
- (II) Except for the aforesaid events, any resolution has been approved by two-thirds or more of all directors without the audit committee's passing: No such circumstance.
- II. For the recusal of an independent director from a proposal because of a conflict of interest, the name of independent director, the contents of a proposal, the reasons of recusal and its participation in voting shall be stated: No such circumstance.
- III. Communications between the independent directors, internal auditing managerial officer and CPAs (e.g. the communications on significant events of the Company's finance and operations, its methods and its results etc.):
- (I) The Company's internal auditing managerial officer has communicated the result of the audit report with the members of the audit committee regularly and have reported the internal auditing events in the quarterly meeting of the audit committee. In case of any special circumstance, the Company's chief internal auditor will report to the members of the audit committee immediately. There is no aforesaid special circumstance in the most recent year and as of the date of the annual report published. The audit committee has communicated with the internal auditing managerial officer well.
 - (II) The CPAs designated by the Company will report the auditing events or results of the financial statement for the year and other communication events that are required by the relevant laws in the annual meeting of the audit committee. In case of any special circumstance, the CPAs will also report to the members of the audit committee immediately. In the most recent year and as of the date of the annual report published, there is no aforesaid special circumstance. The audit committee has communicated with the CPAs well.

(III) Status of the Corporate Governance Implementation, its discrepancy with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and the reasons of the discrepancy

Assessment Items	Status of Implementation			Discrepancy with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and the reasons of the discrepancy
	Yes	No	Brief Explanations	
I. Does the Company establish and disclose the corporate governance best practice principles according to the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"?	✓		The company has established the corporate governance best practice principles according to the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and has it disclosed on the Company's website.	There is no significant discrepancy.
II. Shareholding Structure and Shareholders' Rights/Interests (I) Does the Company establish the internal procedures to handle the suggestions, doubts, disputes and litigation from the shareholders, and execute according to the procedures?	✓		(I) For the stock affairs, the Company has established the relevant internal control system and has designated the professional stock agency in Taiwan to handle the stock affairs. In addition, the finance department, spokesperson and deputy spokesperson have coordinated to handle the shareholders' suggestions,	There is no significant discrepancy.

Assessment Items	Status of Implementation			Discrepancy with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and the reasons of the discrepancy
	Yes	No	Brief Explanations	
(II) Does the Company possess the lists of the major shareholders who control the Company in reality and their ultimate controllers? (III) Does the Company establish and implement the mechanisms of risk control and firewall with the affiliates? (IV) Does the Company establish the internal standards to forbid its insiders to use the unpublicized information of the market to trade its securities?	✓ ✓		doubts, disputes and litigation. (II) The Company has possessed the lists of the major shareholders who control the Company in reality and their ultimate controllers. According to Article 25 of the Securities and Exchange Act, the changes of the insiders' shareholding (directors, supervisors, managers and shareholders who holds more than 10% of the total shares) will be declared to the website of the Market Observation Post System designated by the Securities & Futures Institute on schedule. (III) The Company has established the "Procedure of Trading with the Related Parties for the Entities of the Group and the Specific Companies". The managerial authority for assets and finance of each affiliate will be independent respectively and shall be executed according to such procedure. The mechanisms of risk control and firewall shall be implemented indeed. (IV) The Company has established the "Procedure for the Handling of Internal Material Information", "Procedure for Prevention of Insider Trading" and "Code of Ethical Conduct" that shall be applicable to all directors, supervisors, managers and employees of the Company. The Company will renew and promote the related messages irregularly.	There is no significant discrepancy. There is no significant discrepancy. There is no significant discrepancy.
III. Composition and Duties of the Board of Director (I) Does the board of director draw up the policy of diversification for its composition of members and implement accordingly? (II) Except for the establishment of the remuneration committee and the audit committee according to laws, does the Company establish other various functional committees voluntarily? (III) Does the Company establish the rule of performance evaluation for the board of director and its evaluation methods, and proceed the annual performance evaluation regularly? (IV) Does the Company assess the CPA's independence regularly?	✓ ✓ ✓ ✓	✓	(I) Currently the Company has 6 directors, including 3 independent directors and one female. These directors have diversified professional background in business management, legal and accounting. (II) Except for the establishment of remuneration committee and the audit committee, the Company has not yet established other functional committees and will depend on the corporate governance and real business demand to establish in the future. (III) The Company has established the rule of performance evaluation for the board of director that has been passed by the board of director on February 4, 2016. Its annual performance evaluation will be proceeded regularly according to such rule. (IV) The board of director of the Company will assess the suitability of the CPAs to assure its independence regularly.	There is no significant discrepancy. There is no significant discrepancy. There is no significant discrepancy.
IV. Does the TWSE/TPEX listed company establish an exclusively (or concurrently) dedicated department or personnel of the corporate governance to be responsible for the related affairs (including but to limited to the data required by the directors and supervisors to perform their duties, the relevant affairs of the board of director and the shareholders' meeting according to laws, the registration and change of registration for the Company as well as the meeting minutes for the board of director and the shareholders' meeting)?	✓		The Company has established an exclusively (or concurrently) department or personnel of the corporate governance to be responsible for the related affairs and has conducted according to the relevant laws.	There is no significant discrepancy.

Assessment Items	Status of Implementation			Discrepancy with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and the reasons of the discrepancy
	Yes	No	Brief Explanations	
V. Does the Company establish the communication channels with stakeholders (including but not limited to shareholders, employees, customers and suppliers etc.), establish a designated section for stakeholders on its corporate website and properly respond the issues of important corporate social responsibilities cared by the stakeholders?	✓		<ol style="list-style-type: none"> The Company has declared the various information of business, finance and important messages on the Market Observation Post System according the relevant laws. The shareholders and stakeholders can refer to such website to inquire the various information of finance and operation of the Company. The Company has established its website in both Chinese and English (www.concraft.com.tw) to disclose the business information. On its website, the Company has also established a designated section of investor relations and put up one link to connect with the Market Observation Post System to facilitate the shareholders and stakeholders to look up. The Company always communicates with investors in the regular and irregular investor conferences. 	There is no significant discrepancy.
VI. Does the Company appoint the professional stock agency to handle the affairs of the shareholders' meeting?	✓		The Company has appointed one professional stock agency in Taiwan to handle the stock affairs.	There is no significant discrepancy.
VII. Information Disclosure (I) Does the Company establish its website to disclose the financial activities and the information of the corporate governance? (II) Does the Company adopt other methods to disclose its information (e.g. setup English website, designate the dedicated personnel to take charge of collecting and disclosing its corporate information, implement the spokesperson system, place the course of the investor conferences on its corporate website etc.)?	✓ ✓		<p>(I) The Company has established its website in both Chinese and English (www.concraft.com.tw) to disclose the business information. Also, the financial information will be disclosed on Market Observation Post System and the status of the corporate governance will be disclosed in the annual report and the prospectus.</p> <p>(II) Except for the establishment of the aforesaid website in Chinese and English, the Company has established the spokesperson and deputy spokesperson to take charge of external speaking and information disclosure, and the relevant departments will be responsible for collecting the Company's information.</p> <p>(III) The information of the investor conferences that the Company may be held by itself or may be invited to will be disclosed on the Company's website and will enter the relevant information into the Market Observation Post System according to the relevant regulations of the Securities and Exchange Act.</p>	<p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p>
VIII. Does the Company has other important information that is helpful to understand the implementation of the Corporate Governance (including but not limited to rights/interests of employees, wellness of employees, investor relations, supplier relations, rights of stakeholders, training of directors and supervisors, implementation of risk management policies and risk assessment standards, implementation of customer policies and purchasing liability insurance for directors and supervisors etc.)?	✓		<ol style="list-style-type: none"> The Company and its subsidiaries have established the employee welfare related systems according to the laws of their respective countries to protect the rights/interests of the employees. The Company has assigned the administrative department to take charge of the employees' rights/interests and investor relations, and arranging the regular or irregular trainings for employees. The Company has been continuing the training according to the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies". The Company purchases the liability insurance for its directors annually. 	There is no significant discrepancy.
IX. Regarding to the results of the corporate governance evaluation announced by the Corporate Governance Center of the Taiwan Stock Exchange in the most recent year, please describe the improvement status, and address the prior matters that shall be strengthened and their measures for those unimproved circumstances. (This is not applicable to those companies who are not evaluated.)	✓		<ol style="list-style-type: none"> The Company has finished 2018 Information Disclosure Evaluation System for TWSE/TPEX Listed Companies and a self-evaluation report on corporate governance. Every year, the Company will conduct the self-evaluation situation and evaluate whether there is any reason that the implementation of the corporate governance is unable to achieve the standards. The Company's current operation and execution on the self-evaluated items do not have significant deficiency. Major Deficiencies: In case of any insufficiency for every execution, it will be strengthened to improve progressively. Improvement Situation: The Company has established the "Corporate Governance Best Practice Principles", "Ethical Corporate Management Best Practice Principles" and 	There is no significant discrepancy.

Assessment Items	Status of Implementation			Discrepancy with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and the reasons of the discrepancy
	Yes	No	Brief Explanations	
			"Corporate Social Responsibility Best Practice Principles". Any insufficiency will be improved progressively. Up to now, there is no any significant deficiency that shall be improved.	

(IV) If the Company has established the remuneration committee, its composition, duties and exercise shall be disclosed:

1. Information of the Members of the Remuneration Committee

Identity	Name	Conditions	More Than Five Years of Work Experiences and the Following Professional Qualifications				Conformance of Independence (Note 1)								Number of Other Publicly Issued Company in Which the Person is Concurrently Servicing as a Member of the Remuneration Committee	Remark (Note 2)
			A Instructor or Higher Position in a Department of Business, Legal, Finance, Accounting or Other Academic Department Necessary for the Business of the Company in a Public or Private University, College, Junior College and Institute	A Judge, Procurator, Public Attorney, CPA or Other Professional and Technical Personnel Who Has Passed the National Examination with a Certificate in a Professional Necessary for the Business of the Company.	Has Work Experience in the Field of Business, Legal, Finance, Accounting or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8			
Independent Director	Zi-Yin Zhang	-	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	None	✓		
Independent Director	Wei-Jun Chen	-	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	None	✓		
Independent Director	Ben-Hua Zhang	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	✓		

Note 1: If any of the members meets the following conditions during the two year prior to being elected or during the term of office, please tick "✓" in the blank space of the corresponding condition below.

- (1) Not an employee of the Company or its affiliates.
- (2) Not a director or supervisor of the Company or its affiliates. However, an independent director of the Company or its parent company or its subsidiaries that is established according to the Securities and Exchange Act or the local laws shall not be subject to this restriction.
- (3) Not a natural-person shareholder who holds shares, together with those shares held by the person's spouse, minor children or held in the name of other persons, in an aggregate amount of 1% or more of the Company's total shares issued or ranks in the top 10 in shareholding.
- (4) Not a spouse, relative within the second-degree of kinship or lineal relative within the third-degree of kinship, of any of the persons listed in the preceding three subparagraphs.
- (5) Not a director, supervisor or employee of a corporate shareholder who holds 5% or more of the Company's shares issued directly, or ranks the top 5 in shareholding.
- (6) Not a director, supervisor, manager or shareholder with 5% or more of shareholding of a specific company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor or manager of a sole proprietorship, partnership, company or institution that, provides the services or consultation of business, legal, finance or accounting to the Company or any affiliate of the Company, or a spouse thereof.
- (8) Not a person who has any one of the circumstances defined in Article 30 of the Company Act.

Note 2: The appointment of the remuneration committee of the Company has complied with the regulation of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter".

2. The Duty of the Remuneration Committee: Strengthening the corporate governance, reinforcing the function of the board of director and assisting the board of director in executing and evaluating the overall policies of remuneration and welfare policies, the remuneration paid to directors and compensation paid to managers.

3. Execution of the Remuneration Committee

(1) The Company's remuneration committee has 3 members.

(2) This Term of Office: from June 23, 2017 to June 22, 2020. In the most recent year and as of the date of the annual report published, the remuneration committee has held 6 meetings. The qualification and attendance of the members are as follows:

Date: May 31, 2019

Title	Name	Number of Attendance In Person	Number of Attendance By Proxy	Attendance Rate In Person (%)	Remark
Member	Zi-Yin Zhang	6	0	100	
Member	Wei-Jun Chen	5	1	83	
Member	Ben-Hua Zhang	6	0	100	
Other Events That Shall be stated:					
I. In case the board of director does not adopt or amend the suggestions of the remuneration committee, the date and session of the board of director, the contents of motion, the resolution of the board of director and the actions taken by the Company regarding to the opinions of the remuneration committee shall be stated: No such circumstance.					
II. For the resolutions of the remuneration committee, if any member has objection or qualified opinion and has the records or the written statement, the date and session of the meeting of the remuneration committee, the contents of the motion, the opinions of all members and the actions taken regarding to the opinions of the members shall be stated: No such circumstance.					

(V) Fulfillment of the Social Responsibility

Assessment Items	Status of Implementation			Discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons of the discrepancy
	Yes	No	Brief Explanations	
<p>I. Fulfillment of the Corporate Governance</p> <p>(I) Does the Company establish the policy or system regarding to corporate social responsibilities, and review its effects of practice?</p> <p>(II) Does the Company hold the regular training regarding to social responsibility?</p> <p>(III) Does the Company establish an exclusively (concurrently) dedicated department to promote its corporate social responsibilities, and the board of director authorize the senior management level to handle, as well as the senior management level report the execution status to the board of director?</p> <p>(IV) Does the Company establish a reasonable compensation policy, combine the employee performance evaluation system with the corporate social responsibilities policy and setup the specific and effective rewards and punishments system?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>(I) The Company has established the Corporate Social Responsibility Best Practice Principles according to the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and has implemented accordingly. When the Company engages in its business, it will actively practice its social responsibilities.</p> <p>(II) The Company arranges regular trainings for directors and employees, and conducts the trainings for the securities and exchange act according to relevant regulations.</p> <p>(III) Although the Company has not established an exclusively (concurrently) dedicated department to promote its corporate social responsibilities, the relevant departments will conduct the related affairs according to their duties.</p> <p>(IV) The Company has established the reasonable compensation policies and the employee management rules. The appropriation of performance bonus will link together with rewards/punishments and performance evaluation to establish the specific and effective rewards and punishments system.</p>	<p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p>
<p>II. Sustainable Environment Development</p> <p>(I) Does the Company endeavor to utilize various resources more efficiently, and adopt the renewable materials which have less impact on the environment?</p> <p>(II) Does the Company establish the suitable environmental management system based on its industrial characteristics?</p> <p>(III) Does the Company pay attention to the influences of climate changes on its operation activities, and perform examination at greenhouse gas as well as establish the strategies for energy saving, carbon reduction and greenhouse gas reduction?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>When the Company began to plan the new plants in 2009, the first important thing for all plans was to comply with local laws, in which partly related to environmental protection such as low-e glass, heat pump system, heat recycling system and green building materials etc.. Besides, the Company has passed the accreditation for ISO14001 Environmental Management System and has been awarded a certificate. The Company has been actively managing its products and processes systematically to ensure to meet the international standards. Additionally, the Company has insisted the following principles on its production process regarding to its social responsibilities of environmental protection:</p> <p>(I) Understanding the carbon footprint of the material of its products to meet the requirement of ISO system in the future.</p> <p>(II) Innovating the process technology to save materials in the process</p>	<p>There is no significant discrepancy.</p>

Assessment Items	Status of Implementation			Discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons of the discrepancy
	Yes	No	Brief Explanations	
			<p>of production such as Insert-Molding technology.</p> <p>(III) Purchasing the energy-saving equipments to replace or decrease the use of the energy-consumed equipments of the same model.</p> <p>(IV) Designing the simplified products in view of functions without over-using the raw materials.</p> <p>(V) Intensifying to recycle the scraps and waste materials in the process of production.</p>	
<p>III. Preserving Public Welfare</p> <p>(I) Does the Company establishes the related management policies and procedures according to the relevant regulations and the International Bill of Human Rights?</p> <p>(II) Does the Company set up the mechanisms and channels for the complaint of the employees, and handle it properly?</p> <p>(III) Does the Company provide a safe and healthy working environment for employees, and arrange the regular trainings of safety and health for employees?</p> <p>(IV) Does the Company set up the mechanism to communicate with employees regularly, and notify the possible significant impact on employees with appropriate methods?</p> <p>(V) Does the Company build up the effective training programs of career capability development for employee?</p> <p>(VI) Does the Company establish the policies of consumer protection and its complaint procedures upon the processes of research/development, procurement, production, operation and services</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>(I) The Company has established the "Payroll and Personnel Operation Cycle" and "Employee Management Rules". The human resources have been conducted in accordance with the Labor Standards Act, the Employment Service Act and the Act of Gender Equality in Employment in order to manage more appropriately. Besides, the Company has also purchased the "Group Insurance" for employees yearly to protect the employees' rights/interests.</p> <p>(II) The Company has set up an employee suggestion mailbox to receive the employees' opinions exclusively. Such mailbox will provide its employees a channel to provide their suggestions so as to manage the communication broadly and further strengthen the relationship between labor and management. In addition, the Company has also set up the meeting between labor and management so that the employees can appeal their opinions in the meeting to obtain the fair and reasonable treatment.</p> <p>(III) The workplace is located in an office building which has 24-hour of professional security company to protect the safety so that the colleagues can work in a safety workplace. The workplace is equipped with the complete fire fighting equipments and has cooperated with government for the periodical examinations of safety and fire fighting that have been all passed.</p> <p>(IV) The Company has arranged the employee party, travel and year-end party regularly and has good interaction and communication with the employees.</p> <p>(V) The Company has arranged the trainings regularly and irregularly in order to enhance the employees' professional capabilities.</p>	<p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p>

Assessment Items	Status of Implementation			Discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons of the discrepancy
	Yes	No	Brief Explanations	
<p>etc.?</p> <p>(VII) Does the Company comply with the relevant laws and international standards to market and label its products and services?</p> <p>(VIII) Does the Company assess its suppliers' historical records regarding to the impacts on the environment and society before trading with suppliers?</p> <p>(IX) Does the Company state the policies regarding to the suppliers' violation against its corporate social responsibilities on the contracts with major suppliers, and have the articles to terminate or dissolve the contract at any time if there is any material impacts on the environment and society?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(VI) In each phase of the process, there are professional persons to take charge of assuring its compliance with the relevant laws. In addition, the appealing procedures for the stakeholders have also been published on the Company's website.</p> <p>(VII) The Company has passed the accreditation of various ISO/IECQ management systems and has been awarded the following certificates. The Company has been actively managing its products and processes systematically to ensure to meet the international standards and protect the rights and interests of the consumers. Quality Management Systems: ISO9001 Connector, Stamping and Injection Mold Manufacture Management System: IATF16949 Environmental Management System: ISO14001</p> <p>(VIII) The contracts between the Company and its suppliers have stipulated that the suppliers' products shall comply with the laws, regulations and rules of the environmental protection from international, countries and regions. In the event of non-compliance with the standards of environmental protection, such suppliers shall be liable for the violations.</p> <p>(IX) The suppliers shall provide the certificates to prove that the contents of products meet the requirements of the customers and the laws, and shall accept the customers' audit. The Company has audited its suppliers periodically, and has requested its suppliers to audit and request its upstream suppliers as well for the corporate social responsibilities.</p>	<p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p> <p>There is no significant discrepancy.</p>
<p>IV. Strengthening Information Disclosure</p> <p>(I) Does the Company disclose the relevant and reliable information regarding to its corporate social responsibilities on its website and the Market Observation Post System?</p>	<p>✓</p>		<p>The company has disclosed the financial information and publicized the significant messages on the Market Observation Post System. Its annual report and prospects have also disclosed the systems and measures adopted by the Company to implement its corporate social responsibilities and its fulfillment status.</p>	<p>There is no significant discrepancy.</p>
<p>V. If the Company has established its Corporate Social Responsibility Best Practice Principles according to the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", please describe its execution and its discrepancy with its Principles established: In addition to the corporate social responsibilities report that has not yet been prepared by the Company, the Company has complied with such Principles to implement</p>				

Assessment Items	Status of Implementation			Discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons of the discrepancy
	Yes	No	Brief Explanations	
without significant discrepancy.				
VI. Other important information that is helpful to understand its fulfillment of the corporate social responsibilities: The Company understand the impacts of the corporate social responsibilities on the public and will endeavor to operate its own business to provide its employees a stable working environment and seek the biggest welfare for its stakeholders.				
VII. If the Company's corporate social responsibilities report has passed the standards of the external verification institutions, please describe it: None.				

(VI) The Company's Fulfillment of Ethical Corporate Management and Measures Adopted

The Company has requested all colleagues to fulfill the ethical management in accordance with the local laws when executing their duties. According to work rules, employment contract or other internal management rules that are signed between the Company and its employees, all colleagues have been requested to value the business secrets of customers and other parties, and have the obligations to protect the Company's property without being lost, damaged, improper used, read and stolen, as well as shall comply with and manage all relevant rules and systems relating to the property of the Company.

Assessment Items	Status of Implementation			Discrepancy with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and the reasons of the discrepancy
	Yes	No	Brief Explanations	
I. Establishing the Policies and Programs of Ethical Management				
(I) For the Company's rules and the external documents, does it specifically express its ethical management policies and methods, as well as the commitment of board of director and management team to actively implement its policies?	✓		(I) The Company has established the "Ethical Corporate Management Best Practice Principles" and the "Procedures for Ethical Management and Guidelines for Conduct" that have been disclosed in the Market Observation Post System. In addition, the Company has also established the "Commitment of Ethics, Honesty and Confidentiality". The legal department will arrange the training regarding to the professional ethics regularly. In order to fulfill the ethical management, the Company has set up the effective accounting system and internal control system. The internal auditor will audit the implementation for the preceding paragraph's systems regularly.	There is no significant discrepancy.
(II) Does the Company establish the programs to prevent unethical conduct, and specifically express its operating procedure, guidelines of conduct, punishment for violation and appealing system in each program, as well as execute it indeed?	✓		(II) The Company has specifically set up its operating procedure, guidelines of conduct, punishment for violation and appealing	There is no significant discrepancy.

Assessment Items	Status of Implementation			Discrepancy with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and the reasons of the discrepancy
	Yes	No	Brief Explanations	
(III) Does the Company adopt the prevention measures against the business activities stated in Article 7, Paragraph 2 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" or other business scopes that have high-potential unethical conducts?	✓		system in the "Procedures for Ethical Management and Guidelines for Conduct" . (III) In order to fulfill the ethical management, the Company has set up the effective accounting system and internal control system. The internal auditor will audit the implementation for the preceding paragraph's systems regularly.	There is no significant discrepancy.
II. Fulfilling Ethical Management (I) Does the Company assess the ethical records for its trading partners, and stipulate the articles of the ethical acts on its contract with its trading partners? (II) Does the Company set up an exclusively (concurrently) dedicated department which is under the command of the board of director to promote its corporate ethical management and report its implementation status to the board of director periodically? (III) Does the company establish the policy to prevent the conflicts of interests, provide the appropriate channels of statement and execute it indeed? (IV) Does the Company establish the effective accounting system and internal control system to implement its ethical management, and the internal auditors conduct the auditing periodically, or entrust the CPAs to conduct the auditing? (V) Does the Company arrange the internal and external trainings relating to ethical management regularly?	✓ ✓ ✓ ✓ ✓		(I) The Company always pays attention to its trading status with customers and suppliers. In case of any significant abnormality, it will adopt the corresponding actions immediately or stop trading. (II) The Company has set up an internal auditor room that reports its auditing status to the board of director periodically. (III) The Company has established the "Code of Ethical Conduct" that stipulates the policies to prevent the conflicts of interests and provide the appropriate channels of statement, as well as implement it indeed. Besides, the Company's employees have signed the "Commitment of Ethics, Honesty and Confidentiality" when they assumed office in order to prevent the employees from befitting themselves at the expense of the Company's rights/interests. (IV) In order to implement the ethical management, the Company has established the effective accounting system and internal control system. The internal auditors and the appointed CPA have audited the implementation status of the foregoing systems regularly. (V) The Company's legal department has arranged the training relating to the professional ethics regularly in order to promote its ethical corporate management best practice and its concepts through internal trainings.	There is no significant discrepancy. There is no significant discrepancy. There is no significant discrepancy. There is no significant discrepancy. There is no significant discrepancy.
III. Implementation of the Company's Reporting System (I) Does the Company establish the specific system of reporting and rewards, and set up a convenient	✓		The Company has set up an employee suggestion mailbox to receive the employees' opinions exclusively. Such mailbox will provide its employees a channel to provide their suggestions so as to manage the	There is no significant discrepancy.

Assessment Items	Status of Implementation			Discrepancy with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and the reasons of the discrepancy
	Yes	No	Brief Explanations	
<p>reporting channel, as well as designate an appropriate dedicated person to whom the accused can reach?</p> <p>(II) Does the Company establish standard procedures of investigation for acceptance of the reporting matters and its related confidential mechanisms?</p> <p>(III) Does the Company adopt the measures to protect the reporters not to be improper treatment because of reporting?</p>	<p>✓</p> <p>✓</p>		<p>communication broadly and further strengthen the relationship between labor and management. In addition, the Company has also set up the meeting between labor and management so that the employees can appeal their opinions in the meeting to obtain the fair and reasonable treatment. If the employees put forward the appealing matters orally or in writing, the chief of each department shall conduct the investigation immediately or submit a report, and its results or handling status shall notify such appealing employee. The whole process shall base on the principle of confidentiality and protecting the appealing employees. When an employee' opinion has been adopted and has effectiveness, the Company shall reward such employee according to its rules.</p>	
<p>IV. Strengthening Information Disclosure</p> <p>(I) Does the Company disclose the contents of its ethical corporate management best practice and its executing results on its website and the Market Observation Post system?</p>	<p>✓</p>		<p>The company has disclosed the financial information and publicized the significant messages on the Market Observation Post System, and the "Ethical Corporate Management Best Practice Principles" and the "Procedures for Ethical Management and Guidelines for Conduct" have been disclosed in the Market Observation Post System as well, as well as its annual report and prospects have also disclosed its fulfillment of ethical management and actions taken.</p>	<p>There is no significant discrepancy.</p>
<p>V. If the Company has established its Ethical Corporate Management Best Practice Principles according to the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", please describe its execution and its discrepancy with its Principles established: No significant discrepancy.</p>				
<p>VI. Other important information that is helpful to understand the implementation of the Company's ethical management:(e.g. the circumstances of the amendment to the Company's ethical corporate management best practice principles)</p> <p>(I) The Company's "Rules of Procedure for Board of Director" stipulates the recusal system for directors' conflicts of interests. If a director has a stake in himself/herself or its represented legal person for the proposals listed by the board of director and may result in being harmful to the benefit of the Company, such director may state its opinion and answer, but shall not involve in discussing and voting. And further, such director shall recuse from the discussion and voting of such proposal and shall not represent other director to execute their voting rights.</p> <p>(II) The Company has established the "Insider Trading Prevention Policy" to stipulate that the directors, managers and employees shall not disclose its known internal significant information to others and shall not query or collect the Company's unpublicized internal significant information that is irrelevant to its personal duties from the persons who know the Company's internal significant information. The Company's unpublicized internal significant information that is known other than performing the duties shall not also be disclosed to others as well.</p>				

(VII) Methods to query the Company's governance best practice principles: The Company has disclosed various relevant principles relating to corporate governance best practice on its website (www.concraft.com.tw) and the Market Observation Post System. The relevant information can be searched from the Company's website and the section of "Establishing Corporate Governance Relevant Rules" on the

Market Observation Post System.

(VIII) Other important information that is sufficient to enhance the understanding for the implementation of the corporate governance:
None.

(IX) Implementation of Internal Control:
1. Statement of Internal Control System:

CONCRAFT HOLDING CO., LTD
Statement of Internal Control System

Date: March 22, 2019

The Company has stated its internal control system for the year of 2018 as follows according to self-evaluation:

- I. The Company acknowledges that the establishment, implementation and maintenance of internal control system are the responsibilities of the Company's board of director and managers. The Company has established this system. This system's purpose is to provide reasonable assurance for effectiveness and efficiency of its operations (including profitability, performance and guarantee of assets safety etc.), reliability, timeliness and transparency of its reporting as well as compliance with applicable rules, regulations and laws.
- II. The internal control system has its inborn limitations. However the completeness it designs, the effective internal control system can only provide reasonable assurance for the achievement of the aforesaid three objectives; besides, due to the changes in environment or circumstances, the effectiveness of internal control system may change accordingly. Nevertheless, the Company's internal control system has set up a self-supervision mechanism. Once a deficiency has been identified, the Company will take the remedial actions immediately.
- III. The Company has determined the effectiveness of design and execution for its internal control system according to the determining criteria for the effectiveness of the internal control system stated in the "Regulations Governing the Establishment of Internal Control Systems by Public Companies" (hereinafter refers to the "Regulations"). The determining criteria of the internal control system adopted by the "Regulations" is based on the process of management control and divide the internal control system into five elements: 1. controlling environment, 2. evaluating risk, 3. controlling operations, 4. information and communication, and 5. supervision. The composition of each element also includes several items. Please refer to the "Regulations" for the aforesaid items
- IV. The Company has adopted the aforesaid determining criteria of the internal control system to evaluate the effectiveness of design and execution for its internal control system.
- V. Based on evaluation result of the preceding paragraph, the Company believes that its internal control system (containing the supervision and management of its subsidiaries) as of December 31, 2018, including understanding the achievement for the objectives of effectiveness and efficiency of its operations, reliability, timeliness and transparency of its reporting and compliance with the applicable regulations and laws, was effective in design and execution, and can reasonably assure the achievement of the aforesaid objectives.
- VI. This statement will become the main content of the Company's annual report and prospectus, and will be publicized. If the aforesaid public content has any illegal events including falseness or concealment etc., it shall to be liable to the legal liabilities stipulated in Article 20, 32, 171 and 174 of the Securities and Exchange Act.
- VII. This statement has been passed by the Company's board of director on March 22, **2019** with the attendance of 6 directors, the objection of 0 director, all remaining directors have approved the content of this statement. This statement is hereby attached.

CONCRAFT HOLDING CO., LTD

Chairperson:

Signature:

President:

Signature:

2. Internal Control Project's Audit Report



英屬開曼群島商康而富控股股份有限公司 內部控制制度審查報告

後附英屬開曼群島商康而富控股股份有限公司及其子公司民國 108 年 3 月 22 日謂經評估認為其與外部財務報導及保障資產安全有關之內部控制制度，於民國 107 年 1 月 1 日至 107 年 12 月 31 日係有效設計及執行之聲明書，業經本會計師審查竣事。維持有效之內部控制制度及評估其有效性係公司管理階層之責任，本會計師之責任則為根據審查結果對公司內部控制制度之有效性及上開公司之內部控制制度聲明書表示意見。

本會計師係依照「公開發行公司建立內部控制制度處理準則」及一般公認審計準則規劃並執行審查工作，以合理確信公司上述內部控制制度是否在所有重大方面維持有效性。此項審查工作包括瞭解公司內部控制制度、評估管理階層評估整體內部控制制度有效性之過程、測試及評估內部控制制度設計及執行之有效性，以及本會計師認為必要之其他審查程序。本會計師相信此項審查工作可對所表示之意見提供合理之依據。

任何內部控制制度均有其先天上之限制，故英屬開曼群島商康而富控股股份有限公司及其子公司上述內部控制制度仍可能未能預防或偵測出業已發生之錯誤或舞弊。此外，未來之環境可能變遷，遵循內部控制制度之程度亦可能降低，故在本期有效之內部控制制度，並不表示在未來亦必有效。

依本會計師意見，依照「公開發行公司建立內部控制制度處理準則」之內部控制有效性判斷項目判斷，英屬開曼群島商康而富控股股份有限公司及其子公司與外部財務報導及保障資產安全有關之內部控制制度，於民國 107 年 1 月 1 日至 107 年 12 月 31 日之設計及執行，在所有重大方面可維持有效性；英屬開曼群島商康而富控股股份有限公司於民國 108 年 3 月 22 日所出具謂經評估認為其上述與外部財務報導及保障資產安全有關之內部控制制度係有效設計及執行之聲明書，在所有重大方面則屬允當。

資誠聯合會計師事務所

會計師

許文魁
陳恩臣



行政院金融監督管理委員會證券期貨局
核准簽證文號：金管證六字第 0950105016 號
金融監督管理委員會
核准簽證文號：金管證審字第 1060025060 號

中 華 民 國 1 0 8 年 3 月 2 6 日

(X) In the most recent year and as of the date of the annual report published, the Company and its internal persons were punished according to laws, the Company punished its internal persons in violation of the regulations of its internal control system, its major deficiencies and improvement status: None.

(XI) In the most recent year and as of the date of the annual report published, the important resolutions from the shareholders' meeting and the board of director:

Items	Date	Important Resolutions Items
Board of Director	February 9, 2018	<ol style="list-style-type: none"> 1. Resolution to increase the capital for the subsidiary, Dragonstate Technology Co., Ltd., and reinvest in the second-tier subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., and increase the capital for the subsidiary, Concraft Precision Co., Ltd., as well as reinvest in the second-tier subsidiary, Concraft Precision Electronics (Baoying) Co., Ltd.. 2. Resolution for the proposal to change the accounting managerial officer. 3. Resolution to hire additional deputy spokesperson. 4. Resolution to lend funds to the subsidiary.
Board of Director	March 20, 2018	<ol style="list-style-type: none"> 1. Resolution to pass 2017 business report and consolidated financial statement. 2. Resolution to appropriate directors' remuneration and employees' compensation for the year of 2017. 3. Resolution to the proposal of 2017 earnings appropriation. 4. Resolutions to pass the statement of internal control system for the year of 2017. 5. Resolution to amend the partial articles for the "Procedure for Lending funds to Others". 6. Resolution to amend the partial articles for the "Article of Incorporation". 7. Resolution to amend the partial articles for the internal control system and the rules for execution of internal audit. 8. Resolution for the second-tier subsidiary, Dragonstate International Technology Co., Ltd., to purchase the real estate. 9. Resolution for the Company to issue new restricted employee shares.
Board of Director	May 11, 2018	<ol style="list-style-type: none"> 1. Financial Statements for the first quarter of 2018. 2. Resolution to provide the endorsements and guarantees for the subsidiaries.
Annual Meeting of the Shareholders	June 12, 2018	<ol style="list-style-type: none"> 1. Resolution to amend the partial articles of the "Article of Incorporation" 2. Resolution to amend the partial articles for the "Procedure for Lending funds to Others". 3. Resolution to transfer the capital surplus to increase capital with issuance of new shares. 4. Resolution to issue new restricted employee shares.
Board of Director	July 2, 2018	<ol style="list-style-type: none"> 1. Resolution for the Company to issue new shares for acquisition of shares of OBO PRO.2 Inc. (hereinafter refers to as "OBO PRO.2"). The new shares issued will be proceeded to exchange the shares with the partial shareholders of the OBO PRO.2 (hereinafter refers to as "Participated Shareholders") to acquire the reciprocal value of the shareholding. 2. Resolution for the Company's subsidiary, Concraft Precision Electronics (Baoying) Co., Ltd. to transfer earnings to increase capital. 3. Resolution to provide the endorsements and guarantees for the subsidiaries.
Board of Director	August 8, 2018	<ol style="list-style-type: none"> 1. Resolution to lend funds to the subsidiary.

Items	Date	Important Resolutions Items
Board of Director	November 12, 2018	<ol style="list-style-type: none"> 1. Resolution to increase the capital for the subsidiary, Dragonstate International Technology Co., Ltd.. 2. Resolution for the subsidiary, Kunshan Dragonstate Electronic Technology Co., Ltd., to transfer its earnings to increase capital. 3. Resolution to pass 2019 Group's internal audit program. 4. Resolution to purchase the machinery and equipment. 5. Resolution to provide the endorsements and guarantees for the subsidiaries. 6. Resolution for first buy-back program of the Company's shares. 7. Resolution for the Company to issue the first unsecured convertible corporate bond in the territory of Republic of China. 8. Resolution to change the functional currency.
Board of Director	January 21, 2019	<ol style="list-style-type: none"> 1. Resolution for the Company's second-tier subsidiary, Dragonstate International Technology Co., Ltd., to purchase the real estate.
Board of Director	March 22, 2019	<ol style="list-style-type: none"> 1. Resolution to pass 2018 business report and the consolidated financial statement. 2. Resolution to appropriate directors' remuneration and employees' compensation for the year of 2018. 3. Resolution to the proposal of 2018 earnings appropriation. 4. Resolutions to pass the statement of internal control system for the year of 2018. 5. Resolution to amend the partial articles for the "Procedure for Acquisition or Disposal of Assets". 6. Resolutions to amend the partial articles for the "Rule for Board of Directors Meetings". 7. Resolution to amend the partial articles for the "Procedure for Lending funds to Others". 8. Resolution to amend the partial articles for the "Procedure of the endorsements and guarantees". 9. Resolution to amend the partial articles for the "Article of Incorporation". 10. Resolution to amend the partial articles for the internal control system. 11. Resolution to lend funds to the subsidiary. 12. Resolution to increase capital for the subsidiary, Dragonstate Technology Co., Ltd..
Board of Director	April 13, 2019	<ol style="list-style-type: none"> 1. Resolution to adjust the Company's 2018 earnings appropriation. 2. Resolution to extend the credit period for the syndicated loan project and other related affairs. 3. Resolution to conduct the financing proposal with Chailease International Financial Services Co., Ltd. 4. Resolution to cancel and conduct the subsidiary's lending funds. 5. Resolution to purchase the machinery and equipment. 6. Resolution to increase the capital for the subsidiary, Dragonstate International Technology Co., Ltd..
Board of Director	May 13, 2019	<ol style="list-style-type: none"> 1. The Board resolved in favor of the motion of the financing of Kunshan Dragonstate Electronic Technology Co., Ltd

(XII) In the Most Recent Year and as of the Date of Annual Report Published, a Director or Supervisor Has Different Opinions With Record or Written Statement on the Important Resolutions Passed By the Board of Director, Its Major Contents: None.

(XIII) In the Most Recent Year and as of the Date of Annual Report Published, Resignation or Relief of the Company's Chairperson, President, Accounting

Managerial Manager, Financial Managerial Manager, Internal Auditing
Managerial and Research/Development Managerial Manager:

<u>Title</u>	<u>Name</u>	<u>Date On-Board</u>	<u>Date Relieved</u>	<u>Reasons For Resignation or Relief</u>
Managerial Officer of Research/Development	Shi-Jia Lai	2011/07/01	2018/01/09	Resignation
Managerial Officer of Accounting	Qiao-Sheng Huang	2009/09/01	2018/02/09	Position Rotation

V. Information of CPA Audit Fee:

(I) Range Table of CPA Audit Fee

<u>Name of Accounting Firm</u>	<u>Name of CPA</u>		<u>Period Audited</u>	<u>Remark</u>
PWC Taiwan	Xian-Zheng Chen	Jin-Mu Xiao	January 2018 to December 2018	=

Unit: NT\$ thousand

<u>Range of Fee</u>		<u>Audit Fee Items</u>	<u>Audit Fee</u>	<u>Non-Audit Fee</u>	<u>Total</u>
1	Less Than NT\$2,000,000		None	✓	✓
2	NT\$2,000,000 (inclusive) to NT\$3,999,999		<u>None</u>	<u>None</u>	<u>None</u>
3	NT\$4,000,000 (inclusive) to NT\$5,999,999		<u>None</u>	<u>None</u>	<u>None</u>
4	NT\$6,000,000 (inclusive) to NT\$7,999,999		<u>None</u>	<u>None</u>	<u>None</u>
5	NT\$8,000,000 (inclusive) to NT\$9,999,999		✓	<u>None</u>	✓
6	NT\$10,000,000 (inclusive) or Above		<u>None</u>	<u>None</u>	<u>None</u>

(II) If non-audit fee which is paid to CPAs, such CPAs' accounting firm and its affiliates exceeds one-fourth of the audit fee, the amount of the audit fee and the non-audit fee and the contents of non-audit services shall be disclosed:

Unit: NT\$ thousand

<u>Name of Accounting Firm</u>	<u>Name of CPAs</u>	<u>Audit Fee</u>	<u>Non-Audit Fee</u>					<u>Auditing Period Conducted by the CPAs</u>	<u>Remark</u>
			<u>System Design</u>	<u>Business Registration</u>	<u>Human Resources</u>	<u>Others</u>	<u>Sub-Total</u>		
PWC Taiwan	Xian-Zheng Chen	9,640	-	289	-	1,945	2,234	2018.01~2018.12	Note
	Jin-Mu Xiao								

Note: Non-audit fee-others refers to the fees derived from the examination of internal control system, execution of the agreed-upon procedure, tax consultation and restricted stock services.

(III) The accounting firm is replaced and the audit fee in the year of replacement is less than previous year: No applicable.

(IV) If the audit fee is less than previous year by 15% or more, the decreased amount, percentage and reasons shall be disclosed: No application.

VI. Replacement of CPAs: Due to the internal adjustment from PWC Taiwan, the CPAs who are in charge of the Company's financial reports have been changed from Se-Kai Lin and Xian-Zheng Chen to Xian-Zheng Chen and Jin-Mu Xiao since first quarter of 2018.

VII. Any of the Company's Chairperson, Presidents, Managers of Finance or Accounting Held a Position in the CPA's Firm or Its Affiliates in the Most Recent Year: None.

VIII. Changes in the Shareholding Transferred or Pledged by Directors, Supervisors, Managers and the Shareholders who holds more than 10% of the Shareholding in the Most Recent Year and as of the Date of this Annual Report Published:

(I) Changes of the shareholding transferred by the directors, supervisors, managers and the shareholders who hold more than 10% of shareholding:

Unit: Shares

Title	Name	2018		As of April 19 of the year	
		Increase (Decrease) of Number of Shares Held	Increase (Decrease) of Number of Shares Pledged	Increase (Decrease) of Number of Shares Held	Increase (Decrease) of Number of Shares Pledged
Chairperson and Shareholder With More Than 10% of Shareholding	Monster Holding Co., Ltd. (Representative: Chao-Sheng Lu)	2,337,118	-	-	-
Director and Shareholder With More Than 10% of Shareholding	AGI Holding Co., Ltd. (Representative: Guo-Ji Li)	1,679,099	-	-	-
Shareholder With More Than 10% of Shareholding	Merry Electronics Co., Ltd.(Note 1)	(876,876)	-	-	-
Director of the Company and Director of Manufacturing Department	Zhu-Qing Li	(88,892)	(190,000)	(41,523)	700,000
Independent Director	Zi-Yin Zhang	-	-	-	-
Independent Director	Wei-Jun Chen	-	-	-	-
Independent Director	Ben-Hua Zhang	-	-	-	-
President	Guo-Ji Li	37,431	580,000	(21,153)	-
Vice President of Project	Jin-Xing Li	(83,108)	-	(316,800)	-
Director of Engineering	Shi-Jia Lai (Note 2)	(40,000)	-	(Note 2)	(Note 2)
Director of Supplier Management	Ya-Hui Xie	(114,726)	-	-	-
Assistant Vice Presidents of Engineering	Min-Fang Wu (Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)
Assistant Vice Presidents of Engineering	Si-Qing Cai	(125,895)	-	-	-
Assistant Vice Presidents of Project	Jian-Kai Peng	-	-	-	-
Engineering Manager	Yi-Hui Xiao	5,250	-	-	-
Chief Financial Officer	Qiao-Sheng Huang	(470,859)	(170,000)	(27,000)	-
Manager	Ci-Shun Wu (Note 4)	-	-	-	-
Engineering Manager	Ming-Han Lai (Note 5)	-	-	-	-
Accounting Manager	Wei-Lun Dai (Note 6)	(Note 6)	(Note 6)	-	-
Auditing Managerial Officer	Bi-Ning Chen	-	-	-	-

Note 1: Relieved position on January 9, 2018.

Note 2: Relieved the position on January 9, 2018.

Note 3: Relieved the position on July 13, 2018.

Note 4: Relieved the position on April 9, 2018.

Note 5: Relieved the position on August 23, 2018.

Note 6: New on-board on February 9, 2018.

(II) Counterparty of the shareholding transfer is the related party:

Unit: NT\$; Shares

Name	Reasons for Shareholding Transfer	Date Traded	Counterparty of Transaction	Relationship Between Transaction Counterparty, the Company, Directors, Supervisors and Shareholders with over 10% of Shareholding	Number of Shares	Price Traded
Zhu-Qing Li	Grant	2018.12.21	○-Zhu Wu	Lineal Relative	20,560	107
Zhu-Qing Li	Grant	2019.02.22	○-Zhu Wu	Lineal Relative	20,370	108
Zhu-Qing Li	Grantee	2018.10.01	○-Zhu Wu	Lineal Relative	550,000	235.5
Zhu-Qing Li	Grant	2018.02.23	○-Zhu Wu	Lineal Relative	100,000	242
Zhu-Qing Li	Grant	2018.06.13	○-Zhu Wu	Lineal Relative	500,000	256
Zhu-Qing Li	Grant	2019.02.22	○-Xuan Li	Lineal Relative	21,153	104
Zhu-Qing Li	Grant	2018.12.21	○-Yu Li	Lineal Relative	20,560	107
Guo-Ji Li	Grant	2018.05.22	○-Zheng Li	Lineal Relative	8,590	256
Guo-Ji Li	Grant	2019.02.27	○-Qi Li	Lineal Relative	21,153	104
Jin-Xing Li	Grant	2019.02.27	○-Jie Lu	Lineal Relative	300,00	128.5
Jin-Xing Li	Grant	2018.03.05	○-Jie Lu	Lineal Relative	100,000	242
Jin-Xing Li	Grant	2019.02.27	○-Zhen Li	Lineal Relative	5,600	128.5
Jin-Xing Li	Grant	2019.02.27	○-Qing Li	Lineal Relative	5,600	128.5
Jin-Xing Li	Grant	2019.02.27	○-Yuan Li	Lineal Relative	5,600	128.5

(III) Counterparty of the Shareholding Pledged is the Related Party: None.

IX. Top 10 Shareholders Who Hold the Highest Shareholding Percentage are the Related Parties, or Spouses or Within Second-Degree of Kinship to Each Other:

Unit: Share, %; April 19, 2019

Name	Shareholding in Own Name		Shareholding Held by Spouses, Minor Children		Shareholding in the Name of Other Persons		If top 10 shareholders are the related party, spouses, within second-degree of kinship to each other, their names and relationship:		Remark
	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Name	Relationship	
Monster Holding Co.,Ltd. Representative: Chao-Sheng Lu	25,708,300 117,409	21.71 0.10	-	-	-	-	-	-	-
AGI Holding Co., Ltd. Representative: Guo-Ji Li	18,470,094 925,087	15.60 0.78	-	-	-	-	-	-	-
Merry Representative: Lu-Li Liao	11,550,000	9.75	-	-	-	-	-	-	-
Fubon Life Insurance Co., Ltd. Representative: Richard Tsai	5,766,200	4.87	-	-	-	-	-	-	-
Fuh Hwa Digital Economy Fund Account Manager: Ji-Xian Xian	1,765,000	1.49	-	-	-	-	-	-	-
<u>Ya-Hui Xie</u>	1,631,014	1.38	-	-	-	-	-	-	-
Xin-Ping Liu	1,011,800	0.85	-	-	-	-	-	-	-
<u>Zhu-Qing Li</u>	1,007,869	0.85	-	-	-	-	-	-	-
Cathay Life Insurance Co., Ltd. Representative: Tiao-Gui Huang	970,000	0.82	-	-	-	-	-	-	-
<u>Guo-Ji Li</u>	925,087	0.78	-	-	-	-	-	-	-

X. Number of Shares of the Same Investee Held by the Company, the Company's Directors, Supervisors, Managers or Enterprises Controlled Directly or Indirectly by the Company, and Its Combined Shareholding Percentage:

Unit: Share, %; December 31, 2018

Investee	The Company's Investment		Directors, Supervisors, Managers or Enterprises Controlled Directly or Indirectly		Combined Investment	
	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage
DRAGONSTATE TECHNOLOGY CO., LTD.	94,410,000	100	-	-	94,410,000	100
Concraft Technology Co., Ltd.	150,000	100	-	-	150,000	100
Concraft Precision Co., Ltd.	109,472,110	100	-	-	109,472,110	100
Kunshan Dragonstate Electronic Technology Co., Ltd.	Note	100	-	-	Note	100
Concraft Precision Electrical (Kunshan) Co., Ltd.	Note	100	-	-	Note	100
Concraft Precision Electronics (Baoying) Co., Ltd.	Note	100	-	-	Note	100
Kunshan Haojun Precision Electronics Co.,Ltd.	Note	100	-	-	Note	100
Dragonstate International Technology Co., Ltd.	8,201,405	100	-	-	8,201,405	100

Note: Such company is a limited company with no shares.

Four. Capital Raising Status

I. Source of Capital

(I) Type of Share

Unit: Shares; May 31, 2019

Type of Share	Capital Approved			Remark
	Shares Outstanding	Shares Un-issued	Total	
Registered	106,237,043	32,212,957	150,000,000(Note)	Listed Stock
Common Share	11,550,000			Private-Placed Common Stock

Note: The Company has passed the amendment to the Article of Incorporation in the specialshareholders' meeting dated on February 10, 2017. After amendment, the approved capital is 150,000,000 shares.

(II) Forming Course of Capital

Unit: Share; NT\$

Year / Month	Issued Price	Approved Capital		Paid-In Capital		Remark		
		Number of Shares	Amount	Number of Shares	Amount	Source of Capital	Shares Paid by Property Other Than Cash	Others
2009.09.01	10	50,000,000	500,000,000	2	20	Cash	-	Note 1
2009.10.06	17.63	50,000,000	500,000,000	24,999,998	249,999,980	Cash	-	Note 2
2009.10.31	10	50,000,000	500,000,000	1,800,000	18,000,000	Shareholding Change	-	Note 3
2010.12.30	10	50,000,000	500,000,000	8,040,000	80,400,000	Transfer of Capital Surplus to Increase Capital	-	Note 4
2011.02.01	60	50,000,000	500,000,000	1,475,000	14,750,000	Cash	-	Note 5
2011.04.28	10	50,000,000	500,000,000	7,263,000	72,630,000	Transfer of Capital Surplus to Increase Capital	-	Note 6
2012.10.08	10	100,000,000	1,000,000,000	4,357,800	43,578,000	Transfer of Capital Surplus to Increase Capital	-	Note 7
2013.09.18	25	100,000,000	1,000,000,000	2,000,000	20,000,000	Capital Increased by Cash	-	Note 8
2013.12.06	10	100,000,000	1,000,000,000	2,496,790	24,967,900	Transfer of Capital Surplus to Increase Capital	-	Note 9
2014.08.20	10	100,000,000	1,000,000,000	5,243,259	52,432,590	Transfer of Capital Surplus to Increase Capital	-	Note 10
2014.11.06	17.5	100,000,000	1,000,000,000	10,000,000	100,000,000	Capital Increased by Cash	-	Note 11
2015.09.30	10	100,000,000	1,000,000,000	3,383,793	33,837,930	Transfer of Earning to Increase Capital	-	Note 12
2015.09.30	10	100,000,000	1,000,000,000	3,383,793	33,837,930	Transfer of Capital Surplus to Increase Capital	-	Note 13
2016.03.18	35	100,000,000	1,000,000,000	5,000,000	50,000,000	Capital Increased by Cash	-	Note 14
2016.11.11	58.8	100,000,000	1,000,000,000	10,235,000	102,350,000	Capital Increased by Cash	-	Note 15
2017.04.05	72	150,000,000	1,500,000,000	10,000,000	100,000,000	Private-Placed Common Stock	-	Note 16
2017.06.30	27.3	150,000,000	1,500,000,000	2,190,000	21,900,000	Employee Stock Option Certificates	-	Note 17
2017.07.20	27.3	150,000,000	1,500,000,000	200,000	2,000,000	Employee Stock Option Certificates	-	Note 18
2017.09.22	10	150,000,000	1,500,000,000	5,103,422	51,034,220	Transfer of Capital Surplus to Increase Capital	-	Note 19

Year / Month	Issued Price	Approved Capital		Paid-In Capital		Remark		
		Number of Shares	Amount	Number of Shares	Amount	Source of Capital	Shares Paid by Property Other Than Cash	Others
2018.08.24	10	150,000,000	1,500,000,000	10,717,186	107,171,860	Transfer of Capital Surplus to Increase Capital	-	Note 20
2018.12.	10	150,000,000	1,500,000,000	530,000	5,300,000	Employee Restricted Stock Awards	-	Note 21
2019.05	10	150,000,000	1,500,000,000	3,000	30,000	Cancellation of New Restricted Employee Shares	-	Note 22

Note 1: Initial capital.

Note 2: Capital increased by cash.

Note 3: Personal shareholders, Chao-Sheng Lu and Guo-Ji Li, of the Dragonstate Technology Co., Ltd., proceeded the stock exchanges with the Concraft Holding Co., Ltd. According to the expert's opinion on the stock exchange ratio issued by CPA, one share of the Dragonstate Technology Co., Ltd. could exchange 2.374390 shares of the Concraft Holding Co., Ltd. (Actual stock exchange ratio was 2.354859 shares). So, the Concraft Holding Co., Ltd. issued 1,800,000 shares to proceed the stock exchange with personal shareholders, Chao-Sheng Lu and Guo-Ji Li, of the Dragonstate Technology Co., Ltd.. After stock exchange, the Dragonstate Technology Co., Ltd has become the 100% of subsidiary reinvested by the Concraft Holding Co., Ltd..

Note 4: For 2009 stock dividend from capital surplus, each share was distributed NT\$3 of stock.

Note 5: Capital increased by cash.

Note 6: For 2010 stock dividend from capital surplus, each share was distributed NT\$2 of stock.

Note 7: For 2011 stock dividend from capital surplus, each share was distributed NT\$1 of stock. Listed in the emerging market on October 8, 2012 with approval number of 10100227602.

Note 8: 2013 capital increased by cash.

Note 9: For 2012 stock dividend from capital surplus, each share was distributed NT\$0.5 of stock.

Note 10: For 2013 stock dividend from capital surplus, each share was distributed NT\$1 of stock.

Note 11: 2014 capital increased by cash.

Note 12: For 2014 stock dividend from retained earnings, each share was distributed NT\$0.5 of stock.

Note 13: For 2014 stock dividend from capital surplus, each share was distributed NT\$0.5 of stock.

Note 14: 2015 capital increased by cash.

Note 15: 2016 capital increased by cash. Listed in TWSE market on November 11, 2016 with approval number of 1050021356.

Note 16: 2017 private-placed common stock.

Note 17: Exercised the employee stock option certificates with issuance of new shares.

Note 18: Exercise the employee stock option certificates with issuance of new shares.

Note 19: For 2017 stock dividend from capital surplus, each share was distributed NT\$0.5 of stock.

Note 20: For 2018 stock dividend from capital surplus, each share was distributed NT\$1 of stock.

Note 21: Issuance of employee restricted stock awards in 2018. Declaration No. 107032358 took effect on August 27, 2018.

Note 22: cancellation of the restricted stocks

II. Shareholders Structure

Unit: Persons; Shares; April 19, 2019

Shareholders' Structure	Government Institution	Financial Institution	Chinese Investor	Other Corporate Shareholders	Individual	Foreign Institution and Foreigner	Treasury Share	Total
Number of Persons	-	7	-	63	12,041	75	1	12,187
Hold a number of shares	-	7,773,400	-	16,392,087	45,257,435	48,364,121	632,000	118,419,043
Shareholding Percentage	-	6.56%	-	13.84%	38.22%	40.85%	0.53%	100.00%

III. Shareholding Dispersion Status

Unit: Persons; Shares; April 19, 2019

Shareholding Scale	Number of Shareholders	Number of Shares Held	Shareholding Percentage (%)
1 to 999	1,946	286,626	0.24%
1,000 to 5,000	8,839	15,625,521	13.20%
5,001 to 10,000	792	5,787,513	4.89%
10,001 to 15,000	216	2,654,738	2.24%
15,001 to 20,000	107	1,944,644	1.64%
20,001 to 30,000	110	2,744,198	2.32%
30,001 to 50,000	68	2,703,672	2.28%
50,001 to 100,000	47	3,242,344	2.74%
100,001 to 200,000	24	3,155,910	2.67%
200,001 to 400,000	16	4,770,860	4.03%
400,001 to 600,000	9	4,505,278	3.80%
600,001 to 800,000	2	1,338,712	1.13%
800,001 to 1,000,000	3	2,748,750	2.32%
1,000,001 Above	8	66,910,277	56.50%
Total	12,187	118,419,043	100.00%

IV. Major Shareholders List

Unit: Share: %; April 19, 2019

Name of Major Shareholders	Number of Shares Held	Shareholding Percentage
Monster Holding Co.,Ltd.	25,708,300	21.71
AGI Holding Co., Ltd.	18,470,094	15.60
Merry	11,550,000	9.75
Fubon Life Insurance Co., Ltd.	5,766,200	4.87
Fuh Hwa Digital Economy Fund Account	1,765,000	1.49
Ya-Hui Xie	1,631,014	1.38
Xin-Ping Liu	1,011,800	0.85
Zhu-Qing Li	1,007,869	0.85
Cathay Life Insurance Co., Ltd.	970,000	0.82
Guo-Ji Li	925,087	0.78

V. Each Share's Market Price, Net Worth, Earnings, Dividends and Relevant Information in the Latest Two Years:

Unit: NT\$; Thousand Shares

Item	Year		Year 2017	Year 2018	As of March 31, 2019 of Current Year March 31, 2019
	Market Price Per Share	Highest		624.00	364.00
Lowest		59.80	97.50	90.40	
Average		199.42	244.06	123.28	
Net Worth Per Share	Before Appropriation		34.83	33.62	33.43
	After Appropriation (Note 1)		29.83	28.15	27.96(Note 3)
Earnings Per Share (Note 2)	Weighted Average Number of Shares		114,307	117,956	117,816
	Earnings Per Share	Before Adjustment	9.59	8.28	(1.33)
		After Adjustment	9.59	8.24	(1.33)
Dividend Per Share	Cash Dividend		5.00	5.50 (Note 3)	Undistributed
	Stock Dividend	Stock Dividend From Retained Earnings	-	-	Undistributed
		Stock Dividend From Paid-In Capital Surpluses	1.00	0.5(Note 3)	Undistributed
	Accumulated Undistributed Dividend		-	-	-
Return On Investment Analysis	Price Earnings Ratio (Note 4)		18.94	29.62	-
	Price Dividend Ratio (Note 5)		39.88	44.37	-
	Cash Dividend Yield (Note 6)		2.51%	2.25%	-

Note 1: Net Worth Per Share = (Net Worth - Cash Dividend)/ Number of Common Shares for the the Year.

Note 2: Refers to the number of retroactively adjusted weighted average number of shares and earnings per share.

Note 3: 2018 earning appropriation has not yet been resolved by the shareholder's meeting.

Note 4: Price Earnings Ratio = Average Closing Price Per Share for the Year /Earnings Per Share

Note 5: Price Dividend Ratio = Average Closing Price Per Share for the Year /Dividend Per Share

Note 6: Cash Dividend Yield = Cash Dividend Per Share / Average Closing Price Per Share for the Year

VI. The Company's Dividend Policy and Its Implementation:

(I) Dividend Policy Established in the Article of Incorporation

The Company's dividend appropriation policy shall base on the regulations stipulated in the Article of Incorporation that is approved by the shareholders' meeting, and shall refer to the Company's capital structure, financial structure, operation condition, earnings and its industry's nature and cycle, and may be paid by the way of either stock dividend or cash dividend. The appropriation of dividend is stipulated as follows:

- (1) Without conflict with the regulations from the Company Act, any share with additional rights or restrictions at the time or the Article of Incorporation, the Company may, with ordinary resolution, announce the dividends or other appropriation for the shares issued. Such dividend or other appropriation shall be paid with the Company's usable funds authorized legally.
- (2) Without conflict with the regulations stipulated in Article 129 of the Article of Incorporation, before suggesting any dividend's appropriation, the board of director may retain an appropriate amount as reserved fund from the appropriable funds legally. Such reserved fund shall, at the discretion of the board of director, be used to prevent emergency, balance dividend or other purposes that such reserved fund can be used appropriately. And before execution, the aforesaid uses shall, at the absolute discretion of the board of director, apply for the business of the Company or the investment that the board of director will consider appropriately at any time.
- (3) Any dividend may be paid by check which will be mailed to the registered address or the appointed address of the shareholders or the authorized receivers or the joint holders' representative. Each check's payee shall be such check's receiver or its appointed person.
- (4) Except for any share with additional rights or restrictions at the time, all dividends shall be appropriated based on the shareholding of the shareholders.
- (5) The Company currently is at the stage of the growth. In view of the demand of capital expenditure, business expansion and strengthening the financial plan to seek the sustainable development, the Company's dividend policy shall consider its future funds' expenditure budget and fund demand, and may be paid by cash dividend and/or stock dividend to its shareholders.

Unless otherwise provided by the laws of TWSE/TPEX, the Company's annual profit before-tax shall, if any, appropriate (1) the highest of ten percent (10%) and the lowest of one percent (1%) for employees' compensation (including the employees of the Company and/or its affiliates)(hereinafter refers to "employees' compensation"; and (2) the highest of three percent (3%) for directors' remuneration (hereinafter refers to "directors' remuneration). No matter what the aforesaid content is, if the Company still has the accumulated deficits from the previously years in the year, the Company shall appropriate the amount of offset before allocating the employees' compensation and the directors' remuneration. According to the regulations of the British Cayman laws and TWEX/TPEX laws and regardless of the regulations of the Article 139, the board of director shall make a resolution with the attendance of two-thirds or more of directors and the approval of more than half of present directors for the employees' compensation and directors' remuneration which may be paid by the way of cash and/or stock. The

aforesaid resolution of the board of director regarding to the appropriation of the employees' compensation and directors' remuneration shall report to the shareholders at the shareholders' meeting after the resolution of the board of director is passed.

Unless otherwise provided by the laws of TWSE/TPEX, if the Company's annual final accounts has profits, the board of director shall base on the following methods and sequence to propose the earnings appropriation and submit to the shareholders' meeting for resolution:

- (a) appropriate the payable tax according to laws;
 - (b) offset previously years' accumulated deficits (if any);
 - (c) appropriate ten percent (10%) of legal capital reserve stipulated by the laws of TWSE/TPEX; however if the amount of legal capital reserve has reached the Company's paid-in capital, this shall not be applicable;
 - (d) appropriate special capital reserve stipulated by the laws of TWSE/TPEX or requested by the competent authority; and
 - (e) the aforesaid amount from (a) to (d) shall be deducted from the earnings in the year; the remaining earning will be added by the previous period's accumulated unappropriated earning as appropriable earnings; the board of director shall propose the dividend appropriation from the appropriable earning and submit to the general shareholders' meeting for resolution and approval stipulated by the laws of TWSE/TPEX, then executing afterward. The appropriation of the dividend may be distributed by the way of cash dividend and/or stock dividend. Without conflict with the laws of the British Cayman Islands, the amount of dividend shall be at least fifty percent (50%) of the remaining earnings that the aforesaid (a) to (d) are deducted from the earnings in the year, and the percentage of cash dividend shall not be less than ten percent (10%) of total shareholders' dividend and shall be limited to hundred percent (100%).
- (6) If a share is registered by several persons held jointly, the valid receipts for dividend or other payables relating to such share shall be issued to anyone among the joint-holders. Any dividend shall not be added up interest.
 - (7) Unless otherwise provided by the laws of the TWSE/TPEX or the Company Act, the Company may, with special resolution, transfer any balance listed in the Company's provision account or other capital reserves (including capital premium, capital redemption provision, earnings, profit and loss account, capital surplus, legal capital reserve and special capital reserve) to increase capital, whether or not it is appropriable.
 - (8) The company shall distribute the amount that is resolved to be transferred to increase capital to all shareholders based on the percentage of the shareholding, and shall represent its shareholders to make up such amount into unissued shares, bonds or the related share amount of such composition for the company distributed, and such company's shares or bonds or its composition shall be distributed to all shareholders (or its designated person) based on the aforesaid percentage.
 - (9) The Company shall conduct the arrangement that it deems appropriate to resolve the difficulties derived from distributing reserves to increase capital. Particularly, but not limited to, when the distribution of the shares or corporate bonds is odd, the

board of director has an authority to dispose such odd shares or corporate bonds in a way which it deems proper, and shall proceed all necessary actions to perform the matters stipulated in the Article of Incorporation.

(II) Dividend Distribution Status at this Shareholders' Meeting

- (1) The Company's board of director has passed the proposal for the appropriation of 2018 earnings on March 22, 2019. The shareholders' cash dividend from 2018 earnings will be NT\$647,834,237 with NT\$5.5 per share; and the capital surplus that is transferred to increase capital will be distributed by NT\$0.5 per share. The aforesaid appropriation of 2018 earnings has not yet been resolved by the shareholders' meeting as of the date of the annual report published.
- (2) Afterward, where the Company buys back its shares or transfers/cancels its treasury shares, or where a creditor of the convertible corporate bond executes its convertible rights, or where an employees executes its rights of subscription according to the subscription policy stated in the employee stock option certificate, or where the capital is increased by cash, the number of the outstanding shares will be changed by the aforesaid circumstances accordingly. The shareholders' meeting shall delegate the board of director to adjust and conduct the related matters.

VII. The Influence of Stock Dividend Discussed by the Shareholders' Meeting on Operational Performance and Earnings Per Shares:

On March 22, 2019, the Company's board of director has passed the proposal to transfer the capital surplus that is appropriated from 2018 earnings to increase capital with NT\$0.5 per share and total amount of NT\$58,894,030. After transferring the capital surplus to increase capital, the capital will be NT\$1,236,774,460 (including private placement). This stock dividend will dilute the Company's 2018 earning per share by 4.76%. Because the Company is at the stage of growth, it is estimated that 2019 profit will continue to grow. Therefore the Company's execution of stock dividend will have limited influences on its operational performance and earnings per share.

VIII. Compensation Paid to Employees and Remuneration Paid to Directors and Supervisors:

(I) Percentage or Range of the Employees' Compensation and the Directors' and Supervisors' Remuneration Stated in Article of Incorporation:

1. Unless otherwise provided by the Article of Incorporation or the laws of TWSE/TPEX, regarding to the remuneration of the directors(if any), the board of director shall resolve by referring to the standards in the same industry. Regarding to the attendance of the board of director or the shareholders' meeting or other individual meeting for any type of shares or corporate bond, or executing the director's related duties, each director's reasonable expenses or to-be occurred expenses of travel, accommodation and other accompanying expenses shall have authority to be compensated or pre-paid.
2. Except for compliance with Article 85, when any director needs to visit or move to overseas because of the demand of the Company, or its work exceeds the general directors' duties with the recognition of the board of director, such director's extra remuneration shall be determined by the board of director and shall be extra added from or replace of any general remuneration provided by other articles.

3. The Company currently is at the stage of the growth. In view of the demand of capital expenditure, business expansion and strengthening the financial plan to seek the sustainable development, the Company's dividend policy shall consider its future funds' expenditure budget and fund demand, and may be paid by cash dividend and/or stock dividend to its shareholders.

Unless otherwise provided by the laws of TWSE/TPEX, the Company's annual profit before-tax shall, if any, appropriate (1) the highest of ten percent (10%) and the lowest of one percent (1%) for employees' compensation (including the employees of the Company and/or its affiliates)(hereinafter refers to "employees' compensation"; and (2) the highest of three percent (3%) for directors' remuneration (hereinafter refers to "directors' remuneration). No matter what the aforesaid content is, if the Company still has the accumulated deficits from the previously years in the year, the Company shall appropriate the amount of offset before allocating the employees' compensation and the directors' remuneration. According to the regulations of the British Cayman laws and TWEX/TPEX laws and regardless of the regulations of the Article 139, the board of director shall make a resolution with the attendance of two-thirds or more of directors and the approval of more than half of present directors for the employees' compensation and directors' remuneration which may be paid by the way of cash and/or stock. The aforesaid resolution of the board of director regarding to the appropriation of the employees' compensation and directors' remuneration shall report to the shareholders at the shareholders' meeting after the resolution of the board of director is passed.

Unless otherwise provided by the laws of TWSE/TPEX, if the Company's annual final accounts has profits, the board of director shall base on the following methods and sequence to propose the earnings appropriation and submit to the shareholders' meeting for resolution:

- (a) appropriate the payable tax according to laws;
- (b) offset previously years' accumulated deficits (if any);
- (c) appropriate ten percent (10%) of legal capital reserve stipulated by the laws of TWSE/TPEX; however if the amount of legal capital reserve has reached the Company's paid-in capital, this shall not be applicable;
- (d) appropriate special capital reserve stipulated by the laws of TWSE/TPEX or requested by the competent authority; and
- (e) the aforesaid amount from (a) to (d) shall be deducted from the earnings in the year; the remaining earning will be added by the previous period's accumulated unappropriated earning as appropriable earnings; the board of director shall propose the dividend appropriation from the appropriable earning and submit to the general shareholders' meeting for resolution and approval stipulated by the laws of TWSE/TPEX, then executing afterward. The appropriation of the dividend may be distributed by the way of cash dividend and/or stock dividend. Without conflict with the laws of the British Cayman Islands, the amount of dividend shall be at least fifty percent (50%) of the remaining earnings that the aforesaid (a) to (d) are deducted from the earnings in the year, and the percentage of cash dividend shall not be less than ten percent (10%) of total shareholders' dividend and shall be limited to hundred percent (100%).

(II) The estimate basis for the compensation paid to employees and the remuneration paid to directors and supervisors, the calculated basis for the number of share for the employee's compensation distributed by stock as well as its accounting treatment in case of any discrepancy between actual distributed amount and the estimated amount for current period:

1. The estimate basis for the compensation paid to employees and the remuneration paid to directors and supervisors for current period:

According to Rule No. 052 "Accounting Treatment for Bonus Paid to Employees and Remuneration Paid to Directors and Supervisors" announced by the Accounting Research and Development Foundation on March 16, 2007, when the compensation of employees and the remuneration of the directors and the supervisors for the Company and the consolidated subsidiaries have legal obligation or constructive obligation and their amount can be reasonable estimated, such compensation and remuneration shall be recognized as expenses and liability. Afterwards, any discrepancy between the actual distributed amount resolved by the board of director and the estimated amount shall be recorded into the profit/loss of the following year.

2. The calculated basis of the number of share for the employee's compensation distributed by stock for current period: Not applicable.

3. Accounting treatment in case of any discrepancy between actual distributed amount and the estimated amount: Not applicable.

(III) The Board of Director's Resolution for Distribution of Compensation/Remuneration:

1. The amount of employees' compensation and directors' and supervisors' remuneration distributed by the way of cash or stock: the board of director has passed 2018 employees' compensation of NT\$15,255,152 as well as the directors' and the supervisors' remuneration of NT\$15,255,152 distributed by the way of cash which have no difference with the estimated amount recognized in the year.

2. The amount of the employees' compensation distributed by stock, and its percentage of the profit after-tax in the parent only or individual financial report, and its percentage of the total employees' compensation: The board of director does not proposed 2018 employees' compensation distributed by stock.

(IV) Actual Distribution of Employees' Compensation and Directors' and Supervisors' Remuneration in the Previous Year:

1. Actual Distribution in the Previous Year:

Items Distributed	Original Amount Passed by the Board of Director	Actual Amount Resolved by the Shareholders' Meeting	Variance
Employee Stock Bonus	-	-	-
Employee Cash Bonus	NT\$15,105 thousand	NT\$15,105 thousand	-
Remuneration of Directors and Supervisors	NT\$15,105 thousand	NT\$15,105 thousand	-

2. In case of any discrepancy between actual distributed amount and the recognized amount, its differed amount, reasons and treatment shall be stated: The actual distributed amount of directors' and supervisors' remuneration and employees' compensation for the year of 2017 has no difference with the amount recognized.

IX. Status for Shares Bought Back by the Company:

Date: May 31, 2019

Buy-Back Phase	First Buy-Back
Purpose of Buy-Back	Transfer Share to Employees
Buy-Back Period	November 13, 2018 to December 17, 2018
Price Range Bought Back	NT\$89 to NT\$234 per share
Type of Share and Quantity Bought Back	Common Stock: 629,000 shares
Amount of Shares Bought Back	NT\$74,143,679
Number of Shares Cancelled and Transferred	-
Accumulated Number of the Company's Shares Held	629,000 shares
Accumulated Number of the Company's Shares Held as a Percentage of Total Shares Issued (%)	0.53

X. Status of Corporate Bond:

(I) Corporate Bond Not Repaid and In Progress.

Date: May 31, 2019

Type of Corporate Bond	Issuance of the first unsecured convertible corporate bond in the territory of ROC.
Date Issued (Executed)	April 2, 2019
Par Value	NT\$100,000
Place Issued and Traded	Taipei Exchange
Price Issued	Issued by 102.07% of par value
Total Amount	NT\$1,531,013 thousand
Interest Rate	0%
Term	Three-Year Due Date: April 2, 2022
Guarantee Institution	Not Applicable
Trustee	Trust Department, Taipei Fubon Bank Co., Ltd.
Underwriting Institution	CTBD Securities Co., Ltd.
Certified Lawyer	Baker & McKenzie Legal Firm Lawyer: Zhi-Lu Liang, Meng-Wei Lin
CPA	PWC Taiwan CPA: Xian-Zheng Chen, Jin-Mu Xiao
Method of Repayment	In addition to complying with the Article 14 for Converting to the Company's Common Stock, Article 22 for Execution of Redemption Rights and Article 21 for Retrieved Ahead of Due Date or Buying Back From OTC and Cancellation, of the Rule for the Issuance of Corporate Bond and Conversion, the bondholders shall repay the

		par value once by cash at due date.
Un-repaid Principal		NT\$1,531,013 thousand
Article for Redemption or Repayment Ahead of Due Date		Executing according to Article 22 for Retrieved Ahead of Due Date in the Rule for the First Issuance of Unsecured Convertible Corporate Bond and Conversion in the Territory of ROC of the Company.
Limitation Article		None
Institution Name of Credit Rating, Date Rated, Rating Result		Not Applicable
Supplementary Rights	Amount that has been converted (exchanged or subscribed) into common stock, oversea depository receipts or other securities as of the date of the annual report published	Amount unconverted
	Rule for issuance and conversion (exchange or subscription)	Please refer to the Rule for the First Issuance of Unsecured Convertible Corporate Bond and Conversion in the Territory of ROC.
Rule for issuance, conversion, exchange or subscription, as well as influences of issuance's conditions on the probable dilution of the shareholding and the rights/interests of the shareholders		Please refer to the Rule for the First Issuance of Unsecured Convertible Corporate Bond and Conversion in the Territory of ROC.
Name of Custodial Institution to Whom the Exchange Object is trusted		Not Applicable

XI. Status of Preferred Stock: None.

XII. Status of Oversea Depository Receipt: None.

XIII. Status of Employee Stock Option Certificates: None.

XIV. Status of Employee Restricted Stock Awards:

(I) Status of Employee Restricted Stock Awards

Date: May 31, 2019

Type of New Restricted Employee Shares	2018 First New Restricted Employee Shares
Effective Date Declared	August 27, 2018
Date Issued	November 16, 2018
Number of New Restricted Employee Shares Issued	530,000 shares
Price Issued	Stock Dividend From Paid-In Capitals
Number of New Restricted Employee Shares Issued As a Percentage of Total Shares Issued	0.45%

<p>Vesting Conditions for Employee Restricted Stock Awards</p>	<p>The employees shall be evaluated annually based on personal performance indicators from the date subscribed the new restricted employee shares.</p> <p>If such employee is on the job for full one year, 30% will be vested; if such employee is on the job for full two years and the evaluation of personal performance reaches 70 points, 30% will be vested; if such employee is on the job for full three years and the evaluation of performance reaches 75 points, 40% will be vested.</p>
<p>Restricted Rights for Restricted Stock Awards</p>	<ol style="list-style-type: none"> 1. After an employee subscribes new shares, except for inheritance, such new restricted employee shares shall not be sold, pledged, transferred, given to others, set up or other ways of disposal prior to achieving the vested conditions. After an employee meets the vested conditions, such shares will be appropriated from trust account to such employee's personal securities central custody and book-entry account according to trust custodial agreement. 2. The shareholders' meeting's attendance, proposal, speaking, voting and rights of election shall be executed according to custodial agreement. 3. Except for the trust appointment stipulated in the preceding subparagraph, before an employee achieves the vested conditions for the new restricted employee shares subscribed according to this rule, other rights shall, including but not limited to: the appropriation rights of dividend, bonus and capital surplus as well as subscription rights of capital increased by cash etc., have the same as the common shares issued by the Company. 4. From the Company's book closure date for bonus shares, book closure for cash dividends, book closure date for subscription shares upon capital increased by cash, book closure period for shareholders' meeting defined in Paragraph 3 of Article 165 of the Company Act, or other statutory book closure period upon the occurrence of the facts, to the record date for the appropriation of the rights, in case an employee achieves the vested conditions during aforesaid period, the time and procedure to release the restriction of its vested stock shall be executed according to the trust custodial agreement. 5. After issuing the new restricted employee shares, such shares shall be directly consigned in the custody of trust immediately. Before an employee achieves the vested conditions, such employee shall not ask the trustee to return the new restricted employee shares with any reasons or methods.
<p>Custody Status of New Restricted Employee Shares</p>	<p>While new restricted employee shares are consigned in the custody of trust, the Company shall be fully authorized to represent such employee to proceed (including but not limited to) the agreement's negotiation, signature, amendment, extension, dissolution, termination with the stock trust institutions and the Company, as well as the trusted property's consignment, use and instruction of disposal. Besides, such employee shall make a promise in writing that the Company is able to act as an interest party, a beneficiary and such employee's proxy for such trust agreement simultaneously in</p>

	accordance with the Article 106 of the Civil Code.
Treatment When an Employee Have Been Awarded or Subscribed the New Shares But Not Achieving the Vested Conditions	<p>1. Resignation: Where an employee, with causes, proceed the resignation, temporary leave without salary, retirement, being laid off or transfer, in case the vested conditions of the employees restricted stock awards have been achieved, such employee shall draw the shares within one month from the effective date of resignation; in case the vested conditions of the employees restricted stock awards have not yet been achieved, the rights of receiving shall be void from effective date of resignation and the Company shall buy back such shares with the issued price deducting the amount borne by the Company and execute the cancellation.</p> <p>2. Normal Death: Where an employee died, in case the vested conditions of the employees restricted stock awards have been achieved, the statutory heir of such employee shall draw the shares within one year from the died date; in case the vested conditions of the employees restricted stock awards have not yet been achieved, its vested rights shall be void from the died date and the Company shall buy back such shares with the issued price deducting the amount borne by the Company and execute the cancellation.</p> <p>3. Disability or Died Due to Occupational Disaster: (1) Where an occupational disaster resulting in an employee's disability, in that event such employee is unable to continue his or/her jobs and proceeds the resignation, whether the vested conditions have been achieved or not, such employee shall draw the shares within one month from the effective date of resignation. (2) Where an employee died as a result of occupational disaster, whether the vested conditions have been achieved or not, the statutory heir of such employee shall draw the shares within one year from the died date.</p> <p>4. Where other circumstances other than aforesaid causes or where real execution upon the regulations of the foregoing subparagraphs and has a necessity of the adjustment, the chairperson shall be authorized to establish or adjust individually according to real circumstances or personal contributions.</p> <p>5. In case an employee waives the rights of subscription, such new restricted employee shares shall be retrieved by the Company without re-issuance.</p>
Number of New Restricted Employee Shares Retrieved or Bought Back	3,000 shares
Number of Restricted Shares Released	-
Number of Restricted Shares Unreleased	530,000 shares
Number of Restricted Shares Unreleased As a Percentage of Total Shares Issued (%)	0.45%

Influence on Shareholders' Rights/Interests	According to the number of outstanding shares at the time of issuance, the dilution on the Company's earnings per share in the coming years is still limited without significant influences on the shareholders' rights/interests.
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(II) Name of Manager and Top 10 Employees Who Are Awarded the New Restricted Employee Shares and Their Status of Acquisition:

	Title	Name	Number of New Restricted Employee Shares Acquired	Number of New Restricted Employee Shares Acquired As a Percentage of Total Shares Issued	Restriction Released				Restriction Unreleased			
					Number of Restricted Shares Released	Issued Price	Amount of Issuance	Number of Restricted Shares Released As a Percentage of Total Shares Issued	Number of Restricted Shares Unreleased	Issued Price	Amount of Issuance	Number of Restricted Shares Unreleased As a Percentage of Total Shares Issued
Manger	Assistant Vice Presidents of Engineering	Si-Qing Cai	170,000	0.14%	-	Issuance of Bonus Shares	-	-	-	Issuance of Bonus Shares	-	-
	Assistant Vice Presidents of Project	Jian-Kai Peng										
	Accounting Manager	Wei-Lun Dai										
	Engineering Manager	Yi-Hui Xiao										
	Auditing Managerial Officer	Bi-Ning Chen										
Employee	Manager	Hong Wen Li	221,000	0.19%	-	Issuance of Bonus Shares	-	-	-	Issuance of Bonus Shares	-	-
	Manager	Si-Yuan Chen										
	Manager	Zhen-Wei Jin										
	Manager	Quan-Zhao Xie										
	Assistant Manager	Zhi-Ming Shen										
	Assistant Manager	Hui-Zhen Chen										
	Assistant Manager	Zong Han Yuan										
	Assistant Manager	Feng-De Wu										
	Section Manager	Jie-Ru Chen										
	Engineer	Zhe-Yu Li										

XV. Status of Mergers or Issuance of New Shares for Acquisition of Shares of Another Company: None.

XVI. Implementation of Capital Application Programs:

(I) Content of Plans:

As of previous quarter of the date of the annual report published, for the preceding issuances or private placements of securities have not yet been finished, or have been finished in the latest three years and the benefits of the plans have not yet been emerged, the contents of these plans and their implementation status: All plans have been finished, and the benefits of the plans have been emerged.

(II) Implementation Status:

Analysis of each plan's purpose stated in the preceding subparagraph item by item as of previous quarter of the date of the annual report published, their implementation status and their benefits compared with original estimation, for instance, implementation

progress or benefits have not achieved the estimated targets, the reasons, the influences on the shareholders' rights/interests and improvement plans shall be explained specifically:
No such circumstances.

Five. Overview of Operation

I. Contents of Business

(I) Scope of Business

1. Main Business Contents for the Company and Subsidiaries:

Name of Company	Main Business Contents
Concraft Holding Co., Ltd. (registered in Cayman Islands)	Holding Company
Dragonstate Technology Co., Ltd. (registered in Mauritius)	Trade of connectors, acoustooptic components and automotive components
Concraft Technology Co.,Ltd. (Registered in Hong Kong)	Trade of connectors, acoustooptic components and automotive components
Concraft Precision Co.,Ltd. (Registered in Hong Kong)	Holding Company
Dragonstate International Technology Co., Ltd. (Registered in Taiwan)	Trade of connectors
Kunshan Dragonstate Electronic Technology Co., Ltd. (Registered in China)	Research/development of technology, manufacture, processing and trade of connectors, acoustic components, automotive components and optical components
Concraft Precision Electrical (Kunshan) Co., Ltd. (Registered in China)	Manufacture, processing and trade of the mold and the jig.
Concraft Precision Electronics (Baoying) Co., Ltd. (Registered in China)	manufacture, processing and trade of connectors, acoustic components and optical components
Kunshan Haojun Precision Electronics Co.,Ltd. (Registered in China)	Stamping, processing, trade of connectors, acoustic components and automotive components
OBO Pro.2 Inc. and its subsidiaries	The production and sale of acoustic products

2. The proportion of business

Unit: NT\$ thousand

Category	Year	2017		2018		2019 Q1	
		Amount	%	Amount	%	Amount	%
Acoustics components		3,184,742	60.38	3,124,631	54.27	452,703	76.55
Connector series		614,095	11.64	334,381	5.80	48,774	8.25
Mold and jig and automation equipment		1,251,831	23.74	2,026,077	35.19	32,794	5.55
Automotive series and others		223,766	4.24	272,813	4.74	57,075	9.65
Net operating income		5,274,434	100.00	5,757,902	100.00	591,346	100.00

3. The products of the Company and subsidiaries

The principal business of the Company is the research and development and processing of optoelectronic products and electronic connectors with focus on the application to consumer electronics such as NB, set top box, LCD TV and portable devices. Major terminal devices fitting into the product categories of the Company are shown below:

- (1) Portable devices: acoustic-optics components, mold and Jig.
- (2) TFT-LCD (LED) and SET TOP BOX: PCMCIA, SMART CARD and HDMI.
- (3) NOTE-BOOK and business machines: connectors (DDR, NGFF, HDMI, DC Jack)
- (4) Server and network communication products: SFP, MINPCI and MINPCI EXPRESS

(5) Other series: automotive parts

4. New products planned for development

(1) The development of automotive related parts and components

(2) The development of acoustic-optics parts and components

(3) The development of optical products

(4) The development of medical auxiliary material parts and component

(II) Industry Outlook

The Company started as a designer of mold and jig. The core technology of mold is insert molding process. This process entails the placement of the insert (including non-metallic materials) inside the mold cavity before the plastic injection to fill the mold, and the injection of plastic into the mold cavity so that the insert and the envelop part will be combined before the injection to form a single item. This process helps to save the manual labor of lamination and assemblies, reduce the use of materials and shorten the work hours, and successfully emerged as the technical barrier for the Company. The Company made ceaseless effort in the improvement of the insert molding technology with its know-how in mold and jig over the years, and has applied for patent protection in China, Taiwan, USA, and Japan for meeting the needs of slim and light weight of products in the future. In addition, the Company also combined the design of insert molding and the silica gel injection technology for applying to the development of acoustics, optical and automotive parts and components for broadening the horizon of new applications.

1. The current status of the electronic parts and components industry of Taiwan.

The electronic parts and components industry of Taiwan in 2015 and 2016 performed satisfactorily. Global economic recovery in 2017 drove up the demand for terminal electronic products downstream, which in turn stimulated the shipment of electronic parts and components at upstream. The annual shipment volume increased by 6.4%. This trend continued in 2018 with an overall growth in the demand and drove up the demand for parts and components at upstream. Yet, the China-US trade dispute in the latter half of 2018 may affect electronic parts and components and the annual estimated growth is about 13.8% (Figure 1).

Figure 1: The comparison of the production value of electronic parts and components in Taiwan in recent years

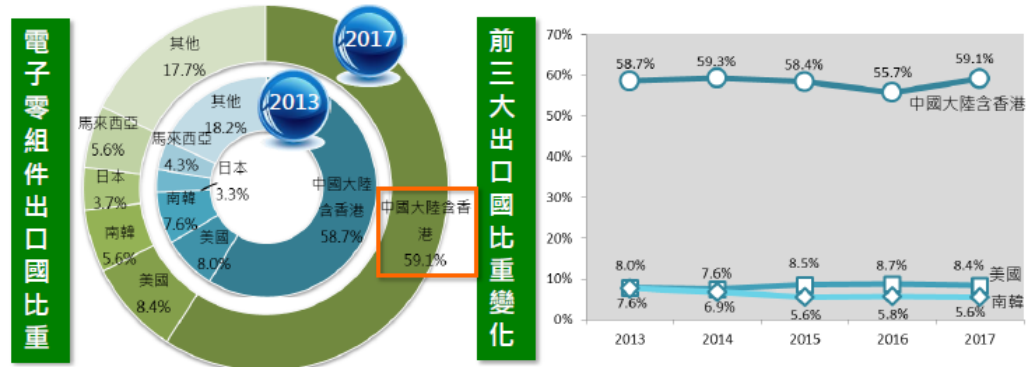


Source: Compiled by IEK of ITRI (2018/10)

The export of electronic parts and components in Taiwan increased in proportion year after year. The proportion of export was 74.1% in 2013 and has increased to 77.5% in 2018. Since most of the downstream assembly plants have

been relocated to Mainland China, most of the electronic parts and components were exported to Mainland China. The USA and Europe are still the main consumption market of terminal products. The proper control of the main market will be the gravity of Taiwan in the development of electronic parts and components. The shipment of new electronic terminal products in the second half of 2016

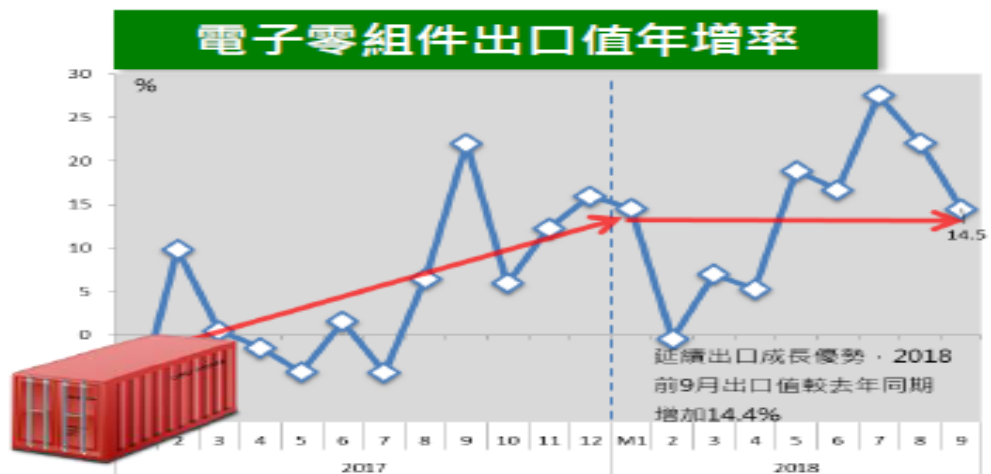
Figure 2: The ratio of the export of electronic parts and components by country



Source: Department of Budget, Accounting and Statics of MOEA, Directorate-General of Customers of MOF; compiled by IEK of ITRI (2018/10)

The sale of electronic parts and components rebounded, and the export value turned to positive figures. The overall economic recovery in the second half of 2017 drove up the demand for electronic products, which in turn stimulated the sale of parts and components at upstream with monthly growth of export at 5%. This trend continued in the first half of 2018. The strong demand for terminal electronic products contributed to the growth of export for electronic parts and components in the first 9 months of 2018 by 14.4%

Figure 3: Annual Growth Rate of Electronic Parts and Components



Source: Export data of MOF; compiled by IEK of ITRI (2018/10)

The demand for smart phone in Taiwan in the first half of 2018 was relatively weak. It was echoed with the outbreak of the China-US trade dispute. Trade orders for the supply side turned conservative. The impact of the changes in international exchange rate also affected the revenue in the newly emerged markets and the Euro Zone. In the future, parts and components must be able to satisfy the needs of real-time sensing and interconnection of things, which derive

the wireless module integrating the functions of sensing, computing, transmission, and power management. The slim and light and waterproof technology of smart phone and wearables will boost up the demand for insert molding products and bring about growth in the electronic parts and components market in the future.

Continued innovation of the smart phone is expected in the future. 5G will be launched in the second half of 2019. By then, about 80% of the 5G users will be found in the USA, China, Japan, and South Korea. It is expected that the 5G user population will surpass 500 million in 2022, which in turn will boost up the production value of semiconductor. With the sustainable growth of demand for automotive and industrial electronics, and the successful entrance of automotive devices into the US power cars market, the demand for passive electronic components and detachable components will grow further. Under the promotion of the famous brands in Europe and America and Mainland China, the performance of TV panels is expect to thrive even in low season.

(1) The outlook of the acoustic components industry

For long time since the beginning of history, voice played a critical role in the interactions between human beings. The development and advancement of technology today allowed human beings to transmit their voices by technology devices to all parts of the world. In this mode of transmission, earphone, megaphone, speakers are important intermediaries. The mushrooming of the communication industry will make the electroacoustic industry promising. Popular items are different types of earphones, the smart phone receiver, and the moving-coil loudspeaker of NB PC. Earphone manufacturers tended to bolster the physical design and materials of their products further to the quality of sound over the years. They also concentrated in the upgrade of additional value such as wireless connection, anti-noise function, and waterproof. The horizon for the development of the electroacoustic industry has been broadened, which includes the traditional sound system to smart sound box, translation devices-simultaneous interpretation. The small phone market enjoyed the highest demand and fastest growth (Figure 4).

Figure 4: Electroacoustic component development trend



Source: CES; IEK of ITRI (2018/01)

① World Market

The growth of smart phone sale has slowed down since 2016 and the annual shipment volume fell to single digit. The main reason was the decline of

consumption power in China, the USA, and Europe. The public tended to use a smart phone for an average of 30 months before going for new items. The situation was worsened by the explosion incident of a world-renowned brand, which hit the performance in both production value and volume hardly in 2016. The buying power was frail in 2017 that the annual shipment of smart phone fell by 4.9%. The situation remained sluggish in 2018. The anticipated launch of 5G in the second half of 2019 may help to boost up the shipment of smart phone with projected growth of 3%. It is expected that the shipment volume of 5G smart phone in 2020 will surpass 212 million units or at 7% of the global shipment volume. In 2022, the global shipment volume of smart phone will surpass 1,654 million units with the growth of 5G smart phone moving upward by 18%. The CAGR in these 5 years will be 2.5%

According to the report of IDC on global smart phone shipment volume in 2018 Q4 on the global competition trend of famous brand cell phones (see figure 6), the total shipment volume of small phone in 2018 Q4 was 375.4 million units worldwide, which was a decline of 4,9% from the same period of 2017. According to the statistics of IDC on global sale of smart phone, the overall performance of smart phone in 2018 was the worst at only 1,400 million units, or a decline of 4.1% from 2017. Samsung accounted for the highest market share in the global market of 2018 at about 20.8%, followed by Apple at about 14.9%, and Huawei, OPPO, and Xiaomi of Mainland China (Figure 7)

Figure 5: Global smart phone sale forecast

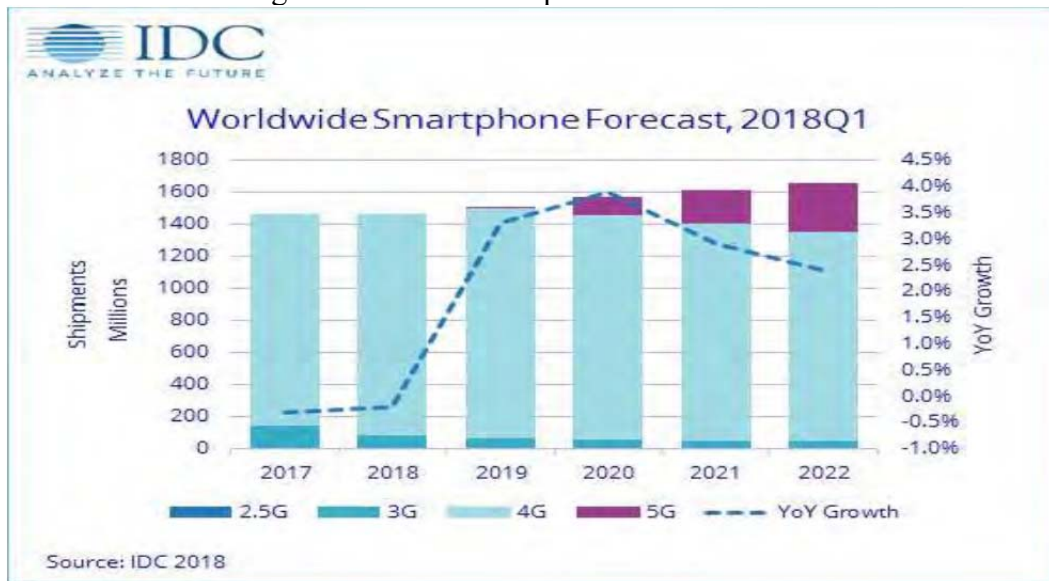


Figure 6: Ranking of global smart phone sale by market share in 2018 Q4

No	Company	4Q18 Shipments	4Q18 Share	4Q17 Shipments	4Q17 Share	YoY Chang
1	Samsung	70.4	18.7%	74.5	18.9%	- 5.5%
2	Apple	68.4	18.2%	77.3	19.6%	- 11.5%
3	Huawei (China)	60.5	16.1%	42.1	10.7%	43.9%
4	OPPO (China)	29.2	7.8%	27.3	6.9%	6.8%
5	Xiaomi (China)	28.6	7.6%	28.2	7.1%	1.4%
	Others	118.4	31.5%	145.3	36.8%	- 18.5%
	Total	375.4	100.0%	394.6	100.0%	- 4.9%

Unit : Million

Source: IDC (2019.01)

Figure 7: Ranking of global smart phone sale by market share in 2018.

Unit : Million

No	Company	2018 Shipment Volumes	2018 Market Share	2017 Shipment Volumes	2017 Market Share	YoY Chang
1	Samsung	292.3	20.8%	317.7	21.70%	- 8.0%
2	Apple	208.8	14.9%	215.8	14.70%	- 3.2%
3	Huawei (China)	206	14.7%	154.2	10.50%	33.6%
4	Xiaomi (China)	122.6	8.7%	92.7	6.30%	32.2%
5	OPPO (China)	113.1	8.1%	111.7	7.60%	1.3%
	Others	462	32.9%	573.4	39.10%	- 19.4%
	Total	1,404.9	100.0%	1,465.5	100.0%	- 4.1%

Source: IDC (2019.01)

②Market in China

China is a major producer of acoustic components worldwide with the participation of more than 1,500 enterprises in the industry of acoustic and related items. The strong demand of the domestic market and the active investment of the research and development of smart phone, and brand value allowed for fast and high growth. The sale of smart phone in 2017 surpassed the products of Korea and US and accounted for more than half of the global market share. The increase displacement rate in market facilitated the tremendous expansion of the smart phone brands of China to the overseas market and resulted in gaining more than half of the global market share. It is expected that the global market share in 2018 could surpass 54% (Figure 8) The smart phone enterprises in China have shifted their gravity from China to India for selling low-end items. Since the manufacturers in China started to supply high-end items a few years ago, like AirPods, the wireless Bluetooth earphone for Apple.

Figure 8: Global market share of brands from China in 2013~2019 and changes



Source: TrendForce (2018.07)

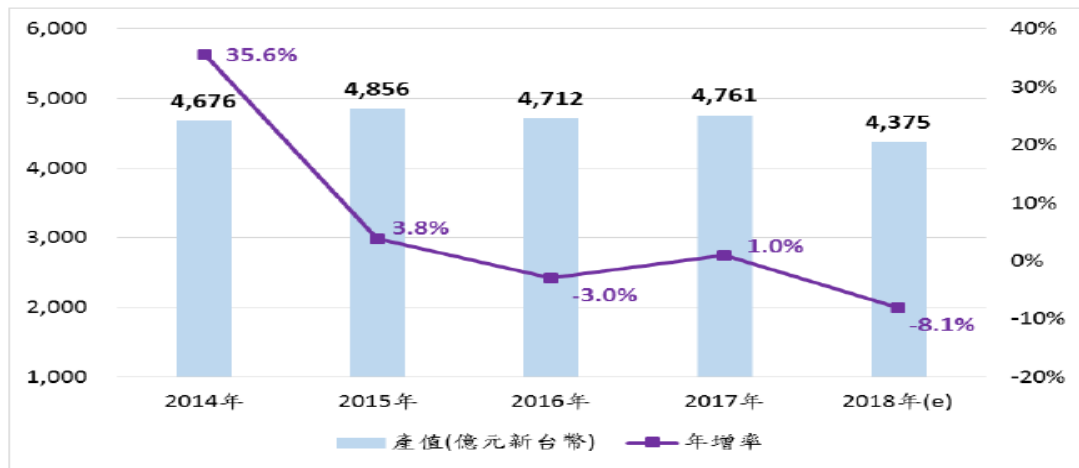
②Market in Taiwan

With the rise of brands like Huawei, Xiaomi, OPPO, and Vivo, and the incremental saturation of the market in Europe and the USA, there is no room for further development of Taiwan brands like ASUS and HTC. In response, ASUS and HTC made adjustment of their product development strategy in 2018 and started to switch to the niche application of eSports and Blockchain launched the eSports ROG Phone and Blockchain phone Exodus 1 to create segmentation and

differentiation of products. These niche items could help to improve the product structure effectively, but could not help to boost up the shipment volume at significant level. As such, the shipment volume of domestic brand cell phone declined further and performed poorly.

In general, the shipment volume of brand name cell phone and OEM products continued to decline. According to the findings from the survey conducted by IT IS of ITRI (Figure 9), the production value of the smart phone industry of Taiwan in 2018 was only NT\$437.5 billion, which is a decline of 8.1% from the same period of 2017. Production value performed poorly.

Figure 9: Production value of the cell phone industry of Taiwan in the last 5 years and trend.



Source: ITIS Quarterly Industry Report; compiled by Taiwan Industry Economics Services, 2019/01.

(2) The outlook of the connector industry

① World Market

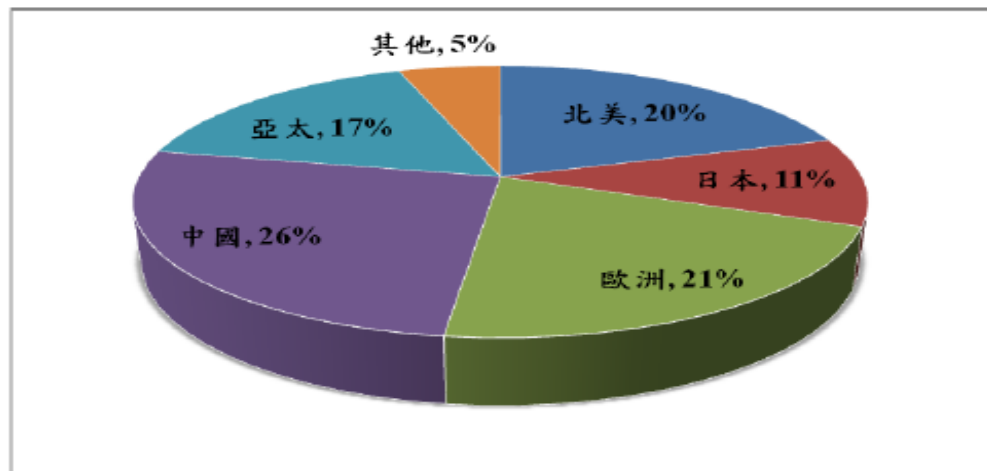
Most countries enjoyed stable economic growth. It was echoed with the demand data communication, computer and peripherals, consumer electronics, automotive electronics, green energy, and medical devices downstream. According to the data released by Bishop and Associates, the global production value of connectors amounted to USD60,116 million in 2017, which was an increase of 10.99% from USD 54,164 million in the same period of 2016.

The rapid development of the downstream industries in China including military equipment, communication, new energy and automotive was fostered by the strong support of the national industrial policy. With the significant upgrade of manufacturing skill of the local enterprises, the production value in 2017 amounted to USD19,080 million at annual growth rate of 15.90% and accounted for 32% of the global production value that surpassed North America (21%), Europe (20%), Japan (8%), and Asia-Pacific (14%) excluding China and Japan. This made China the biggest market to produce connectors. The downstream application of the global connector market is also expected to thrive. The production scale in 2018 showed growth of 10%.

According to the data from Bishop and Associates, the global sale value of connectors in 2017 amounted to USD62,100 million. It is estimated that the size of sale in 2018 will approximate USD70,000million. The CAGR in 2009~2018 was 8.05% and the CAGR in China in the same period was estimated at higher than 13.59%. The global sale value accounted for 26% of

the world total in 2017, which surpassed Europe (21%), North America (20%), Japan (11%), and Asia-Pacific (17%) excluding China and Japan. China emerged as the biggest sale market of connectors of the world (Figure 10).

Figure 10: Sale value of connectors worldwide (by region)



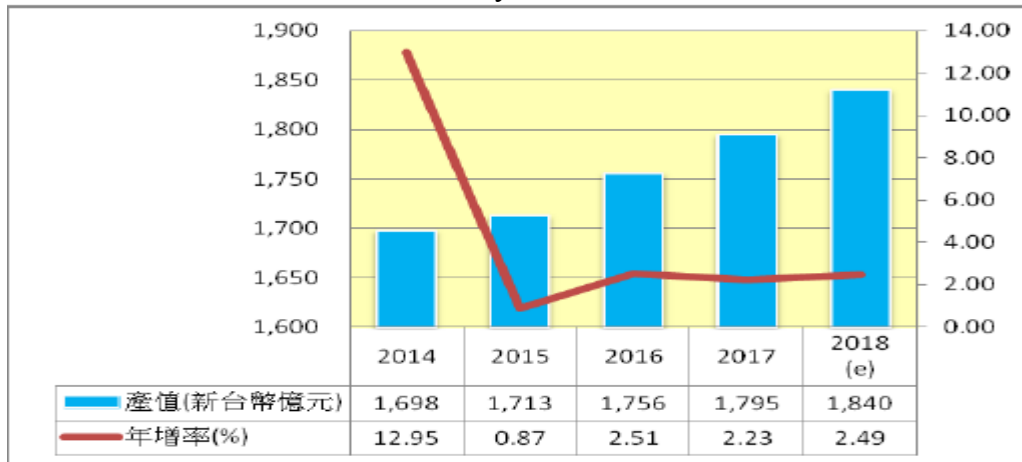
Source: Bishop and Associates, SZCIA, compiled by Taiwan Industry Economics Services (2018.12)

②Market in Taiwan

If we look at the demand side of the market in 2018, we could see that the production and sale of consumer electronics was frail. Yet, the high-end application connector market of consumer electronics (e.g., Type-C connector), eSports and commercial use DT/NB and PC server (e.g., high-frequency I/O port, IC Socket) still has momentum. At the same time, the successful development of sensing display technology helped to drive the market of vehicle-mounted devices of VR/AR (e.g., FPC connector, TE connectivity) forward. The continued promotion of V2X and ADAS, and new energy cars in most countries drove up the demand for vehicle use connectors/ circuit group/electronic module in general. It was echoed with the surface of the demand for the newly emerged IoT application connection (such as the Cardiac catheter connector, optical communication connectors) in the upstream and downstream market. As such, this industry still has momentum for substantial growth.

If we look at the supply side, we could see that most connector enterprises have successfully accomplished their preliminary stage of transformation from the principal business of DT/NB connector in the past to cloud server, eSports and commercial use NB, smart wearables and related application connectors. The domestic connector cable enterprises have significant success in communication, industrial, military use, electric cars, appliances, green energy, and medical devices. This is particularly the case in the automotive market, which remained the biggest market of application in development for the above enterprises. As such, this industry will still be promising. In sum, the data of IEK of ITRI indicated that the production value of 2018 electronic connector (cable) manufacturing of Taiwan amounted to NT\$184 billion, which was a marginal growth of 2.49% from the same period of 2017 (Figure 11).

Figure 11: The Production Value of the Electronic Connector (Cable) Manufacturing Industry of Taiwan



Source: IEK of ITRI, compiled by Taiwan Industry Economics Services (2018.12)

2. The Outlook of the Product Application Market

(1) Electroacoustic application market

The application of acoustics application is boundary free, and has extended to international communication, mass communication, traffic safety, environment quality, music, entertainment, inspection and testing, biomedical imaging, hearing aid, anti-noise, petroleum exploratory drilling, defense, rescue, and counterterrorism. Yet, all the above applications rely on the “electroacoustic” converter (microphone and loudspeaker) to achieve. Traditionally, speaker is used in radio, sound system, and mass communication. Piezoelectric loudspeaker is used as the sound source and receiver in ultrasound and sonar. Micro loudspeaker is used in cell phone, earphone, VoIP, 4C products, and hearing aids. Currently, portable device and high quality 4C products have become an integral part of our daily lives. The demand volume of micro loudspeaker grew in line with the growth in demand for tablet PC, smart phone, and wearables. Likewise, the demand for smart sound box, translation devices-simultaneous interpreter and related smart products also grew over the years.

Yet, the produce life cycle of smart products is short that the firms must adjust their production lines perpetually. Products fitting the needs of the customers and markets and remained competitive dictated for the strong capacity in research and development. New products must be designed to the needs of the customers. In addition, the slim, light, short and compact design development of cell phone with waterproof function required electroacoustic parts and components at stricter standard. Other than the basic design capability, the firms must have solid background in the development and application of new materials in order to pass the test of the market.

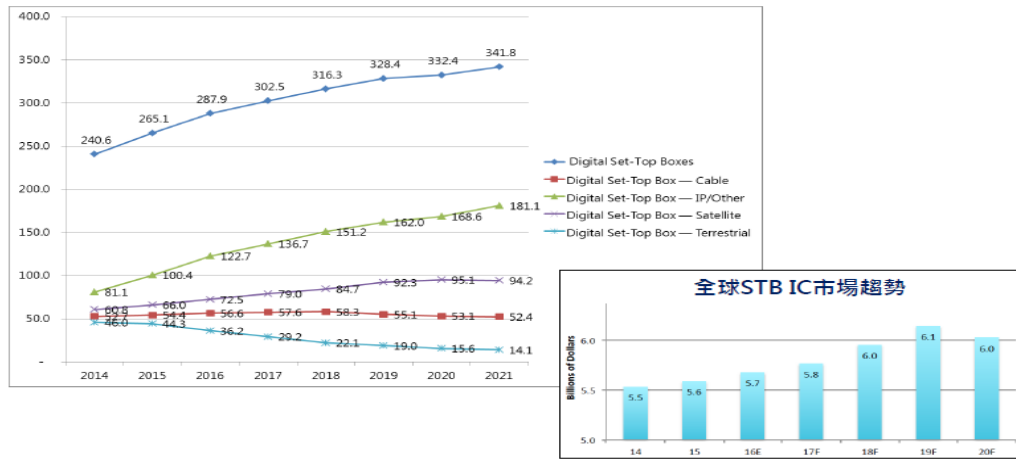
The shipment of consumer or professional sound and communication products will be enhanced, echoed with the continued development of ultrathin loudspeaker, wireless sound system, LP disc, Sound Bars, automotive loudspeaker, smart sound box and related products. These will help to boost up the shipment volume of acoustic products and related parts and components. The development of related products for the smart wearables will be promising.

(2) SET TOP BOX AND TFT-LCD application market

The governments in all countries of the world have enacted to set for the schedule of digitization of TV signals in the last few years. Under the advocacy of these governments, there is an abundance of optional digital TV programs available. The gradual opening of the digital TV service in all countries and the discontinued broadcasting with analog broadcasting gives rise the lucrative business opportunity of digital set top box. The broadcasting of high definition TV programs in many countries stimulated for a change in the mid to high-end digital set top box market and the demand for the products. Yet, the changes in market are so complicated that the regional difference is significant. The strategy of individual pay TV service providers, the prevalence of the media and the development of consumer electronics will determine the outcome.

2017 was the peak for the set top box market mainly because most countries cease to provide set top box free of charge in order to end the broadcasting of analog TV. The Internet TV market in China became saturated after 2017. It was echoed with the digitization of cable TV and the shutdown of analog signal transmission. Under this circumstance, the set top box market was on decline. Of all the consumer electronics connecting to the Internet (such as smart TV, blue ray player, and eSports server), set top box has been repositioned as “the multimedia home portal” and emerged as the core of Internet home. The function of many types of set top boxes has been reinforced and made it the “multimedia home portal” for access to the Internet, pay TV service, home portal service, Wi-Fi and other advanced payment function. These functions made set top box more competitive and the market size expanded accordingly. The 4k high definition high-end set top box is another trend of development. As the 4k high definition TV gets increasingly popular with simultaneous increase in the quantity of the content of 4k high definition audiovisual content, the demand for 4k high definition set top box skyrocketed quickly. The average sale price of 4k high definition set top box is higher, which help to save the falling sale price of the overall set top box. The set top box featuring videotaping function or “multimedia home portal” is usually supplied by the pay TV service providers to the consumers. The service providers used this type of high-end set top box to boost up the consumption amount of the consumers and provide differentiated services in order to form segmentation from the competitors. The shipment volume of low-price set top box with basic function is still the highest among other products of its kind for the time being. The shipment volume of this type of basic set top box is expected to decline from 2017 to 2020 when full-scale digitization is completed. The 4k high definition set top box featuring multimedia home portal and videotaping function will increase in proportion to all types of set top boxes but the shipment volume may not grow further (Figure 12).

Figure 12: Global shipment volume of set top box (million units)

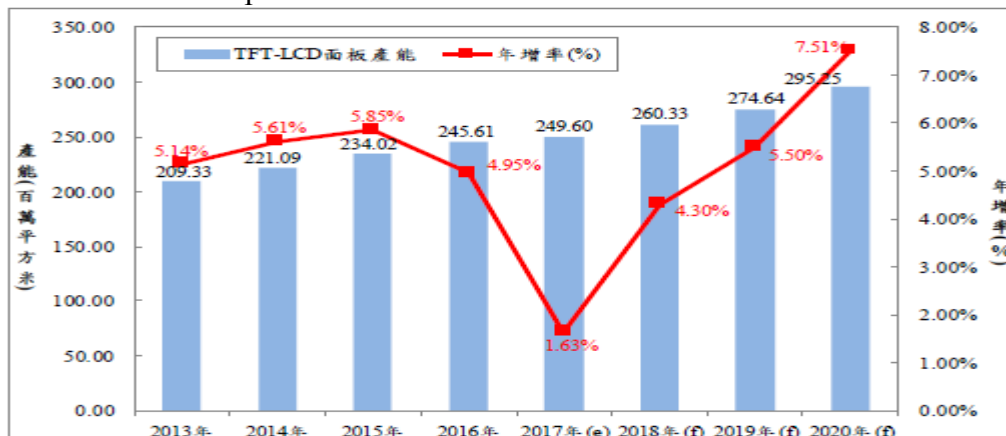


Source: Intel; IC Insights, IEK of ITRI (2017/4)

If we look at the trend of changes in the industry of the parts and components for TFT-LCD panels worldwide, we could see that the NB PC, LCD monitor, tablet PC, cell phone, LCD TV and vehicle-mounted panels enjoyed stable growth under the high potential of demand for LCD panels. With the increase in the average dimension, and the advancement of technology that increased the proportion of high-end products, such as 8K and eSports. The significant growth of the consumption volume of vehicle-mounted panels gave rise to the demand for big screen panels except the central control station, instrument panel, tilt monitor, and rear-view camera. The AIOT market with the combination of public display, industry, medical, education, defense and IoT and AI gets bigger. In addition, the newly emerged economies like India, the ASEAN countries, and Latin America have stronger demand for digital devices year after year, which indicated prospective growth of TFT-LCD in the future.

The Chinese government has made tremendous effort in supporting the development of the panel industry. Through different types of policy subsidies, the panel enterprises in China continued to expand their production capacity with the expectation of high potential of growth in demand. In addition, Hon Hai Precision of Taiwan has invested to establish a 10.5 G plant in Guangzhou, China, and also a 10.5 G panel plant in Wisconsin, USA. It is expected that the TFT-LCD panel production capacity will undergo stable growth in the period of 2018-2020 in annual gradual growth. By 2020, the growth rate is expected at 7.51%. Under the continued growth of TFT-LCD production capacity, it is expected that the demand for TFT-LCD parts and components will also be boosted (Figure 13).

Figure 13: The trend of the changes in the downstream panel industry of TFT-LCD parts and components



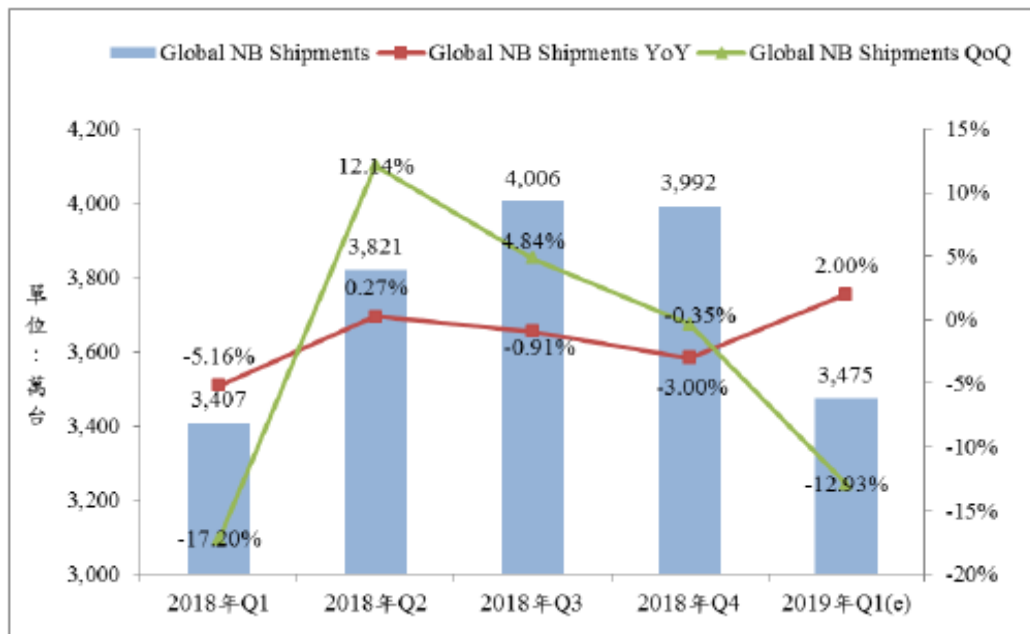
Source: Digitimes; compiled by Taiwan Industry Economics Services (2018.01)

(3) Note-Book market

The well development of assembly technology and the introduction of new materials narrow edge screen design in 2018 helped to downsize the dimension of notebook PC for better visual experience. Product design will be oriented towards slim and light weight in development. Yet, the market of eSports notebook PC gets increasingly competitive that affected the sale performance of branding enterprises of Taiwan. As such, the market share of Taiwan notebook PC fell marginally in 2017. The shipment volume is also expected to be sluggish, as there is no incentive for stimulating the demand for notebook PC worldwide. Domestic enterprises tended to concentrate their resources in IoT, AI, robots, and smart sound box, and appealed to the innovation of products, operation, and ecological system, and also made effort for industrial upgrading and transformation so as to maintain competitive advantage.

The trend of the changes in the shipment volume of notebook PC worldwide is exhibited in Figure 14. Albeit the slowdown of global economic growth, and the lack of incentive for the users to replace with new machines that the product life cycle became prolonged that affected the intent of the consumers for replacement with new machine, the demand in market remained stable. It was echoed with the gradual improvement of shortage in the supply of Intel processor, and some enterprises adopted AMD processor as a substitute for the low-end Intel processor. According to the estimation of Digitimes, the shipment volume of notebook PC in 2019 Q1 will be 34.75 million units. The sale of Chromebook in the base period of 2018 Q1 was also not ideal at relatively low level that the global shipment volume of notebook PC in 2019 Q1 could achieve the annual growth rate of 2.00%.

Figure 13: Global shipment volume of notebook PC



Source: DIGITIMES; compiled by Taiwan Industry Economics Services (2019.03)

(4) Network Communication Market

There is a wide array of interface technologies for different loading needs of the transmission interface of HDD such as SATA, eSATA, and the CE-ATA exclusively developed for consumer electronics. The mini-SATA (also known mSATA) was developed to meet the needs in the mainstream market of slim design of notebook PC through the embedded mode of design for reducing the size of the machine. Even through the Mini PCI-E (MINI PCI EXPRESS) slot

was used to connect with the mother board for expanding the capacity of the HDD of the notebook PC, it was not until the launch of the MacBook Air of Apple with the adoption of mSATA interface that it has attracted the attention of the public. The Mini PCI-E (MINI PCI EXPRESS) slot height is classified into half height (26.8mm) and full height (50.95 mm) where the half height slot is used for the installation of wireless connection card or 3G connection card. The full height slot is used for the installation of mSATA SSD for expanding the capacity of the notebook PC and is still mostly applied to the application of notebook PC for the time being. The rapid growth of the consumption, industrial and automotive market is expected to bring about significant growth.

In the advent of the very low-price TLC architecture, the price of SSD has approximated the traditional HDD. The ultra slim and quick reading and writing design of SSD matching with the stable, high-speed and energy efficient design of NAND Flash makes it suitable for the mainstream PC market for the time being. The next will be the advancement to data center, digital bulletin board, POS and security monitoring and control market. According to certain research report, the revenue and production value of SSD will be on the growth in the future (Figure 15)

Figure 15: the Global SSD market value in 2012~2022



(5) The automotive parts and components market

The production volume of automobiles in major countries of the world in the period of January to September, 2018 declined less severely than the same period of 2017 despite the decline of US production in the same period of 2017. yet, the performance of major countries like Europe, China, and Japan in production volume was not as good as was in 2017 (Figure 16). The enactment of the tax cut bill in the USA helped to stimulate sale in the automobile market. It was coupled with the sustained economic recovery. Yet, the US FED has adjusted its interest rate upward for 3 times and reiterated for further upward adjustment in 2019. This resulted in the decline of 0.01% of the production

volume of automobile in the USA as compared with the same period of 2017. Major countries in Europe, including France, Italy, Spain, have achieved growth in sale volume. It was particularly the case for German brands, which made sizable sale in the newly emerged markets of the world. The total number of new car registration in Europe increased by 2.32% in the period of January to September 2018 as compared with the same period of 2017. Toyota of Japan changed the design of its Prius and Sienta models, matching with the upgrade of the driving support system and the new design for the compact cars to support sale volume. But the effect was minimal under the aging society that the population of car buyers got smaller. The result was marginal decline of 0.04% of car sale in Japan in the period of January to August, 2018 as compared with the same period of 2017. The SUV sale in China remained stable and the sale of new energy cars improved. There are several factors favorable for car sale in the market of China, but the sale of new cars got softened since 2018 Q3 under the China-US trade dispute. The production volume of new car in China in the period of January to September, 2018 grew marginally by 0.87% as compared with the same period of 2017.

The rapid development of the technologies for electric cars, unmanned vehicles, and IoT over the years led to the new era of smart cars. Smart, light weight and electric car will be the main trend of development in market. The continued development of IoT and unmanned driving technology dictated for higher standard of sensors and communication technologies. The telecommunication service providers accelerated to commit their resources to the 5G environment and the rapid introduction of advanced auxiliary supporting system of foreign automobile firms will stimulate for higher demand of vehicle-mounted data communication and vehicle-mounted sensing system, which in turn stimulated for a much larger consumption volume of passive components. In sum, under the fermentation of electric cars, unmanned driving, and IoT, it is estimated that the passive components used in each car will increase significantly. The entrance barrier for the technology of passive components is not high and the price is not sensitive that the purchase order will be stable. This advantage attracts many major manufacturers to the market that help to effectively improve the product structure and enhance profitability.

Figure 16: Automobile Productions in Major Countries/Regions of the World from January 2015 to September 2018.

Unit: 10,000 units; %

	2015		2016		2017		January to September, 2018	
	Volume	Annual growth rate	Volume	Annual growth rate	Volume	Annual growth rate	Volume	Annual growth rate
USA	1,210.01	3.77	1,219.81	0.76	1,118.20	-8.20	850.12	-0.01
Europe	1,576.31	9.40	1,612.20	7.48	1,811.81	3.29	1,383.45	2.32
China	2,450.33	3.25	2,811.88	14.46	2,901.54	3.19	2,049.13	0.87
Japan	927.82	-5.08	842.31	-1.24	968.41	5.21	635.57	-0.04

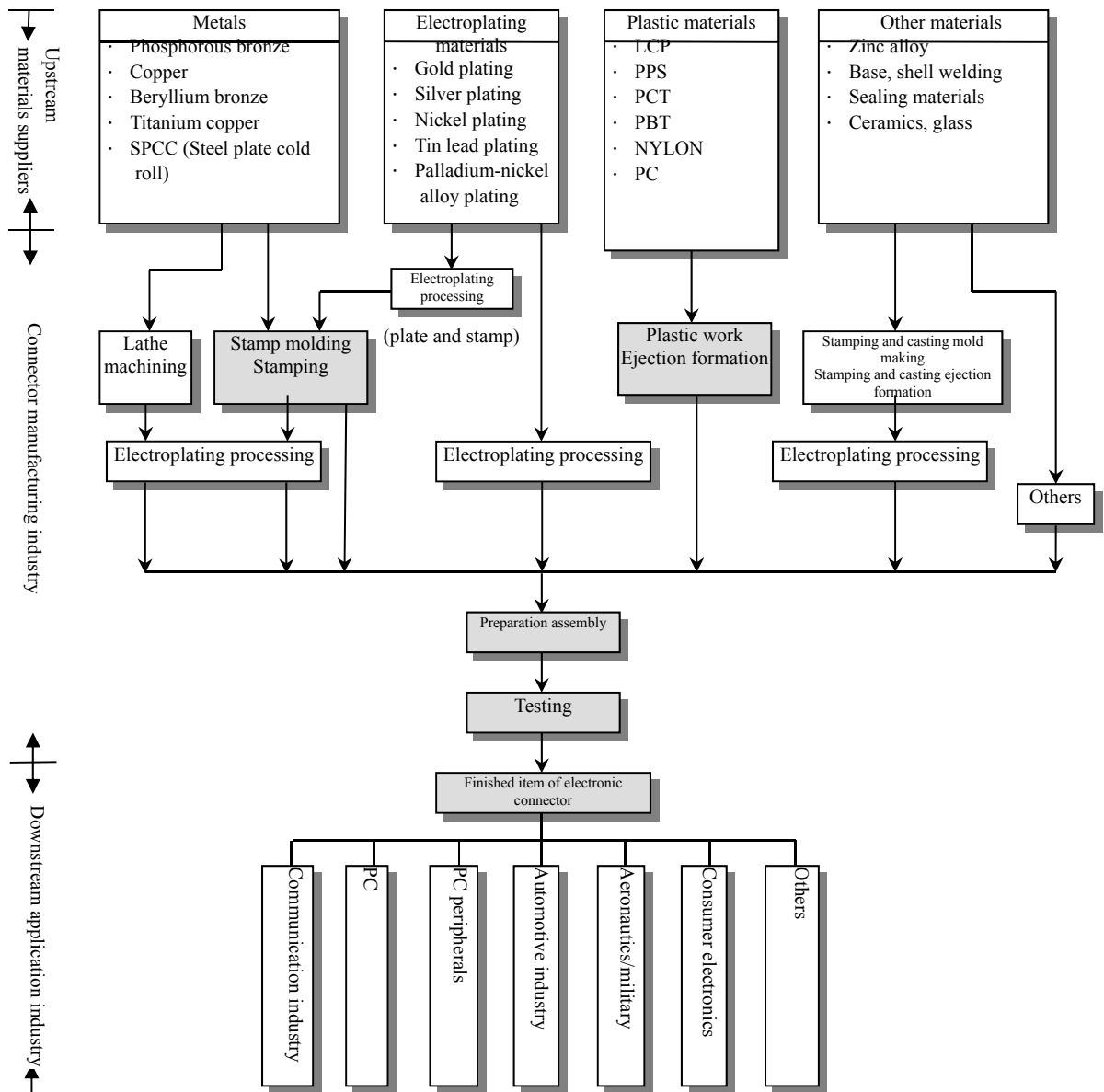
Source: China Association of Automobile Manufacturers, Japan Automobile Manufacturers Association; compiled by Taiwan Industry Economics Services (2018.11)

3. The association of upstream, midstream and downstream industries

The electroacoustic industry is composed by the terminal brand proprietor firms, acoustic parts and components outsourced manufacturers at downstream

and the chips, plastic, metal, wires firms at midstream and upstream.

The upstream industry of the connector industry contains the metal and plastic materials suppliers. The depreciation of the USD over the years and the wide fluctuation of oil price resulted in the unstable prices of material supply at upstream for long-term. It was echoed with the high demand in the newly emerged markets that the cost of materials of connectors accounted for the largest proportion of the total cost. Mitigation of the fluctuation of the prices of materials at upstream, the rapid vertical integration of the industry, the upgrade of production technology for reducing the use of materials and waste will be critical for the survival of connector manufacturers. In addition, the price of connectors in Taiwan fell year after year due to the increasing popularity of the downstream terminal products like computer peripherals. How to stay away from the keen competition of the notebook PC group and create an exclusive character for the connector manufacturers will be the only way of survival for the connector industry of Taiwan. According to the data on the market share of global connectors compiled by IEK of ITRI, the application to automotive and telecommunication/communication accounted for 45% of the global connector industry application market. If the share of 30% of computer peripherals and other special industrial use was included, these industries accounted for 75% of the world connector application market. The remaining 25% will be the demand for the military, aeronautics, consumer electronics, transportation, and medical devices industries. The connector products of Taiwan are mostly applied to computer peripherals, which accounted for more than 50% of the production value of connector of Taiwan. If the production value of cell phone, and network communication markets were included, almost 80% of the production value of connectors in Taiwan is supplied to the above industries. The data of IEK, ITRI, indicated that it would be necessary for the connector industry of Taiwan to cultivate the market of consumer electronics in further depth like the TFT-LED, digital camera, and automotive industries in order to sustain growth. This would be the direction that deserves closer attention of the connector manufacturers of Taiwan with commitment of more resources to this terminal application industry. The following diagram: The industry structure of electronic connectors



4. Different trends of development of products and competition

Product items	Development trend	Competition	Responding strategy of the Company
Consumer electronic connectors	<ol style="list-style-type: none"> In responding to the need of slim and light design, related connectors are undergoing integration. Formation of the idea of slim and light in design The external connectors should feature high frequency transmission. 	<ol style="list-style-type: none"> High frequency transmission and slim and light connector technology have emerged as the items for special research and development of the connector manufacturers. Price competition. 	<ol style="list-style-type: none"> With the tooling technology, the Company made ceaseless improvement of its insert molding production technology. Application for patent registration in China, Taiwan, USA and Japan for setting up barrier with patents to meet the needs of slim and light in the future. Selective use of price competition strategy with ceaseless upgrade of product technology and quality.
Acoustic-optics components	Slim and light design and flexible automated production	<ol style="list-style-type: none"> The acoustic customers increase their ratio of self-manufacturing Possession of the know-how in combination of silica gel and metal and plastics that enabled the Company to emerge as the world market leader in the production of silica gel vibration membrane. 	Make use of the tooling technology of the Company for ceaseless improvement of the insert molding production technology to build up entrance barrier in technology.
Automotive parts and components	Slim and light design and flexible automated production	Technical barrier of the industry peers in Europe	<ol style="list-style-type: none"> Make improvement of the products and production technology of the industry peers in Europe, engage in joint development with the customers in Germany for new products to set up cost and technical barrier. Challenge the full line automation of the automotive industry and products with high entrance barrier.

5. Competition

External connector has been gradually given up in the design of consumer electronics. It was coupled with the cut-throat competition of the industry peers. This halted the connector enterprises from making investment in business that may hamper their competitive power. Over the years, the Company made great effort in investing in the tooling equipment of its own to upgrade tooling technology and bolster the output of automation. The carrying items of the Company have been changed from connectors of consumer electronics to customized acoustic-optics components and automotive parts and components. This product line is highly customized that only the customers could produce a specific proportion. It is difficult for outsiders to compete in production. Further, design and full production capacity will be the gravity of this product line that it is difficult for the outsiders to imitate. The Company masters the know-how in combining silica gel, metals and plastics, which enabled the organization to emerge as a leader in the field of silica vibration membrane in the world market.

(III) Technology and R&D

1. The technical level of the business and R&D

The major technological know-how of the Company rested with the following 3 levels:

- (1) Product design: The Company has a strong team of engineering R&D personnel in Taiwan and Mainland China. They proceed to product design and development to the orders of the customers. The R&D function in Taiwan is focused on the design of customized product specification of the end customers in Europe and the USA while its counterpart in Mainland China is engaged in the improvement of the current product line for the

customers of acoustic-optics components and customers receiving the services of the Company. In addition, this team is also responsible for the update of product specification to the needs of the customers. As such, the Company has the capacity and experience at the product design stage accumulated for years as compared with other industry peers.

- (2) Tooling technology: the internal key technology of the Company is in tooling. The key management team of the Company has more than 20 years of experience in mold design and production. The designers and the technicians of the team were trained internally by the Company. As such, many patents of production technologies are derived from the tooling technology. Indeed, tooling technology is the core value of the Company.
- (3) Automation technology: At the initial stage of product research and development, the Company starts to take 4 critical elements of research and development into account:
 1. Any possible infringement of the patents of a third party;
 2. the demand of the developed products in market.
 3. If the cost of production be more competitive than the products of the same kind in market by 20%-30%.
 4. Could the new products be produced under automation system? This element is vital for the Company in making profit. For this reason, the Company has set up an Equipment Development Dept charged with the duties of the research, development, and improvement of automaton technology. As such, 80%-90% or even more of the products of the Company are assembled by the automated production equipment by the Company.

As such, we could see that the technological level of business of the Company is oriented to ceaseless refinement and ongoing breakthrough. The resources of the Company after years of investment fortified the production capacity of the Company, which made it emerged as an industry leader even though incomparable to the international big enterprises. The R&D items of the Company in the future are specified below:

Product categories	Products and Plans planned for development	Sphere of application
The development of automotive related parts and components	Joint venture with the customers in the development of the parts and components necessary for the driving of new energy cars.	The automotive industry
Design and development of the mass production technology of parts and components for acoustic products.	Parts and components of microwave acoustics (loudspeaker) and Mass production of the parts and components of moving-coil loudspeaker	Different industries
The composite use of silica gel material and other materials	The application of silica gel material to different levels of production technologies The application of silica gel to the technology development of semiconductor production process	Acoustics industry, optical industry, Automotive industry, semiconductor industry
Optical products	Mass production technology of optical products and optical grade tooling capacity	Optics industry Automotive industry, semiconductor industry
Metal stamping technology	Upgrade of metal stamping technology	

2. R&D expenses in the last 5 years

Unit: NT\$ thousand

Items	2014	2015	2016	2017	2018	2019 Q1
R&D expense	144,081	113,884	102,520	377,916	452,805	89,157
Net income	2,149,191	2,422,162	2,492,724	5,274,434	5,757,902	591,346
Ratio to net income	6.70%	4.70%	4.11%	7.17%	7.86%	15.08%

Note: Audited or reviewed consolidated financial information from 2014 to 2019 Q1

(IV) Long and short-term business development plans

1. Short-term business plan:

(1) Continued development of the domestic sale market in Mainland China targeting at network communication industry:

The Company is focused on the network communication industry. Most of the customers are Taiwan business or foreign business. In recent years, network equipment companies in Mainland China such as Huawei and FiberHome have emerged as world-class network equipment firms through mergers and acquisition. Connectors in this market segment are mostly supplied to world-class big firms such as Tyco, Molex, and Foxconn. Most network equipment companies in Mainland China have gradually appealed to other suppliers so far as the cost is concerned. As such, this market could be the target for the Company to enter and develop.

(2) Penetration of the products made by the Company into the product lines of the OEM customers through diversified mode of promotion as an integral part of end products:

The Company has developed long-term cooperative relations with the NB OEM makers. Since these OEM makers have started to diversify their OEM production lines, the Company could cut in several industries such as LCD TV and tablet PC. As such, the Company could promote the products being developed into their supply chain of parts and components for OEM products for developing market depth.

(3) Improvement of the production capacity for acoustic-optics and continuation of optimizing the yield rate of acoustics and optoelectronic manufacturing to satisfy the increase in purchase orders after the upgrade of technologies:

The core competence of the Company in know-how is tooling and automation design and production. This core competence may also be applied to the development of acoustic-optics components. As such, the Company started its joint ventures with big US acoustics firms since 2013, and engaged in mass production since the second half of 2013. In 2017, acoustics components accounted for approximately 60% of the consolidated revenues of the Company. The Company has laid down its foundation of acoustics components in the period of 2013-2014 with its strength in tooling and automation development, which is very helpful for its development in 2015 and 2016. In 2015, purchase orders from the big acoustics firms contributed to the significant growth of revenue and profit of the Company. With this experience, the Company has a clear concept for its product Road-Map for development in the future and oriented towards multiple-materials and multiple-dimension insert-molding technology in research and development. The revenue from acoustics components in 2019 was an extension of stable growth from 2018. Optics components will continue to apply to production technologies at

optical level with silica gel materials. It is expected that the revenue will increase by 3% in 2019 from 1% in period of 2018.

- (4) The production of the well-developed vibration membrane and the advanced mixed covered injection technology:

We master the know-how of combining silica gel, metals, and plastics, which enable us to emerge as a leader in the market of silica gel vibration model. Currently, our R&D team has spared no effort in the development of the materials with f0 error at the level of ± 5 Hz for waterproof and air permeable new material. This material features the integrated function of waterproof to replace the original sound web, adding new function to old parts, and condense the production process and cost of production at back-end. This is not only a matter of mixed covered injection with a diversity of materials; it also makes the quick availability of substitution plan for the customers to their needs further to the well-developed production process.

2. Long-term development plan

- (1) Active participation in cross-industry exhibitions such as precision production shows, automobile show, and medical machinery shows to enhance the exposure of the Company in frontier manufacturing capacity.
- (2) Establishment of stable business relation with top-notch manufacturers of the world with less manpower and high reproducibility manufacturing capacity.
- (3) Challenge the full-line automation of the automobile firms and development products with high entrance barrier.
- (4) Further effort in the development of silica gel ejection LSR production process.

II. Market, production and sale

(I) Market Analysis

1. Main regional markets for the products

Main regional markets for the products in the last 2 years, the amount and proportion of sales

Unit: NT\$ thousand

Regions of sales in the year		Year 2018		2017	
		Amount	%	Amount	%
Domestic sale		-	-	-	-
Export sale (Note)	Mainland China	5,538,424	96.19	4,953,621	93.92
	Taiwan	71,392	1.24	77,135	1.46
	Others	148,086	2.57	243,678	4.62
	Subtotal	5,757,902	100.00	5,274,434	100.00
Total		5,757,902	100.00	5,274,434	100.00

Note: The regions of sales beyond Cayman Islands. The consolidated financial information on 2017 and 2018 was audited.

2. Market share

The principal business of the Company is the production and sale of acoustic components, connectors and jig. In 2018, the revenue from acoustics components accounted for 80% of the total revenue. Acoustics components are not common parts and components for consumer electronics that statistics on related research are not common and easily available. As such, it is difficult to obtain the exact figure of market share. Further, the entrance barrier is high in the technical aspect, and the end customers and international acoustics big firms have high standard in quality.

The entrance barrier could further be secured with the registration of patents. In the aspect of connectors, the Company concentrates in the research and development, manufacturing, and sale of network communication and NB series of connectors. In light of the diversity in the types of connectors and the know-how is well-developed with many suppliers, it is difficult to estimate the market share of this product line. Yet, the Company is specialized in high frequency and high speed connectors. With the stable support from the downstream manufacturers, the products and technologies of the Company were highly recognized and affirmed by the customers and are competitive in the industry.

3. The supply and demand in market of the future and potential for growth

Connector is a vital component in the terminal consumer electronics market and is applicable to end products. The market size of the electronic parts and components markets is approximately tens of billions of NTD (e.g.: LED, passive components, PCB, connectors and battery tooling), which stimulated business opportunities worldwide. Acoustic component is a newly emerged industry. In the wake of the increasing popularity of smart phone, the trend of growth of this industry is highly visible. This item brings in good profit. The following is the analysis of the changes in the supply and demand in market:

(1) Connectors

At the early stage of the operation, the Company was focused on the research and development, production, and sale of connectors. The Company underwent transformation in the last few years and turned its focus on tooling technology. The network communication and NB connector industry have been well-developed, and the gross margin is not as thick as the newly emerged business, but it still account for a substantial share in the terminal application market. Connector is an integral part attached to different types of electronic components such as LED, PCB and battery tooling. The research findings from Taiwan Industry Economics Services released in December 2018 indicated that the size of production and sale in the connectors market in 2018 was still on the growth. In the rapid development of downstream industries in China like, military, communication, green energy and automotive, and under the great support of the government policy, the manufacturing standard of local firms has obviously been upgraded. The Company is focused on high frequency or high speed connectors, and could maintain its operation with stable growth in the future.

(2) Acoustics components

According to the research findings from Taiwan Industry Economics Services released in January 2019, the penetration rate of smart phone to the newly emerged markets like India, Indonesia, Thailand, the Middle East, and Africa was low in 2018, but the launch of low-price 4G service and other digital applications by major telecommunication service providers of these countries and regions helped to drive up the demand for upgrade of smart phone. Accordingly, shipment volume turned strong. However, innovation could hardly be found in those products that the demand in the market of China fell significantly. Likewise, the market in Europe and the USA also lacked the driving force for further growth. As such the shipment volume of smart phone worldwide continued to decline more severely than in 2017. The continued decline in the demand in the smart phone market worldwide compelled the cell

phone brand owners in Taiwan turned to focus on eSports, Blockchain, and VR phone applications in 2019. In the wake of continued decline in the shipment of brand name cell phones and the lack of driving force for growth among the OEM assembly plants, the shipment of the cell phone manufacturers of Taiwan may decline further. It was coupled with the relocation of the production sites of the major cell phone OEM assembly plants of Taiwan that the cost of operation of these firms is bound to rise. It is expected that the cell phone manufacturing industry of Taiwan will encounter marginal decline. The number one customer of the Company in China is among the top performers in acoustics worldwide. In addition, the end customers of smart phone demand very high quality from the international big electroacoustic firms, which in turn compelled these big firms to demand high standard in technology for screening the suppliers. This helped to place a high entrance barrier in 2018. As such, the Company could still expand its scale of operation irrespective of keen competition in the industry.

(3) Potential for growth in the future

The above analysis of supply and demand indicated that the premium products of the Company were used in consumer electronics and network communications, and have reached certain economy of scale and market share. Under the high entrance barrier of technology of the acoustic-optics, competitors cannot easily penetrate into the market and the Company will be prospective in the future.

4. Competitive Edge:

The competitive advantages of the Company are specified below:

(1) Innovative design mindset

The original design of connectors by the Company is not affected by the homogeneity of products in the industry by using an innovative mindset to challenge the original design concept. In addition, the Company used the Insert Molding process technology extensively to reduce the use of copper and condense the time for production. The multiple-materials Insert Molding technology allows for a diversity of products and posed a technical barrier, and has been recognized by the international customers and patent registration in many countries.

(2) Capability in improvement of production technology

The Company invests in the design and development of automated assembly devices every year for product stability such as the fully automated assembly machine, mechanical robotic arms automated assembly machine, automatic inspection and testing machine. In addition, the multiple-cavity tooling design for mold injection, the Insert Molding process technology remained the strength of the Company in production technology improvement.

(3) Automation equipment to control the production process and quality of products

The Company highly values machinery automation, and has procured fixed assets amounting to NT\$778,823 thousand, NT\$1,490,348 thousand, and NT\$1,027,342 thousand over the last 3 years, respectively. This could indicate that the production process of the Company has gradually been transformed to automation for reducing the demand for labor force. Furthermore, the Company has also self-developed an automated system for product inspection and testing for assurance of quality further to the procurement of quality assurance

equipment and production equipment for the continued upgrade of the precision of mold manufacturing, stamping and assembly and the eventual production quality yield rate.

5. Factors favorable and unfavorable for the development in the future, and the response:

(1) Favorable factors

A. The demand in the acoustic-optics component market is stronger than the supply:

The Company turned to the acoustic-optics market with its capability in design and production of connectors, and cut in the market at the growth stage of the market of portable devices. Given the demand for precision in know-how and customization, an entrance barrier has been erected in the field of acoustic-optics components. As such, a bottle neck in supply was formed and the market is under oligarchical control. The market is promising in the future with the expansion of operation in acoustic-optics.

B. The marketing policy of in-depth development of non-mainstream industries:

The consumer electronics market will be the mainstream market for the development of the connector industry in Taiwan. The NB market is the center of the mainstream market. Yet, this market was conditioned by the cost of the NB ODM, OEM, or EMS assembly plants that the gross profit of connector products could not be improved. Under this circumstance the investment of the connector firms in research and development could not enjoy cost-efficiency. Likewise, the capacity of the connector firms in innovation and development of production technology slowed down. The Company has pursued its marketing strategy by targeting at the non-mainstream market way back through in-depth cultivation. The revenue has been marginally lower than the industry peers but has been on the growth year after year to expectation. The Company then turned to new market for further expansion, and could maintain growth in revenue under the financial crisis of the US in 2008 and the Euro debt crisis in 2011. In addition, the direction of research and development and the allocation of resources of the Company were aligned with the development trend of the Company. As such, the Company performed better than the industry peers in innovation and improvement in production technology. The Company earned the trust of the customers with its design idea, which could be proved by the extension to acoustic-optics components.

(2) Unfavorable factors and response

Unfavorable factors	Response
Joint venture with international big firms required more investment in research and development than the industry peers.	1. Control the cost of research and development through caution selection of projects. 2. Engage in joint venture with international big firms in research and development such as the famous US acoustics firms to set the direction of research and development and commitment of resources. 3. Application for patent registration to protect and

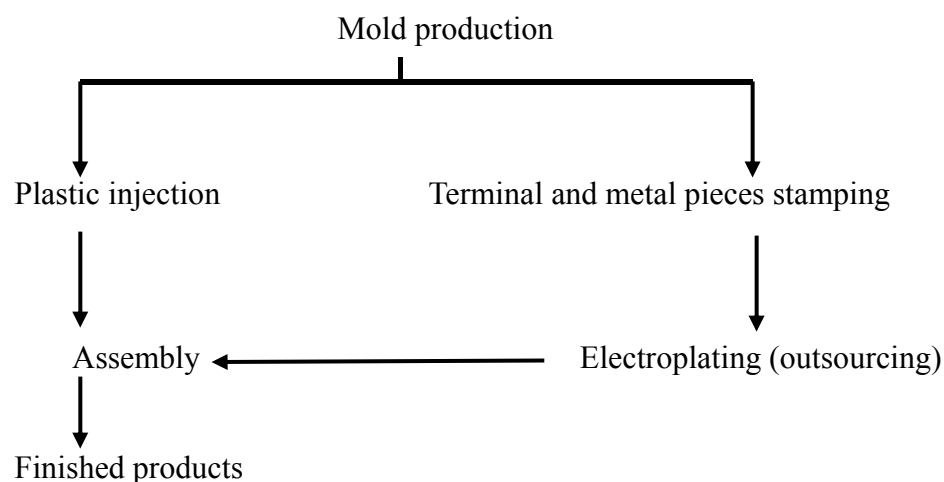
Unfavorable factors	Response
	upgrade the technical barrier and build up a higher entrance barrier with patents and technology.
The marketing strategy of in-depth cultivation of the non-mainstream market could not earn the recognition of the industry peers.	<ol style="list-style-type: none"> 1. Entrance into the capital market for upgrade of the position in the industry. 2. Determine the positioning in the industry through joint venture with the international big firms. 3. Continue to recruit good people in research and development and management to enlarge the scale of operation and improve the position among the industry peers.
The rapid change in technology shortened the life cycle of end products.	<ol style="list-style-type: none"> 1. Strengthen the capacity in precision and product yield rate through know-how and seek more opportunities for joint venture with international big firms through the upgrade of production equipment for better opportunity of product development. 2. The R&D function is engaged in the research and development of products to the specification requirement of the customers, and has also procured high precision processing equipment. These indicated that the Company has a higher level of precision technology than the industry peers. 3. The Company optimized the cost in product design for proper cost control and made improvement in automation production equipment and process to enhance the yield rate and production efficiency and reduce the cost of production. In addition, the Company seeks to upgrade the technical process with the research and development of new specifications to the demand of the customers and align with the trend of innovation of the downstream end products. 4. Continue to optimize the yield rate in the manufacturing of acoustic optoelectronic manufacturing, and improve the ROE and per capita production value.

(II) The purpose of major items and production process

1. The purpose of major items:

The major items produced by the Company are electronic connectors and acoustics components. These items are used in the end products for connection or transmission of signals to end products so as to generate power in the electronic parts, and the electronic parts for acoustic transmission for the portable devices.

3. The production process of major items:



There are 5 major stages in the production process of connectors, which are mold development, plastic injection, stamping, electroplating, and assembly. Currently, the Company outsources for electroplating after the design and the works of all other stages of the process are performed by its own technologies. The Company has accomplished the vertical integration of 5 major processes in 2012 for the realization of all-indigenous production plan.

(III) The supply of key materials

Names of key materials.	Major source of supply	Status of supply
Plastics for acoustics components	Mei Ju Ying	Positive relation
Plastic chips	Nagase	Positive relation
Terminal	Jia Shan Qiang Hong, Chroma ATE Inc.	Positive relation
Sound network	Hope Electronics Co., Ltd.	Positive relation

(IV) List of key suppliers and customers

- The names of the suppliers accounting for more than 10% of the total purchase of any of the last 2 years, the amount of purchase and proportion to total purchase, and explain the reasons for the changes, where applicable:

Unit: NT\$ thousand; %

Items	2017				2018				2019 Q1			
	Name	Amount	Proportion to the net purchase of the year (%)	Relation with the issuers	Name	Amount	Proportion to the net purchase of the year (%)	Relation with the issuers	Name	Amount	Proportion to the net purchase of the year (%)	Relation with the issuers
1	Supplier Z	264,194	15.16	None	Supplier Z	58,486	4.11	None	Supplier Z	13,533	6.51	None
	Others	1,479,004	84.84	None	Others	1,364,943	1,364,943	95.89	Others	194,485	93.49	None
	Total	1,743,198	100.00	-	Total	1,423,429	1,423,429	100.00	Total	208,018	100.00	-

The supplier whose purchased amount was accounted for more than 10% of the Company's total purchase amount in the latest two years was Z Supplier. And its amount and percentage of the purchase are as above table. The purchased raw materials from Z Supplier are mainly used for acoustic products. The Company has cooperated with the largest acoustic manufactures in the US for the development and mass-production of the acoustic components since 2013. Till 2018, the sales percentage from the acoustic products and the related molds and the jigs has been increased greatly. Z Supplier mainly provides the materials for the production for the

biggest acoustic customer cooperated for the moment. However, in order to avoid the risk to excess concentration on suppliers, the company decreased to purchase on single supplier in 2018. Therefore, the purchased percentage for such supplier decreased greatly in 2018.

2. Name of the customers who accounted for more than 10% of total sales in one of the latest two years and its sales amount and percentage, as well as explanation of its increased (decreased) reasons of changes:

Unit: NT\$ thousand; %

Items	2017				2018				2019 Q1			
	Name	Amount	As Percentage of Annual Net Sales	Relation with the issuers	Name	Amount	As Percentage of Annual Net Sales	Relation with the issuers	Name	Amount	As Percentage of Annual Net Sales	Relation with the issuers
1	A	3,188,679	60.46	None	A	4,235,404	73.56	None	A	395,934	66.95	None
2	B	1,168,607	22.16	None	B	824,237	14.31	None	B	58,307	9.86	None
	Others	906,920	17.19	-	Others	698,261	12.13	-	Others	137,105	23.19	-
	Total	5,274,434	100.00	-	Total	5,757,902	100.00	-	Total	591,346	100.00	-

In 2017 and 2018, the sales mainly came from the acoustic components and the related molds and jigs sold to A Customer and B Customer. In 2017 and 2018, the sales mainly came from the acoustic components and the related molds and jigs sold to Customer A and B. Because the customers' demand increased greatly in 2018, the sales percentage increased to 73.56% and 60.46% respectively.

(V) Production's Volume and Value Table in Latest Two Years

Unit: NT\$ Thousand/ Pieces Thousand

Year	Volume and Value of Production	2017			2018		
		Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
Main Products							
	Acoustic Components	640,000	544,689	1,884,758	720,000	577,274	2,119,899
	Connectors	109,000	93,003	536,427	350,000	285,477	346,478
	Mold and jig and automation equipment	5	4	567,861	24	19	939,121
	Automotive series and others	71,000	61,038	253,478	168,000	134,255	215,074
	Total	820,005	698,734	3,242,524	1,238,024	997,025	3,620,572

(VI) Sales' Volume and Value Table in Latest Two Years

Unit: NT\$ Thousand/ Pieces Thousand

Year	Volume and Value of Sales	2017				2018			
		Domestic Sales		Overseas Sales		Domestic Sales		Overseas Sales	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Main Products									
	Acoustic Components	-	-	490,387	3,184,742	-	-	499,945	3,124,631
	Connector	-	-	91,934	614,095	-	-	57,234	334,381
	Mold and jig and automation equipment	-	-	4	1,251,831	-	-	4	2,026,077
	Automotive series and others	-	-	118,169	223,766	-	-	28,267	272,813
	Total	-	-	700,494	5,274,434	-	-	585,450	5,757,902

III. Basic information on the employees in the last 2 years to the day this report was printed

Unit: person; %

Year		2017	2018	Current year to 2019.03.31
Number of employees	Manger	30	30	29
	Regular staff	4,534	2,828	3,140
	Total	4,564	2,858	3,169
Average age		27.9	30.3	29.4
Average years of service		1.3	2.3	2.1
Distribution of education level	Doctors	0.04	0.10	0.09
	Masters	0.22	0.45	0.35

Year	2017	2018	Current year to 2019.03.31
Bachelors	21.56	23.16	28.18
Senior high school and below	78.18	76.29	71.38

IV. Information on environmental protection expenditure

(I) Total loss and amount of fine due to pollution of the environment in the most recent year to the day this report was printed: Nil.

(II) The policy in response to the loss and fine from environmental pollution: the Company duly observes applicable laws of the government and performs its obligations in environmental protection. Such kind of expense in the future is unlikely.

V. Labor-Management Relation

(I) The fringe benefits, continuing education, training, retirement system of the Company and implementation, and Labor-Management Agreement, the protection of the rights and privileges of the employees.

1. Employee benefits

A. The Company duly observes applicable laws governing labor force in relevant regions. All employees are entitled to social insurance and related reserves like the housing allowance reserve in Mainland China and the annuity of retirement for the employees in Taiwan under the new retirement system.

B. The Company holds tourist traveling trips and related activities for the employees every year.

C. The Company holds recreational activities like basketball games, tug of war and others from time to time to help the employees to release their pressure from work.

D. Employees in Mainland China are offered free accommodation and meals to improve their real income.

2. Employee continuing education and training

The Company provides internal and external training for the employees. Further to the orientation of the new employees as an integral part of internal basic training, different types of on-the-job training relevant with the assigned duties of the employees are also provided. The completion and performance of the employees in the training will be tracked on record as reference for salary adjustment and promotion in the future. External training could be received at home and abroad. Training in Taiwan is mostly for licensing and certification in certain area of specialization and as required by the government. Training in other countries will be provided for the outstanding employees every year after screening by the Company for short-term to allow them to broaden their horizon.

3. Retirement system

The Company established the retirement system for the employees in compliance with applicable laws of the places of operations. In Mainland China, the Company appropriated payments for the 5 reserve funds to the local Human Resources and Social Security Bureau as pension reserve for the employees. In Taiwan, the Company allocates a specific percentage of the employee salaries as pension reserve under the new retirement system. The Company will proceed to the retirement procedures in accordance with applicable laws of the places of its operations for the employees who are at the age of retirements.

4. The Company and its investee companies duly respect the rights and obligations of the employees in accordance with the applicable laws in relevant host countries of operations governing labor force. Further to public education and communication with the employees, the Company also conducts interviews with individual employees at all levels to understand their needs and refine the management rules and regulations of the Company to make management humanized. In addition, the investee companies have duly observed applicable laws of relevant host countries of operations in recruitment, employment, and remuneration. These companies also establish safe and health work environment in compliance with local laws governing occupational safety and health to protect the rights of the employees.

(II) The loss caused by labor-management dispute in the most recent year to the date this report was printed. Disclose the estimated amount of loss from this cause at present and in the future, and the response. If it is impossible to make justifiable estimation, explain with supporting evidence: The Company and its investee companies have no major labor-management disputes so far.

VI. Major contracts

Nature of the contracts	The contracting parties	Term of the contracts	Major content	Restriction clause
LOAN AGREEMENT	Shanghai Commercial and Savings Bank	2018.03~2021.03	Loan Agreement	None
LOAN AGREEMENT	China Industrial and Commercial Bank	(Note 1)	Loan Agreement	None
LOAN AGREEMENT	Taipei Fubon Bank Consortium	2017.09~2019.09	Loan Agreement	Yes (Note 2)
LOAN AGREEMENT	Taipei Fubon Bank Consortium	2017.09~2019.09	The 1 st supplementary agreement to the Loan Agreement	Yes (Note 2)
LOAN AGREEMENT	Chang Hua Bank	2018.08~2021.08	Loan Agreement	None
LOAN AGREEMENT	ICBC Leasing	2018.02~2022.12	Loan Agreement	None
LOAN AGREEMENT	CTBC Bank	2018.08~2021.08	Loan Agreement	Yes (Note 3)
LOAN AGREEMENT	CTBC Bank	2018.06~2033.06	Loan Agreement	Yes (Note 3)
LOAN AGREEMENT	CTBC Bank	2018.05~2019.05	Financial Transaction Agreement	Yes (Note 3)
LOAN AGREEMENT	E. Sun Bank	2019.02~2021.02	Loan Agreement	None
Mortgage Agreement	China Industrial and Commercial Bank	2018.02~2022.12	Mortgage Agreement	None

Note 1: Signed in 2017.08 where the term of loan will be determined by the contracting parties in the process of application for individual drawdown. In general, the agreements shall be good from the date of signing to the date of entering into a new agreement.

Note 2: Within the term of the syndicated loan agreement, the Group should maintain the following financial ratios in its interim consolidated financial statements:

(a) Current ratio (current assets/current liabilities): > 100% (Net of the outstanding balance under This Agreement)

(b) Debt ratio (total liabilities/tangible assets): < 150%

(c) Debt service coverage ration [(EBT + depreciation + amortization + interest expense)/interest expense]: > 5 times

(d) Net value of tangible assets: > NT\$2,000,000,000

Note 3: Same as Note 2.

Six. Financial Position

I. Condensed Balance Sheets and Comprehensive Income Statements of the last 5 years

(I) Condensed Balance Sheet

Unit: NT\$ thousand

Item	Year	Financial information of the last 5 years (Note 1)					Current year to 2019.03.31
		2014	2015	2016	Year 2017	Year 2018	
Current assets		1,451,116	1,319,196	1,865,614	4,140,781	4,817,847	4,812,636
Property, plant and equipment		1,407,932	1,356,282	1,751,732	2,624,074	2,809,741	2,988,772
Intangible assets		13,095	14,382	19,839	23,549	28,435	40,216
Other assets		149,445	277,757	303,852	419,494	517,148	684,479
Total assets		3,021,588	2,967,617	3,941,037	7,207,898	8,173,171	8,526,103
Total liabilities	Cum-dividend	1,634,409	1,153,206	1,309,693	1,887,317	3,088,649	3,359,853
	Ex-dividend (Note 2)	1,668,247	1,232,649	1,462,796	2,423,176	3,736,483	4,007,687
Non-current liabilities		190,679	516,006	613,771	1,587,727	1,103,163	1,207,302
Total liabilities	Cum-dividend	1,825,088	1,669,212	1,923,464	3,475,044	4,191,812	4,567,155
	Ex-dividend (Note 2)	1,858,926	1,748,655	2,076,567	4,010,903	4,839,646	5,214,989
Shareholders equity attributable to parent company		1,196,500	1,298,405	2,017,573	3,732,854	3,981,359	3,958,948
Capital stock		676,759	744,435	896,784	1,071,719	1,184,191	1,369,896
Addition paid-in capital		245,926	215,220	848,977	1,459,290	1,421,813	1,459,290
Retained earnings	Cum-dividend	214,132	311,748	353,953	1,296,950	1,737,636	1,575,029
	Ex-dividend (Note 2)	146,456	232,305	200,850	761,091	1,089,802	927,195
Other equity		59,683	27,002	(82,141)	(95,105)	(288,137)	(96,125)
Treasury shares		-	-	-	-	(74,144)	(74,043)
Uncontrolled equity		-	-	-	-	-	-
Total equity	Cum-dividend	1,196,500	1,298,405	2,017,573	3,732,854	3,981,359	3,958,948
	Ex-dividend (Note 2)	1,162,662	1,218,962	1,864,470	3,196,995	3,333,525	3,311,114

Note 1: The financial information covering the period of January 1 2014 to March 31 2019 has been audited or reviewed. The Company started to adopt IFRS in 2013

Note 2: The ex-dividend amount after 2018 has been approved by the Board pending on the final resolution of the Shareholders Meeting.

(II) Condensed Comprehensive Income Statements

Unit: NT\$ thousand

Item	Year	Financial information of the last 5 years (Note)					Current period to 2019.03.31
		2014	2015	2016	Year 2017	Year 2018	
Revenue		2,149,191	2,422,162	2,492,724	5,274,434	5,757,902	591,346
Gross profit		513,232	608,174	596,346	2,275,910	2,369,249	86,688
Income from operation		138,769	245,402	223,140	1,497,058	1,490,187	(97,452)
Non-operating income and expenses		16,505	1,767	(45,975)	(50,234)	(6,652)	(41,050)
Earnings before taxation		155,274	247,169	177,165	1,446,824	1,483,535	(138,502)
Net income of continued operations in current period		102,507	165,292	121,649	1,096,100	976,545	(156,137)
Loss of discontinued operations		-	-	-	-	-	-
Net income (loss) in current period		102,507	165,292	121,649	1,096,100	976,545	(156,137)
Other comprehensive income (after taxation) in current period		31,677	(32,681)	(109,143)	(12,964)	(121,162)	127,485
Total comprehensive income in current period		134,184	132,611	12,506	1,083,136	855,383	28,814
Net income attributable to the shareholders of parent company		102,507	165,292	121,649	1,096,100	976,545	(156,137)
Net income attributable to uncontrolled equity		-	-	-	-	-	-
Comprehensive income attributable to the shareholders of parent company.		134,184	132,611	12,506	1,083,136	855,383	28,814
Comprehensive income attributable to uncontrolled equity		-	-	-	-	-	-
Earnings per share (NTD)		1.56	2.22	1.52	9.59	8.28	(1.33)

Note: The financial information covering the period of January 1 2014 to March 31 2019 has been audited or reviewed. The Company started to adopt IFRS in 2013

(III) Names of the external auditors and audit opinions in the last 5 years

Year	Name of CPA office	Name of CPAs retained as external auditors	Audit opinions
2014	PWC Taiwan	Se-Kai Lin, Chin-Mu Hsiao	Unqualified opinion
2015	PWC Taiwan	Se-Kai Lin, Chin-Mu Hsiao	Unqualified opinion
2016	PWC Taiwan	Se-Kai Lin, Chuo-Cheng Chang	Unqualified opinion
2017	PWC Taiwan	Se-Kai Lin, Hsien-Cheng Chen	Unqualified opinion
2018	PWC Taiwan	Hsien-Cheng Chen, Chin-Mu Hsiao	Unqualified opinion
2019 Q1	PWC Taiwan	Hsien-Cheng Chen, Chin-Mu Hsiao	Qualified opinion

Note: The financial information covering the period of January 1 2014 to March 31 2019 was consolidated and has been audited or reviewed.

II. Financial analysis of the last 5 years

Items for analysis (Note 1)		Financial analysis of the last 5 years					Current year to 2019.03.31
		2014	2015	2016	Year 2017	Year 2018	
Financial structure (%)	Liabilities to assets ratio	60.40	56.25	48.81	48.21	51.29	53.57
	Long-term capital to property, plant and equipment ratio	98.53	133.78	150.21	202.76	180.96	172.86
Ability to repay debts	Current ratio	88.79	114.39	142.45	219.40	155.99	143.24
	Quick ratio	73.73	94.15	116.45	190.98	140.38	126.12
	Debt service coverage ratio	881.17	1,226.21	665.52	2,045.55	1,206.50	(284.17)
Utility	Account receivable turnover (time)	2.68	2.70	2.49	2.49	1.62	0.60
	Average days of collection	136	135	147	146	225	608
	Inventory turnover (time)	6.80	7.51	6.41	7.11	6.70	3.70
	Account payable turnover (time)	3.04	3.21	3.44	4.54	5.35	4.85
	Average days of sale	54	49	57	51	54	99
	Property, plant, and equipment turnover	1.62	1.75	1.60	2.41	2.12	0.82
	Total asset turnover (time)	0.78	0.81	0.72	0.95	0.75	0.28
Profitability	Return on assets (%)	4.34	6.13	4.27	20.77	14.09	(6.05)
	Return on equity (%)	9.72	13.25	7.34	38.12	25.32	(15.73)
	EBT to paid-in capital ratio (%)	22.94	33.20	19.76	135.00	125.28	(46.78)
	Net income ratio	4.77	6.82	4.88	20.78	16.96	(26.40)
	Earnings per share (NTD)	1.56	2.22	1.45	10.53	8.28	(1.33)
Cash flows	Cash flow ratio (%)	20.27	49.25	9.86	14.68	24.80	(8.49)
	Cash flow adequacy ratio (%)	39.79	48.09	44.44	38.27	37.61	(66.60)
	Cash reinvestment ratio (%)	15.62	20.92	1.51	1.96	3.60	(4.41)
Leverage:	Operating leverage	3.70	2.48	2.67	1.52	1.59	(0.89)
	Financial leverage	1.17	1.10	1.16	1.05	1.10	0.73

Explain the reasons for the changes in the financial ratios of the last 2 years. (No analysis is necessary if the change is within the range of 20%)

- Current ratio and quick ratio: the increase of current liabilities by NT\$1,201 million in 2018 as compared with the same period of 2017 (Other current liabilities increased by NT\$1,438 million) resulted in the falling of current ratio and quick ratio.
- Debt service coverage ratio: the increase of interest expense in 2018 by NT\$60,000 as compared with the same period of 2017 that resulted in the falling of debt service coverage ratio.
- Account receivable turnover: the average receivables in 2018 increased by NT\$1,400 million as compared with the same period of 2017 that resulted in the falling of the payable turnover rate.
- Total assets turnover: the total assets in 2018 increased by NT\$2,120 million as compared with the same period of 2017 that resulted in the falling of the total assets turnover rate.
- Return on assets: The average assets in 2018 increased by approximately NT\$2,116 million as compared with the same period of 2017 that resulted in the falling of return on assets.
- Return on equity: the average shareholders' equity in 2018 increased by NT\$982 million as compared with the same period of 2017 that resulted in the falling of return on equity.
- Net income ratio: the decrease of net income after taxation in 2018 resulted in the falling of net income ratio.
- Earnings per share: net income in current period of 2018 fell by 10.91% as compared with the same period of 2017 that resulted in the decrease of earnings per share in current period.
- Cash flow ratio: The average receivables in 2018 increased by NT\$1,400 million as compared with the same period of 2017, echoed with the increase of net cash flow from operation, which resulted in the upward adjustment of cash flow ratio.
- Cash reinvestment ratio: The average receivables in 2018 increased by NT\$1,400 million as compared with the same period of 2017, echoed with the increase of net cash flow from operation, which resulted in the upward adjustment of cash reinvestment ratio.

Note 1: The financial information covering the period of January 1 2014 to March 31 2019 was consolidated and has been audited or reviewed. The Company started to adopt IFRS in 2013

Note 2: In the analysis of cash flows, net cash flow from operation refers to net cash inflow from operation. Net cash outflow was excluded from the calculation.

Note 3: The equations for the calculation of financial analysis are shown below:

1. Financial Structure

(1) Liabilities to assets ratio = Total liabilities/total assets

(2) Long-term capital to property, plant and equipment ratio – (total equity + non-current liabilities)/net property, plant and equipment

2. Ability to repay debts

(1) Current ratio = current assets/current liabilities

(2) Quick ratio = (current assets – inventory – prepayment)/ current liabilities

(3) Debt service coverage ratio = EBIT/interest expense in current period

3. Utility

(1) Receivables (including account receivables and note receivables from business operation) turnover = net sale/balance of average receivables in each period (including account receivables and note receivables from

business operation).

(2) Average days of collection = $365 / \text{account receivable turnover}$

(3) Inventory turnover = $\text{cost of sale} / \text{average inventory}$

(4) Payables (including account payables and note payables from business operation) turnover = $\text{net sale} / \text{balance of average payables in each period (including account payables and note payables from business operation)}$.

(5) Average days of sale = $365 / \text{inventory turnover}$

(6) Property, plant, and equipment turnover = $\text{net sale} / \text{average net property, plant, and equipment}$

(7) Total asset turnover = $\text{net sale} / \text{average total assets}$

4. Profitability

(1) Return on assets = $[\text{net income} + \text{interest expense} \times (1 - \text{tax rate})] / \text{average total assets}$

(2) Return on equity = $\text{net income} / \text{average total equity}$

(3) Net income ratio = $\text{net income} / \text{net sale}$

(4) Earnings per share = $(\text{income attributable to parent company} - \text{preferred share dividend}) / \text{weighted average outstanding shares (Note 4)}$

5. Cash flows

(1) Cash flow ratio = $\text{cash flow from operation} / \text{current liabilities}$

(2) Net cash flow adequacy ratio = $\text{net cash flows from operation in the last 5 years} / (\text{capital expenditures} + \text{inventory increment} + \text{cash dividend}) \text{ of the last 5 years}$

(3) Cash reinvestment ratio = $(\text{net cash flows from operation} - \text{cash dividend}) / (\text{gross property, plant, and equipment} + \text{other non-current assets} + \text{working capital}) \text{ (Note 5)}$

6. Leverage:

(1) Operating leverage = $(\text{net sales} - \text{variable operating cost and expense}) / \text{operating income (Note 6)}$

(2) Financial leverage = $\text{operating income} / (\text{operating income} - \text{interest expense})$

Note 4: Pay attention to the followings in the measurement of earnings per share:

1. The calculation shall be based on the weighted average quantity of outstanding shares, not the quantity of outstanding shares as of the last day of the year.

2. If additional capital was raised by offering new shares, or there are transactions of treasury shares, consider the outstanding period in the calculation of the weighted average quantity of outstanding shares.

3. If there is capitalization of retained earnings or additional paid-in capital into new shares, make retrospective adjustment in proportion to the amount of additional capital raised in the calculation of earnings per share of the previous period and the interim period. The duration of the offering of new shares for raising additional capital could be omitted.

4. If the preferred shares are unconvertible accumulated preferred shares, the dividend of the year (released or not) shall be subtracted from net income, or add to net income. If the preferred shares are not accumulative, the dividend of preferred shares shall be subtracted from net income where applicable. If there is loss, no adjustment is necessary.

Note 5: Pay attention to the followings in the analysis of cash flows:

1. Net cash flow from operation refers to the net cash inflows from operation as presented in the statement of cash flows.

2. Capital expenditure refers to the cash outflow for capital investment every year.

3. The increase in inventory should only be included in the calculation if only the balance at the ending of period is greater than the balance at the beginning of period. Put it zero if there is a decrease of inventory at the end of the period.

4. Cash dividend includes the cash dividends of common shares and preferred shares.

5. Gross property, plant and equipment refer to property, plant and equipment before the subtraction of accumulated depreciations.

英屬開曼群島商康而富控股股份有限公司

審計委員會審查報告書

董事會造具本公司民國107年度營業報告書、財務報表及盈餘分派議案等。上述營業報告書、財務報表及盈餘分派議案經本審計委員會查核，認為尚無不合，爰依證券交易法第十四條之四及公司法第二百一十九條之規定報告如上。

上項財務報告與資誠聯合會計師事務所所出具之查核報告，業經本審計委員審核完竣，認為尚無不合，並經全體成員同意，爰備具審查報告書。

此致

英屬開曼群島商康而富控股股份有限公司 108 年度股東常會

英屬開曼群島商康而富控股股份有限公司審計委員會

召集人 張紫吟

中華民國 108 年 3 月 22 日

IV. Financial Statements of the most recent year

**CONCRAFT HOLDING CO., LTD. AND
SUBSIDIARIES**
**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS**
DECEMBER 31, 2018 AND 2017

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR18000383

To the Board of Directors and Shareholders of CONCRAFT HOLDING CO., LTD.

Opinion

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

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

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Independent Accountant’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with this Code. Based on our audits, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Evaluation of accounts receivable

Description

Please refer to Note 4(9)(10) to the consolidated financial statements for accounting policy on recognition and evaluation of accounts receivable; Note 5(2) for uncertainty of accounting estimates and assumptions in relation to evaluation of accounts receivable; and Note 6(4) for the details of accounts receivable. As of December 31, 2018, the accounts receivable and allowance for bad debts amounted to NT\$3,497,317 thousand and NT \$11,717 thousand, respectively.

The Group recognized accounts receivable by selling goods to customers in the ordinary course of business, and collected according to the individual credit period of each customer. Allowance for bad debts is estimated based on the unrecoverable amount by referring to the aging analysis, historical experience and present financial conditions of each customer. In addition, the Group estimates unrecoverable amount based on the loss rate calculated by aging of accounts receivable past due as well as taking into consideration the industry forward-looking assessment to estimate expected credit loss. As of December 31, 2018, past-due accounts receivable amounted to NT \$731,515 thousand. Since the amount was significant and subject to management's judgement associated with past-due and unrecoverable amount, the evaluation of accounts receivable was identified as a key audit matter.

How our audit addressed the matter

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

1. Based on our understanding of the Group operation and sales transaction counterparty, assessed the reasonableness of procedures and policies used to determine allowance for bad debts, including the objective evidences that the management used to prove that accounts receivable has been impaired, and the policies that were used to determine the losses on bad debts.
2. Obtained the overdue aging report used when management assessed the impairment of accounts receivable, assessed whether the logic of data source was consistently applied, and tested its accuracy with proper documents; and assessed the reasonableness of estimation that management adopted to estimate expected credit loss, including forward-looking adjustments, subsequent collections and economic conditions affecting customers.

3. Checked and tested accounts receivable aging analysis report which was classified by customers. Sampled individual customers to verify historical information of collection, considered subsequent events and discussed with management the recoverability of past-due accounts in order to evaluate the reasonableness of the losses on bad debts.

Evaluation of inventories

Description

Please refer to Note 4(13) to the consolidated financial statements for accounting policy on inventory valuation; Note 5(2) for accounting estimates and assumption uncertainty in relation to inventory valuation; and Note 6(6) for the details of inventory. As of December 31, 2018, inventories and allowance for inventory valuation losses amounted to NT\$500,140 thousand and NT\$71,632 thousand, respectively.

The Group is primarily engaged in manufacturing and selling of electronic connectors and related mold components. Due to the rapid changes in technology of the industry, short life cycle of products and highly fluctuation of market price, there is a higher risk of incurring inventory valuation losses or having obsolete inventory. The inventories are measured at the lower of cost and net realisable value, and the Group provides for losses based on individual net realisable value of inventories that are over a certain age and individually identified as obsolete or slow-moving inventories. Since the amount of inventories were significant with voluminous items and subject to management's judgement in relation to inventory obsolescence or slow-moving inventories, the evaluation of inventories was identified as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Based on our understanding of the Group's operation and the nature of the industry, assessed the reasonableness of procedures as well as policies on providing allowance for inventory valuation losses, including the classification of inventory for determining net realizable value and the reasonableness of determining the obsolescence inventory.
2. Verified the appropriateness of the system logic in inventory aging report which the Group used for inventory valuation, in order to confirm the report information was consistent with policies.
3. Sampled and tested individual inventory item to verify the accuracy of sales price and purchase price, verified the appropriateness of net realisable value estimation, and assessed the reasonableness of allowance for inventory valuation losses.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including Audit Committee, are responsible for overseeing the Group’s financial reporting process.

Independent accountant’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the footnote disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Chen, Hsien-Cheng

Hsiao, Chin-Mu

For and on behalf of PricewaterhouseCoopers, Taiwan

March 26, 2019

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

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

CONCRAFT HOLDING CO., LTD AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

1. HISTORY AND ORGANIZATION

CONCRAFT HOLDING CO., LTD (the "Company") was incorporated as an investment holding company in the Cayman Islands in September 2009 after the Group's restructuring, in line with the Group's plan for the Company to register for emerging stock trading on the Taipei Exchange and apply for listing on the Taiwan Stock Exchange. The Company acquired 100% ownership of Dragonstate Technology Co., Ltd. ("Dragonstate") in October 2009 by way of share conversion ratio of 1:2.354859 and became the holding company of Dragonstate. The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in marketing and manufacturing of connectors and related mold components. The Company's stocks have been listed on the Taiwan Stock Exchange from November 11, 2016.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 22, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018

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

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

A. IFRS 9, 'Financial instruments'

- (a) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (b) The Group has elected not to restate prior period financial statements (collectively referred herein as the "modified retrospective approach") under

IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Notes 12(4)B and C.

B. IFRS 15, ‘Revenue from contracts with customers’ and amendments

- (a) IFRS 15, ‘Revenue from contracts with customers’ replaces IAS 11, ‘Construction contracts’, IAS 18, ‘Revenue’ and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

- (b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The Group applied retrospectively IFRS 15 only to incomplete contracts as of January 1, 2018, by adopting an optional transition expedient. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

Presentation of liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Group changed the presentation of certain accounts in the balance sheet as follows:

- (i) Under IFRS 15, liabilities in relation to expected volume discounts and refunds to customers are recognised as refund liabilities (shown as other current liabilities), but were previously presented as accounts receivable - allowance for sales returns and discounts in the balance sheet. As of January 1, 2018, the balance amounted to \$20,769.
- (ii) Under IFRS 15, liabilities in relation to customers contracts are recognised as contract liabilities, but were previously presented as advance sales receipts in the balance sheet. As of January 1, 2018, the balance amounted to \$965.
- (c) Please refer to Note 12(5) for other disclosures in relation to the first application of IFRS 15.

C. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

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

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

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

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

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

The Group expects to recognize the lease contract of lessees in line with IFRS 16. However, the Group intends to adopt the modified retrospective approach, on January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by \$204,884 and \$85,414, respectively, and long-term prepaid rent will be decreased by \$119,470.

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020
Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined by International Accounting Standards Board
IFRS 17, ‘Insurance contracts’	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

- A. Except for the financial assets at fair value through other comprehensive income, the consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach, and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

B. Subsidiaries included in the consolidated financial statements:

Investor	Subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
The Company	Dragonstate Technology Co., Ltd. (Dragonstate)	Holding company and sale of connectors	100	100	
The Company	Concraft Technology Co., Ltd. (Concraft Technology)	Sale of connectors	100	100	
The Company	Concraft Precision Co., Ltd. (Concraft Precision)	Holding company	100	100	
The Company	Concraft Precision Industrial Co., Ltd. (Concraft Precision Industrial)	Holding company and research and development	-	100	Note
The Company	Dragonstate International Technology Co., Ltd. (Dragonstate International	Sale of connectors	100	-	Note

Investor	Subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
	Technology)				
Dragonstate	Kun Shan Dragonstate Electronic Technology Co., Ltd. (Kun Shan Dragonstate)	Research and development, marketing and manufacturing of electronic connectors , sound components , automobile and optical components	100	100	
Concraft Precision	Concraft Precision Mechatronics (Kun Shan) Co., Ltd. (Concraft Kun Shan)	Manufacturing and sale of molding components	100	100	
Concraft Precision	Concraft Precision Electronics (Baoying) Co., Ltd. (Concraft Baoying)	Marketing and manufacturing of electronic connectors , sound components and optical components	100	100	
Concraft Precision Industrial	Dragonstate International Technology Co., Ltd. (Dragonstate International Technology)	Sale of connectors	-	100	Note
Kun Shan Dragonstate	Haojun Precision Electronic (Kunshan) Co., Ltd. (Haojun Kunshan)	Marketing and manufacturing of electronic connectors, sound and automobile components	100	100	

Note: Concraft Precision Industrial had a short-form merger with Dragonstate International Technology Co., Ltd, the effective date for the short-form merger was May 1, 2018, and the Dragonstate International Technology Co., Ltd was the surviving company.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is United States dollars (USD); however, the consolidated financial statements are presented in New Taiwan dollars (NTD) under the regulations of the local country where the consolidated financial statements are reported to the regulatory authorities.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

The operating results and financial position of all the group entities, that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognised in other comprehensive income.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;

- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

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

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

- (a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and
- (b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:

- (a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.
- (b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(8) Financial assets at amortised cost

A. Financial assets at amortised cost are those that meet all of the following criteria:

- (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
- (b) The assets' contractual cash flows represent solely payments of principal and interest.

- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.
- D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(9) Accounts and notes receivable

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

(10) Impairment of financial assets

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

(11) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Operating leases (lessor/lessee)

Lease income from an operating lease (net of any incentives given to the lessee) and payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(13) Inventories

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

(14) Property, plant and equipment

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

Buildings	20 ~ 50 years
Machinery and equipment	3 ~ 10 years
Molding equipment	1 ~ 10 years
Transportation equipment	5 years
Office equipment	3 ~ 10 years

(15) Intangible assets

A. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 5 years.

B. Patents

Patents are stated at cost and amortised on a straight-line basis over their estimated useful lives of 7 to 8 years.

(16) Long-term prepaid rent

Land access rights are stated at cost and are amortized using straight-line method over 45~50 years.

(17) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

B. The recoverable amounts of intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(18) Borrowings

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

B. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(19) Notes and accounts payable

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

(20) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(21) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(22) Employee share-based payment

- A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

B. Restricted stocks:

- (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.
- (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.
- (c) For restricted stocks where employees do not need to pay to acquire those stocks, the Group will not pay the employees who resign during the vesting period to repurchase the stocks.

(23) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(24) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(25) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(26) Revenue recognition

- A. The Group manufactures and sells a range of connectors, sound components and molding components. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, when the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

- B. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of products to external customers in the ordinary course of the Group's activities. A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. The Group does not expect to have any contracts where the period between the transfer of the promised products to the customer and payment by the customer exceeds one year, the Group does not adjust the transaction prices to reflect the time value of money.
- C. A receivable is recognised when the product are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(27) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate. Government grants related to long-term prepaid rent (land access rights) are recognised as non-current liabilities and are amortised to profit or loss over the estimated useful lives of the related assets using the straight-line method.

(28) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(29) Critical judgements in applying the Group's accounting policies

None.

(30) Critical accounting estimates and assumptions

A. Expected credit loss of accounts receivable

The Group provides losses on expected credit losses amount in accordance with duration. When measuring expected credit loss, the Group must apply judgements to identify the factors that will affect the future collectability of accounts receivable, such factors including the customer's operational conditions and historical trading record that may influence the customer's ability to pay, as well as considering the time value of money and reasonable supporting documents on future economic conditions. Aforementioned judgements and factors all may have significant effects to the measurement result of expected credit loss.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(31) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Bank-deposits:		
Checking accounts and demand deposits	\$ 81,345	\$ 191,504
Cash equivalents:		
Time deposits	40,122	-
Bankers' acceptance bill	87,077	332,574
Total	<u>\$ 208,544</u>	<u>\$ 524,078</u>

A. All the Group's cash equivalents are maturing within 3 months.

B. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

C. The Group has no cash and cash equivalents pledged to others.

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

<u>Items</u>	<u>December 31, 2018</u>
Unlisted stocks	\$ 66,643
Valuation adjustment	(643)
	<u>\$ 66,000</u>

A. The Group has elected to classify equity instruments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$66,000 as at December 31, 2018.

B. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was \$66,000.

C. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

(33) Financial assets at amortised cost (The balance is nil as at on December 31, 2017)

A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

	2018
Interest income	\$ 213

B. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).

(34) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	\$ 1,577,223	\$ 1,083,944
Less: Discounted notes receivable	(1,041,530)	(1,060,671)
	<u>\$ 535,693</u>	<u>\$ 23,273</u>
Accounts receivable	\$ 3,497,317	\$ 3,044,158
Less: Allowance for sales returns and discounts	-	(20,769)
Less: Allowance for uncollectible accounts	(11,717)	(14,791)
	<u>\$ 3,485,600</u>	<u>\$ 3,008,598</u>

A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	December 31, 2018		December 31, 2017	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	\$ 2,765,802	\$ 535,693	\$ 2,760,364	\$ 23,273
Up to 90 days	654,276	-	131,943	-
91 to 180 days	65,046	-	29,791	-
181 to 365 days	2,778	-	115,696	-
Over 365 days	9,415	-	6,364	-
	<u>\$ 3,497,317</u>	<u>\$ 535,693</u>	<u>\$ 3,044,158</u>	<u>\$ 23,273</u>

The above ageing analysis was based on past due date.

- B. The Group's top 10 customers are reputable enterprises that accounted for 77%~90% of the total accounts receivable. As the credit concentration risk of the remaining accounts receivable is relatively insignificant, and the counterparties are mostly customers who have a long-term relationship with the Group, the receivables do not violate the Group's policies for risk assessment.
- C. Details of the Group's notes receivable pledged to others as collateral are provided in Note 8. As of December 31, 2018 and 2017, the Group has no accounts receivable pledged to others.
- D. As at December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were \$535,693 and \$23,273, \$3,485,600 and \$3,029,367, respectively.
- E. The Group had outstanding discounted notes receivable, please refer to Note 6(5) for more information.
- F. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).C(b).

(35) Transfer of financial assets

- A. Certain discounted notes receivable (bankers' acceptance bill) pledged to banks meet the definition of derecognition under the Group's assessment. The Group has payment obligation when the acceptor (banks) of the notes refuse to pay for the notes at maturity. However, in general, the Group does not expect that the acceptors (banks) would refuse to pay as the acceptors (banks) have excellent credit rating. Aggregation of the discounted notes receivable (bankers' acceptance bill) that have been pledged to banks but remain unmatured is as follows:

	December 31, 2018	December 31, 2017
Derecognised amount	\$ 1,041,530	\$ 1,060,671

- B. On December 31 2018, the Group had outstanding discounted notes receivable (bankers' acceptance bill) amounting to \$47,808 which did not meet the definition of derecognition. The Group has payment obligation when the acceptor (banks) of the notes refuse to pay for the notes at maturity. In general, the Group does not expect that the acceptor (banks) would refuse to pay. The liabilities arising from discounted notes receivable (bankers' acceptance bill) were presented under short-term borrowings.

(36) Inventories

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
	Raw materials	\$ 78,407	(\$ 17,627)
Semi-finished goods	149,404	(9,821)	139,583
Work in process	86,324	(1,305)	85,019
Finished goods	185,204	(42,879)	142,325
Trading goods	801	-	801
Total	\$ 500,140	(\$ 71,632)	\$ 428,508

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
	Raw materials	\$ 95,820	(\$ 12,824)
Semi-finished goods	94,350	(11,004)	83,346
Work in process	157,510	(4,847)	152,663
Finished goods	164,053	(36,076)	127,977
Trading goods	280	(63)	217
Total	\$ 512,013	(\$ 64,814)	\$ 447,199

The cost of inventories recognised as expense for the period:

	Years ended December 31,	
	2018	2017
Cost of goods sold	\$ 3,393,355	\$ 3,009,132
Inventory valuation loss	8,257	22,031
Revenue from sale of scrap	(12,959)	(32,639)
	\$ 3,388,653	\$ 2,998,524

(37) Property, plant and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Molding equipment</u>	<u>Transportation equipment</u>	<u>Office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
<u>At January 1, 2018</u>								
Cost	\$ -	\$ 991,631	\$ 2,237,775	\$ 347,198	\$ 39,830	\$ 8,681	\$ 24,678	\$ 3,649,793
Accumulated depreciation and impairment	-	(213,296)	(606,962)	(182,272)	(20,248)	(2,941)	-	(1,025,719)
	<u>\$ -</u>	<u>\$ 778,335</u>	<u>\$ 1,630,813</u>	<u>\$ 164,926</u>	<u>\$ 19,582</u>	<u>\$ 5,740</u>	<u>\$ 24,678</u>	<u>\$ 2,624,074</u>
<u>2018</u>								
At January 1	\$ -	\$ 778,335	\$ 1,630,813	\$ 164,926	\$ 19,582	\$ 5,740	\$ 24,678	\$ 2,624,074
Additions	61,515	151,309	415,978	45,306	4,785	1,645	100,620	781,158
Transfer	-	26,888	-	171,103	-	-	(26,888)	171,103
Depreciation charge	-	(87,238)	(329,439)	(214,551)	(6,919)	(1,611)	-	(639,758)
Disposals	-	-	(36,010)	(47,355)	(1,966)	-	-	(85,331)
Net exchange differences	-	(14,236)	(27,087)	679	(270)	(88)	(503)	(41,505)
At December 31	<u>\$ 61,515</u>	<u>\$ 855,058</u>	<u>\$ 1,654,255</u>	<u>\$ 120,108</u>	<u>\$ 15,212</u>	<u>\$ 5,686</u>	<u>\$ 97,907</u>	<u>\$ 2,809,741</u>
<u>At December 31, 2018</u>								
Cost	\$ 61,515	\$ 1,149,632	\$ 2,553,305	\$ 237,997	\$ 40,512	\$ 10,137	\$ 97,907	\$ 4,151,005
Accumulated depreciation and impairment	-	(294,574)	(899,050)	(117,889)	(25,300)	(4,451)	-	(1,341,264)
	<u>\$ 61,515</u>	<u>\$ 855,058</u>	<u>\$ 1,654,255</u>	<u>\$ 120,108</u>	<u>\$ 15,212</u>	<u>\$ 5,686</u>	<u>\$ 97,907</u>	<u>\$ 2,809,741</u>

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Molding equipment</u>	<u>Transportation equipment</u>	<u>Office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
<u>At January 1, 2017</u>							
Cost	\$ 792,125	\$ 1,392,689	\$ 209,288	\$ 24,411	\$ 13,814	\$ 1,049	\$ 2,433,376
Accumulated depreciation and impairment	(159,218)	(409,601)	(86,612)	(19,027)	(7,186)	-	(681,644)
	<u>\$ 632,907</u>	<u>\$ 983,088</u>	<u>\$ 122,676</u>	<u>\$ 5,384</u>	<u>\$ 6,628</u>	<u>\$ 1,049</u>	<u>\$ 1,751,732</u>
<u>2017</u>							
At January 1	\$ 632,907	\$ 983,088	\$ 122,676	\$ 5,384	\$ 6,628	\$ 1,049	\$ 1,751,732
Additions	158,192	887,286	54,938	15,542	847	79,104	1,195,909
Transfer	52,151	100	259,609	3,212	-	(55,463)	259,609
Depreciation charge	(55,561)	(221,181)	(267,513)	(4,075)	(1,479)	-	(549,809)
Disposals	(1,502)	(4,532)	-	(366)	(164)	-	(6,564)
Net exchange differences	(7,852)	(13,948)	(4,784)	(115)	(92)	(12)	(26,803)
At December 31	<u>\$ 778,335</u>	<u>\$ 1,630,813</u>	<u>\$ 164,926</u>	<u>\$ 19,582</u>	<u>\$ 5,740</u>	<u>\$ 24,678</u>	<u>\$ 2,624,074</u>
<u>At December 31, 2017</u>							
Cost	\$ 991,631	\$ 2,237,775	\$ 347,198	\$ 39,830	\$ 8,681	\$ 24,678	\$ 3,649,793
Accumulated depreciation and impairment	(213,296)	(606,962)	(182,272)	(20,248)	(2,941)	-	(1,025,719)
	<u>\$ 778,335</u>	<u>\$ 1,630,813</u>	<u>\$ 164,926</u>	<u>\$ 19,582</u>	<u>\$ 5,740</u>	<u>\$ 24,678</u>	<u>\$ 2,624,074</u>

A. No property, plant and equipment had capitalized interest.

B. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(38) Other non-current assets

	December 31, 2018	December 31, 2017
Long-term prepaid rent	\$ 119,470	\$ 95,429
Prepayments for equipment	162,309	69,093
Molding	95,973	182,428
Restricted assets	-	43,480
Prepayment for computer software	9,838	-
Deposits paid	18,937	5,595
Others	17,910	12,473
	<u>\$ 424,437</u>	<u>\$ 408,498</u>

A. Mainly consisting of long-term prepaid rent (land access rights), the movements during the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
At January 1	\$ 95,429	\$ 91,423
Additions	28,669	7,210
Amortisation charge	(2,191)	(2,239)
Net exchange differences	(2,437)	(965)
At December 31	<u>\$ 119,470</u>	<u>\$ 95,429</u>

Kun Shan Dragonstate has acquired land use right of 50,000 and 23,486.3 square feet in Zhou Town Kunshan Chaoying Village in 1998 and 2017 to 2018, respectively, and amortised the cost over the operating period of 50 years; Concraft Kun Shan has acquired land use right of 23,432.90 square feet in Zhou Town Kunshan Chaoying village in 2011 and amortised the cost over the operating period of 45 years; Concraft Baoying has acquired land use right of 52,000 square feet in An Yi Zhen Yang Zhou City in 2010 and amortised the cost over the operating period of 50 years.

B. Mainly consisting of molding, the movements during the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
At January 1	\$ 182,428	\$ -
Additions	453,570	562,895
Amortisation charge	(249,119)	(119,372)
Sale	(116,062)	-
Transfer	(171,103)	(259,609)
Net exchange differences	(3,741)	(1,486)
At December 31	<u>\$ 95,973</u>	<u>\$ 182,428</u>

(39) Short-term borrowings (The balance is nil as at December 31, 2017)

<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Other short-term borrowings	\$ <u>47,682</u>	3.80%	Please refer to Note 8

Interest expense recognised in profit or loss amounted to \$319 thousand for the year ended December 31, 2018.

(40) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Payables for equipment	\$ 61,093	\$ 42,958
Salary payable	175,233	176,450
Labor and health insurance payable	52,627	51,526
Taxes payable	46,865	118,688
Consumables payable	31,654	33,602
Others	106,823	153,856
	<u>\$ 474,295</u>	<u>\$ 577,080</u>

(41) Long-term borrowings

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2018</u>
Unsecured borrowings	2018.07.26~2020.07.26	1.15%	-	\$ 77,000
Unsecured borrowings	2018.08.01~2021.08.01	1.25%	-	147,840
Unsecured borrowings	2018.08.10~2021.08.10	1.20%	-	390,720
Unsecured borrowings	2018.03.02~2021.03.02	1.20%	-	91,508
Secured borrowings	2018.06.08~2033.06.08	1.50%	Note 8	80,000
Secured borrowings	2018.02.02~2022.12.05	5.63%	Note 8	186,908
Syndicated loans	2017.09.15~2019.09.15	2.00%~4.84%	Note 8	<u>1,711,750</u>
Subtotal				2,685,726
Less: Arrangement fee of syndicated loans				(4,342)
Less: Current portion				<u>(1,860,716)</u>
				<u>\$ 820,668</u>

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2017
Unsecured borrowings	2017.08.09~2019.09.13 Repaid on 2018.08.07	3.14%	-	\$ 297,600
Secured borrowings	2017.08.31~2019.08.31 Repaid on 2018.06.22	2.98%	Note 8	78,120
Secured borrowings	2016.12.14~2018.12.14 Repaid on 2018.03.14	3.05%	Note 8	89,280
Secured borrowings	2017.11.17~2019.11.17 Repaid on 2018.11.02	2.45%	Note 8	47,917
Secured borrowings	2017.05.31~2019.05.31 Repaid on 2018.04.25	8.07%	Note 8	143,430
Secured borrowings	2017.04.19~2018.11.30 Repaid on 2018.11.14	5.70%	Note 8	89,473
Syndicated loans	2017.09.15~2019.09.15	3.50%~3.63%	Note 8	1,190,400
Subtotal				1,936,220
Less: Arrangement fee of syndicated loans				(9,961)
Less: Current portion				(425,944)
				\$ 1,500,315

A. The Company engaged in a medium-term syndicated loan with Taipei Fubon Commercial Bank, Chinatrust Commercial Bank, Taishin International Bank, Far Eastern International Bank and Shin Kong Bank on July 12, 2017. The terms of the agreement are summarized as follows:

(a) Loan agreement term: Two years from the first disbursement date for the U.S. Dollar medium-term syndicated loan. The borrower may request to extend the final maturity day for one year once.

(b) Line of credit and disbursement method: The above banks have granted a USD 60,000,000 line of credit to the Company, and allows multiple disbursements within the limit. Each minimum disbursement amount is USD 1,000,000 or CNY 5,000,000, with USD 500,000 or CNY 1,000,000 increments or the entire unused line of credit amount subsequently.

The aggregate of each disbursement and used balance shall not exceed the amount of credit. (The exchange rate is base on bank quotes the US dollars and CNY exchange rate on two bank business day before disbursement)

(c) Guarantors: Mr. Lu, Chao-Sheng, and Mr. Lee, Kuo-Chi are the guarantors for this syndicated loan for USD60,000,000.

(d) Payment method: Payment will be made in accordance with the due date from each disbursement applications and should comply with the revolving credit terms stated on the syndicated loan. However, the subsidiary of the Company is obligated to pay in full all outstanding principal and interests when the syndicated loan agreement expires.

(e) Restrictions on financial ratios: The Company is obligated to maintain financial ratio(s) of its semi-annual and annual consolidated financial reports as follows before the syndicated loan of the Company, has been terminated:

- i. Current ratio(s) should be above 100% (Note);
- ii. Financial leverage ratio(s) should not higher than 150%;
- iii. Interest coverage ratio should be 5 or above;
- iv. Tangible net worth should not be lower than NT\$2,000,000,000.

Note:(excluding the last repayment of outstanding loan hereunder)

(f) The Company has drawn USD 55,730,000 as of December 31, 2018.

B. The domestic subsidiary of the Company- Dragonstate engaged in a medium-term syndicated loan with Taipei Fubon Commercial Bank, Chinatrust Commercial Bank, Taishin International Bank, Bank SinoPac and Shin Kong Bank on June 4, 2015. The syndicated loan have been fully paid in September 5, 2017. The terms of the agreement are summarized as follows:

(a) Loan agreement term: Two years from the first disbursement date for the U.S. Dollar medium-term syndicated loan. The borrower may request to extend the final maturity day for one year once.

(b) Line of credit and disbursement method: The above banks have granted a USD 19,200,000 line of credit to Dragonstate, and allows multiple disbursements within the limit. Each minimum disbursement amount is USD 1,000,000, with USD 500,000 increments or the entire unused line of credit amount subsequently.

- i. Tranche A Facility : revolving loan facility in the amount of USD 19,200,000 which may be utilized on a revolving basis. The proceeds of Tranche A Facility shall be used exclusively by the Borrower for repaying its outstanding financial indebtedness and its need of general working capitals outside of People's Republic of China.
- ii. Tranche B Facility : revolving loan facility in the amount of USD 13,440,000 which may be utilized on a revolving basis. The proceeds of Tranche B Facility shall be used exclusively by the Borrower for financing import Open Accounts. In the case of a Tranche B Advance, the transaction list and the amount of the proposed Tranche B Advance does not exceed ninety percent (90%) of the transaction amount specified in such transacton list.
- iii. The aggregate of Tranche A Facility and Tranche B Facility shall in no event exceed the amount of Tranche A Facility.

(c) Guarantors: The Company, Mr. Lu, Chao-Sheng, and Mr. Lee, Kuo-Chi are the guarantors for this syndicated loan for USD24,000,000.

(d) Payment method: Payment will be made in accordance with the due date from each disbursement applications and should comply with the revolving credit terms stated on the syndicated loan. However, the subsidiary of the Company is obligated to pay in full all outstanding principal and interests when the syndicated loan agreement expires.

(e) Restrictions on financial ratios: The Company is obligated to maintain financial ratio(s) of its semi-annual and annual consolidated financial reports as follows before the syndicated loan of Dragonstate, the consolidated subsidiary of the Company, has been terminated:

- i. Current ratio(s) should be above 100% (Note);
- ii. Financial leverage ratio(s) should not higher than 80% and should not higher than 70% from June 2016;
- iii. PRC financial leverage ratio should not higher than 40% ;
- iv. Interest coverage ratio should be 5 or above;
- v. Tangible net worth should not be lower than NT\$850,000.

Note: (excluding the last repayment of outstanding loan hereunder)

C. The information about the Group's liquidity risk is provided in Note 12(2) C(c).

(42) Pensions

A. The Company and its subsidiaries-Dragonstate, Concraft Precision, and Concraft Technology, do not have any employees. Therefore, they do not have any employee pension plans.

B. The Company's Mainland China subsidiaries have a funded defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China are based on a certain percentage of employees' monthly salaries and wages. The contribution percentage for the years ended December 31, 2018 and 2017 was both 19%. Except for regular contributions of pension, the Company's Mainland China subsidiaries have no further obligations under the plan.

C. Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

D. The pension costs under defined contribution pension plans of the Company's Mainland China subsidiaries for the years ended December 31, 2018 and 2017 were \$124,571 and \$111,616, respectively. Also, the pension costs under defined contribution pension plans of the Company and its domestic subsidiaries for the years ended December 31, 2018 and 2017 were \$3,850 and \$3,958, respectively.

(43) Share-based payment

A. For the year ended December 31, 2018, the Group's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Restricted stock to employees	2018.11.16	530,000	3 years	1~3 years service

B. On June 12, 2018, the shareholders resolved to issue employee restricted shares amounting to 0.6 million shares at their annual stockholders' meeting, and those employee restricted shares only granted to the employees who meet the specific terms. On November 12, 2018, the Company granted 530 thousand shares to employees, and the effective date was November 16, 2018. The subscription price of those granted shares is the market price per share at the grant date (equivalent to NT\$141.5 per share), the Company will assume the consideration if the subscription price is under NT\$300 per share (including NT\$300 per share), or the consideration will be paid by employees when the subscription price is over NT\$300.01 per share. The vesting ratio for the first-year to the third-year is 30%, 30% and 40%, respectively.

C. For the year ended December 31, 2018, the Group's compensation cost arising from employee restricted shares amounted to \$3,053.

(44) Share capital

A. As of December 31, 2018 and 2017, the Company's authorized capital was \$1,500,000, 150,000 thousand shares of ordinary stock, and the paid-in capital was \$1,184,191 and \$1,071,719 with a par value of \$10 (in dollars) per share, respectively. All proceeds from shares issued have been collected. The number of the Company's ordinary opening and closing shares outstanding are 118,419 thousand shares and 107,172 thousand shares, respectively.

	2018	2017
At January 1	\$ 1,071,719	\$ 896,784
Cash capital increase	-	100,000
Employee stock options exercised	-	23,901
Employee restricted shares	5,300	-
Capitalization of capital surplus	107,172	51,034
At December 31	\$ 1,184,191	\$ 1,071,719

B. The Directors at the Board of Directors' meeting on March 22, 2019 had resolved to increase

capital by \$58,894 transferred from the Company's capital surplus. As of March 26, 2019, the shareholders have not approved the capital increase.

- C. Information on the resolution relating to the issuance of employee restricted shares is provided in Note 6(13).
- D. In accordance with the resolution adopted at the stockholders' meeting on June 12, 2018, the Company raised an additional cash of \$107,172 through the capitalization of capital surplus on the effective date of August 4, 2018.
- E. In accordance with the resolution adopted at the stockholders' meeting on June 23, 2017, the Company raised an additional cash of \$51,034 through the capitalization of capital surplus on the effective date of September 4, 2017.
- F. To increase the Company's working capital, the stockholders at their annual stockholders' meeting on February 10, 2017, adopted a resolution to raise additional cash through private placement with the effective date set on March 7, 2017. The purpose of capital increase by cash is to broaden the Company's operations, research and development capabilities, expand the market and acquire capital to improve the technology and increase capacity. The number of shares to be issued through the private placement is 10,000 thousand shares at a subscription price of \$72 (in dollars) per share. The amount of capital raised through the private placement was \$720,000 which had been registered. Pursuant to the Securities and Exchange Act, the ordinary shares raised through the private placement are subject to certain transfer restrictions and cannot be listed on the stock exchange until three years after they have been issued and have been offered publicly. Other than these restrictions, the rights and obligations of the ordinary shares raised through the private placement are the same as other issued ordinary shares.

G. Treasury shares

- (a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

		December 31, 2018	
Name of company holding the shares	Reason for reacquisition	Number of shares	Carrying amount
The Company	To be reissued to employees	629,000	\$ 74,144

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.

(c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.

(d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.

(45) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(46) Retained earnings

A. Unless otherwise provided in the Applicable Listing Rules, the net profits of the Company for each annual financial year shall be allocated in the following order and proposed by the Board of Directors to the shareholders in the general meeting for approval:

(a) to make provision of the applicable amount of income tax pursuant to applicable tax laws and regulations;

(b) to set off accumulated losses of previous years (if any);

(c) to set aside ten percent (10%) as legal reserve pursuant to the Applicable Listing Rules unless the accumulated amount of such legal reserve equals to the total paid-up capital of the Company;

(d) to set aside an amount as special reserve pursuant to the Applicable Listing Rules and requirements of the Commission; and

(e) with respect to the earnings available for distribution (i.e. the net profit after the deduction of the items (a) to (d) above plus any previously undistributed cumulative retained earnings), the Board of Directors may present a proposal to distribute to the shareholders by way of dividends at the annual general meeting for approval pursuant to the Applicable Listing Rules. Dividends may be distributed in the form of cash dividends and/or bonus shares, and, subject to Cayman Islands law, the amount of dividends shall be at least fifty percent (50%) of the net profit after the deduction of the items (a) to (d) above. Cash dividends shall comprise a minimum of ten percent (10%) and a maximum of one hundred percent (100%) of the total dividends allocated to shareholders.

B. The Company's dividend policy is summarized below: The Company is in the growth stage, based on capital expenditures, business expansion and comprehensive financial plan for sustainable development and other needs, will be based on future capital expenditures and working capital needs of the situation of the Company to cash dividends and / or stock dividend allotted to the shareholders of the Company.

C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

D. The appropriation of 2017 and 2016 earnings had been resolved at the stockholders' meeting on June 12, 2018 and June 23, 2017, respectively. Details are summarized below:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Special reserve	\$ 12,964		\$ 82,141	
Legal reserve	109,610		12,165	
Cash dividends	535,859	\$ 5.00	153,103	\$ 1.54
Total	\$ 658,433		\$ 247,409	

The above appropriations of earnings for the years ended December 31, 2017 and 2016 were in agreement with the Board of Directors' proposals on March 20, 2018 and May 12, 2017, respectively. The shareholders have resolved to capitalize capital surplus of \$107,172 and \$51,034 for capital increase on June 12, 2018 and June 23, 2017, respectively. Please refer to Note 6(10).

E. On March 22, 2019, the Board of Directors has proposed the appropriation of earnings for 2018 as follows:

	Year ended December 31, 2018	
	Amount	Dividends per share (in dollars)
Special reserve	\$ 120,519	
Legal reserve	97,655	
Cash dividends	647,834	\$ 5.50
Total	\$ 866,008	

As of March 26, 2019, aforementioned appropriation of earnings for 2018 has not been resolved at the shareholders' meeting.

F. For information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(22).

(47) Operating revenue

	Year ended
	December 31, 2018
Revenue from contracts with customers	\$ 5,757,902

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of products at a point in time in the following major product lines and geographical regions:

2018	China	Taiwan	Asia	Other	Total
Revenue from external customer contracts					
Sound components	\$ 3,124,631	\$ -	\$ -	\$ -	\$ 3,124,631
Molding and automated equipment	2,023,447	2,630	-	-	2,026,077
Connectors	174,738	45,573	94,252	19,818	334,381
Automobile series and others	215,608	23,189	24,053	9,963	272,813
	<u>\$ 5,538,424</u>	<u>\$ 71,392</u>	<u>\$ 118,305</u>	<u>\$ 29,781</u>	<u>\$ 5,757,902</u>

B. Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	December 31, 2018
Contract liabilities-advance sales receipts	\$ 82

C. Related disclosures for 2017 operating revenue are provided in Note 12(5) B.

(48) Other income

	Years ended December 31,	
	2018	2017
Interest income:		
Interest income from bank deposits	\$ 4,140	\$ 979
Interest income from financial assets measured at amortised cost	213	-
	<u>\$ 4,353</u>	<u>\$ 979</u>
Rental revenue	7,816	799
Miscellaneous income (Note)	113,313	17,229
Total	<u>\$ 125,482</u>	<u>\$ 19,007</u>

Note: In accordance with IAS 20, 'Accounting for government grants and disclosure of government assistance', the Company's subsidiary –Kun Shan Dragonstate and Concraft Baoying have obtained relevant government grants and recognised the realised amounts based on their nature as miscellaneous income of CNY\$23,574 thousand and CNY\$2,522 thousand in 2018 and 2017, respectively.

(49) Other gains and losses

	Years ended December 31,	
	2018	2017
Foreign exchange gains	\$ 7,468	\$ 11,473
Gains (losses) on disposal of property, plant and equipment	897	(698)
Depreciation charge on rental equipment	(4,113)	-
Losses on financial assets at fair value through profit or loss	-	(94)
Other gains and losses	(2,312)	(5,556)
Total	<u>\$ 1,940</u>	<u>\$ 5,125</u>

(50) Finance costs

	Years ended December 31,	
	2018	2017
Interest expense	\$ 88,394	\$ 61,725
Financial expense, others	45,680	12,641
	<u>\$ 134,074</u>	<u>\$ 74,366</u>

(51) Expenses by nature

	Year ended December 31, 2018		
	Operating cost	Operating	Total
		expense	
Employee benefit expense	\$ 1,326,474	\$ 387,044	\$ 1,713,518
Depreciation charges on property, plant and equipment	389,236	246,409	635,645
Amortisation charges	141,163	125,769	266,932
Total	<u>\$ 1,856,873</u>	<u>\$ 759,222</u>	<u>\$ 2,616,095</u>

	Year ended December 31, 2017		
	Operating cost	Operating	Total
		expense	
Employee benefit expense	\$ 1,200,166	\$ 321,748	\$ 1,521,914
Depreciation charges on property, plant and equipment	444,921	104,888	549,809
Amortisation charges	56,968	57,449	114,417
Total	<u>\$ 1,702,055</u>	<u>\$ 484,085</u>	<u>\$ 2,186,140</u>

(52) Employee benefit expense

	Years ended December 31,	
	2018	2017
Wages and salaries	\$ 1,421,050	\$ 1,259,757
Labor and health insurance fees	72,413	60,219
Pension costs	128,421	115,574
Other personnel expenses	91,634	86,364
	<u>\$ 1,713,518</u>	<u>\$ 1,521,914</u>

A. Unless otherwise provided in the Applicable Listing Rules, where the Company makes profits before tax for the annual financial year, the Company shall allocate :

- (a) A maximum of ten percent (10%) and a minimum of one percent (1%) of such annual profits before tax for the purpose of employees' remunerations (including employees of the Company and/or any Affiliated Company) (the "employees' remunerations"); and
- (b) A maximum of three percent (3%) of such annual profits before tax for the purpose of Directors' remunerations (the "directors' remunerations").

Notwithstanding the foregoing paragraph, if the Company has accumulated losses of the previous years for the annual financial year, the Company shall set aside the amount of such accumulated losses prior to the allocation of employees' compensations and directors' remunerations. Subject to Cayman Islands law, the Applicable Listing Rules, the employees' compensations and the directors' remunerations may be distributed in the form of cash and/or bonus shares, upon resolution by a majority votes at a meeting of the Board of Directors attended by two-thirds (2/3) or more of the Directors. The resolutions of Board of Directors regarding the distribution of the employees' compensations and the directors' remunerations in the preceding paragraph shall be reported to the shareholders at the general meeting after such board resolutions are passed.

B. For the year ended December 31, 2018 and 2017, the employees' compensation was accrued at \$15,255 and \$15,105, respectively; directors' and supervisors' remuneration was accrued at \$15,255 and \$15,105, respectively. The aforementioned amounts were recognized in salary expenses.

For the year ended December 31, 2018, the employees' compensation and directors' and supervisors' remuneration were both estimated and accrued based on 1.01% of distributable profit of current year as of the end of reporting period. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were both \$15,255, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration for 2017 amounting to both \$15,105, as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2017 financial statements.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(53) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2018	2017
Current tax:		
Current tax on profits for the period	\$ 330,670	\$ 303,357
Prior year income tax underestimation	1,982	4,207
Total current tax	332,652	307,564
Deferred tax:		
Origination and reversal of temporary differences	174,338	43,160
Income tax expense	\$ 506,990	\$ 350,724

(b) The income tax credit relating to components of other comprehensive income is as follow:
None.

(c) The income tax charged/credited to equity during the period is as follow: None.

(d) Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate (Note)	\$ 297,890	\$ 272,820
Income tax on overseas earnings	190,463	60,380
Tax exempted income by tax regulation	705	7,724
Temporary differences not recognised as deferred tax assets	14,347	-
Taxable loss not recognised as deferred tax assets	-	5,593
Change in assessment of realisation of deferred tax assets	1,603	677
Prior year income tax underestimation	1,982	3,530
Income tax expense	\$ 506,990	\$ 350,724

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

B. Amounts of deferred tax assets or liabilities as a result of temporary differences, tax losses are

as follows:

	Year ended December 31, 2018			
		Recognised in	Translation	
	January 1	profit or loss	differences	December 31
Temporary differences:				
-Deferred tax assets:				
Deferred revenue	\$ 4,873	(\$ 115)	(\$ 97)	\$ 4,661
Tax losses	1,575	(1,575)	-	-
Difference between accounting and tax basis due to depreciation	-	12,628	(235)	12,393
Others	4,548	5,187	(78)	9,657
Subtotal	\$ 10,996	\$ 16,125	(\$ 410)	\$ 26,711
-Deferred tax liabilities:				
Income tax on overseas earnings	\$ 65,647	\$ 190,463	\$ 5,515	\$ 261,625
Total	\$ 76,643	\$ 206,588	\$ 5,105	\$ 288,336

	Year ended December 31, 2017			
		Recognised in	Translation	
	January 1	profit or loss	differences	December 31
Temporary differences:				
-Deferred tax assets:				
Deferred revenue	\$ 5,045	(\$ 114)	(\$ 58)	\$ 4,873
Tax losses	3,211	(1,635)	(1)	1,575
Others	1,757	2,774	17	4,548
Subtotal	\$ 10,013	\$ 1,025	(\$ 42)	\$ 10,996
-Deferred tax liabilities:				
Income tax on overseas earnings	\$ 26,455	\$ 42,135	(\$ 2,943)	\$ 65,647
Total	\$ 36,468	\$ 43,160	(\$ 2,985)	\$ 76,643

C. The Company's subsidiary had unused tax losses with expiration dates and amount of unrecognized deferred tax assets are as follows:

December 31, 2018				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Usable until year
2011	\$ 22,809	\$ -	\$ -	2021
2012	4,906	-	-	2022
	\$ 27,715	\$ -	\$ -	

December 31, 2017				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Usable until year
2011	\$ 22,809	\$ 4,359	\$ -	2021
2012	4,906	4,906	-	2022
	<u>\$ 27,715</u>	<u>\$ 9,265</u>	<u>\$ -</u>	

D. The amounts of deductible temporary difference that are not recognised as deferred tax assets are as follows:

	December 31, 2018	December 31, 2017
Deductible temporary differences	\$ 1,181	\$ 259

- E. The Company and Dragonstate are domiciled in the Cayman Islands and the Republic of Mauritius, respectively. They are exempted from corporate income tax pursuant to local laws.
- F. Concraft Precision and Concraft Technology are domiciled in the Hong Kong Special Administrative Region of the People's Republic of China. In accordance with the Hong Kong Tax Act, only the source of income from Hong Kong is taxable.
- G. According to the Regulation on the Implementation of the Enterprise Income Tax Act of the People's Republic of China, the applicable income tax rate of Concraft Kun Shan, Concraft Baoying and Haojun Kunshan is 25%, and Kun Shan Dragonstate applies preferential income tax rate of 15% as a result of Kun Shan Dragonstate obtaining the High-tech Enterprise Certificate in accordance with the Article 28 in the same regulation.
- H. As of 2016, the income tax returns of Dragonstate International Co. Ltd., the subsidiary of the Company, have been assessed and approved by the Tax Authority.
- I. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(54) Earnings per share

	Year ended December 31, 2018		
		Weighted average	
		number of ordinary	
	Amount after tax	shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 976,545	117,956	\$ 8.28
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 976,545	117,956	
Assumed conversion of all dilutive potential ordinary shares			
Employees' restricted shares	-	463	
Employees' compensation	-	128	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 976,545	118,547	\$ 8.24
	Year ended December 31, 2017		
		Weighted average	
		number of ordinary	
	Amount after tax	shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 1,096,100	114,307	\$ 9.59
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 1,096,100	114,307	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	42	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 1,096,100	114,349	\$ 9.59

(55) Supplemental cash flow information

Investing activities with partial cash payments:

	Years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 952,261	\$ 1,455,518
Add: Opening balance of payable on equipment	42,958	102,000
Add: Ending prepayment for equipment	162,309	69,093
Add: Opening balance of long-term payable on machinery and equipment	-	12,427
Less: Opening prepayment for equipment	(69,093)	(105,732)
Less: Ending balance of payable on equipment	(61,093)	(42,958)
Cash paid during the period	<u>\$ 1,027,342</u>	<u>\$ 1,490,348</u>

(56) Changes in liabilities from financing activities

	Short-term borrowings	Long-term	Liabilities from
		(Including current portion)	financing activities-gross
At January 1, 2018	\$ -	\$ 1,926,259	\$ 1,926,259
Changes in cash flow from financing activities	47,682	755,125	802,807
At December 31, 2018	<u>\$ 47,682</u>	<u>\$ 2,681,384</u>	<u>\$ 2,729,066</u>

7. RELATED PARTY TRANSACTIONS

(1) Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Chao-Sheng, Lu	Chairman of the Company
All directors, general managers, vice president and chief directors	Key management personnel of the Company
KUNSHAN DEWU PRECISION MOULD CO.,LTD (“KUNSHAN DEWU”)	Substantial related party (it was no longer a substantial related party starting from July 1, 2018)

(2) Significant related party transactions and balances

A. Processing cost

	Years ended December 31,	
	2018	2017
KUNSHAN DEWU	<u>\$ 33,683</u>	<u>\$ 12,025</u>

The processing price was made based on mutual agreement. The payment term is 60 days after monthly billings, and the payment terms for the third party are from 30 days after monthly billings to 180 days after the end of each month.

B. Rental revenue

	Years ended December 31,	
	2018	2017
KUNSHAN DEWU	\$ 2,365	\$ 510

The Group leases machinery and equipment to aforementioned related parties, and the rent was collected monthly based on the agreement.

C. Accounts receivable due from related parties (No such transaction as at December 31, 2018)

	December 31, 2017
KUNSHAN DEWU	\$ 673

Accounts receivable due from related parties mainly consisted of rental assets and sale of property, plant and equipment.

D. Accounts payable to related parties (No such transaction as at December 31, 2018)

	December 31, 2017
KUNSHAN DEWU	\$ 2,128

Payables due to the Group's processing cost.

E. Property transaction (No such transaction as at December 31, 2017)

	2018	
	Disposal proceeds	Gain (loss) on disposal
KUNSHAN DEWU	\$ 41,359	\$ 1,381

As of March 26, 2019, all the disposal proceeds have been collected.

F. Loans from related parties:

		December 31, 2017			
		Maximum balance	Balance	Interest rate %	Interest expense
Chao-Sheng, Lu	2017.07.05	\$ 56,000	\$ -	-	\$ -

(3) Key management compensation

	Years ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	\$ 24,725	\$ 27,112
Post-employment benefits	416	586
Total	<u>\$ 25,141</u>	<u>\$ 27,698</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Book value		Purpose
	December 31, 2018	December 31, 2017	
Notes receivable	\$ 47,808	\$ -	Short-term borrowings
Restricted deposits-current (shown as other current assets)	37,839	23,944	Current portion of long-term borrowings
Restricted deposits-non current (shown as other non current assets)	-	43,480	Long-term borrowings
Property, plant and equipment			
- Land	61,515	-	Long-term borrowings
- Buildings	39,092	308,822	Long-term borrowings
- Machinery and equipment	197,971	278,236	Long-term borrowings
Other assets-land access rights (shown as other non-current assets)	-	37,733	Long-term borrowings
	<u>\$ 336,417</u>	<u>\$ 692,215</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(57) Contingencies

None.

(58) Commitments

A. Provision of endorsements and guarantees to others: Please refer to table 2.

B. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	December 31, 2018	December 31, 2017
Property, plant and equipment	<u>\$ 236,923</u>	<u>\$ 66,170</u>

C. Operating leases

The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	\$ 40,265	\$ 35,062
Later than one year but not later than five years	52,050	41,324
Total	<u>\$ 92,315</u>	<u>\$ 76,386</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- A. The details of the appropriation of 2018 earnings was proposed by the Board of Directors on March 22, 2019. Please refer to Note 6(16).
- B. The Company carries out the plans and execution of Group financing activities, and assesses the entire economic environment of the Group. In accordance with IAS 21, 'The effects of changes in foreign exchange rates', the Company changed its functional currency to New Taiwan dollars, and would be applied prospectively from January 1, 2019 as resolved by the Board of Directors on November 12, 2018 as a result of taking into consideration the effects in relation to benefits of Group financing management and distribution of dividends.
- C. On November 12, 2018, the Board of Directors resolved to implement the Company's first-time issuance of domestic unsecured corporate bonds at a face value of NT\$100 thousand in the R.O.C market. These bonds were fully issued at par value, cover a 3-year period of issuance, and the total issuance amount was \$1.5 billion. On January 15, 2019, the Company received the effective registration statement from FSC, and submitted an application to Taiwan Securities Association for the tender of the unsecured corporate bonds on March 13, 2019. The tender opening date was March 22, 2019, the public offering price was \$102.07, and the total issuance amount was \$1,531,013 thousand.

12. OTHERS

(一) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt, to maximize stockholders' equity.

(二) Financial instruments

- A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	\$ 66,000	\$ -
Financial assets at amortised cost		
Cash and cash equivalents	208,544	524,078
Notes receivable	535,693	23,273
Accounts receivable	3,485,600	3,008,598
Other receivables	64,867	24,099
Guarantee deposits paid	18,937	5,595
Other current assets	37,839	23,944
Other non-current assets	-	43,480
	<u>\$ 4,417,480</u>	<u>\$ 3,653,067</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 47,682	\$ -
Notes payable	3,598	2,222
Accounts payable	538,500	721,556
Other accounts payable	474,295	577,080
Long-term borrowings (including current portion)	2,681,384	1,926,259
	<u>\$ 3,745,459</u>	<u>\$ 3,227,117</u>

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(b) The Group did not enter into contracts relating to derivative financial instruments that were used to hedge certain exchange rate risk.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury.
- iii. The Group's businesses involve some non-functional currency operations (the Company's functional currency: USD; other certain subsidiaries' functional currency: NTD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2018		
	Foreign Currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
EUR:USD	\$ 1,037	1.146	\$ 36,504
<u>Non-monetary items</u>			
NTD:USD	66,000	30.715	66,000
<u>Financial liabilities</u>			
<u>Monetary items</u>			
EUR:USD	\$ 25,121	1.146	\$ 884,253
USD:RMB	1,908	6.868	58,616
JPY:RMB	166,742	0.062	46,387

	December 31, 2017		
	Foreign Currency		
	amount	Exchange	Book value
	(in thousands)	rate	(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 373	29.760	\$ 11,100
JYP:USD	47,825	0.009	12,626
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:RMB	\$ 3,156	6.519	\$ 93,923
TWD:USD	36,808	0.034	36,808
JPY:RMB	78,830	0.058	20,811

- iv. Total exchange gain, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to \$7,468 and \$11,473, respectively.
- v. Analysis of foreign currency market risk arising from significant foreign exchange variation:

	Year ended December 31, 2018		
	Sensitivity analysis		
	Degree of	Effect on profit	Effect on other
	variation	or loss	comprehensive
			income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
EUR:USD	1%	\$ 365	\$ -
<u>Non-monetary items</u>			
NTD:USD	1%	-	643
<u>Financial liabilities</u>			
<u>Monetary items</u>			
EUR:USD	1%	\$ 8,843	\$ -
USD:RMB	1%	586	-
JPY:RMB	1%	464	-

	Year ended December 31, 2017		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 111	\$ -
JYP:USD	1%	126	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:RMB	1%	\$ 939	\$ -
TWD:USD	1%	368	-
JPY:RMB	1%	208	-

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

Diversification of the portfolio is done in accordance with the limits set by the Group.

- ii. The Group's investments in equity securities comprise shares issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the year ended December 31, 2018 would have increased/decreased by \$660 as a result of gains/losses on equity securities classified as at fair value through other comprehensive income.

Cash flow and fair value Interest rate risk

- i. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the years ended December 31, 2018 and 2017, the Group's borrowings at variable rate were denominated in the USD and RMB.
- ii. If the borrowing interest rate had increased/decreased by 0.25% with all other variables held constant, profit for the years ended December 31, 2018 and 2017 would have increased/decreased by \$5,667 and \$1,073, respectively. The main factor is that changes in interest expense result in floating-rate borrowing. The simulation is done on every half year basis to verify that the maximum loss potential is within the limit given by the management.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a good credit rating are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.
- iii. The Group, based on the historical collection experience, adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

v. The Group classifies customers' accounts receivable in accordance with credit rating of customer, and customer types. The Group applies the modified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

vi. The Group used the forecastability of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2018, the provision matrix is as follows:

	Not past due	Up to 90 days past due	180 days past due	365 days past due	Over 365 days past due	Total
<u>December 31, 2018</u>						
Expected loss rate	0.03%	0.04%	0.24%	39.17%	100.00%	
Total book value	\$ 2,765,802	\$ 654,276	\$ 65,046	\$ 2,778	\$ 9,415	\$ 3,497,317
Loss allowance	\$ 768	\$ 290	\$ 156	\$ 1,088	\$ 9,415	\$ 11,717

vii. Movements in relation to the Group applying the modified approach to provide loss allowance for accounts receivable is as follows:

	2018
	Accounts receivable
At January 1_IAS 39	\$ 14,791
Adjustments under new standards	-
At January 1_IFRS 9	14,791
Reversal of impairment loss	(2,832)
Effect of foreign exchange	(242)
At December 31,	\$ 11,717

viii. Credit risk information of 2017 is provided in Note 12(4).

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times.

- ii. Surplus cash held by the operating entities over and above balance required for working capital management, and invests surplus cash in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.
- iii. The Group has the following undrawn borrowing facilities:

	December 31, 2018	December 31, 2017
Floating rate:		
Expiring within one year	\$ 131,150	\$ 145,824
Expiring beyond one year	326,242	595,200
Fixed rate:		
Expiring within one year	223,600	458,324
Expiring beyond one year	-	89,280
	<u>\$ 680,992</u>	<u>\$ 1,288,628</u>

The facilities expiring within one year are annual facilities subject to review at various dates during 2019.

- iv. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	More than 2 years
<u>Non-derivative financial liabilities:</u>			
December 31, 2018			
Notes payable	\$ 3,598	\$ -	\$ -
Accounts payable	538,500	-	-
Other payables	474,295	-	-
Long-term borrowings (including current portion)	1,931,012	295,007	560,473

	Less than 1 year	Between 1 and 2 years	More than 2 years
<u>Non-derivative financial liabilities:</u>			
December 31, 2017			
Notes payable	\$ 2,222	\$ -	\$ -
Accounts payable	721,556	-	-
Other payables	577,080	-	-
Long-term borrowings (including current portion)	491,542	1,539,694	-

(三) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable and long-term borrowings (including current portion) are approximate to their fair values.

C. The related information on financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

(a) The related information of natures of assets and liabilities is as follow: (The balance is nil as at December 31, 2017)

December 31, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through other comprehensive income				
Equity securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,000</u>	<u>\$ 66,000</u>

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, the Group adopts a valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- ii. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

E. For the year ended December 31, 2018, there was no transfer between Level 1 and Level 2.

F. The following chart is the movement of Level 3 for the year ended December 31, 2018:

		2018
At January 1,		\$ -
Acquired in the period		66,000
At December 31,		\$ 66,000

G. For the year ended December 31, 2018, there was no transfer into or out from Level 3.

H. Financial segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

I. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs of fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 66,000	Discounted cash flow	Weighted average cost of capital	15.42%	The higher the weighted average cost of capital and discount for lack of control, the lower the fair value

J. The Company has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation

models have changed:

			<u>December 31, 2018</u>	
			<u>Recognised in other comprehensive income</u>	
			<u>Favourable change</u>	<u>Unfavourable change</u>
	<u>Input</u>	<u>Change</u>		
Financial assets				
Equity instrument	Weighted average cost of capital	± 1%	\$ 5,778	(\$ 4,954)

(四) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

(a) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(b) Impairment of financial assets

- i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (i) Significant financial difficulty of the debtor;
 - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follow according to the category of financial assets: Financial assets measured at amortised cost measured at amortised cost. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. Credit risk information for the year ended December 2017 are as follows:

(a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a good credit rating are accepted.

(b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

(c) The ageing analysis of financial assets that were past due but not impaired is as follows:

	<u>December 31, 2017</u>
<u>Accounts receivable</u>	
Up to 30 days	\$ 15,873
31 to 90 days	116,070
Over 90 days	113,266
	<u>\$ 245,209</u>

(d) Movements in the provision for impairment of accounts receivable for the year ended December 31, 2017 are as follows:

	2017		
	Individual provision	Group provision	Total
At January 1	\$ -	\$ 8,998	\$ 8,998
Provision for impairment	-	5,895	5,895
Effects of foreign exchange	-	(102)	(102)
At December 31	\$ -	\$ 14,791	\$ 14,791

(e) The credit quality of accounts receivable that were neither past due nor impaired was classified as two categories-T/T after shipping and 30~150 days after monthly billings based on the Group's Credit Quality Control Policy. Allowance for bad debts is estimated based on the ageing analysis of accounts receivable, historical experience and customers' current financial conditions. The ageing analysis of accounts receivable other than those with impairment provided on balance sheet date is shown in the table above. For those accounts receivable that were past due but whose credit quality did not change significantly and were still assessed as collectible, the Group did not provide for any impairment.

(五) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

Sales of goods

The Group manufactures and sells electronic connectors, sound components, molding components products and etc. Revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. The revenue recognized by using above accounting policies for the year ended December 31, 2017 are as follows:

		Year ended
		December 31, 2017
Sales revenue		\$ 5,274,434

C. The effects and description of current balance sheet and comprehensive income statement items if the Group continues adopting above accounting policies are as follows:

(a) The impact to balance sheet

Balance sheet items	December 31, 2018		
		Balance by	Effects from
		using previous	changes in
	Balance by using	accounting	accounting
	IFRS 15	policies	policy
Accounts receivable	\$ 3,485,600	\$ 3,462,629	\$ 22,971
Contract liabilities-advance sales receipts	(82)	-	(82)
Current refund liabilities	(22,971)	-	(22,971)
Other current liabilities	(1,869,233)	(1,869,315)	82

- i. Expected sales discounts and allowances were previously presented as accounts receivable-allowance for sales discounts in the balance sheet, but under IFRS 15 were recognized as refund liability.
- ii. Advance sales receipts in relation to customer contracts were previously presented in accordance with IAS 18, but under IFRS 15 are recognised as contract liabilities.

(b) There is no significant impact to the current comprehensive income statements.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 4.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 5.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to Note 13(1), tables 1, 2, 4 and 5.

14. SEGMENT INFORMATION

(一) General information

The Group operates business only in a single industry. The Group's Board of Directors who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(二) Measurement of segment information

The Group's segment profit (loss) is measured with the operating profit (loss) before tax, which is used as a basis for the Group in assessing the performance of the operating segments. The accounting policies of the operating segments are in agreement with the significant accounting policies summarized in Note 4.

(三) Information about segment profit or loss, assets and liabilities

	Years ended December 31,	
	2018	2017
Segment revenue		
Revenue from external customers	\$ 5,757,902	\$ 5,274,434
Inter-segment revenue	-	-
Total segment revenue	\$ 5,757,902	\$ 5,274,434
Segment income	\$ 1,483,535	\$ 1,446,824
Interest income	\$ 4,353	\$ 979
Interest expense	\$ 134,074	\$ 74,366
Depreciation and amortisation	\$ 906,690	\$ 664,226
Income tax expense	\$ 506,990	\$ 350,724

	December 31,	
	2018	2017
Segment assets	\$ 8,173,171	\$ 7,207,898
Segment liabilities	\$ 4,191,812	\$ 3,475,044

(四) Reconciliation for segments income (loss)

The Group is mainly engaged in a single product industry, and the Board of Directors evaluates performance and allocates resources as a whole; therefore, there is only one operating segment for reporting purpose, and reconciliation is not applicable.

(五) Information on products and services

Details of revenue is as follows:

	Years ended December 31,	
	2018	2017
Sound components	\$ 3,124,631	\$ 3,184,742
Molding and automated equipment	2,026,077	1,251,831
Connectors	334,381	614,095
Automobile series and others	272,813	223,766
Total	\$ 5,757,902	\$ 5,274,434

(六) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
		Non-current		Non-current
	Revenue	assets	Revenue	assets
China	\$ 5,538,424	\$ 3,164,365	\$ 4,953,621	\$ 2,965,146
Taiwan	71,392	124,959	77,135	16,259
Others	148,086	66,000	243,678	85,712
	<u>\$ 5,757,902</u>	<u>\$ 3,355,324</u>	<u>\$ 5,274,434</u>	<u>\$ 3,067,117</u>

(七) Major customer information

Customers constituting more than 10% of the Group's total revenue for the years ended December 31, 2018 and 2017 are as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Revenue	%	Revenue	%
A	\$ 4,235,404	74	\$ 3,188,679	60
B	824,303	14	1,168,607	22

CONCRAFT HOLDING CO., LTD. AND SUBSIDIARIES

Loans to others

Year ended December 31, 2018

Table 1																	Expressed in thousands of NTD (Except as otherwise indicated)	
No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted	Footnote	
													Item	Value				
0	CONCRAFT HOLDING CO., LTD	Kun Shan Dragonstate Electronic Technology Co., Ltd	Other receivables	Yes	\$ 921,450	\$ 854,053	\$ 238,136	5	Short-term financing	\$ -	Operations	\$ -	None	\$ -	\$ 1,194,408	\$ 1,592,544	Note 2 · 8	
0	CONCRAFT HOLDING CO., LTD	Concraft Precision Electronic (Baoying) Co., Ltd.	Other receivables	Yes	307,150	307,150	-	0	Short-term financing	-	Operations	-	None	-	1,194,408	1,592,544	Note 2 · 8	
1	Dragonstate International Technology Co., Ltd.	Concraft Precision Electronic (Baoying) Co., Ltd.	Other receivables	Yes	99	99	99	0	Short-term financing	-	Operations	-	None	-	31,627	31,627	Note 7 · 9	
1	Dragonstate International Technology Co., Ltd.	Kun Shan Dragonstate Electronic Technology Co., Ltd	Other receivables	Yes	558	558	558	0	Short-term financing	-	Operations	-	None	-	31,627	31,627	Note 7 · 9	
1	Dragonstate International Technology Co., Ltd.	Concraft Precision Mechatronics (Kun Shan) Co., Ltd.	Other receivables	Yes	4,463	-	-	0	Short-term financing	-	Operations	-	None	-	31,627	31,627	Note 7 · 9	
1	Dragonstate International Technology Co., Ltd.	Haojun Precision Electronic (Kunshan), Co., Ltd	Other receivables	Yes	6	6	6	0	Short-term financing	-	Operations	-	None	-	31,627	31,627	Note 7 · 9	
2	Kun Shan Dragonstate Electronic Technology Co., Ltd	Haojun Precision Electronic (Kunshan), Co., Ltd	Other receivables	Yes	28,629	9,931	9,931	0	Short-term financing	-	Operations	-	None	-	3,380,677	4,225,847	Note 7 · 9	
2	Kun Shan Dragonstate Electronic Technology Co., Ltd	Concraft Precision Mechatronics (Kun Shan) Co., Ltd.	Other receivables	Yes	67,818	-	-	0	Short-term financing	-	Operations	-	None	-	3,380,677	4,225,847	Note 3 · 9	
3	Concraft Precision Electronic (Baoying) Co., Ltd.	Concraft Precision Co., Ltd.	Other receivables	Yes	18,429	-	-	0	Short-term financing	-	Operations	-	None	-	826,534	1,033,168	Note 6 · 9	
4	Dragonstate Technology Co., Ltd.	Kun Shan Dragonstate Electronic Technology Co., Ltd	Other receivables	Yes	36,722	36,722	36,722	0	Short-term financing	-	Operations	-	None	-	3,112,842	3,891,053	Note 4 · 9	
4	Dragonstate Technology Co., Ltd.	Concraft Precision Electronic (Baoying) Co., Ltd.	Other receivables	Yes	1,186	-	-	0	Short-term financing	-	Operations	-	None	-	3,112,842	3,891,053	Note 4 · 9	
4	Dragonstate Technology Co., Ltd.	Concraft Technology Co., Ltd.	Other receivables	Yes	675,055	472,857	472,857	0	Short-term financing	-	Operations	-	None	-	3,112,842	3,891,053	Note 4 · 9	
5	Haojun Precision Electronic (Kunshan), Co., Ltd	Concraft Precision Mechatronics (Kun Shan) Co., Ltd.	Other receivables	Yes	\$ 927	-	-	0	Short-term financing	\$ -	Operations	\$ -	None	\$ -	\$ 80,000	\$ 100,000	Note 6 · 9	
5	Haojun Precision Electronic (Kunshan), Co., Ltd	Concraft Precision Electronic (Baoying) Co., Ltd.	Other receivables	Yes	4,997	-	-	0	Short-term financing	-	Operations	-	None	-	80,000	100,000	Note 6 · 9	
6	Concraft Technology Co., Ltd.	Kun Shan Dragonstate Electronic Technology Co., Ltd	Other receivables	Yes	665,866	429,835	429,835	0	Short-term financing	-	Operations	-	None	-	800,000	850,000	Note 5 · 9	
6	Concraft Technology Co., Ltd.	Dragonstate International Technology Co., Ltd.	Other receivables	Yes	18,539	18,539	18,539	0	Short-term financing	-	Operations	-	None	-	800,000	850,000	Note 5 · 9	

CONCRAFT HOLDING CO., LTD. AND SUBSIDIARIES														
Provision of endorsements and guarantees to others														
Year ended December 31, 2018														
Table 2														Expressed in thousands of NTD
(Except as otherwise indicated)														
Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary (Note 3)	Provision of endorsements/ guarantees by subsidiary to parent company (Note 3)	endorsements / guarantees to the party in Mainland China (Note 3)	Footnote
		Company name	Relationship with the endorser/ guarantor (Note 2)											
0	CONCRAFT HOLDING CO., LTD	Dragonstate Technology Co., Ltd.	2	\$ 6,370,174	\$ 1,443,605	\$ 1,443,605	\$ 707,068	\$ -	36.26	\$ 7,962,718	Y	N	N	Note 4, 5
0	CONCRAFT HOLDING CO., LTD	Dragonstate International Technology Co., Ltd.	2	6,370,174	50,000	-	-	-	0.00	7,962,718	Y	N	N	Note 4, 5
1	Kun Shan Dragonstate Electronic Technology Co., Ltd.	Haojun Precision Electronic (Kunshan), Co., Ltd	2	3,380,677	44,720	44,720	1,038	-	1.12	4,225,847	N	N	Y	Note 6, 8
2	Dragonstate International Technology Co., Ltd.	Dragonstate Technology Co., Ltd.	3	79,068	30,715	30,715	-	-	0.77	118,602	N	N	N	Note 7, 8
Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:														
(1)The Company is '0'.														
(2)The subsidiaries are numbered in order starting from '1'.														
Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following six categories; fill in the number of category each case belongs to:														
(1)Having business relationship.														
(2)The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.														
(3)The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.														
(4)The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.														
(5)Mutual guarantee of the trade as required by the construction concraft.														
(6)Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.														
Note 3: Fill in 'Y' for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.														
Note 4: Ceiling on total amount of endorsements and guarantees provided by the Company for all parties is 200% of the Company's net assets value; limit on endorsements and guarantees provided by the Company for a single party is 160% of the Company's net assets value.														
Note 5: In accordance with policies of endorsements and guarantees, the ceiling is set based on the net asset value of its most recent audited/reviewed financial statements and report, and the Company reported \$7,494,173 in December 2018; however, the limit is set based on the audited/reviewed financial statements and report for the third quarter of 2018 as the 2018 annual financial statements and report have not been audited.														
Note 6: Ceiling on total amount of endorsements and guarantees provided by Kun Shan Dragonstate Electronic Technology Co., Ltd., the subsidiaries of the Company, for all parties is 100% of endorser's/guarantors' net assets value; limit on endorsements and guarantees provided by Kun Shan Dragonstate Electronic Technology Co., Ltd., the subsidiaries of the Company, for a single party is 80% of the endorser's/guarantors' net assets value.														
Note 7: Ceiling on total amount of endorsements and guarantees provided by Dragonstate International Technology Co., Ltd., the subsidiaries of the Company, for all parties is 150% of endorser's/guarantors' net assets value; limit on endorsements and guarantees provided by Dragonstate International Technology Co., Ltd., the subsidiaries of the Company, for a single party is 100% of the endorser's/guarantors' net assets value.														
Note 8: In accordance with Dragonstate International Technology Co., Ltd. "Procedures for Provision of Endorsements and Guarantees" , ceiling on endorsements / guarantees provided is the net assets of the latest financial statements audited or reviewed by independent accountants. The Company has published the amount of \$104,682 on behalf of Dragonstate International Technology Co., Ltd. in December 2018.														
In accordance with Kun Shan Dragonstate Electronic Technology Co., Ltd. "Procedures for Provision of Endorsements and Guarantees" , ceiling on endorsements / guarantees provided is the net assets of the latest financial statements audited or reviewed by independent accountants. The Company has published the amount of \$3,822,086 on behalf of Kun Shan Dragonstate Electronic Technology Co., Ltd. in December 2018.														
However, the limit is set based on the audited/reviewed financial statements and report for the third quarter of 2018 as the 2018 annual financial statements and report have not been audited.														

CONCRAFT HOLDING CO., LTD. AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

Year ended December 31, 2018

Table 3		Expressed in thousands of NT\$ (Except as otherwise indicated)						
Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2018				Footnote
				Number of shares	Book value (Note 3)	Ownership (%)	Fair value	
OBO Pro. 2 Inc.	Stocks		Financial assets at fair value through other comprehensive income-non current	1,350,000	\$ 66,000	9.18	\$ 66,000	-
Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.								
Note 2: Leave the column blank if the issuer of marketable securities is non-related party.								
Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment of the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.								

CONCRAFT HOLDING CO., LTD. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 4											Expressed in thousands of NTD (Except as otherwise indicated)
Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions (Note 1)		Notes/accounts receivable (payable)		Footnote (Note 2)
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
			CONCRAFT TECHNOLOGY CO., LTD.	DRAGONSTATE TECHNOLOGY CO., LTD.	Same ultimate parent company	Sales	(\$ 363,316)	(88%)	90 days from the end of the next month	-	
Kun Shan Dragonstate Electronic Technology Co., Ltd.	CONCRAFT TECHNOLOGY CO., LTD.	Same ultimate parent company	Sales	(408,233)	(8%)	90 days from the end of the next month	-	Normal	-	0%	
Haojun Precision Electronic (Kunshan) Co., Ltd.	Kun Shan Dragonstate Electronic Technology Co., Ltd.	Same ultimate parent company	Sales	(147,356)	(70%)	30 days from the end of the next month	-	Normal	-	9%	
Concraft Precision Mechatronics (Kun Shan) Co., Ltd.	Kun Shan Dragonstate Electronic Technology Co., Ltd.	Same ultimate parent company	Sales	(795,325)	(77%)	30 days from the end of the next month	-	Normal	-	0%	
Concraft Precision Mechatronics (Kun Shan) Co., Ltd.	Concraft Precision Electronic (Baoying) Co., Ltd.	Same ultimate parent company	Sales	(231,182)	(22%)	30 days from the end of the next month	-	Normal	32,441	53%	
Concraft Precision Electronic (Baoying) Co., Ltd.	Kun Shan Dragonstate Electronic Technology Co., Ltd.	Same ultimate parent company	Sales	(465,730)	(36%)	90 days from the end of the next month	-	Normal	15,980	2%	
Note 1: If terms of related party transactions are different from third party transactions, explain the differences and reasons in the 'Unit price' and 'Credit term' columns.											
Note 2: In case related party transaction terms involve advance receipts (prepayments) transactions, explain in the footnote the reasons, contractual provisions, related amounts, and differences in types of transactions compared to third-party transactions.											
Note 3: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.											

CONCRAFT HOLDING CO., LTD. AND SUBSIDIARIES

Receivables from related parties reaching \$100 million or 20% of paid-in capital or more

December 31, 2018

Table 5								Expressed in thousands of NTD (Except as otherwise indicated)	
Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts	
					Amount	Action taken			
CONCRAFT HOLDING CO., LTD	Kun Shan Dragonstate Electronic Technology Co., Ltd.	An affiliate	\$342,616 (Note 1)	-	\$ -	-	\$ 112,328	\$ -	
CONCRAFT HOLDING CO., LTD	DRAGONSTATE TECHNOLOGY CO., LTD.	An affiliate	237,867 (Note 2)	-	-	-	237,867	-	
DRAGONSTATE TECHNOLOGY CO., LTD.	CONCRAFT TECHNOLOGY CO., LTD.	An affiliate	472,857 (Note 3)	-	-	-	24,347	-	
CONCRAFT TECHNOLOGY CO., LTD.	Kun Shan Dragonstate Electronic Technology Co., Ltd.	An affiliate	429,835 (Note 3)	-	-	-	26,577	-	
Note 1: The balances are premium receivable, interest receivable for loans to related party.									
Note 2: It was a dividends receivable from earnings									
Note 3: The balance is inter-company loans for funding.									

CONCRAFT HOLDING CO., LTD. AND SUBSIDIARIES

Significant inter-company transactions during the reporting periods

Year ended December 31, 2018

Table 6								Expressed in thousands of NTD
								(Except as otherwise indicated)
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)	
				General ledger account	Amount	Transaction terms		
0	CONCRAFT HOLDING CO., LTD	Kun Shan Dragonstate Electronic Technology Co., Ltd	1	Royalty revenue	\$ 90,792	Note 7	2%	
0	CONCRAFT HOLDING CO., LTD	Kun Shan Dragonstate Electronic Technology Co., Ltd	1	Other receivables	238,136	Note 5	3%	
0	CONCRAFT HOLDING CO., LTD	Kun Shan Dragonstate Electronic Technology Co., Ltd	1	Other receivables	104,480	Note 7, 8	1%	
0	CONCRAFT HOLDING CO., LTD	Concraft Precision Electronic (Baoying) Co., Ltd	1	Other receivables	76,065	Note 7, 8	1%	
0	CONCRAFT HOLDING CO., LTD	Concraft Precision Electronic (Baoying) Co., Ltd	1	Royalty revenue	32,699	Note 7	1%	
0	CONCRAFT HOLDING CO., LTD	DRAGONSTATE TECHNOLOGY CO., LTD	1	Other receivables	237,867	Note 13	3%	
1	DRAGONSTATE TECHNOLOGY CO., LTD.	Kun Shan Dragonstate Electronic Technology Co., Ltd	1	Other receivables	36,722	Note 5	0%	
1	DRAGONSTATE TECHNOLOGY CO., LTD.	CONCRAFT TECHNOLOGY CO., LTD.	3	Other receivables	472,857	Note 5	6%	
1	DRAGONSTATE TECHNOLOGY CO., LTD.	CONCRAFT TECHNOLOGY CO., LTD.	3	Prepayment for purchases	122,248	Note 10	1%	
2	CONCRAFT TECHNOLOGY CO., LTD.	DRAGONSTATE TECHNOLOGY CO., LTD.	3	Sales revenue	363,316	Note 8	6%	
2	CONCRAFT TECHNOLOGY CO., LTD.	Dragonstate International Technology Co., Ltd	3	Sales revenue	50,840	Note 8	1%	
2	CONCRAFT TECHNOLOGY CO., LTD.	Dragonstate International Technology Co., Ltd	3	Other receivables	18,539	Note 5	0%	
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)	
				General ledger account	Amount	Transaction terms		
2	CONCRAFT TECHNOLOGY CO., LTD.	Dragonstate International Technology Co., Ltd	3	Accounts receivable	\$ 24,928	Note 8	0%	
2	CONCRAFT TECHNOLOGY CO., LTD.	Kun Shan Dragonstate Electronic Technology Co., Ltd	3	Other receivables	429,835	Note 5	5%	
2	CONCRAFT TECHNOLOGY CO., LTD.	Kun Shan Dragonstate Electronic Technology Co., Ltd	3	Prepayment for purchases	139,412	Note 10	2%	
3	Dragonstate International Technology Co., Ltd	CONCRAFT HOLDING CO., LTD	2	Other receivables	56,529	Note 6, 12	1%	
3	Dragonstate International Technology Co., Ltd	CONCRAFT HOLDING CO., LTD	2	Management service revenue	85,984	Note 6	1%	
3	Dragonstate International Technology Co., Ltd	CONCRAFT HOLDING CO., LTD	2	Royalty revenue	28,392	Note 6	0%	
4	Kun Shan Dragonstate Electronic Technology Co., Ltd	CONCRAFT TECHNOLOGY CO., LTD.	3	Sales revenue	408,233	Note 8	7%	
4	Kun Shan Dragonstate Electronic Technology Co., Ltd	Concraft Precision Electronic (Baoying) Co., Ltd	3	Sales revenue	60,230	Note 8	1%	
4	Kun Shan Dragonstate Electronic Technology Co., Ltd	Concraft Precision Electronic (Baoying) Co., Ltd	3	Management service revenue	18,186	Note 11	0%	
4	Kun Shan Dragonstate Electronic Technology Co., Ltd	Haojun Precision Electronic (Kunshan) Co., Ltd	1	Prepayment for purchases	46,529	Note 10	1%	
4	Kun Shan Dragonstate Electronic Technology Co., Ltd	Haojun Precision Electronic (Kunshan) Co., Ltd	1	Rent revenue	14,180	Note 12	0%	
4	Kun Shan Dragonstate Electronic Technology Co., Ltd	Concraft Precision Mechatronics (Kun Shan) Co., Ltd	3	Prepayment for purchases	110,799	Note 10	1%	
4	Kun Shan Dragonstate Electronic Technology Co., Ltd	Concraft Precision Mechatronics (Kun Shan) Co., Ltd	3	Other receivables	64,827	Note 10, 14	1%	
4	Kun Shan Dragonstate Electronic Technology Co., Ltd	Concraft Precision Mechatronics (Kun Shan) Co., Ltd	3	Rent revenue	175,579	Note 12	3%	
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)	
				General ledger account	Amount	Transaction terms		
5	Haojun Precision Electronic (Kunshan) Co., Ltd	Kun Shan Dragonstate Electronic Technology Co., Ltd	2	Sales revenue	\$ 147,356	Note 9	3%	
5	Haojun Precision Electronic (Kunshan) Co., Ltd	Concraft Precision Electronic (Baoying) Co., Ltd	3	Accounts receivable	25,815	Note 9	0%	
5	Haojun Precision Electronic (Kunshan) Co., Ltd	Concraft Precision Electronic (Baoying) Co., Ltd	3	Sales revenue	57,478	Note 9	1%	
6	Concraft Precision Mechatronics (Kun Shan) Co., Ltd	Kun Shan Dragonstate Electronic Technology Co., Ltd	3	Sales revenue	795,325	Note 9	14%	
6	Concraft Precision Mechatronics (Kun Shan) Co., Ltd	Concraft Precision Electronic (Baoying) Co., Ltd	3	Sales revenue	231,182	Note 9	4%	
6	Concraft Precision Mechatronics (Kun Shan) Co., Ltd	Concraft Precision Electronic (Baoying) Co., Ltd	3	Accounts receivable	32,441	Note 9	0%	
7	Concraft Precision Electronic (Baoying) Co., Ltd	Kun Shan Dragonstate Electronic Technology Co., Ltd	3	Accounts receivable	15,980	Note 8	0%	
7	Concraft Precision Electronic (Baoying) Co., Ltd	Kun Shan Dragonstate Electronic Technology Co., Ltd	3	Sales revenue	465,730	Note 8	8%	

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:				
(1)Parent company is '0'.				
(2)The subsidiaries are numbered in order starting from '1'.				
Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):				
(1)Parent company to subsidiary.				
(2)Subsidiary to parent company.				
(3)Subsidiary to subsidiary.				
Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.				
Note 4: The Company may decide to disclose or not to disclose transaction details in this table based on the Materiality Principle.				
Note 5: Financing funds.				
Note 6: In accordance with contracts signed by both parties.				
Note 7: The amount is calculated based on 3.5% and 3% of its annual sales amount.				
Note 8: Transaction price was negotiated by two parties. The collection terms were 90 days from the end of the next month.				
Note 9: Transaction price was negotiated by two parties. The collection terms were 30 days from the end of the next month.				
Note 10: Transaction price was negotiated by two parties. Collection term was the same as general clients.				
Note 11: Transaction price was negotiated by two parties. The collection terms were 90 days from the end of the month.				
Note 12: Transaction price was negotiated by two parties. The collection terms were 180 days from the end of the month.				
Note 13: It was the cash dividends from earnings of Dragonstate Technology Co., Ltd.				
Note 14: It was the payments on behalf of associates				
Note 15: Only related party transactions above NT\$10 million are disclosed. Corresponding transactions from the other side are not disclosed.				

CONCRAFT HOLDING CO., LTD. AND SUBSIDIARIES

Information on investees

Year ended December 31, 2018

Table 7										
Expressed in million dollars										
(Except as otherwise specified)										
Investor	Investee (Note 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018 (Note 2(2))	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2(3))
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value		
CONCRAFT HOLDING CO., LTD	DRAGONSTATE TECHNOLOGY CO., LTD.	Mauritius	Holding company and sale of connectors	\$ 2,899,803	\$ 2,838,373	94,410,000	100	\$ 3,891,053	\$ 1,024,045	\$ 1,024,045
CONCRAFT HOLDING CO., LTD	CONCRAFT TECHNOLOGY CO., LTD.	Hong Kong	Sales of connectors.	594	594	150,000	100	17,693	(223)	(223)
CONCRAFT HOLDING CO., LTD	CONCRAFT PRECISION CO., LTD	Hong Kong	Holding company	430,357	246,067	109,472,110	100	1,040,437	87,003	87,003
CONCRAFT HOLDING CO., LTD	Concraft Precision Industrial Co., Ltd.	Taiwan	Holding company and research and development of special technology	-	120,000	-	-	-	(6,743)	(6,743)
CONCRAFT HOLDING CO., LTD	Dragonstate International Technology Co., Ltd.	Taiwan	Sales of connectors.	120,000	-	8,201,405	100	79,068	7,025	13,700
Concraft Precision Industrial Co., Ltd.	Dragonstate International Technology Co., Ltd.	Taiwan	Sales of connectors.	-	80,000	-	-	-	7,025	(6,500)

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

(1)The columns of 'Investee', 'Location', 'Main business activities', 'Initial investment amount' and 'Shares held as at December 31, 2018' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.

(2)The 'Net profit (loss) of the investee for the year ended December 31, 2018' column should fill in amount of net profit (loss) of the investee for this period

(3)The 'Investment income (loss) recognised by the Company for the year ended December 31, 2018' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

CONCRAFT HOLDING CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

Year ended December 31, 2018

Table 8													Expressed in thousands of NTD (Except as otherwise indicated)	
Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote	
					Remitted to Mainland China	Remitted back to Taiwan								
Kun Shan Dragonstate Electronic Technology Co., Ltd.	Manufacturing and sale of connectors	\$ 2,887,210	2	\$ -	\$ -	\$ -	\$ -	\$ 1,230,165	100.00	\$ 1,230,618	\$ 4,225,827	-	Note 3	
Concraft Precision Electronic (Baoying) Co., Ltd.	Manufacturing and sale of connectors	921,450	2	-	-	-	-	97,774	100.00	97,774	1,033,166	-	Note 4	
Concraft Precision Mechatronics (Kun Shan) Co., Ltd.	Manufacturing and sale of connectors	46,073	2	-	-	-	-	14,337	100.00	13,243	63,478	-	Note 4	
Haojun Precision Electronic (Kunshan) Co., Ltd.	Manufacturing and sale of connectors	32,251	3	-	-	-	(40,731)	100.00	(40,731)	(6,163)	-	-	Note 5	
Company name		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA										
-		\$ -	\$ -	\$ -										
Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:														
(1) Directly invest in a company in Mainland China.														
(2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.														
(3) Others.														
Note 2: Investment income (loss) recognised by the Company for the year ended December 31, 2018 is based on financial statements audited and attested by R.O.C. parent company's CPA.														
Note 3: Kun Shan Dragonstate Electronic Technology Co., Ltd. was invested by Dragonstate Technology Co., Ltd.														
Note 4: Concraft Precision Electronics (Baoying) Co., Ltd. and Concraft Precision Mechatronics (Kun Shan) Co., Ltd. were invested by Concraft Precision Co., Ltd.														
Note 5: As the investment in this table is invested through an existing company in Mainland China, which then invested in the investee, Haojun Precision Electronic (Kunshan) Co., Ltd. in Mainland China, the Group is not required to apply for approval by the Investment Commission of the Ministry of Economic Affairs (MOEA).														

CONCRAFT HOLDING CO., LTD. AND SUBSIDIARIES

Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area

Year ended December 31, 2018

Table 9													Expressed in thousands of NTD (Except as otherwise indicated)	
Investee in Mainland China	Sale (purchase) (Note)		Property transaction		Accounts receivable (payable) (Note)		Provision of endorsements/guarantees or collaterals		Financing					Others
	Amount	%	Amount	%	Balance at December 31, 2018	%	Balance at December 31, 2018	Purpose	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018	Interest rate	Interest during the year ended December 31, 2018		
Kun Shan Dragonstate Electronic Technology Co., Ltd.	\$ -	-	\$ -	-	\$ 342,616	52	\$ -	-	\$ 921,450	\$ 854,053	5	\$ 5,656	-	
Concraft Precision Electronic (Baoying Co., Ltd.)	-	-	-	-	76,065	12	-	-	307,150	307,150	-	-	-	

Note: The balances are premium receivable, interest receivable for loans to related party.

- V. The audited separate financial statements of the last 5 years: The Company did not issue any separate financial statement.
- VI. If there is insolvency to the Company and its subsidiaries in the most recent year to the day this report was printed, specify the influence on the financial position of the Company: Nil.

Seven. Review and analysis of financial position and performance, and risks

I. Table of financial position in comparison

Unit: NT\$ thousand; %

Item	Year	2018	2017	Difference	
				Amount	%
Current assets		4,817,847	4,140,781	677,066	16.35%
Property, plant and equipment		2,809,741	2,624,074	185,667	7.08%
Intangible assets		28,435	23,549	4,886	20.75%
Other assets		517,148	419,494	97,654	23.28%
Total assets		8,173,171	7,207,898	965,273	13.39%
Total liabilities		3,088,649	1,887,317	1,201,332	63.65%
Long-term loans		820,668	1,500,315	(679,647)	(45.30%)
Other liabilities		282,495	87,412	195,083	223.18%
Total liabilities		4,191,812	3,475,044	716,768	20.63%
Capital stock		1,184,191	1,071,719	112,472	10.49%
Addition paid-in capital		1,421,813	1,459,290	(37,477)	(2.57%)
Retained earnings		1,737,636	1,296,950	440,686	30.20%
Accumulated adjustment of conversion		(288,137)	(95,105)	(193,032)	(202.97%)
Treasury shares		(74,144)	-	(74,144)	(100.00%)
Total shareholders' equity		3,981,359	3,732,854	248,505	6.66%

If the change between the previous and current periods exceeds 20%, and the amount surpasses NT\$20 million, the main reason for the change is analyzed below:

1. The increase of intangible assets: in 2018, the Company planned to replace the system and continued to purchase computer software.
2. The increase of other assets: in 2018, the Company made prepayment for the purchase of additional equipment required for production.
3. The increase of current liabilities: the increase of the maturity of current portion of long-term loans.
4. The increase of long-term loans: The maturity of reduction of the long-term loans was by transferring part of loans of 1-year long-term loans.
5. The increase of other liabilities: the increase of the deferred income tax liabilities of the estimated income tax on overseas income in 2018.
6. The increase of retained earnings: operating income in current period amounted to NT\$1,490,000 thousand and payment of dividend amounting to NT\$535,859 thousand.
7. The increase of accumulated adjustment of conversion: the effect of the conversion of net assets of foreign operations denominated in functional currency to the presenting currency (NTD).
8. The increase of treasury shares: the repurchase of treasury shares by the Company in 2018.

II. Financial performance

Unit: NT\$ thousand; %

Item \ Year	2018	2017	Difference	
			Amount	%
Net operating income	5,757,902	5,274,434	483,468	9.17%
Cost of operation	3,388,653	2,998,524	390,129	13.01%
Gross profit	2,369,249	2,275,910	93,339	4.10%
Operating expense	879,062	778,852	100,210	12.87%
Operating income	1,490,187	1,497,058	(6,871)	0.46%
Non-operating income and (expense)	(6,652)	(50,234)	43,582	86.76%
Earnings before taxation	1,483,535	1,446,824	36,711	2.54%
Income tax expense	506,990	350,724	156,266	44.56%
Net income in current period	976,545	1,096,100	(119,555)	10.91%
(I) Reasons for changes and the influence: <ol style="list-style-type: none"> Non-operating income and (expense): The subsidiaries of the Company recognized for government subsidies that resulted in the increase of other incomes. Income tax expense: the growth of EBT in 2018 resulted in an increase of tax expense. 				
(II) Expected sale quantity and the reference, and its effect on the financial position and operation of the Company in the future, and the plan for response: <ol style="list-style-type: none"> expected sale quantity and reference: <p>In consideration of the current market trend and the possible purchase orders from the customers in the future after negotiation, the Company expected stable growth of sale in the year ahead as compared with 2018.</p> Possible influence on the financial position and operation of the Company and the plan for response: <p>The Company enjoyed stable growth in operation, and have stable customers. The research and development of new products will bring in better business opportunity. There is unlikely any significant influence on the financial position and operation of the Company.</p> 				

III. Cash flow analysis

(I) Analysis of the changes in cash flows in the most recent year

Item/year	2018	2017	Changes in the ratios
Cash flow ratio (%)	24.80	14.68	68%
Cash flow adequacy ratio (%)	37.61	38.27	(1.72%)
Cash reinvestment ratio (%)	3.60	1.96	84%

Note to changes in the ratios:

- Cash flow ratio: cash inflow from operation in 2018 increased by NT\$489 million from the same period of 2017 that resulted in the upward adjustment of cash flow ratio.
- Cash reinvestment ratio: the increase of earnings in 2018 that resulted in an increase of cash inflow from operation by NT\$489 million from the same period of 2017 and the eventual upward adjustment of cash reinvestment ratio.

(II) Liquidity analysis of the year ahead

Unit: NT\$ thousand

Cash balance at the beginning of period (1)	Expected net cash flow from operation of the period (2)	Expected net cash flow from investment and financing of the period (3)	Amount of cash surplus (short) (1)+(2)+(3)	Remedy for cash short	
				Investment plan	Wealth management plan
208,544	2,950,466	(2,380,108)	778,902	-	-

(III) Remedy for inadequate liquidity: not applicable

IV. The effect of major capital expenditure in the most recent year on financial position and operation: Nil.

V. The direct investment policy of the most recent year, the main reason for profit or loss, the remedy and the investment plan in the year ahead:

(I) The direct investment policy of the Company: for the needs of the Group operation.

(II) The main reason for profit or loss from direct investment:

Unit: NT\$ thousand

Items	Recognized gains (loss) in 2018	Direct investment policy	Reason for profit or loss	Remedy
DRAGONSTATE TECHNOLOGY CO., LTD.	1,024,045	Sale and shareholding	Return on investment	-
Concraft Technology CO., Ltd.	(223)	Sale	Operating expense	Reduce the management and business expenses
Concraft Precision Co., Ltd.	87,003	Shareholding	Return on investment	-
CONCRAFT	(6,743)	R&d and shareholding (Taiwan)	Return on investment	Merged with Dragonstate Technology Co., Ltd. In 2018 to cut down related expenses.
Kunshan Dragonstate Electronic Technology Co., Ltd.	-	Sale and production	-	-
Concraft Precision Electrical (Kunshan) Co., Ltd.	-	Sale and production	-	-
Concraft Precision Electronics (Baoying) Co., Ltd.	-	Sale and production	-	-
Dragonstate International Technology Co., Ltd.	13,767	Sale and R&D	-	-
Kunshan Haojun Precision Electronics Co., Ltd.	-	Sale and production	-	-

(III) Major investment plan in the year ahead:

The Company pursues strategic investment – OBO Pro.2 Inc. (hereinafter referred to as “OBO”) held the election of the new Board in a special session of the Board of Directors and Supervisors of OBO Pro.2 Inc. on April 1 2019, and acquired 3 of the 5 seats of the Board. The Board convened on April 2 2019. The Chairman of the Company was elected the Chairman of OBO. According to IFRS 10 – “Consolidated Financial Statements”, the Company has de facto control over OBO.

VI. Risk analysis

(I) The effect of changes in interest rate and exchange rate and inflation on the income position of the Company, and the response:

1. The effect of changes in interest rate and exchange rate on the income position of the Company, and the response:

The interest expense of the Company over the last 3 years and in proportion to the consolidated revenue of the Company are shown below:

Unit: NT\$ thousand

Item \ Year	2016	Year 2017	Year 2018	Current year to 2019.03.31
Interest expense	31,328	74,366	134,074	36,052
Interest expense/group consolidated revenue (%)	1.26%	1.41%	2.33%	6.10%

Source: audited or reviewed financial statements

The above information indicated that the interest expense of the Company in the last 3 years to the end of the quarter prior to the printing of this report was at 1.67% of the consolidated revenue of the group in average. As such, the changes in interest rate did not significantly affect the income position of the Company.

2. The effect of changes in exchange rate on the income position of the Company and the response:

The sale of the Company was mainly settled in USD or CNY while the purchase of the Company was mainly settled in CNY, followed by USD. Exchange gain/loss of the Company over the last 3 years and in proportion to the consolidated revenue of the group:

Unit: NT\$ thousand

Item \ Year	2016	Year 2017	Year 2018	Current year to 2019.03.31
Exchange gain (loss)	(34,380)	11,473	7,468	27,782
Exchange gains (loss)/consolidated revenue of the group (%)	(1.38%)	0.22%	0.13%	4.70%

Source: audited or reviewed financial statements

The above information indicated that the exchange gains/loss of the Company in the last 3 years to the end of the quarter prior to the printing of this report was at -0.34% in average, and the effect was insignificant to the income position of the Company. The Company responded by taking the following measures:

- (1) The Company converted its cash into EUR, CNY or other currencies at relatively stable exchange rate to hedge off the risk deriving from exchange rate fluctuation.
- (2) The Company liaises with the service banks frequently to keep abreast

of any change in the foreign exchange market. The information available will be served as reference for related personnel in giving quotation for the timely response to the changes in exchange rate.

- (3) The investment cycle in the internal control system of the Company governs derivative trade, which shall be conducted in accordance with the “Procedure for the Acquisition or Disposition of Assets” subject to the final resolution of the Shareholders Meeting. Necessary measure will be taken depending on the position of foreign currency and the state of changes in foreign exchange rate to reduce the exchange risk of the Company pertinent to the operation. The Company seeks to use natural hedge as the first choice in handling foreign currency position and will not use derivatives for hedging unless it is necessary.

3. The effect of inflation/deflation on the income position of the Company, and the response:

Inflation/deflation will cause unreasonable fluctuation to the prices of materials for the Company, which will affect the income position to certain extent. In the period from 2016 to 2018, the cost of sale of the Company accounted for approximately 64% of the revenue. Materials purchased in bulk are sound network, terminals, spring materials, engineering plastics, copper, and material for gold plating in the outsourced electroplating process. The Company takes the following measures to minimize the effect of changes in the prices of materials on the income position of the Company:

- (1) Develop new production process to reduce the consumption of materials. An example is the Insert Molding technology, which helps to reduce the consumption of copper by more than 50%.
 - (2) Intensify the recycling and reuse of wastes
 - (3) Research and develop the equipment for automated production of products to reduce the loss rate in the production process.
 - (4) Vertical integration of production process to control waste of materials from the production process.
- (II) The policies for the engagement in high risk and high leverage investment, loaning of fund to a third party, endorsement/guarantee, and derivative trade, the main reason for profit or loss, and the response:
 1. The policies of engagement in high risk and high leverage investment, the main reason for profit or loss, and the response:

The Company concentrates its effort in the professed operation and has not engaged in other high risk business. In addition, the Company keeps a conservative treasury policy and does not take any high leverage investment. This risk has marginal effect on the Company.

2. The policy of loaning of fund to a third party, the main reason for profit or loss, and the response:

The Board and the Shareholders Meeting of the Company have approved the “Procedure for the Loaning of Fund”. The Company did not finance any unrelated parties except the wholly-owned subsidiaries and indirect subsidiaries in the most recent year to the day this report was printed. For further information on financing related parties, refer to the notes to the financial statements of this year.

3. The policy of endorsement/guarantee, the main reason for profit of loss, and the response:

The Board and the Shareholders Meeting of the Company have approved the “Procedure for Endorsement/Guarantee”. The Company did not undertake endorsement/guarantee in favor of any unrelated parties except the wholly-owned subsidiaries and indirect subsidiaries in the most recent year to the day this report was printed. For further information on endorsement/guarantee in favor of related parties, refer to the notes to the financial statements of this year.

4. The policy of derivative trade, the main reason for profit or loss, and the response:

The Company did not engage in derivative trade in the most recent year to the day this report was printed. The Board and Shareholders Meeting of the Company have also passed the “Procedure for the Acquisition or Disposition of Assets” that governs derivative trade. Where necessary, the Company will assess related hedge strategy for its operation in the future and proceed in accordance with the “Procedure for the Acquisition or Disposition of Assets”.

(III) The R&D plan in the future, and the expected expenditures for such purpose:

The R&D plan of the Company in the future is shown below:

Product categories	Products and Plans planned for development	Sphere of application
The development of automotive related parts and components	Joint venture with the customers in the development of the parts and components necessary for the driving of new energy cars.	The automotive industry
The design of acoustics parts and components and the development of mass production technology.	Parts and components of micro acoustics (loudspeakers)	Different industries
The composite use of silica gel material and other materials	The composite use of silica gel material and other materials	Acoustics Optics The automotive industry

1. Under the “Development of automotive related parts and components” plan,
the Company will jointly develop the parts and components for the electric

power train of new energy cars (HEV, BEV, FCEV) with the use of new materials for the needs of these new cars with the customers in Europe and in Mainland China.

2. The “development of parts and components for acoustics products” is focused on the joint research and development and production with the customers under the sharing of relevant proportions of R&D expenses as consumed. Revenue started to generate in 2013. The revenue in 2018 accounted for approximately 54% of the overall revenue.
3. The “composite use of silica gel materials and other materials” aimed at all levels of production technologies of applying silica gel materials to different products.
4. The Company will continue the R&D of the composite use of silica gel materials for application to suitable industries. It is expected that the annual expenditure on R&D will account for approximately 5%-10% of the revenue.

- (IV) The changes in major policies of the home government and foreign governments and the regulatory environment on the financial position and operation of the Company, and the response:

The Company is incorporated at Cayman Islands where financial service is the principal economic engagement of this place. There is no foreign exchange control and the political and economic environment is stable. The connectors made and sold by the Company are mostly used in the so-called 3 C products (computer, communication, and consumer electronics). These are daily items for the people that do not require special permission or under restriction. Therefore, the change in the policies and regulatory environment in Cayman Islands, Mainland China and Mauritius, where the Company has established key subsidiaries, will unlikely affect the financial position and operation of the Company significantly.

- (V) The effect of technology change and industrial change on the financial position and operation of the Company, and the response:

Connectors and acoustic-optical parts and components are extensively used in different industries, which are classified as passive component. In case of technology change, passive components will also be changed significantly. This will be a challenge to the design and production firms in the aspect of technology. The Company responds to the change in technology with the following measures :

1. The Company is cautious at the development stage of products. In mainstream industries with frequent changes in technologies, the Company declined to develop products containing low level of know-how. For products with high level of know-how, the Company will surpass the competitors in market by 30% in cost advantage before successful engagement in the business.
2. Understand the application of the customers to end products to keep

abreast of the change in the trend.

3. Proceed to vertical integration to reduce the effect of price collapse due to technology change.
4. The Company has successfully listed its stocks for trading at TWSE in 2016, and will use the resources in market for the reasonable transformation of the Company so as to attract good people.
5. Proceed to R&D and in-depth cultivation of cross-industry products such as the automotive and medical industries, and the development of medical auxiliary device parts and components.
6. Engage in joint R&D with world-class big firms on products of the next generation and upgrade as the rule maker of product specification.

(VI) The effect of the change in corporate image on corporate crisis management, and the response:

The management of the Company upholds the corporate philosophy of sustainable development in carving the corporate culture of the Company, and maintains a conservative stance while seeking development and growth to earn the recognition of all outsiders. Indeed, the recognition of the outsiders of the corporate culture helps to form the corporate image. We hold that the stability of the management level will be the way for keeping our corporate image. The stability of the management will help the Company to keep its fundamental spirit at the time of establishment under the rule of thumb in tackling with internal or external crisis. It is because of this that the Company has not encountered any crisis due to the change in corporate image ever since its establishment.

(VII) Expected result from merger and acquisition, possible risk, and response:

The Company has sound operation with lucrative profit. The merger and acquisition in 2018 has been conducted under due process of law.

(VIII) Expected result from capacity expansion, possible risk, and response:

Concraft Precision Electronic (Kunshan) Co., Ltd., a subsidiary of the Company, has entered into an agreement with Jiangsu Jiangdu Construction Group Co., Ltd. In 2018 for the civil work of construction a new plant (Phase II) on the land of Zhoushi at Kunshan. The construction is completed by 70% for the time being and is expected to yield positive outcome on completion.

(IX) The risks deriving from over concentration of purchase and sale, and the response:

1. The risks deriving from over concentration of purchase, and the response:

The biggest supplier to the Company accounted for only 8% of the total purchase of the Company in the most recent year to the day this report was printed. The Company has at least 2 suppliers for the supply of the same item. The risk of over concentration of purchase is unlikely.

2. The risks deriving from over concentration of sale, and the response:

The Company has transformed from the red sea market of connectors

to the blue ocean market of customized acoustics parts and components. In 2013, the Company was engaged in a joint venture with US big acoustics firms in the development of acoustics components. The launch of smart phone to market in 2014, the product quality and Insert Molding technology of the Company helped to earn the recognition of the customers. In addition, most big cell phone firms tended to work with specific or a few suppliers in the supply of different parts and components and are unlikely to switch to new suppliers. The Company has cultivated positive cooperative relation with big US acoustics firms. Under the principle of trust and mutual interest, this cooperative relation remains intact. Further, sale has been on the growth perpetually that the Company has concentrated its sale with a few customers.

Yet, this acoustics customer announced to quit the electro-acoustic industry in 2016 and disengaged from the sale of portable device related acoustics items. In addition, the poor sale performance of smart phone caused the decline of revenue in the first half of 2016. Under such unfavorable condition, the Company has the strong support from other acoustics customers. It was reinforced by the persistence of the management team that the Company could engage in strategic cooperation with the customers in operation. This helped the Company to lay down a solid foundation for operation in the future. In response, the Company took the following measures:

(1) The Company maintains positive relation with acoustics component big firms for stabilizing the supply and establishes a higher level of dependence of the customers on the Company.

The entrance barrier of the manufacturing of smart phone acoustics components is high. The Company has established long-term cooperative relation with the acoustics big firms and earned the trust of the customers with the Insert Molding production technology in manufacturing. As such, the Company has an edge along the supply chain of the famous acoustics big firms, which made it difficult for other suppliers to penetrate. Although the US big acoustics firm withdrew from producing portable device related acoustics products, the cooperation with the big cell phone firms previously working with the said US acoustics firm is still there. The Company continues to sell acoustics components to the cell phone firms through other acoustics firms. This move helps to prevent possible risk to the revenue or profit of the Company. In 2018, the revenue from acoustics products and related tooling and jig accounted for 54% of the total revenue, which indicated sustainable growth.

(2) Active development of potential customers of optical components and automotive related parts and components for diversification of the sources of purchase orders.

The Company is strong at its design and mass production capacity of

precision tooling. Over the years, the Company has procured precision machinery and equipment to optimize the production process. In the aspect of automotive pressure sensor metal stamping and plastic injection components, the Company has been accredited as qualified supplier by German big firms in 2015, and continued to assess the possible joint ventures with automotive parts and components with automobile makers in Europe, USA and Mainland China. In the aspect of optical components, the Company has joint ventures with Japanese firms in the development of VCM related metal parts, and will continue to develop the business with other VCM firms in Mainland China. The Company will make the composite use of silica gel injection technology with the Insert Molding design to expand the size of operation for further reduction of the risk of over concentration of sale.

(3) Maintain the product line of connectors for the time being and add the high frequency technology connectors into the product line for selling.

In addition to acoustics items, the Company also carries different traditional or high-end electronic connectors and the R&D, manufacturing, and sale of related tooling parts and components. The Company sells directly to domestic electronic manufacturers or traders to avoid putting all the stakes on particular customers and the risk thereof. The Company has spared no effort to develop new customers over the years and engaged in joint ventures with many international big firms. With the indigenous capacity of making parts and components, R&D of innovative technologies, improvement of customized design, assistance to customers in the development of related products to condense the time for R&D, short and flexibility delivery lead-time, stable product quality, perfect technical support and post-sale services, the Company earned the trust and recognition of the customers. With these resources, the Company maintains good cooperative relation with the key customers in the long-term.

(4) Continue the joint venture with US acoustics big firms in the design and production of parts and components for medical auxiliary devices to mitigate the influence from the reduction of portable device related acoustics products.

(X) The influence of the massive transfer of shares by or the replacement of the Directors, Supervisors or shareholders holding more than 10% of the shares issued by the Company, the risk thereof, and the response: not applicable.

(XI) The influence of the change in the ownership of the Company, the risk and the response: not applicable.

(XII) In case of law suit or non-contentious matters, specify the details of the Company, the Directors, Supervisors, Presidents, the administrator, dominant shareholders holding more than 10% of the shares issued by the Company of the Company and subsidiaries, the ruling of the court of major law suit, non-contentious matters or administrative action in proceeding and the result of which will significantly affect the shareholders equity or stock price of the Company. Disclose the facts, the amount involved, the date of commencement of legal proceedings, the key parties concerned, and the progress as of the day this report was printed: not applicable.

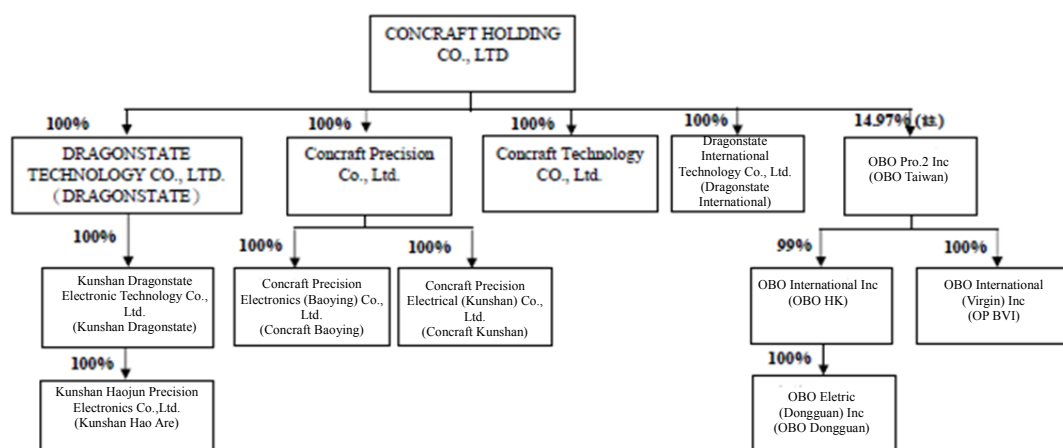
(XIII) Other major risks and responses: Nil.

VII. Additional information: Nil.

Eight. Special Note

I. Profiles of affiliates

(I) Organizational chart of the affiliates



The Company held the election of the new Board in a special session of the Board of Directors and Supervisors of OBO Pro.2 Inc. (hereinafter referred to as “OBO”) on April 1 2019, and acquired 3 of the 5 seats of the Board. The Board convened on April 2 2019. The Chairman of the Company was elected the Chairman of OBO. According to IFRS 10 – “Consolidated Financial Statements”, the Company has de facto control over OBO, which made OBO and its subsidiaries incorporated into the group as separate entities with effect on April 1 2019.

(II) Profiles of the affiliates

Unit: NT\$1,000; 2018/12/31

Enterprise name	Establishment Date	Address	Paid-in capital	Principal business Or items of production
Dragonstate Technology Co., Ltd.	2002/12/20	3rd FLOOR, RAFFLES TOWER, CYBERCITY, EBENE, MAURITIUS	USD 94,410	Investment to establish Kunshan Dragonstate Electronic Technology Co., Ltd., trading of electronic parts and components, acoustics components, and automotive parts and components.
Concraft Precision Co., Ltd.	2009/09/30	31/F.,Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong	USD 14,011	Investment to establish Concraft Precision Electronic (Kunshan) Co. Ltd., Concraft Precision Electronic (Baoying) Co., Ltd.
Concraft Technology Co., Ltd.	2009/09/24	31/F.,Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong	USD 19	Trading of electronic parts and components, acoustics components and automotive parts and components.
Kunshan Dragonstate Electronic Technology Co., Ltd.	2002/10/09	No. 688, Huanpujiang North Road, Zhoushi, Kunshan, Jiangsu, China	USD 94,000	Production and sale of electronic parts and components, acoustics components, and automotive parts and components.
Concraft Precision Electronics (Baoying) Co., Ltd.	2009/09/24	No. 28, Suzhong North Road, Baoying County, Jiangsu, China	USD 30,000	Production and sale of electronic parts and components, acoustics components.
Concraft Precision Electrical (Kunshan) Co., Ltd.	2009/11/05	West side of Huangpujiang Road, Zhoushi, Kunshan, Jiangsu, China	USD 1,500	R&D, design, production, and trading of mold and jig.
Dragonstate International Technology Co., Ltd.	1992/05/09	7F, No. 32, ZhongCheng Road, Tucheng District, New Taipei,	NTD 82,014	Trading of electronic parts and components.
Kunshan Haojun Precision Electronics Co.,Ltd.	2006/06/01	No. 688, Huanpujiang North Road, Zhoushi, Kunshan, Jiangsu, China	USD 1,050	Production and sale of electronic parts and components.

(III) The business of the affiliates and their mutual affiliation.

Industry type	Name of affiliate	Affiliation with other affiliates in business operation
Wholesaling of electronic products	DRAGONSTATE TECHNOLOGY CO., LTD.	Investment to establish Kunshan Dragonstate Electronic Technology Co., Ltd., trading of electronic parts and components, acoustics components, and automotive parts and components.
Holding Company	Concraft Precision Co., Ltd.	Investment to establish Concraft Precision Electronic (Kunshan) Co. Ltd., Concraft Precision Electronic (Baoying) Co., Ltd.
Wholesaling of electronic products	Concraft Technology Co., Ltd.	Trading of electronic parts and components, acoustic-optical components and automotive parts and components.
Manufacturing of electronic parts and components.	Kunshan Dragonstate Electronic Technology Co., Ltd.	Production and sale of electronic parts and components, acoustics components, and automotive parts and components.
Manufacturing of electronic parts and components.	Concraft Precision Electronics (Baoying) Co., Ltd.	Production and sale of electronic parts and components, acoustics components.
Manufacturing of electronic parts and components.	Concraft Precision Electrical (Kunshan) Co., Ltd.	R&D, design, production, and trading of mold and jig.
Wholesaling of electronic products	Dragonstate International Technology Co., Ltd.	Trading of electronic parts and components.
Manufacturing of electronic parts and components.	Kunshan Haojun Precision Electronics Co.,Ltd.	Stamp for hardware product.

(IV) Profiles of the Directors, Supervisors and Presidents of the affiliates

Unit: NT\$1,000; 2018/12/31

Enterprise name	Title	Name or Representative	Proportion of shareholding	
			Number of Shares	Shareholding Percentage
DRAGONSTATE TECHNOLOGY CO., LTD.	Chairperson	Chao-Sheng Lu	-	-
Concraft Precision Co., Ltd.	Chairperson	Chao-Sheng Lu	-	-
	Director	Guo-Ji Li	-	-
Concraft Technology Co., Ltd.	Chairperson	Chao-Sheng Lu	-	-
	Director	Guo-Ji Li	-	-
Kunshan Dragonstate Electronic Technology Co., Ltd.	Chairperson	Chao-Sheng Lu	-	-
	Director	Guo-Ji Li	-	-
	Director	Ya-Hui Xie	-	-
Concraft Precision Electronics (Baoying) Co., Ltd.	Executive Director	Chao-Sheng Lu	-	-
	Chairperson	Chao-Sheng Lu	-	-
Concraft Precision Electrical (Kunshan) Co., Ltd.	Director	Guo-Ji Li	-	-
	Director	Ya-Hui Xie	-	-
	Chairperson	Concraft Precision Electronic Co., Ltd. Representative: Chao-Sheng Lu	8,201,405	100%
Dragonstate International Technology Co., Ltd.	Director	Concraft Precision Electronic Co., Ltd. Representative: Guo-Ji Li	8,201,405	100%
	Director	Concraft Precision Electronic Co., Ltd. Representative: Lee Chin-Hsing	8,201,405	100%
Kunshan Haojun Precision Electronics Co.,Ltd.	Executive Director	Chao-Sheng Lu	-	-

(V) The outlook of the operation

Unit: NT\$1,000; 2018/12/31

Enterprise name	Authorized capital	Total assets	Total liabilities	Net worth	Revenue	Income from operation	Earnings (after taxation) in current period	Earnings per share (after taxation)
DRAGONSTATE TECHNOLOGY CO., LTD.	USD 94,410	USD 164,184	USD 37,501	USD 126,683	USD 11,859	USD (440)	USD 33,937	USD 0.36
Concraft Precision Co., Ltd.	USD 14,011	USD 35,717	USD 1,843	USD 33,874	USD -	USD (4)	USD 2,883	USD 0.21
Concraft Technology Co., Ltd.	USD 19	USD 19,972	USD 19,396	USD 576	USD 13,617	USD (7)	USD (7)	USD (0.37)
Kunshan Dragonstate Electronic Technology Co., Ltd.	USD 94,000	USD 198,511	USD 60,929	USD 137,582	USD 164,865	USD 42,043	USD 40,768	Note
Concraft Precision Electronics (Baoying) Co., Ltd.	USD 30,000	USD 45,864	USD 12,227	USD 33,637	USD 42,749	USD 4,293	USD 3,240	Note
Concraft Precision Electrical (Kunshan) Co., Ltd.	USD 1,500	USD 13,581	USD 11,212	USD 2,369	USD 34,280	USD 791	USD 475	Note
Dragonstate International Technology Co., Ltd.	NTD 82,014	NTD 215,819	NTD 136,752	NTD 79,067	NTD 101,868	NTD (76,288)	NTD 7,025	NTD (0.09)
Kunshan Haojun Precision Electronics Co., Ltd.	USD 1,050	USD 4,252	USD 4,461	USD (209)	USD 6,978	USD (1,496)	USD (1,350)	Note

Note: a limited liability company without issuing stocks.

(VI) Consolidated financial statements of the affiliates: the same as the consolidated financial statements. For information, refer to pp. 91-169.

(VII) Affiliation Report: not applicable.

II. Offering of securities through private placement in the most recent year to the day this report was printed:

Item	First private placement in 2017 Date of issuance: 2017.03.06				
Type of securities offered through private placement	Common shares				
Date and amount passed by the Shareholders Meeting	The Shareholders Meeting resolved to issue no more than 10,000,000 common shares through private placement at NT\$10/share in a special session dated 2017.02.10.				
The basis and rationality of setting the price	The price was set on the basis of the resolution of the Shareholders Meeting in a special session dated 2017.02.10 with calculation under the two standards below, whichever is higher, as reference price: (1) The simple arithmetic mean of the closing price of the common shares of the Company in the 3 business days prior to the pricing day net of ex-right and ex-dividend shares paid as dividend, and add the stock price after decapitalization and reversal of ex-right. (2) The simple arithmetic mean of the closing price of the common shares of the Company in the 30 business days prior to the pricing day net of ex-right and ex-dividend shares paid as dividend, and add the stock price after decapitalization and reversal of ex-right. The price for private placement should not fall below 80% of the reference price per share.				
The method of choosing designated investors	1. The designated investors of this private placement should be the parties meeting the criteria set forth in Article 43-6 of the Securities and Exchange Act, and Letter (2002)Tai-Cai-Zheng- (I)-Zi No. 10003455 issued by Executive Yuan Financial Supervisory Commission dated 2002.06.13. 2. Target for solicitation of private placement: Merry 3. Affiliation with the Company: Nil. 4. The mean of choosing the prospective investors: For improving the capacity of the Company in operation and R&D, and expansion in market, the Company will target at industry peers – acoustics components, or enterprises that could help to improve the financial structure, operation performance, and R&D technologies as the prospective investors.				
The necessity for offering through private placement	1. The reason of no public offering: for the timing of capital control, the Company must access to long-term capital in the shortest possible time. There is also the need of introducing strategic investors. In addition, securities invested through private placement cannot be assigned within 3 years, which could help to ascertain the long-term cooperative relation between the Company and the strategic investors. These are the reasons for offering of shares through private placement. 2. The utilization of the capital raised by private placement and expected result: The capital raised by private placement for this instance will be used to pool up the working capital and retire bank loans so as to improve the operation performance, enhance the financial structure, and serve shareholders equity.				
Date of full payment for investment	2017.03.06				
Profiles of the prospective investors	Targets of solicitation	Eligibility	Subscription quantity	Affiliation with the Company	Participation in the operation of the Company
	Merry	Subparagraph 2 in Article 43-6 of the Securities and Exchange Act.	10,000,000 shares	None	None
Actual subscription (or conversion) price	At NT\$72/share				
Difference between the actual subscription (or conversion) price	The actual price is NT\$72/share, which is 80.65% of the reference price of NT\$89.27/share.				
Influence of offering shares through private placement (e.g.: causing an increase of accumulated deficit)	In this private placement, 10,000,000 shares were offered, which resulted in dilution of 10.03% of the shareholders equity of the original shareholders. The influence is still insignificant.				
The use of capital raised by private placement and the progress of the plan.	Payment has been fully made in 2017 Q1 and the fund was utilized as planned and completed in 2017 Q2.				
Result of raising capital by private placement of shares	The prospective investor is among the Top 10 customers of the Company. With the investment of this customer, the Company could pool up its working capital and improve its financial structure, and could reduce cost to improve operation performance and R&D know-how.				

III. The holding or disposition of the shares of the Company by subsidiaries in the most recent year to the day this report was printed: Nil.

IV. Other Supplementary Events: Explanation for the Significant Discrepancy in the Company's Article of Incorporation and the Regulations for the Protection of the Shareholders' Rights and Interests from Our Country

The laws of Cayman Islands have slightly discrepancy with the laws of Republic of China. Because "Checklist for Shareholder Rights Protection Measures Adopted by A Foreign Issuer at the Place of Registration" (hereinafter refers to as the "Checklist for Shareholder Rights Protection") is not really applicable to the Company, the following table explains the discrepancy between the Company's Article that is pursuant to the laws of Cayman Islands and the Checklist for Shareholder Rights Protection, as well as the regulations of the Company's Article of Incorporation.

Items of Discrepancy	Laws of Cayman Islands and Explanation	Regulations of Article of Incorporation and Explanation
<p>If the Company buys back its own shares and transfers to its employees, it shall restrict such employees not to transfer within certain period. However, such period shall not be longer than two years.</p>	<p>The articles and conditions of the treasury shares shall be determined by the Company's directors. In addition, the Company Act in Cayman Islands has no the relevant regulations for employees reward programs.</p>	<p>According to Article 1 of the Article of Incorporation, treasury shares shall refer to the shares that are issued according to this Article of Incorporation, the Company Act in Cayman Islands and the laws of Taiwan Stock Exchanges, but are bought back, redeemed or obtained with other methods by the Company and are not cancelled; thus, the content of this paragraph is stipulated in Article 40D of the Article of Incorporation; however, the Cayman's attorney expressed that the restrictions agreed between the Company and its employees are the contractual matter between themselves.</p>
<p>5. The following matters shall be listed in the agenda of the shareholder's meeting and explained its main contents, and shall not be proposed by provisional motions; its main contents shall be placed in website designated by the Taipei Exchange or Taiwan Stock Exchange or the Company, an its website address shall be stated in the convening notification:</p> <ol style="list-style-type: none"> (1) election or relieving of director and supervisor; (2) change of article of incorporation; (3) capital reduction; (4) application for suspending the publicly issuance; (5) the Company's dismissal, merger, transfer of shares, demerger; (6) conclude, change or terminate any contract relating to lease of all businesses, trust of business or regular joint business with other party; (7) assignment of all or major businesses or properties; (8) acquisition other party's all businesses or properties that has significant influences on the Company's business; (9) private placement of equity-type securities; (10) permission of director's non-competition; (11) whole or partial dividend and bonus are distributed by issuance of new shares; (12) legal capital reserve and capital surplus from issuance of share at a premium or endowments received are distributed to original shareholders by issuance of new shares. 	<p>The Company Act in Cayman Islands has no particular regulations for provisional motions. Upon the expression of Cayman's attorney regarding to provisional motions, the notification of shareholders' meeting shall specifically state the agenda of meeting and shall provide the relevant information to facilitate the shareholders' understanding. However, the notification of shareholders' meeting generally adds the item of "any other motions". Such item generally has unofficial or insignificant natures, so the chairperson shall not place the important events under this item. Any important events shall follow the procedures to hold the meeting additionally for resolution. However, in case of emergent circumstances with the necessity of discussion in the shareholders' meeting, its specific contents shall be proposed in the next meeting for ratification. Nevertheless, the Company Act in Cayman Islands has no specific prohibition of provisional motions. However, the Cayman's attorney suggested that it is not appropriate to have provisional motions in the shareholders' meeting.</p>	<p>The Article 50 of this Article of Incorporation is expected to be completed its amendment in 2019 annual meeting of the shareholders according to the left-listed new regulations stipulated in the "Checklist for Shareholder Rights Protection Measures Adopted by A Foreign Issuer at the Place of Registration" announced by the Taiwan Stock Exchange Corporation on November 30, 2018.</p> <p>The Company Act in Cayman Islands has no particular regulations for provisional motions; thus, the contents of Paragraph 5 is stipulated in Article 50 of the Article of Incorporation.</p> <p>Upon the expression of Cayman's attorney regarding to provisional motions, the notification of shareholders' meeting shall specifically state the agenda of meeting and shall provide the relevant information to facilitate the shareholders' understanding. However, the notification of shareholders' meeting generally adds the item of "any other motions". Such item generally has unofficial or insignificant natures, so the chairperson shall not place the important events under this item. Any important events shall follow the procedures to hold the meeting additionally for resolution. However, in case of emergent circumstances with the necessity of discussion in the shareholders' meeting, its specific contents shall be proposed in the next meeting for ratification.</p>

Items of Discrepancy	Laws of Cayman Islands and Explanation	Regulations of Article of Incorporation and Explanation
<p>3. When the Company executes the voting in written form or electronic method, its executing method shall be stated in the notification of the shareholder's meeting. A shareholder who executes the voting rights in written form or electronic method shall be deemed to attend the shareholders' meeting in person. However, the provisional motions and the amendment of the original proposal in such shareholders' meeting shall be deemed to waive his/her rights.</p>	<p>The Company Act in Cayman Islands has no particular regulations for the contents of Paragraph 3.</p>	<p>The Company Act in Cayman Islands has no particular regulations for the front-section contents of Paragraph 3, so the front-section of Paragraph 3 is stipulated in Article 68 of the Article of Incorporation. Besides, according to the opinion of Cayman's attorney, a shareholder who has executed the voting in the written form shall be deemed to trust the chairperson to execute the voting, so the latter-section of Paragraph 3 is stipulated in Article 68 of the Article of Incorporation upon the opinions of Cayman's attorney (that is, a shareholder who executes the voting in the written form or electronic method shall be deemed to trust the chairperson of the shareholders' meeting to represent him or her to execute the voting rights in the shareholders' meeting upon the instructions of such written or electronic documents; however, the provisional motions and the amendment of the original proposal in such shareholders' meeting shall be deemed to waive his/her rights. Nevertheless, the aforesaid trust shall not be constituted the principal-agent regulations stipulated in the laws of Taiwan Stock Exchanges).</p>
<p>5. Where a shareholder has executed its voting rights by the written form or electronic method, in case such shareholder intends to attend the shareholders' meeting in person, it shall adopt the same methods with executing voting rights to cancel the expression of executing voting rights stated in the preceding paragraph; in case of cancellation behind time, the voting in written form or by electronic method shall prevail.</p>	<p>The Company Act in Cayman Islands has no particular regulations for the content of Paragraph 5.</p>	<p>The Company Act in Cayman Islands has no particular regulations for the content of Paragraph 5, so the content of Paragraph 5 is stipulated in Article 70 of the Article of Incorporation. Upon the expression of Cayman's attorney, under the Common Law, a person may revoke its proxy by attending the meeting in person. Because a shareholder who has executed the voting in the written form or electronic method shall be deemed to trust the chairperson of the shareholders' meeting to represent him or her to execute the voting rights in the shareholders' meeting upon the instructions of such written or electronic documents, the content of Paragraph 5 may not be enforceable.</p>
<p>4. Where a power of attorney has been delivered to the Company, in case such shareholder intends to attend the shareholders' meeting in person or executes its voting rights in written form or electronic method, it shall notify the withdrawal of trust to the Company in written before two days of the shareholders' meeting; in case of cancellation behind time, the voting right executed by the attendance of a proxy trusted shall prevail.</p>	<p>The Company Act in Cayman Islands has no particular regulations for power of attorney or raising the power of attorney.</p>	<p>The Company Act in Cayman Islands has no particular regulations for power of attorney or raising the power of attorney, so the content of Paragraph 4 is stipulated in Article 62B of the Article of Incorporation. Upon the expression of Cayman's attorney, under the Common Law, a person may revoke its proxy by attending the meeting in person, so the content of Paragraph 4 may not be enforceable.</p>
<p>The following motions which involve the significant rights/interests of the shareholders shall have the attendance of the shareholders who represent two-thirds or more of total shares issued and the consent of more than half of voting rights from the present shareholders before execution. When the number of shares represented by the present shareholders is insufficient from the aforesaid norm, it may have the attendance of the shareholders who represent more than half of total shares issued and the consent of two-thirds or more of voting rights from the present shareholders before execution:</p> <p>1. The Company concludes, changes or terminates any contract relating to lease of all businesses, trust of business or regular joint business with other party, assigns all or major businesses or properties, acquires other party's all businesses or properties that has</p>	<p>Regarding to 1, 4 and 5 (for demerger), the Company Act in Cayman Islands has no particular regulations of requirement or prohibition.</p> <p>Regarding to 2 and 3, the Article 24 of the Company Act in Cayman Islands has stipulated that any modification on the Article of Incorporation shall be passed by the special resolution.</p> <p>Regarding to 5 (for dismissal), the Article 116 of the Company Act in Cayman Islands has stipulated that the Company shall conduct the special resolution for voluntary dismissal. In addition, in case of the voluntary dismissal derived from the inability of repayment for debt, such event shall be passed by the general meeting of the shareholders with resolution. The Cayman's attorney considers that the</p>	<p>(I) The Company Act in Cayman Islands has no particular requirements or prohibitions on demerger in Paragraph 1, Paragraph 4 and Paragraph 5; so the demerger in Paragraph 1, Paragraph 4 and Paragraph 5 is stipulated in the Article 32(a)(b)(c)(d)(g) of the Article of Incorporation respectively that shall be passed by the shareholders' meeting with supermajority sever resolution (that is, supermajority resolution Type A or supermajority resolution Type B (its definition refers to the above)).</p> <p>(II) According to Article 24 of the Company Act in Cayman Islands, any modification of the Article of Incorporation shall be passed by the shareholders' meeting for special resolution; so Paragraph 2 is stipulated in Article 157 of the Article of Incorporation. That is, the Company may modify the</p>

Items of Discrepancy	Laws of Cayman Islands and Explanation	Regulations of Article of Incorporation and Explanation
<p>significant influences on the Company's business</p> <p>2. Modification of the Article of Incorporation</p> <p>3. If the modification of the Article of Incorporation impairs the rights/interests of the preferred stocks' shareholders, it shall be resolved by the preferred stocks' shareholders meeting additionally.</p> <p>4. Whole or partial dividend and bonus are distributed by issuance of new shares.</p> <p>5. Dismissal, merger or demerger.</p>	<p>aforesaid resolution of the shareholders' meeting may be conducted by ordinary resolution, special resolution or the higher resolution methods stipulated by the Article of Incorporation. Therefore, if the Article of Incorporation has no regulations, it may be only passed by ordinary resolution.</p> <p>Besides, regarding 5 (for merger), upon the expression of Cayman's attorney, the Article 233(6) of the Company Act in Cayman Islands has stipulated that such event shall be passed by the special resolution. In case of other resolutions stipulated in the Article of Incorporation, the Article of Incorporation shall prevail.</p>	<p>memorandum and/or the Article of Incorporation with special resolution at any time. The attendance percentage of the shareholders' meeting shall be subject to Article 51 of the Article of Incorporation (that is, the shareholders who have the voting rights and represents more than half of total shares issued attend in person or trust proxy to attend).</p> <p>(III) According to Article 24 of the Company Act in Cayman Islands, any modification of the Article of Incorporation shall be passed by the shareholders' meeting for special resolution; so Paragraph 3 is stipulated in Article 18 of the Article of Incorporation; that is, If the modification of the Article of Incorporation impairs the rights/interests of the preferred stocks' shareholders, except for the special resolution of the common shareholders' meeting, it shall be passed by the preferred stocks' shareholders meeting for special resolution additionally. <u>The attendance percentage of the shareholders' meeting shall be subject to Article 51 of the Article of Incorporation (that is, the shareholders who have the voting rights and represents more than half of total shares issued attend in person or trust proxy to attend).</u></p> <p>(IV) Regarding to Paragraph 5 (for dismissal), the Article 116 of the Company Act in Cayman Islands has stipulated that the Company shall conduct the special resolution for voluntary dismissal. In addition, in case of deriving from the inability of repayment for debt, such event shall be passed by the general meeting of the shareholders for resolution. The Cayman's attorney considers that the aforesaid resolution of the shareholders' meeting may be conducted with ordinary resolution, special resolution or the higher resolution methods stipulated by the Article of Incorporation. Therefore, Paragraph 5's dismissal section is stipulated in Article 33 of the Article of Incorporation; in which if the Company's voluntary dismissal is derived from the inability of repayment for debt as schedule, it shall be passed by the shareholders' meeting with supermajority sever resolution (that is, supermajority resolution Type A or supermajority resolution Type B (its definition refers to the above)) before execution (Article 33(a)); if the Company 's voluntary dismissal is derived from other causes, it shall be passed by the special resolution before execution (Article 33(b)). <u>The attendance percentage of the shareholders' meeting shall be subject to Article 51 of the Article of Incorporation (that is, the shareholders who have the voting rights and represents more than half of total shares issued attend in person or trust proxy to attend).</u></p> <p>(V) Regarding to Paragraph 5's merger section, upon the expression of Cayman's attorney for merger section, the Article 233(6) of the Company Act in Cayman Islands has stipulated that such event shall be passed</p>

Items of Discrepancy	Laws of Cayman Islands and Explanation	Regulations of Article of Incorporation and Explanation
		by the special resolution. In case of other resolutions stipulated in the Article of Incorporation, the Article of Incorporation shall prevail. So Paragraph 5's merger section is stipulated in Article 31(c) of the Article of Incorporation. <u>The attendance percentage of the shareholders' meeting shall be subject to Article 51 of the Article of Incorporation (that is, the shareholders who have the voting rights and represents more than half of total shares issued attend in person or trust proxy to attend).</u>
Supervisor Related Regulations.	The Company Act in Cayman Islands has no particular regulations for supervisor.	Because the Company does not set up supervisor, the Article of Incorporation is not amended.
<p>1. A shareholder who holds one percent or more of the Company's total shares issued with continuously more than six months may request the supervisors in writing to file a litigation for the Company against the directors, and the Taiwan Taipei District Court shall be court of jurisdiction for the first instance.</p> <p>2. Within 30 days after a shareholder's request, if the supervisor does not file a litigation, such shareholder may file a litigation for the Company, and the Taiwan Taipei District Court shall be court of jurisdiction for the first instance.</p>	<p>The Article of Incorporation in Cayman Islands has no particular requirements or prohibitions.</p> <p>According to the laws in the Cayman Islands, the circumstances that a shareholder represents the Company to file a litigation include: (A) such act is illegal or beyond the scope of the Company's authority that can not be ratified by the shareholders; or (B) such act constitutes a fraud against minor shareholders (that is, the counterparty of seeking relief in such litigation is the major shareholder; and such major shareholder does not allow the Company to let the prosecutor seek relief in the litigation. If a litigation is filed on the grounds of this Paragraph, it must first prove that there is a fraud and the person who has illegal act has control power of the Company).</p> <p>Where a act is within the scope of the Company's authority, or where a act is beyond the scope of authority but can be ratified by the shareholders and conformed with majority shareholders' will, the Cayman court mostly tends not to interfere the internal acts of the Company.</p>	<p>The Article 123 of this Article of Incorporation is expected to be completed its amendment in 2019 annual meeting of the shareholders according to the Paragraph 1 of the left-listed regulations in the "Checklist for Shareholder Rights Protection Measures Adopted by A Foreign Issuer at the Place of Registration" announced by the Taiwan Stock Exchange Corporation on November 30, 2018.</p> <p>The Article of Incorporation in Cayman Islands has no particular requirements or prohibitions. The company has not set up the supervisor, but established the audit committee. Upon the letter with Rule No. 1011702189 released by Taiwan Stock Exchange on July 27, 2012, it stipulated that the supervisors shall be replaced by the independent directors under the members of the audit committee. Therefore, for the contents of Paragraph 1 and Paragraph 2, the supervisors shall be replaced by the independent directors as the members in the audit committee and are stipulated in Article 123 of the Article of Incorporation. That is, the courts with the power of jurisdiction (including Taiwan Taipei District Court, if applicable) shall be court of jurisdiction. Besides, the Cayman's attorney expresses that the Article 123 of the Article of Incorporation must comply with the laws of Cayman Islands. According to the laws of Cayman Islands, if such director considers that it does not benefit to the Company to file litigation, such director shall not have the obligation to file a litigation against other directors regarding to the request from the shareholders with 3% or more of shareholding.</p>
<p>1. The Company's directors shall execute its duty faithfully and shall have the care obligation of prudent administrator. In case of any violation and has damages to the Company, such directors shall be liable for such damages. In case such act is done by itself or other persons, the income derived from such act may be deemed as the Company's income with the resolution of the shareholders' meeting.</p> <p>2. When a director of the Company executes its duty for the Company in violation of the laws and causes the damages to other persons, such director shall bear the joint and several liability with the Company against other persons.</p> <p>3. When the Company's managers and supervisors execute their duties within the scope authorized, they shall bear the same liability for damages as the directors.</p>	<p>Upon the Company Act in Cayman Islands, the directors shall have the fiduciary duties to the Company. In case of violating such duties to cause the Company's damage, the court may judge that such director shall be liable for damages. If such violation of fiduciary duties is derived from the interests for himself/herself or other persons, the court may judge to return such interests.</p> <p>Upon the laws of Cayman Islands, if a director executes its duties for the Company to cause the damage to the third party, such third party may claim to the Company for compensation, and the Company shall claim to such director for the loss caused by the third party's claim. Although the Article of Incorporation stipulates that the directors shall have the joint and several liability with the Company, such third party is still unable to claim to such director directly from</p>	<p>Referring to the opinions of Cayman's attorney (please refer to the left column), the contents of Paragraph 1, Paragraph 2 and Paragraph 3 are stipulated in Article 97B of the Article of Incorporation. However, according to the expression of the Cayman's attorney, although the Article of Incorporation stipulates that the directors shall have the joint and several liability with the Company, such third party is still unable to claim to such director directly from the Cayman's laws point of view.</p>

Items of Discrepancy	Laws of Cayman Islands and Explanation	Regulations of Article of Incorporation and Explanation
	the Cayman's laws point of view.	

- V. Any Event That Has Material Influences on the Shareholders' Rights and Interests or the Securities Price Stated in Subparagraph 2 of Paragraph 3 of Article 36 of the Securities and Exchange Act in the Most Recent Year and as of the Date of the Annual Report Published: None.

CONCRAFT HOLDING CO., LTD
Representative: Chao-Sheng Lu

