

**Eastern Technologies Holding Limited and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Eastern Technologies Holding Limited

Opinion

We have audited the accompanying consolidated financial statements of Eastern Technologies Holding Limited and subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC).

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasize Matter

As stated in Note 26(a) to the consolidated financial statements, as of December 31, 2016, Eastern Asia Technology (HK) Limited ("EAH"), a subsidiary of KYET, has receivables, net of allowance, amounted to HK\$8,654 thousand (equivalent to approximately NT\$36,013 thousand) that is related to litigations. And the outcome of it is dependent on the Courts' judgements. The recoverability of any potential awards by the Courts is also subject to the availability of assets by the defendants to the litigations. EAH has assessed that no further allowance is required to be made of the receivables.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2016 are stated as follows:

Revenue Recognition

The Group is the OEM/ODM manufacturer of speaker systems, and AV electronics products. Major customers are internationally renowned audio-visual brand enterprises and not related to each other.

Based on the importance of revenue, it is presumed there is a significant risk in revenue recognition because of the pressure from management for achieving the planned results. The main risk is whether revenue occurs.

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

1. The Group is an OEM/ODM manufacturer, its business model is according to the orders of the brand customers for stock preparation and production. Our focus is whether the sales have actually been supported by the valid orders from international brand enterprises.
2. The tests for internal control include: Whether the sales orders have been supported by a corresponding orders from international brand enterprises, whether the sales orders are approved by the appropriate supervisor, delivery orders are approved by the unit manager and signed by the customer. And check cash receipt is consistent with sale customers. When the cash receipt is not related to the sale customers, we will perform further procedures to understand and investigate the transaction.
3. Perform the following analytical procedures:

Analysis for revenue of major customers in the current year compared to prior year.
Analysis for revenue of major products in the current year compared to prior year.
4. We performed testing over major customer contracts by reviewing the terms and conditions of sale, agreeing the accounting treatment and revenue recognition applied; and assessing if IAS 18 is complied with.

Impairment on Intangible Assets (Including Goodwill)

According to the accounting standards, management is required to carry out an annual impairment test which incorporates judgements based on assumptions about future profitability for the related businesses against which appropriate long-term growth rates and discount rates must be applied.

We focus on this risk because it involves a lot of judgements which includes forecasting the future results of the business by estimating future cash flows, profit margins and inflation rates and determining the discount rates for the calculations. No impairment loss has been recognized in current year after the assessment by management.

In addition to considering the need for any impairment loss, we focused on these disclosures because they form a valuable communication and enable the users of the financial statements to understand the basis for management of whether or not an impairment was needed.

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

1. We tested the design and implementation of management's key controls around testing the assessment of the recoverability of goodwill and other intangible assets.
2. As part of this process, we obtained copies of the valuation models used to determine the recoverable amount of each cash generating unit and tested the arithmetical accuracy of the models.
3. We challenged the assumptions underpinning the models, including the discount rates used, long-term growth rates and cash flow forecasts. This was achieved through assessment of the reasonableness of forecast future cash flows by comparison to historical performance and future outlook; and discussions with management.
4. We performed further sensitivity analysis taking into account the historical forecasting accuracy of the Group recognizing its recent performance. We evaluated the appropriateness and year-on-year consistency of underlying assumptions applied.
5. We considered the related disclosures to the financial statements by checking if they complied with the requirements of IFRSs.

Capitalization of Expenditure Under Development Stage

With the continuous development of technology, audio and video electronics products continue to weed through the old to bring forth the new. Electronic engineering research and development team needs to spend more cost to improve materials, devices, new products substantially. In addition, the production lines also need to have different configurations in order to match with the different electronic circuit design.

Consider the development expenditure is to cope with the order needs of the international brand enterprises, the management has capitalized certain expenditure under development stage (in accordance with certain conditions met) in order to reflect the financial status of the Group objectively and meet the matching principle of income and expenses. In this way, it will make successful development cost (recorded under intangible assets) closer to its actual value. And it will be amortized gradually over the future production and delivery.

We focus on this risk because certain specific conditions under IFRSs should be met for capitalization of development costs. And it must have appropriate internal control systems and effective implementation to ensure the reality and reasonableness of the development expenditure capitalized.

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

1. Considering the Group is an OEM/ODM manufacturer. The value chain activities include product design and development in addition to manufacturing. The focus of the capitalization is whether it has future economic benefits.
2. Discuss with the management and understand the expenditure at the development stage and assess whether the conditions of IAS 38 intangible assets are met.
3. Testing for internal controls includes sampling development list whether future orders support those new models (future economic benefits assessment).
4. Whether the capitalization of development expenditures ceases immediately when it is formally produced and whether the amortization period of intangible assets is consistent with

the production and sales plan of the Group.

Impairment on Accounts Receivable

Accounts receivable accounted for significant balance of the Group's balance sheet, which is a significant asset.

The Group's major customers are internationally renowned audio-visual brand enterprises. The related accounts receivable are more concentrated, and the credit period of these international brands are longer. In addition, we are particularly concerned about this risk because the recoverability and impairment of accounts receivable involve management's judgements.

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

1. We tested the operating effectiveness of controls on the approval of credit limits for customers and monthly detailed review of the receivables ledger.
2. We evaluated the doubtful debt provision for accounts receivable by testing the aging of amounts due at the balance sheet date to understand and quantify the potential risk in overdue balances.
3. For amounts that were past due and not yet recovered we reviewed the customer's historic payment record and financial status to assess whether the overall doubtful debt accounts receivable provision is sufficient. In addition, we also tested by vouching cash receipts after the year end date to consider whether an additional provision is required.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRS, IAS, IFRIC, and SIC, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 20, 2017

Notice to Readers

For the convenience of readers, the accountants' audit report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' audit report and consolidated financial statements shall prevail. Also, as stated in Note 30 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

EASTERN TECHNOLOGIES HOLDING LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015 (In Thousands)

ASSETS	2016		2015		LIABILITIES AND EQUITY	2016		2015	
	HK\$	NT\$	HK\$	NT\$		HK\$	NT\$	HK\$	NT\$
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Note 6)	\$ 225,018	\$ 936,412	\$ 203,065	\$ 864,468	Short-term bank borrowings (Note 16)	\$ 214,246	\$ 891,585	\$ 227,244	\$ 967,400
Financial assets at fair value through profit or loss - current (Note 7)	40	166	5,733	24,406	Financial liabilities at fair value through profit or loss - current (Note 7)	-	-	10,132	43,133
Notes and accounts receivable, net (Notes 8 and 24)	272,062	1,132,186	350,398	1,491,679	Notes and accounts payable (Note 17)	294,686	1,226,336	330,504	1,406,989
Inventories (Notes 10 and 24)	119,877	498,868	137,674	586,092	Other payables to related parties (Notes 23 and 29)	8,920	37,120	11,680	49,723
Non-current assets held for sale (Note 11)	387	1,611	-	-	Current tax liabilities (Notes 4 and 21)	6,252	26,018	1,159	4,934
Restricted assets (Notes 4 and 24)	1,397	5,814	3,261	13,882	Other payables (Note 17)	103,941	432,550	104,330	444,143
Income tax recoverable	3,726	15,506	887	3,776	Finance lease payables	185	770	234	996
Other receivables and prepayments (Note 9)	59,965	249,544	69,209	294,630					
Prepayments for land lease - current (Note 15)	359	1,494	381	1,622	Total current liabilities	628,230	2,614,379	685,283	2,917,318
Total current assets	682,831	2,841,601	770,608	3,280,555	NON-CURRENT LIABILITIES				
NON-CURRENT ASSETS					Long-term bank borrowings (Note 16)	6,820	28,381	30,944	131,732
Property, plant and equipment (Notes 12 and 24)	234,630	976,413	283,195	1,205,589	Other payables to related parties (Notes 23 and 29)	-	-	7,906	33,657
Financial assets measured at cost (Note 13)	27,045	112,548	26,525	112,920	Other payables	-	-	4,543	19,340
Intangible assets (Notes 14 and 24)	50,770	211,279	48,125	204,873	Long-term finance lease payables	-	-	192	817
Prepayments for land lease - non-current (Note 15)	17,580	73,159	18,831	80,165	Deferred tax liabilities (Notes 4 and 21)	27,621	114,945	27,240	115,963
Deferred tax assets (Notes 4 and 21)	3,119	12,980	2,612	11,120	Net defined benefit liabilities - non-current (Notes 4 and 18)	2,065	8,594	1,843	7,846
Total non-current assets	333,144	1,386,379	379,288	1,614,667	Total non-current liabilities	36,506	151,920	72,668	309,355
					Total liabilities	664,736	2,766,299	757,951	3,226,673
					EQUITY (Note 19)				
					Share capital - common stock	162,632	615,020	161,418	610,020
					Capital surplus	200,400	756,922	197,472	744,831
					Treasury shares	(9,929)	(40,671)	(9,929)	(40,671)
					Exchange differences on translating foreign operations	(56,697)	(80,307)	(26,773)	80,338
					Employee unearned benefit	(6,093)	(24,787)	(3,275)	(13,044)
					Retained earnings				
					Legal reserve	9,669	39,411	5,526	22,178
					Unappropriated earnings	51,257	196,093	67,506	264,897
					Total equity	351,239	1,461,681	391,945	1,668,549
TOTAL	\$ 1,015,975	\$ 4,227,980	\$ 1,149,896	\$ 4,895,222	TOTAL	\$ 1,015,975	\$ 4,227,980	\$ 1,149,896	\$ 4,895,222

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

(With Deloitte & Touche audit report dated February 20, 2017)

EASTERN TECHNOLOGIES HOLDING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands)

	2016		2015	
	HK\$	NT\$	HK\$	NT\$
NET REVENUE (Notes 4 and 20)	\$ 1,555,769	\$ 6,469,043	\$ 1,994,937	\$ 8,166,474
COST OF REVENUE (Notes 10 and 20)	<u>1,313,893</u>	<u>5,463,299</u>	<u>1,693,781</u>	<u>6,933,662</u>
GROSS PROFIT	<u>241,876</u>	<u>1,005,744</u>	<u>301,156</u>	<u>1,232,812</u>
OPERATING EXPENSES				
Selling and distribution	33,535	139,442	40,581	166,122
General and administrative	<u>182,835</u>	<u>760,078</u>	<u>208,775</u>	<u>854,676</u>
Total operating expenses	<u>216,370</u>	<u>899,520</u>	<u>249,356</u>	<u>1,020,798</u>
PROFIT FROM OPERATIONS	<u>25,506</u>	<u>106,224</u>	<u>51,800</u>	<u>212,014</u>
NON-OPERATING INCOME AND EXPENSES				
Gain from bargain purchase (Note 29)	-	-	10,146	41,446
Other income (Note 20)	20,186	83,935	16,448	67,332
Foreign exchange gain (loss), net	8,826	36,699	15,534	63,590
Finance costs (Note 20)	(7,015)	(29,169)	(6,367)	(26,064)
Other losses (Note 20)	<u>(1,054)</u>	<u>(4,383)</u>	<u>(14,007)</u>	<u>(57,339)</u>
Total non-operating income and expense	<u>20,943</u>	<u>87,082</u>	<u>21,754</u>	<u>88,965</u>
PROFIT BEFORE INCOME TAX	46,449	193,306	73,554	300,979
INCOME TAX (Notes 4 and 21)	<u>(14,279)</u>	<u>(59,374)</u>	<u>(11,165)</u>	<u>(45,705)</u>
NET PROFIT	<u>32,170</u>	<u>133,932</u>	<u>62,389</u>	<u>255,274</u>

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EASTERN TECHNOLOGIES HOLDING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands)

	2016		2015	
	HK\$	NT\$	HK\$	NT\$
OTHER COMPREHENSIVE INCOME (NET OF INCOME TAX)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ (600)	\$ (2,497)	\$ (2,628)	\$ (10,749)
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	<u>(29,924)</u>	<u>(160,645)</u>	<u>(33,611)</u>	<u>(79,672)</u>
TOTAL COMPREHENSIVE INCOME (LOSSES) FOR THE YEAR	<u>\$ 1,646</u>	<u>\$ (29,210)</u>	<u>\$ 26,150</u>	<u>\$ 164,853</u>
EARNINGS PER SHARE (Note 22)				
Basic earnings per share - after income tax	<u>\$0.53</u>	<u>\$2.22</u>	<u>\$1.03</u>	<u>\$4.23</u>
WEIGHTED AVERAGE NUMBER OF SHARES				
	<u>60,270 thousand shares</u>		<u>60,393 thousand shares</u>	

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

(With Deloitte & Touche audit report dated February 20, 2017)

(Concluded)

EASTERN TECHNOLOGIES HOLDING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of Hong Kong Dollars)

	Share Capital - Common Stock	Capital Surplus	Treasury Shares	Exchange Differences on Translating Foreign Operations	Employee Unearned Benefit	Retained Earnings		Total Equity
						Legal Reserve	Unappropriated Earnings	
BALANCE AT JANUARY 1, 2015	\$ 160,785	\$ 193,698	\$ -	\$ 6,838	\$ -	\$ 2,070	\$ 87,925	\$ 451,316
Appropriation of 2014 earnings								
Cash dividends	-	-	-	-	-	-	(76,724)	(76,724)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	572	-	-	-	-	-	572
Legal reserve of subsidiaries	-	-	-	-	-	3,456	(3,456)	-
Treasury shares held by a subsidiary	-	-	(5,966)	-	-	-	-	(5,966)
Restricted shares plan for employees	633	3,202	-	-	(3,275)	-	-	560
Buy-back of treasury shares	-	-	(3,963)	-	-	-	-	(3,963)
Net profit for the year ended December 31, 2015	-	-	-	-	-	-	62,389	62,389
Other comprehensive loss (net of income tax) for the year ended December 31, 2015	-	-	-	(33,611)	-	-	(2,628)	(36,239)
BALANCE AT DECEMBER 31, 2015	161,418	197,472	(9,929)	(26,773)	(3,275)	5,526	67,506	391,945
Appropriation of 2015 earnings								
Cash dividends	-	-	-	-	-	-	(43,676)	(43,676)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	325	-	-	-	-	-	325
Legal reserve of subsidiaries	-	-	-	-	-	4,143	(4,143)	-
Restricted shares plan for employees	1,214	2,603	-	-	(2,818)	-	-	999
Net profit for the year ended December 31, 2016	-	-	-	-	-	-	32,170	32,170
Other comprehensive loss (net of income tax) for the year ended December 31, 2016	-	-	-	(29,924)	-	-	(600)	(30,524)
BALANCE AT DECEMBER 31, 2016	<u>\$ 162,632</u>	<u>\$ 200,400</u>	<u>\$ (9,929)</u>	<u>\$ (56,697)</u>	<u>\$ (6,093)</u>	<u>\$ 9,669</u>	<u>\$ 51,257</u>	<u>\$ 351,239</u>

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

(With Deloitte & Touche audit report dated February 20, 2017)

EASTERN TECHNOLOGIES HOLDING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	Share Capital - Common Stock	Capital Surplus	Treasury Shares	Exchange Differences on Translating Foreign Operations	Employee Unearned Benefit	Retained Earnings		Total Equity
						Legal Reserve	Unappropriated Earnings	
BALANCE AT JANUARY 1, 2015	\$ 607,500	\$ 729,815	\$ -	\$ 160,010	\$ -	\$ 8,031	\$ 338,269	\$ 1,843,625
Appropriation of 2014 earnings								
Cash dividends	-	-	-	-	-	-	(303,750)	(303,750)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	2,265	-	-	-	-	-	2,265
Legal reserve of subsidiaries	-	-	-	-	-	14,147	(14,147)	-
Treasury shares held by a subsidiary	-	-	(24,018)	-	-	-	-	(24,018)
Restricted shares plan for employees	2,520	12,751	-	-	(13,044)	-	-	2,227
Buy-back of treasury shares	-	-	(16,653)	-	-	-	-	(16,653)
Net profit for the year ended December 31, 2015	-	-	-	-	-	-	255,274	255,274
Other comprehensive loss (net of income tax) for the year ended December 31, 2015	-	-	-	(79,672)	-	-	(10,749)	(90,421)
BALANCE AT DECEMBER 31, 2015	610,020	744,831	(40,671)	80,338	(13,044)	22,178	264,897	1,668,549
Appropriation of 2015 earnings								
Cash dividends	-	-	-	-	-	-	(183,006)	(183,006)
Cash dividends distributed to the subsidiaries which adjusted to capital surplus	-	1,366	-	-	-	-	-	1,366
Legal reserve of subsidiaries	-	-	-	-	-	17,233	(17,233)	-
Restricted shares plan for employees	5,000	10,725	-	-	(11,743)	-	-	3,982
Net profit for the year ended December 31, 2016	-	-	-	-	-	-	133,932	133,932
Other comprehensive loss (net of income tax) for the year ended December 31, 2016	-	-	-	(160,645)	-	-	(2,497)	(163,142)
BALANCE AT DECEMBER 31, 2016	\$ 615,020	\$ 756,922	\$ (40,671)	\$ (80,307)	\$ (24,787)	\$ 39,411	\$ 196,093	\$ 1,461,681

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

(With Deloitte & Touche audit report dated February 20, 2017)

EASTERN TECHNOLOGIES HOLDING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands)

	2016		2015	
	HK\$	NT\$	HK\$	NT\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before income tax	\$ 46,449	\$ 193,306	\$ 73,554	\$ 300,979
Adjustments for:				
Amortization - other intangible assets	3,414	14,196	4,507	18,450
Amortization - prepayment for land lease	546	2,270	567	2,321
Bad debt expense	1,297	5,393	19	78
Allowance for inventories provision and inventories write-off	7,961	33,103	6,732	27,558
Depreciation expenses	51,284	213,244	49,988	204,631
Loss on disposal of property, plant and equipment	1,022	4,250	2,768	11,331
Realized loss from financial instruments	(3,624)	(15,069)	-	-
Written off of other intangible assets	-	-	4,696	19,223
Interest expense	7,015	29,169	6,367	26,064
Interest income	(607)	(2,524)	(939)	(3,844)
Gain from bargain purchase	-	-	(10,146)	(41,446)
Employees expenses - restricted shares	999	3,982	560	2,227
Fair value (gain) loss recognized on financial instruments	(17)	(71)	812	3,324
Operating cash flows before working capital changes	115,739	481,249	139,485	570,896
Changes in operating assets and liabilities				
Notes and accounts receivable	77,039	320,336	150,036	614,187
Other receivable and prepayments	9,245	38,442	46,692	191,138
Inventories	9,837	40,903	6,553	26,825
Notes and accounts payable and other payables	(40,751)	(169,447)	(164,607)	(673,835)
Accounts payable from related parties	1,014	4,217	(2,810)	(11,503)
Net defined benefit liabilities	222	923	-	-
Cash generated from operations	172,345	716,623	175,349	717,708
Interest paid	(7,015)	(29,169)	(6,367)	(26,064)
Interest received	607	2,524	939	3,844
Income tax paid	(11,817)	(49,136)	(9,697)	(39,696)
Net cash generated from operating activities	154,120	640,842	160,224	655,792
CASH FLOWS FROM INVESTING ACTIVITIES				
Net cash inflow on acquisition of subsidiaries (Note 29)	-	-	13,245	54,105
Decrease in payable for investment cost	(11,718)	(48,725)	(5,591)	(22,887)
Payments for acquiring property, plant and equipment	(16,512)	(68,659)	(76,806)	(314,413)
Decrease in pledged deposits	1,864	7,751	13,016	53,282
Increase in financial assets at cost	-	-	(3,801)	(15,560)
Proceeds from disposal of property, plant and equipment	742	3,085	1,674	6,853
Proceeds from disposal of derivative financial instruments	9,359	38,916	-	-
Increase in other intangible assets	(8,621)	(35,847)	(2,495)	(10,214)
Net cash used in investing activities	(24,886)	(103,479)	(60,758)	(248,834)

(Continued)

EASTERN TECHNOLOGIES HOLDING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands)

	2016		2015	
	HK\$	NT\$	HK\$	NT\$
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in bank borrowings	\$ 808,822	\$ 3,363,163	\$ 1,405,456	\$ 5,753,375
Repayments of bank borrowings	(846,403)	(3,519,428)	(1,348,551)	(5,520,428)
Payment under capital lease contract	(238)	(990)	(327)	(1,339)
Buy-back of treasury shares	-	-	(3,963)	(16,652)
Cash dividend	(43,676)	(183,006)	(76,724)	(303,750)
Cash dividend received from treasury stock	<u>325</u>	<u>1,366</u>	<u>572</u>	<u>2,265</u>
Net cash used in financing activities	<u>(81,170)</u>	<u>(338,895)</u>	<u>(23,537)</u>	<u>(86,529)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(26,111)</u>	<u>(126,524)</u>	<u>(28,647)</u>	<u>(92,335)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,953	71,944	47,282	228,094
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>203,065</u>	<u>864,468</u>	<u>155,783</u>	<u>636,374</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 225,018</u>	<u>\$ 936,412</u>	<u>\$ 203,065</u>	<u>\$ 864,468</u>
CASH AND CASH EQUIVALENTS AS FOLLOWS:				
Cash and bank deposits	\$ 226,415	\$ 942,226	\$ 206,326	\$ 878,350
Pledge deposits	<u>(1,397)</u>	<u>(5,814)</u>	<u>(3,261)</u>	<u>(13,882)</u>
Cash and cash equivalents	<u>\$ 225,018</u>	<u>\$ 936,412</u>	<u>\$ 203,065</u>	<u>\$ 864,468</u>
IMPACT OF CASH AND NONCASH ITEMS FROM INVESTING ACTIVITIES (Note 29)				
Net cash inflow on acquisition of subsidiaries				
Acquisition of subsidiaries	\$ -	\$ -	\$ (121,718)	\$ (497,219)
Increase in payable for investment cost (recognized under other payables)	-	-	24,589	100,446
Cash and cash equivalents acquired	<u>-</u>	<u>-</u>	<u>110,374</u>	<u>450,878</u>
Net cash inflow	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,245</u>	<u>\$ 54,105</u>
NON-CASH FOR INVESTING AND FINANCING ACTIVITIES:				
Stock of a parent company held by a subsidiary reclassification as treasury stock from long term investment				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,966</u>	<u>\$ 24,018</u>

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

(With Deloitte & Touche audit report dated February 20, 2017)

(Concluded)

EASTERN TECHNOLOGIES HOLDING LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

1. GENERAL INFORMATION

Eastern Technologies Holding Limited (the “Company”) was an investment holding company incorporated in Cayman Islands on February 1, 2011.

The Company is set up to acquire Eastern Asia Technology (HK) Limited (the “EAH”) and its subsidiaries (the “EAH Group”) and to list on the Taiwan Stock Exchange. EAH Group was originally a subsidiary under Eastern Asia Technology Limited (the “EATL”, a company formerly listed on Singapore Stock Exchange and delisted in February 2011) and was principally engaged in the production and sales of speaker systems and earphones. Through reorganization, the Company acquired 100% interests in EAH Group from EATL with a consideration determined based on the carrying amount of EAH Group as at March 31, 2011. After the acquisition, the Company (as EAH Group) applied primary listing on the Taiwan Stock Exchange, and the shares of the Company commenced trading on the Taiwan Stock Exchange from November 5, 2012.

For the integration between the speaker systems and 3C electronic appliances and sales expansion, EAH acquired 99.98% interests in Eastech Electronics (Taiwan) Inc. (“ETT”) and its subsidiaries (“ETT Group”) from Luster Green Limited in January 2015. The principal activities of ETT Group are to design, manufacturing and sales audio/video (“AV”) electronics products.

The registered address of the Company is The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. The Group’s principal place of operation is Units 1703-7 Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on February 20, 2017.

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

a. Standards and interpretations effective for the year

The Group has adopted all new, revised or amended standards or interpretations effective after fiscal year beginning on January 1, 2016, the Group believes that the adoption new, revised or amended standards or interpretations will not have a significant effect on the consolidated financial statements for the year ended December 31, 2016.

b. Standards and interpretation issued but not yet effective

The Group has not early adopted the following standards and interpretations that are issued and amended but not yet effective.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note
Amendment 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
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 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
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

Note: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

IFRS 16 “Leases”

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

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for both the principal and interest portion of the lease liability are classified within financing activities.

When IFRS 16 becomes effective, the Group may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

Apart from the aforesaid impact, as of the consolidated financial statements report date, the Group is continually assessing the possible impact on the Group's financial position and financial performance upon initial adoption of above standards and interpretations, and will disclose the relevant impact when the assessment is completed.

4. BASIS OF PRESENTATION

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") and Rule No. 10200546801 issued by the Financial Supervisory Commission (the "FSC"). Moreover, the IFRSs applicable to these consolidated financial statements have no difference with the IFRS, IAS, interpretations as well as related guidance translated by Accounting Research and Development Foundation (ARDF) endorsed by the FSC with the effective dates (collectively, "Taiwan-IFRSs").

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value. Historical cost is usually determined by the fair value of consideration paid upon obtaining of assets.

Classification of Current and Non-current Assets and Liabilities

Current assets include cash and cash equivalents, and assets held primarily for the purpose of trading or assets expected to be realized within 1 year after the reporting period; property, plant and equipment, goodwill and other assets that are not classified as current are classified as non-current. Current liabilities include liabilities held primarily for the purpose of trading, and liabilities due to be settled within 1 year after the reporting period, liabilities that are not classified as current are classified as non-current.

Business Combinations

a. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and investee companies as to 50% being held or controlled by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

b. Currency of the consolidated financial statements

The consolidated financial statements have been presented in the functional currency of the Company - i.e. HKD. Relevant NTD amounts are presented by translating from HKD according to the IAS 21. The assets and liabilities items are translated using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

- c. Pursuant to the above basis of preparation of the consolidated financial statements, the detail information of the subsidiaries was as follows:

Name of Investor	Name of Investee	Main Business	Percentage of Ownership Interest		Descriptions
			2016	2015	
The Company	Eastern Asia Technology (HK) Limited ("EAH")	Sales of speaker systems and earphones	100.00	100.00	The Company acquired EAH 100% ownership interest on March 31, 2011 and thereby obtained 100% controlling power over EAH and its subsidiaries.
EAH	Hymnario-EAW (Huiyang) Co., Ltd. ("HYHY")	Production and sales of speaker systems and earphones	100.00	100.00	"
	Hui Yang Eastern Asia Electronics Co., Ltd. (the "HYEA")	Production, assembly and sales of speaker systems and accessories	100.00	100.00	"
	Huiyang Dongmei Audio Products Co., Ltd. (the "HYDM")	Production and sales of earphones	100.00	100.00	"
	Shenzhen MaliMaliBox Trading Corporation Limited ("SZMM")	Wholesales and sales of earphones and related electronic products	100.00	100.00	SZMM was established by EAH on November 13, 2013.
	Scan - Speak A/S ("ScS")	Research, production and sales of high-end speakers	100.00	100.00	EAH acquired ScS 100% ownership interest on April 1, 2014.
	Eastech Electronics (Taiwan) Inc. ("ETT")	Design and sales of AV electronics products	99.98	99.98	As mentioned in Note 1, EAH acquired ETT 99.98% ownership interest in January 2015, and thereby acquired its 100% owned subsidiaries, ETH and ETHY.
ETT	Eastech Electronics (HK) Limited ("ETH")	Sales of AV electronics products	100.00	100.00	"
ETH	Eastech Electronics (Hui Yang) Co., Ltd. ("ETHY")	Production and sales of AV electronics products	100.00	100.00	"

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

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

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and

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

Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

Property, Plant and Equipment

Land and buildings held for used in production or supply of goods or services, or for administrative purposes, are carried in consolidated balance sheet at cost less accumulated depreciation and accumulated impairment. Major upgrade and improvement are accounted as capital expense, while repair and maintenance are accounted as expenses for the period.

Properties in the course of construction for production, supply or administrative purposes are measured at cost, less any recognized impairment loss.

Machinery and office equipment are measured by cost less accumulated depreciation and accumulated impairment.

Depreciation of these assets (excluded freehold land and properties in the course of construction) is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of the year, with the effect of any changes in estimates accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Non-current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell. Recognition of depreciation of those assets would cease.

Prepayments for Land Lease

If the lease land held for operation, the cost of payment is recorded as prepayments for land lease and it will be amortized over term of lease by using the straight-line method.

Goodwill

Goodwill arising from the acquisition of the company by the means to obtain the date of acquisition cost over the identifiable assets of the Group's subsidiaries recognized, liabilities and contingent liabilities in the net fair value. Goodwill is initially recognized as cost of assets and cost less any accumulated impairment losses to measure. When the acquired company is disposed, its goodwill should be derecognized and recognized in profit or loss for the period.

Gain from Bargain Purchase

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess are recognized immediately in profit or loss as a bargain purchase gain.

Intangible Assets

a. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of the year, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

b. Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- 2) The intention to complete the intangible asset and use or sell it;
- 3) The ability to use or sell the intangible asset;
- 4) How the intangible asset will generate probable future economic benefits;
- 5) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- 6) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

c. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

d. Derecognition of intangible assets

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

Impairment of Assets

There is material impairment loss incurred if the recoverable amount of the asset (mainly property, plant and equipment and goodwill) is estimated to be less than its carrying amount, an impairment loss is recognized immediately in profit or loss. If the recoverable amount of the asset (excluding goodwill) increases subsequently, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

When conducting impairment test, goodwill should be allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the business combination. Unless there is indication of impairment of the cash generating unit to which goodwill is belong, each cash generating unit shall be tested for impairment annually by comparing the carrying amount (including goodwill) to its recoverable amount. In case the recoverable amount is less than its carrying amount, the impairment loss shall first be allocated to goodwill of the cash generating unit to reduce its carrying amount. Afterwards, the remaining impairment loss shall be allocated to each asset under the cash generating unit based on the share of proportion of the carrying amount. The recognized impairment loss of goodwill will not be reversed.

Leasing

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

a. The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

b. The Group as lessee

Assets held under finance lease are initially recognized as assets of the Company at the fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement Benefits

Except for partial employees of ETT adopt defined benefit retirement benefit plans, the rest of employees of ETT and employees in Hong Kong and Mainland China adopt defined contribution retirement benefit plans.

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions. Defined benefit costs (including service cost, net interest and remeasurement) recognized under the defined benefit retirement benefit plans are determined by using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit asset are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit asset represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

The Group maintains a Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme, according to the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Pursuant to the MPF Scheme, the contribution will be vested to the employees upon provision of services by the employees and when they are eligible to the benefits, and the cost incurred will be charged as expense.

To comply with the pension scheme requirements in the PRC, subsidiaries of the Group in PRC are required to contribute a specified percentage of payroll costs to the retirement plans operated by the relevant local authorities of the PRC.

Share-based Payment Arrangements-Restricted Shares for Employees

The fair value of share-based payment (equity settled) that will eventually vested and expected share is estimated at the grant date. The fair value is then expensed on a straight-line basis over the vesting period based on the Company's estimate of equity instruments that will eventually vest, with a corresponding adjustment to other equity - employee unearned benefit. The fair value is recognized as an expense in full at the grant date when the share options are fully vested in grant date.

When restricted shares for employees are issued, other equity - unearned employee benefits is recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - restricted shares for employees.

Taxation

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

a. Current income tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current income tax assets and liabilities on a net basis.

c. Current and deferred tax for the year

Current and deferred tax are recognized as an expenses or income in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. For items not recognized in profit and loss, its income tax will not be recognized in profit and loss.

Financial Instruments

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

a. Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period. Income or expense is recognized on an effective interest basis for debt instruments other than those financial instruments at fair value through profit or loss.

b. Financial assets

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets at fair value through profit or loss) are added to the carrying amount of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in profit or loss. The financial assets are classified into “financial assets at fair value through profit or loss” and “loans and receivables” based on the nature and purpose of the financial assets at the time of initial recognition.

c. Derivative financial instruments

The Group enters into forward foreign exchange contract principally for the purpose of minimizing any risk that may arise from currency rate fluctuation and generating gains from currency exchange.

Derivative financial instruments are recognized at fair value upon inception of contract, and subsequently be measured at fair value as at balance sheet date. Difference between the carrying amount and the fair value is recognized in profit and loss.

If the maturity of derivative financial instruments is more than 12 months, or it is expected that the instrument will not be realized or settled within 12 months, the derivative financial instruments will be classified as non-current assets or liabilities, otherwise, it will be classified as current assets or liabilities.

d. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Apart from short-term receivables that are minimally affected by interest, loans and receivables (including cash and cash equivalents, trade debtors, other receivables, restricted assets and long-term receivables) are carried at amortized cost using the effective interest method, less any identified impairment loss.

e. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For financial assets, objective evidence of impairment could include:

- 1) Significant financial difficulty of the issuer or counterparty; or
- 2) Default or delinquency in interest or principal payments; or
- 3) It becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The carrying amounts of financial assets are reduced by impairment directly except for trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

f. Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the assets expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

g. Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recognized at the proceeds received, net of direct issue costs. The financial liabilities are classified into "financial liabilities at fair value through profit or loss" and "other financial liabilities."

Other financial liabilities (including trade payables and other payables) are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Borrowings are initially recognized at fair value less transaction costs. In subsequent periods, borrowings are measured at amortized cost using the effective interest method. Any difference between the actual proceeds less transaction costs and the settlement or redemption of borrowings is recognized over the term of the borrowings according to the Group's accounting policy for borrowing costs.

The fair value of financial liabilities denominated in foreign currency and classified as "financial liabilities at fair value through profit and loss" are determined in foreign currency and is translated at the currency rate prevailing at the end of the reporting period. Any exchange difference is recognized as part of the fair value gain or loss. For foreign currency denominated financial liabilities measured at amortized costs, its exchange difference is determined based on the amortized cost and the currency rate at the end of the reporting period. Exchange difference is recognized at profit and loss.

h. Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Group's obligations is discharged, cancelled or they expire.

Foreign Currencies

The individual financial statements of each company comprising the Group are measured and presented on the currency prevailing in the primary economic environment where its operations located. For the purpose of the consolidated financial statement, the operating results and financial status of companies comprising the Group shall be translated from functional currency to the presentation currency of the consolidated financial statement - Hong Kong dollars ("HKD").

In the initial recognition of foreign currency transactions, the foreign currency amount shall be translated into the functional currency at the exchange rate between the functional currency and the foreign currency prevailing at the date of transaction. Any exchange difference arising from the actual settlement of foreign currency-denominated assets and liabilities shall be carried at profit and loss for the year.

Subsequently at the end of each reporting period, foreign currency denominated item shall be translated at the closing exchange rate. Foreign currency denominated non-monetary items shall be measured at historical cost and translated at the exchange rate prevailing on the date of transaction.

Gain or loss from foreign currency exchange shall be carried at the profit and loss for the year.

For the purposes of presenting the consolidated financial statements, if the functional currency and the presentation currency (HKD) of subsidiaries are different, the assets and liabilities of which are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Their income and expenses are translated at the average exchange rates for the year, the resulting exchange difference is recognized in other comprehensive income and accumulated in equity. Goodwill arising from acquisition of foreign operations and fair value adjustments to the carrying amount of assets and liabilities resulting from the acquisition of foreign operations are considered as assets and liabilities of such foreign operations, and exchanged based on the closing rate at each balance sheet date, with the exchange difference recognized under other comprehensive income.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management of the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities with uncertainty. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by the management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is changed.

The following are the assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period:

a. Allowance for accounts receivable and other receivables

The Group constantly reviews the recoverability of accounts receivable based on the aging analysis of the accounts receivable and other receivables, credit assessment, past collection history and environmental conditions. If the financial conditions of the Group's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Details of the allowances please refer to Notes 8 and 9.

b. Depreciation of property, plant and equipment

Depreciation of the property, plant and equipment is provided after deducting any residual value from cost or revalued amount over the estimated useful years by using straight line basis. Estimated useful years represent estimation of management on the number of years that the Group intends to generate economic benefits from the use of the Group's property, plant and equipment. Residual value means the amount expected to be realized upon retirement or disposal of the property, plant and equipment, net of any cost of disposal, at the end of the useful year. Useful year and residual are subject to the different estimated utilization rate of assets and the development of new technologies. Please refer to Note 12 for details about the carrying amount of the property, plant and equipment.

c. Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is calculated by using weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The Group constantly reviews its inventories to identify slow moving and obsolete merchandise. It will also make provision for impairment loss by considering their physical conditions and market conditions. It involves management's judgment for the estimation on the net realizable value and slow-moving inventories. Please refer to Note 10 for details about the carrying amount of inventories.

d. Impairment of goodwill

When determining whether there is any impairment loss on goodwill, estimation shall be made on the recoverable amount of the cash generating unit to which goodwill has been allocated. To calculate the recoverable amount, the management needs to estimate the future cash flow expected to arise from the cash generating unit and its appropriate discount rate. Details of the carrying amount of goodwill at the end of reporting period, with no impairment loss recognized during 2016 and 2015 are set out in Note 14.

e. Amortization of other intangible assets

Amortization of intangible assets of the Group (excluding goodwill) is the cost recognized on straight line basis throughout its estimated useful life. Estimated useful life is the term estimated by the management of which the Group intends to use the intangible assets to generate economic benefits. Difference in expected frequency of use of the assets and development of new technologies would affect the economic useful life of assets. For the carrying amount of intangible assets, please refer to Note 14.

f. Income tax

The Group operates in different jurisdictions, and thus it is subject to different tax laws enacted in different regions. When estimating income tax, the Group will consider if it is eligible for the preferential taxation treatment. If there is any difference between the actual tax charged by the taxation authority with the originally estimated tax, the current income tax expenses and the related deferred income tax assets or liabilities shall be adjusted accordingly. Disclosures on income tax are set out in Note 21.

6. CASH AND CASH EQUIVALENTS

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Cash on hand	\$ 278	\$ 1,157	\$ 217	\$ 924
Cash at bank	202,478	842,612	202,848	863,544
Fixed deposits	<u>23,659</u>	<u>98,457</u>	<u>3,261</u>	<u>13,882</u>
	226,415	942,226	206,326	878,350
Less: Pledged deposits	<u>(1,397)</u>	<u>(5,814)</u>	<u>(3,261)</u>	<u>(13,882)</u>
	<u>\$ 225,018</u>	<u>\$ 936,412</u>	<u>\$ 203,065</u>	<u>\$ 864,468</u>

Cash equivalents comprise term deposits within 3 months, which are highly liquid and are readily convertible into cash with low risk of changes in value. Pledged deposits are pledged to secure the loan facilities granted by bank to the Group (please refer to Note 24), and is recognized under restricted assets.

7. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Financial assets at fair value <u>through profit or loss - current</u>				
Financial assets held for trading				
Non-derivative financial assets				
Foreign-listed stocks	\$ 40	\$ 166	\$ 4,555	\$ 19,391
Equity Funds	<u>-</u>	<u>-</u>	<u>1,178</u>	<u>5,015</u>
	<u>\$ 40</u>	<u>\$ 166</u>	<u>\$ 5,733</u>	<u>\$ 24,406</u>

(Continued)

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Financial liabilities at fair value through profit or loss - current				
Financial liabilities held for trading				
Derivative financial instrument				
Target redemption forward				
("TRF")	\$ -	\$ -	\$ 10,132	\$ 43,133
				(Concluded)

As stated in Notes 1 and 29, EAH acquired ETT Group from Luster Green Limited in January 2015, derivative financial instruments held by ETT Group was also transferred to the Group accordingly. However, according to the share purchase agreement, all gains and losses arising from derivative financial instruments after acquisition date shall still belong to ETT Group's former shareholder, Luster Green Limited. The loss of the aforementioned derivative financial instruments after acquisition is HK\$3,043 thousand (equivalent to approximately NT\$12,653 thousand). Since the related gain or loss is attributed to ETT Group's former parent company, Luster Green Limited, the Group adjust the balance payment to Luster Green Limited accordingly (please refer to Note 23(a)). Hence, the aforementioned derivative financial instruments did not have any impact on the consolidated net profit for the year ended December 31, 2016.

8. NOTES AND ACCOUNTS RECEIVABLE

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Notes receivable	\$ -	\$ -	\$ 113	\$ 481
Accounts receivable	273,359	1,137,583	350,285	1,491,198
Less: Allowance for impairment loss	<u>(1,297)</u>	<u>(5,397)</u>	<u>-</u>	<u>-</u>
	<u>\$ 272,062</u>	<u>\$ 1,132,186</u>	<u>\$ 350,398</u>	<u>\$ 1,491,679</u>

For the year ended December 31, 2016, the Group's average sales credit term is 73 days (78 days in 2015). No interest was charged on any outstanding trade receivables due over the credit term. Allowance for impairment loss were recognized based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The analysis of receivables was as follows:

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Neither overdue nor impaired	\$ 253,245	\$ 1,053,879	\$ 333,575	\$ 1,420,062
Overdue but not impaired (a)	18,817	78,307	16,823	71,617
Overall assessment for impaired receivables assessing (b)	1,297	5,397	-	-
Less: Allowance for impairment loss	<u>(1,297)</u>	<u>(5,397)</u>	<u>-</u>	<u>-</u>
Notes and accounts receivable, net	<u>\$ 272,062</u>	<u>\$ 1,132,186</u>	<u>\$ 350,398</u>	<u>\$ 1,491,679</u>

c. The credit quality of receivables neither overdue nor impaired was as follows:

Considering the recoverability of accounts receivable, the Group takes into account the historical record of individual client. Since the major clients are internationally renowned enterprises and are unrelated to each other, therefore, credit risk of receivables is considered low.

d. The details of the accounts receivables pledged (with recourse) for obtaining bank facilities please refer to Notes 24 and 27(g).

9. OTHER RECEIVABLES AND PREPAYMENTS

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Other receivables	\$ 45,816	\$ 190,663	\$ 40,974	\$ 174,432
Allowance for impairment loss	<u>(13,962)</u>	<u>(58,103)</u>	<u>(13,962)</u>	<u>(59,438)</u>
Other receivables, net	31,854	132,560	27,012	114,994
Prepayments	4,996	20,791	3,065	13,048
Prepaid equipment and mold	1,776	7,391	7,319	31,158
Value-added tax recoverable and refundable	17,478	72,735	23,683	100,820
Guarantee deposits	<u>3,861</u>	<u>16,067</u>	<u>8,130</u>	<u>34,610</u>
	<u>\$ 59,965</u>	<u>\$ 249,544</u>	<u>\$ 69,209</u>	<u>\$ 294,630</u>

Other receivables of the Group mainly consist of the followings:

a. As of December 31, 2016 and 2015, the amounts of advance payment to vendors were HK\$3,969 thousand and HK\$3,135 thousand (equivalent to approximately NT\$16,517 thousand and NT\$13,346 thousand), respectively.

b. Other receivables relating to litigations (including security deposits) as described in Note 26(a) were as follows:

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Other receivables (including security deposits)	\$ 23,675	\$ 98,523	\$ 24,540	\$ 104,470
Less: Allowance for impairment loss	<u>(13,962)</u>	<u>(58,103)</u>	<u>(13,962)</u>	<u>(59,438)</u>
	<u>\$ 9,713</u>	<u>\$ 40,420</u>	<u>\$ 10,578</u>	<u>\$ 45,032</u>

c. As of December 31, 2016 and 2015, the amounts of temporary payments as described in Note 17(b) were HK\$9,951 thousand and HK\$8,349 thousand (equivalent to approximately NT\$41,411 thousand and NT\$35,543 thousand).

10. INVENTORIES

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Raw materials	\$ 58,727	\$ 244,392	\$ 58,872	\$ 250,624
Work-in-process	30,111	125,307	39,161	166,712
Finished goods	26,614	110,754	32,328	137,624
Goods in transit	<u>4,425</u>	<u>18,415</u>	<u>7,313</u>	<u>31,132</u>
	<u>\$ 119,877</u>	<u>\$ 498,868</u>	<u>\$ 137,674</u>	<u>\$ 586,092</u>

The cost of inventories recognized as cost of goods sold in the years ended December 31, 2016 and 2015 was HK\$1,313,893 thousand and HK\$1,693,781 thousand (equivalent to approximately NT\$5,463,299 thousand and NT\$6,933,662 thousand), respectively, which included HK\$7,961 thousand and HK\$6,732 thousand (equivalent to approximately NT\$33,103 thousand and NT\$27,558 thousand), allowance for inventories provision and inventories write-off, respectively.

11. NON-CURRENT ASSETS HELD FOR SALE

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Land and buildings held for sale	<u>\$ 387</u>	<u>\$ 1,611</u>	<u>\$ -</u>	<u>\$ -</u>

The Group expects to dispose its land and buildings partially in coming three months. Such land and buildings were originally used as the Group's staff quarters. The net proceeds of disposal are expected to exceed the carrying amount of related net assets, and accordingly, no impairment was recognized.

12. PROPERTY, PLANT AND EQUIPMENT

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

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Cost	\$ 466,402	\$ 1,940,933	\$ 496,659	\$ 2,114,327
Accumulated depreciation and impairment	<u>(231,772)</u>	<u>(964,520)</u>	<u>(213,464)</u>	<u>(908,738)</u>
Net book value	<u>\$ 234,630</u>	<u>\$ 976,413</u>	<u>\$ 283,195</u>	<u>\$ 1,205,589</u>
Land and buildings	\$ 57,984	\$ 241,301	\$ 72,284	\$ 307,720
Machinery equipment and office equipment	175,319	729,590	209,746	892,909
Construction in progress	<u>1,327</u>	<u>5,522</u>	<u>1,165</u>	<u>4,960</u>
Net book value	<u>\$ 234,630</u>	<u>\$ 976,413</u>	<u>\$ 283,195</u>	<u>\$ 1,205,589</u>

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

	Land and Buildings		Machinery Equipment and Office Equipment		Construction in Progress		Total	
	HK\$	NT\$	HK\$	NT\$	HK\$	NT\$	HK\$	NT\$
Cost								
Balance at January 1, 2015	\$ 91,710	\$ 374,635	\$ 241,522	\$ 986,618	\$ 434	\$ 1,773	\$ 333,666	\$ 1,363,026
Acquisition of ETT Group's assets (Note 29)	47,320	193,302	90,904	371,343	-	-	138,224	564,645
Additions	5,130	21,000	69,902	286,151	1,774	7,262	76,806	314,413
Disposals	(251)	(1,027)	(15,020)	(61,485)	(190)	(778)	(15,461)	(63,290)
Reclassification to other intangible assets	(3)	(12)	803	3,287	(800)	(3,275)	-	-
Effect of exchange rate changes	(9,758)	(16,817)	(26,765)	(47,628)	(53)	(22)	(36,576)	(64,467)
Balance at December 31, 2015	134,148	571,081	361,346	1,538,286	1,165	4,960	496,659	2,114,327
Additions	320	1,330	13,606	56,576	2,586	10,753	16,512	68,659
Disposals	(1,335)	(5,551)	(11,751)	(48,862)	(286)	(1,189)	(13,372)	(55,602)
Reclassification	(1,122)	(4,665)	2,095	8,711	(2,095)	(8,711)	(1,122)	(4,665)
Effect of exchange rate changes	(7,982)	(46,048)	(24,250)	(135,447)	(43)	(291)	(32,275)	(181,786)
Balance at December 31, 2016	<u>\$ 124,029</u>	<u>\$ 516,147</u>	<u>\$ 341,046</u>	<u>\$ 1,419,264</u>	<u>\$ 1,327</u>	<u>\$ 5,522</u>	<u>\$ 466,402</u>	<u>\$ 1,940,933</u>
Accumulated depreciation and impairment								
Balance at January 1, 2015	\$ 55,789	\$ 227,898	\$ 139,950	\$ 571,696	\$ -	\$ -	\$ 195,739	\$ 799,594
Depreciation	11,331	46,385	38,657	158,246	-	-	49,988	204,631
Disposals	(85)	(348)	(10,934)	(44,758)	-	-	(11,019)	(45,106)
Effect of exchange rate changes	(5,171)	(10,574)	(16,073)	(39,807)	-	-	(21,244)	(50,381)
Balance at December 31, 2015	61,864	263,361	151,600	645,377	-	-	213,464	908,738
Depreciation	11,621	48,321	39,663	164,923	-	-	51,284	213,244
Disposals	(1,335)	(5,551)	(10,273)	(42,716)	-	-	(11,608)	(48,267)
Reclassification	(718)	(2,986)	-	-	-	-	(718)	(2,986)
Effect of exchange rate changes	(5,387)	(28,299)	(15,263)	(77,910)	-	-	(20,650)	(106,209)
Balance at December 31, 2016	<u>\$ 66,045</u>	<u>\$ 274,846</u>	<u>\$ 165,727</u>	<u>\$ 689,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 231,772</u>	<u>\$ 964,520</u>

The management assessed that there was no impairment loss indicator for the years ended December 31, 2016 and 2015.

c. The depreciation of property, plant and equipment is calculated on a straight-line basis at the following useful lives:

Land and buildings	Buildings in Mainland China were 20 years, buildings in Hong Kong and Taiwan were 40 years; lands in Hong Kong were depreciated according to the lease period (43 to 50 years), and building improvements were depreciated by 2 to 10 years.
Machinery equipment	5 years or 10 years
Office equipment	1 years to 10 years

d. Details of the land and buildings held by the Group as of December 31, 2016 and 2015 were as follows:

December 31, 2016 and 2015

Company Name	Location	Description	Tenure/Unexpired Term
EAH	Room 1703, 17/F Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	A 1,627 sq. ft. office	Lease for a term of 46 years from April 4, 2001 to June 30, 2047.
	Room 1704, 17/F Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	A 1,452 sq. ft. office	Lease for a term of 47 years from March 13, 2000 to June 30, 2047.

(Continued)

Company Name	Location	Description	Tenure/Unexpired Term
	Room 1705, 17/F Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	A 2,171 sq. ft. office	Lease for a term of 43 years from June 30, 2004 to June 30, 2047.
	Room 1706, 17/F Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	A 1,452 sq. ft. office	Lease for a term of 50 years from April 1, 1997 to June 30, 2047.
	Room 1707, 17/F Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	A 1,627 sq. ft. office	Lease for a term of 50 years from April 1, 1997 to June 30, 2047.
HYEA	Xixi Village, Dongfong Administrative Area, Xinyu Town, Huiyang, Guangdong, PRC	3 factory buildings and 2 dormitories built on a 287,077 sq. ft. land (land use right is recognized under prepayments for land lease)	Lease for term of 50 years from December 14, 1995 to December 13, 2045.
ETT	13F.-4, No. 99, Sec. 1, Nankan Rd., Luzhu Dist., Taoyuan City 338, Taiwan (R.O.C.)	A177.67 level ground office (13.13 level ground land)	Acquired land and building from July 1, 1999.
ETHY	Xixi Village, Dongfong Administrative Area, Xinyu Town, Huiyang, Guangdong, PRC	6 factory buildings and 2 dormitories built on a 365,976 sq. ft. land (land use right is recognized under prepayments for land lease)	Lease for a term of 50 years from December 6, 2000 to December 6, 2050.
		1 factory buildings and 2 dormitories built on a 134,947 sq. ft. land (land use right is recognized under prepayments for land lease)	Lease for a term of 50 years from June 19, 2002 to June 19, 2052.

(Concluded)

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

- e. The amounts of property, plant and equipment pledged for security for borrowings by the Group refer to Note 24.

13. FINANCIAL ASSETS MEASURED AT COST

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Outlaw Audio Inc.	\$ 132	\$ 548	\$ 132	\$ 561
Audio Design Experts Inc.	10,998	45,768	10,834	46,127
HT Precision Technologies, Inc.	<u>15,915</u>	<u>66,232</u>	<u>15,559</u>	<u>66,232</u>
	<u>\$ 27,045</u>	<u>\$ 112,548</u>	<u>\$ 26,525</u>	<u>\$ 112,920</u>

Since the fair values of the Group's investments in non-publicly traded stocks, convertible bonds and stock options cannot be reliably measured, the investments are measured at the cost less any impairment.

14. INTANGIBLE ASSETS

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Goodwill	\$ 26,391	\$ 109,826	\$ 27,274	\$ 116,108
Technical knowledge (including R&D)	17,974	74,799	13,177	56,096
Customer relationship	<u>6,405</u>	<u>26,654</u>	<u>7,674</u>	<u>32,669</u>
	<u>\$ 50,770</u>	<u>\$ 211,279</u>	<u>\$ 48,125</u>	<u>\$ 204,873</u>

a. Details of goodwill were as follows:

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Related to ScS	\$ 23,302	\$ 96,971	\$ 23,999	\$ 102,166
Related to HYDM	<u>3,089</u>	<u>12,855</u>	<u>3,275</u>	<u>13,942</u>
	<u>\$ 26,391</u>	<u>\$ 109,826</u>	<u>\$ 27,274</u>	<u>\$ 116,108</u>

The above goodwill represents the excess of the cost of acquisition over the net fair value of the identifiable assets from HYDM's acquisition of earphones production line from Shenzhen Dahua Electronics Co., Ltd. in 2006 and EAH's acquisition of a subsidiary - ScS in 2014.

The recoverable amount of this cash-generating unit was determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10% per annum for the years ended December 31, 2016 and 2015.

Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the financial budget period. The cash flows beyond that five-year period have been extrapolated using a steady 0% per annum growth rate. Management believed that any reasonably possible change in the key assumptions on which recoverable amount was based would not cause the aggregate carrying amount of the cash-generating unit to exceed its aggregate recoverable amount.

The key assumptions used in the value in use calculations for the leisure goods cash-generating units were as follows:

- 1) Expected sales growth rate: The suppose values assigned to the assumption reflect past experience, except for the growth factor, which is consistent with management's plans for focusing operations in these markets.
- 2) Net operating profit margin: The suppose values are reflected for expected efficiency improvements based on past experience and effect of economy of scale.

- 3) Depreciation and amortization: The suppose values are estimated from equipment capex during budget period and equipment's useful life based on past experience.

There is no impairment of goodwill at December 31, 2016 and 2015.

The movements of goodwill were as follows:

	2016		2015	
	HK\$	NT\$	HK\$	NT\$
<u>Cost</u>				
Balance at January 1	\$ 27,274	\$ 116,108	\$ 30,203	\$ 123,379
Effect of exchange rate changes	<u>(883)</u>	<u>(6,282)</u>	<u>(2,929)</u>	<u>(7,271)</u>
Balance at December 31	<u>\$ 26,391</u>	<u>\$ 109,826</u>	<u>\$ 27,274</u>	<u>\$ 116,108</u>

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

	2016		2015	
	HK\$	NT\$	HK\$	NT\$
<u>Cost</u>				
Balance at January 1	\$ 20,851	\$ 88,765	\$ 27,837	\$ 113,714
Assets arising from acquisition of ETT Group (Note 29)	-	-	3,525	14,430
Additions	8,621	35,847	2,495	10,214
Amortization	(3,414)	(14,196)	(4,507)	(18,450)
Write-off	-	-	(4,696)	(19,223)
Effect of exchange rate changes	<u>(1,679)</u>	<u>(8,963)</u>	<u>(3,803)</u>	<u>(11,920)</u>
Balance at December 31	<u>\$ 24,379</u>	<u>\$ 101,453</u>	<u>\$ 20,851</u>	<u>\$ 88,765</u>

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

Technical acknowledge	4-15 years
Customer relationship	9 years

15. PREPAYMENTS FOR LAND LEASE

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Prepayments for land lease - current	\$ 359	\$ 1,494	\$ 381	\$ 1,622
Prepayments for land lease - non-current	<u>17,580</u>	<u>73,159</u>	<u>18,831</u>	<u>80,165</u>
	<u>\$ 17,939</u>	<u>\$ 74,653</u>	<u>\$ 19,212</u>	<u>\$ 81,787</u>

Prepayment of land lease represent land use rights obtained by paying lease fees to local government of the Mainland China. The land is used for factory and employee dormitories. The details of the lease tenure refer to Note 12(d).

16. BANK BORROWINGS

a. Short-term bank borrowings:

	December 31					
	2016			2015		
	Interest Rate	HK\$	NT\$	Interest Rate	HK\$	NT\$
Factoring	4.21%-5.49%	\$ 2,358	\$ 9,813	1.90%-4.50%	\$ 8,670	\$ 36,909
Bank borrowings - secured	1.50%-4.63%	19,143	79,663	1.50%-4.63%	21,262	90,515
Bank borrowings - unsecured	1.52%-3.10%	58,446	243,223	1.45%-2.51%	99,964	425,557
Commercial paper - secured	1.80%-1.92%	7,209	30,000	1.92%	2,349	10,000
Other bank loans	1.98%-3.11%	84,354	351,040	2.20%-2.70%	64,798	275,851
Long-term borrowings due within 1 year - unsecured	1.56%-2.62%	41,259	171,699	1.56%-2.70%	25,579	108,892
Long-term borrowings due within 1 year - secured	4.63%	<u>1,477</u>	<u>6,147</u>	2.38%-4.63%	<u>4,622</u>	<u>19,676</u>
		<u>\$ 214,246</u>	<u>\$ 891,585</u>		<u>\$ 227,244</u>	<u>\$ 967,400</u>

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

Although other bank loans' term is over 1 year, considering the loans contain repayment on demand clause, which gives the lenders the right to demand repayment as any time at their discretion, other bank loans are reclassified under current liabilities.

b. Long-term bank borrowings:

	December 31					
	2016			2015		
	Interest Rate	HK	NT\$	Interest Rate	HK\$	NT\$
Bank borrowings - secured	4.63%	\$ 4,109	\$ 17,100	2.38%-4.63%	\$ 6,887	\$ 29,319
Bank borrowings - unsecured	1.56%-2.62%	<u>45,447</u>	<u>189,127</u>	1.56%-2.70%	<u>54,258</u>	<u>230,981</u>
		49,556	206,227		61,145	260,300
Less: Long-term bank borrowings due within 1 year		<u>(42,736)</u>	<u>(177,846)</u>		<u>(30,201)</u>	<u>(128,568)</u>
		<u>\$ 6,820</u>	<u>\$ 28,381</u>		<u>\$ 30,944</u>	<u>\$ 131,732</u>

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

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

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Due within 2 to 5 years	<u>\$ 6,820</u>	<u>\$ 28,381</u>	<u>\$ 30,944</u>	<u>\$ 131,732</u>

c. The detail of the Group's pledged assets for obtaining bank facilities please refer to Note 24.

17. NOTES AND ACCOUNTS PAYABLE AND OTHER PAYABLES

a. Notes and accounts payable were mainly due to the suppliers. The Group's payment terms were 60 or 90 days. No interest will be incurred in notes and accounts payable. The Group has financial risk management policies to ensure settlement of all payables within payment term.

b. Details of other payables were as follows:

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Accrued salaries	\$ 37,502	\$ 156,064	\$ 41,043	\$ 174,724
Temporary receivables (Note 1)	17,633	73,380	14,997	63,844
ScS investment payable - current (Note 2)	8,814	36,679	4,543	19,340
Accrued molding payable	618	2,572	2,351	10,008
Accrued commission expenses	-	-	6,074	25,858
Accrued tax loss on customs bonded goods	-	-	5,676	24,159
Other payable	<u>39,374</u>	<u>163,855</u>	<u>29,646</u>	<u>126,210</u>
	<u>\$ 103,941</u>	<u>\$ 432,550</u>	<u>\$ 104,330</u>	<u>\$ 444,143</u>

Note 1: Temporary receivables are mainly sample fee, test fee, safety certification fee, etc. received in advance. Since the Group produces customized audio-visual electronic products for individual customer demand, related costs associated with the customized audio-visual electronic products, payment on behalf and installment prepayments based on agreements negotiated by both parties, are recorded in temporary payments (please refer to Note 9) and temporary receivables, respectively. After completion of the project (customer confirmed), the Group will reverse the aforementioned temporary payments and temporary receivables at the same time and the differences are recorded as income.

Note 2: According to Note 29(f), the Group acquired ScS during 2014 and is expected to pay the remaining 30% acquisition considerations by installments after 2015. The installments are interest-free and 10% of the acquisition consideration each, with payment dates on March 31, 2015, March 31, 2016 and March 31, 2017 respectively. Since ScS's operating performance did not meet the threshold agreed by both parties, the Group has suspended payment of the 10% acquisition consideration originally expected to be paid on March 31, 2016 until both parties reach an agreement in subsequent discussions. The Group will adjust the investment payable if there is difference with the original estimate.

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

ETT adopts a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group’s subsidiary in PRC, Hong Kong and Denmark are members of a state-managed retirement benefit plan operated by the government of PRC, Hong Kong and Denmark. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

In accordance with the Labor Standard Law, ETT adopts a defined benefit plan which is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. ETT contributes amounts equal to 4% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group’s defined benefit plans were as follows:

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Present value of defined benefit obligation	\$ 7,392	\$ 30,762	\$ 8,806	\$ 37,486
Fair value of plan assets	<u>(5,327)</u>	<u>(22,168)</u>	<u>(6,963)</u>	<u>(29,640)</u>
Net defined benefit liability	<u>\$ 2,065</u>	<u>\$ 8,594</u>	<u>\$ 1,843</u>	<u>\$ 7,846</u>

The movements of net defined benefit liability were as follows:

	Unit: NTD		
	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2015	\$ -	\$ -	\$ -
Acquisition of ETT Group's assets	<u>25,108</u>	<u>(29,524)</u>	<u>(4,416)</u>
Current service cost	251	-	251
Net interest expense (income)	<u>408</u>	<u>(480)</u>	<u>(72)</u>
Recognized in profit or loss	<u>659</u>	<u>(480)</u>	<u>179</u>
	<u>25,767</u>	<u>(30,004)</u>	<u>(4,237)</u>
Re-measurement			
Return on plan assets (excluding amounts included in net interest)	-	(309)	(309)
Actuarial loss - changes in demographic assumptions	1,057	-	1,057
Actuarial loss - changes in financial assumptions	876	-	876
Actuarial loss - experience adjustments	<u>10,459</u>	<u>-</u>	<u>10,459</u>
Recognized in other comprehensive income	<u>12,392</u>	<u>(309)</u>	<u>12,083</u>
Benefits paid	<u>(673)</u>	<u>673</u>	<u>-</u>
Balance at December 31, 2015	<u>37,486</u>	<u>(29,640)</u>	<u>7,846</u>
Current service cost	500	-	500
Net interest expense (income)	<u>469</u>	<u>(371)</u>	<u>98</u>
Recognized in profit or loss	<u>969</u>	<u>(371)</u>	<u>598</u>
	<u>38,455</u>	<u>(30,011)</u>	<u>8,444</u>
Re-measurement			
Return on plan assets (excluding amounts included in net interest)	-	163	163
Actuarial loss - changes in demographic assumptions	1,847	-	1,847
Actuarial loss - changes in financial assumptions	955	-	955
Actuarial loss - experience adjustments	<u>41</u>	<u>-</u>	<u>41</u>
Recognized in other comprehensive income	<u>2,843</u>	<u>163</u>	<u>3,006</u>
Contributions from the employer	<u>(1,756)</u>	<u>(1,100)</u>	<u>(2,856)</u>
Benefits paid	<u>(8,780)</u>	<u>8,780</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 30,762</u>	<u>\$ (22,168)</u>	<u>\$ 8,594</u>

Note: Since only ETT (Taiwan company) has retirement benefit plans, the above movement is stated in New Taiwan dollars.

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2016	2015
Discount rate	0.875%	1.250%
Expected rate of salary increase	2.750%	2.750%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would change as follows:

	<u>December 31</u>	
	2016	2015
Discount rate		
0.25% increase	<u>\$ (759)</u>	<u>\$ (630)</u>
0.25% decrease	<u>\$ 786</u>	<u>\$ 650</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 756</u>	<u>\$ 620</u>
0.25% decrease	<u>\$ (734)</u>	<u>\$ (604)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 2,466</u>	<u>\$ -</u>
The average duration of the defined benefit obligation	10 years	10 years

19. EQUITY

a. Share capital

The initial setup capital of the Company is NT\$1,000 thousand (registered capital is denominated in NTD). After several capital increments, the ordinary share capital of the Company as of December 31, 2016 and 2015 were NT\$615,020 thousand and NT\$610,020 thousand (equivalent to approximately HK\$162,632 and NT\$161,418 thousand), respectively, divided into 61,502 thousand shares and 61,002 thousand shares, each with a nominal amount of NT\$10 per share. All of the shares are ordinary shares, each carrying the rights to vote and receive dividend.

The movements of the shares issued and outstanding were as follows:

	(In Thousands of Shares)	
	December 31	
	2016	2015
Numbers, beginning of year	61,002	60,750
Issuance of restricted shares (Note)	<u>500</u>	<u>252</u>
Numbers, end of year	<u><u>61,502</u></u>	<u><u>61,002</u></u>

Note: The Company's board of directors meeting held on December 12, 2016 and May 12, 2015, respectively, resolved to issue restricted shares (see detail in Note 19(e)) to the Group's specific employees. The restricted shares issued record dates were December 20, 2016 and June 2, 2015, respectively, and exercise price per share both was NT\$0.

b. Treasury shares

Purpose of Buy-back	Shares Held by a Subsidiary (In Thousands of Shares)
Shares transferred to employees	300
Shares held by Its subsidiaries	<u>453</u>
Number of shares as of December 31, 2016 and 2015	<u><u>753</u></u>

The Company's shares held by its subsidiary for the purpose of short-term investment at the end of the reporting periods were as follows:

December 31, 2016

Subsidiary	Number of Shares Held (In Thousands of Shares)	Carrying Amount	Market Price
ETT	453	HK\$5,966 thousand (equivalent to approximately NT\$24,018 thousand)	HK\$3,407 thousand (equivalent to approximately NT\$14,179 thousand)

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote. The shares held by a subsidiary are treated as treasury shares which retain shareholders' rights, except the rights to participate in new share issuance and to vote.

c. Capital surplus

Capital surplus arising from issuance of common shares may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital limited to 10% of the Company's capital annually. As of December 31, 2016 and 2015, the capital surplus of the Company were NT\$756,922 thousand and NT\$744,831 thousand (equivalent to approximately HK\$200,400 thousand and HK\$197,472 thousand). The details were as follows:

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>				
Arising from issuance of common share	\$ 193,698	\$ 729,815	\$ 193,698	\$ 729,815
Cash dividend received from treasury stock	897	3,631	572	2,265
<u>May not be used for any purpose</u>				
Arising from employee restricted shares	<u>5,805</u>	<u>23,476</u>	<u>3,202</u>	<u>12,751</u>
	<u>\$ 200,400</u>	<u>\$ 756,922</u>	<u>\$ 197,472</u>	<u>\$ 744,831</u>

d. Retained earnings and dividend policy

In accordance with the amendments to Taiwan Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The consequential amendments (the policy on dividend distribution and the addition of the policy on distribution of staff remuneration) to the Company's Articles of Incorporation (the "Articles") had been proposed by the Company's board of directors on December 16, 2015 and were resolved by the Company's shareholders' meeting held on May 11, 2016.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside or reversing a special reserve in accordance with the laws and regulations, the remaining net profit for the period could be distributed by the Company, subject to the following requirements:

The dividends/bonus distribution to the shareholders under this clause shall not be less than 50% of the remaining net profit for the period, and the cash dividend shall not be less than 50% of the total dividends/bonus distribution and the remaining distribution may be in stock dividends. For information about the accrual basis of the staff remuneration and directors' remuneration and the actual appropriations, please refer to Note 20(c) for details.

The appropriations of earnings for 2015 and 2014 were approved in the shareholders' meeting on May 11, 2016 and May 12, 2015, respectively. Details of the dividend per share of the earnings appropriations for 2015 and 2014 of the Company were as follows:

	2015
Ordinary share dividend - cash	NT\$3 per share, totaling NT\$183,006 thousand

	2014
Ordinary share dividend - cash	NT\$5 per share, totaling NT\$303,750 thousand

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on February 20, 2017. The appropriations and dividends per share were as follows:

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

The appropriations of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held on Jun 8, 2017.

Exchange differences on translating foreign operations

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Company's presentation currency (i.e. Hong Kong dollars) were recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve were reclassified to profit or loss on the disposal of the foreign operation.

In addition, according to the requirements of the regulatory authority, the consolidated financial statements of the Company shall present amounts in New Taiwan dollars which are translated from Hong Kong dollars to New Taiwan dollars.

Legal reserve

The old articles of the Company stipulated that 10% of the consolidated net profit of shall be allocated to the legal reserve. However, according to the Articles of the Company revised in June 2013, the Company is not required to allocate 10% of the legal reserve. Legal reserve is used to offset loss. In case no loss is incurred, in addition to capitalization, the legal reserve exceeding 25% of the paid-in capital can be used as cash distribution.

Subsidiaries in China shall appropriate reserve fund (recognized under legal reserves) and provide employees' award and benefit fund (recognized under liabilities items) from the profit after tax in accordance to Section 58 of the "Rules for the Implementation of the Law of the People's Republic of China on Foreign-funded Enterprises", subject to a proportion of no less than 10% of the profit after tax. No appropriation shall be made when the accumulated amount reaches 50% of the registered capital. The provision in respect of employees' award and benefit fund shall be determined by the Company upon passing of directors' resolution, however, it has not yet been approved as at December 31, 2016.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals ETT's paid-in capital. Legal reserve may be used to offset deficit. If ETT has no deficit and the legal reserve has exceeded 25% of ETT's paid-in capital, the excess may be transferred to capital or distributed in cash.

e. Share-based payment arrangements

The Company's board of directors meetings held on December 12, 2016 and May 12, 2015 resolved to issue restricted shares, totaling NT\$5,000 thousand and NT\$2,520 thousand, respectively, divided into 500 thousand and 252 thousand shares. The conditions of the restricted shares being distributed to or acquired by the employees before vested were as follows:

- 1) The employees cannot sell, pledge, transfer, donate, setting pledge or dispose these shares.
- 2) If employees fail to meet vested conditions, the Company will recall and cancel restricted shares being distributed to according to the restricted shares issuance plan.

As of December 31, 2016 and 2015, outstanding restricted shares were 752 thousand and 252 thousand shares. Related information was as follows:

Grant date	December 20, 2016	June 2, 2015
Fair value share price at grant date	NT\$31.45 (equivalent to approximately HK\$7.63)	NT\$60.6 (equivalent to approximately HK\$15.2)
Exercise price	NT\$0	NT\$0
Number of shares granted (in thousand shares)	500	252
Vested period	1-4 years (obtain of 25% annually)	1-4 years (obtain of 25% annually)

The movements of the employee unearned benefits were as follows:

	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Balance at January 1	\$ (3,275)	\$ (13,044)	\$ -	\$ -
Issuance of restricted shares	(3,817)	(15,725)	(3,835)	(15,271)
Recognized share-based payment expenses	<u>999</u>	<u>3,982</u>	<u>560</u>	<u>2,227</u>
Balance at December 31	<u>\$ (6,093)</u>	<u>\$ (24,787)</u>	<u>\$ (3,275)</u>	<u>\$ (13,044)</u>

20. CONSOLIDATED NET PROFIT

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

a. Net revenue

	For the Years Ended December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Traditional Speakers	\$ 283,041	\$ 1,176,913	\$ 506,559	\$ 2,073,650
Speakers and Audio Products with Electronics	823,213	3,423,002	1,038,364	4,250,647
Wireless Speakers	65,654	272,996	32,942	134,851
Earphones	144,020	598,850	145,115	594,043
Premium Speakers	67,066	278,867	49,121	201,082
Others	<u>172,775</u>	<u>718,415</u>	<u>222,836</u>	<u>912,201</u>
	<u>\$ 1,555,769</u>	<u>\$ 6,469,043</u>	<u>\$ 1,994,937</u>	<u>\$ 8,166,474</u>

b. Depreciation and amortization expenses

	For the Years Ended December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Depreciation of property, plant and equipment	\$ 51,284	\$ 213,244	\$ 49,988	\$ 204,631
Amortization of other intangible assets	3,414	14,196	4,507	18,450
Amortization of prepayments for lease	<u>546</u>	<u>2,270</u>	<u>567</u>	<u>2,321</u>
	<u>\$ 55,244</u>	<u>\$ 229,710</u>	<u>\$ 55,062</u>	<u>\$ 225,402</u>

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

	For the Years Ended December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Remuneration of directors and key management				
Short-term benefits	\$ 30,742	\$ 127,828	\$ 31,008	\$ 126,934
Post-employment benefits	704	2,927	752	3,078
Share-based payments	729	2,903	418	1,662
Employee benefits				
Short-term benefits	316,782	1,317,211	350,269	1,433,861
Post-employment benefits	16,741	69,611	17,571	71,929
Share-based payments	<u>270</u>	<u>1,079</u>	<u>142</u>	<u>565</u>
	<u>\$ 365,968</u>	<u>\$ 1,521,559</u>	<u>\$ 400,160</u>	<u>\$ 1,638,029</u>

Under the amended Articles, the Company distributes staff remuneration at the rate of 1% to 15% and directors' remuneration at the rate no more than 2%, respectively, of profit before income tax, staff remuneration, and directors' remuneration. For the year ended December 31, 2016, the staff remuneration and directors' remuneration were HK\$2,855 thousand (equivalent to approximately NT\$11,869 thousand) and HK\$945 thousand (equivalent to approximately NT\$3,929 thousand).

The Company accrued staff remuneration and directors' remuneration based on the Article (prior to the amendment), which amounted to HK\$4,159 thousand (equivalent to approximately NT\$17,024 thousand) and HK\$1,505 thousand (equivalent to approximately NT\$6,161 thousand) for the year ended 31, 2015, respectively.

If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in accounting estimate.

The resolutions in respect of distribution as well as staff remuneration and directors' remuneration for 2016 and 2015 were passed at the Company's board of directors on February 20, 2017 and annual shareholders' meeting held on May 12, 2016, respectively. Details of the dividend per share, directors' remuneration and staff remuneration of the earnings appropriations for 2016 and 2015 of the Company were as follows:

2016	
Directors' remuneration - cash	HK\$945 thousand (equivalent to approximately NT\$3,929 thousand)
Staff remuneration - cash	HK\$2,855 thousand (equivalent to approximately NT\$11,869 thousand)
2015	
Directors' remuneration - cash	HK\$1,505 thousand (equivalent to approximately NT\$6,161 thousand)
Staff remuneration - cash	HK\$4,159 thousand (equivalent to approximately NT\$17,024 thousand)

There is no significant difference between the aforementioned approved directors' remuneration and staff remuneration amounts and the amounts recognized in 2016 and 2015.

Information about the staff remuneration and directors' remuneration is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Other income

	For the Years Ended December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Project service revenue	\$ 3,711	\$ 15,431	\$ 9,017	\$ 36,912
Interest income	607	2,524	939	3,844
Rent revenue	275	1,143	284	1,163
Dividend income	1,609	6,690	-	-
Scrap income	3,586	14,911	1,863	7,626
Gains on disposal of property, plant and equipment	30	125	55	225
Net gain on financial instruments at fair value through profit or loss	3,641	15,140	-	-
Others	<u>6,727</u>	<u>27,971</u>	<u>4,290</u>	<u>17,562</u>
	<u>\$ 20,186</u>	<u>\$ 83,935</u>	<u>\$ 16,448</u>	<u>\$ 67,332</u>

e. Other losses

	For the Years Ended December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Losses on scrap and disposal of property, plant and equipment	\$ 1,052	\$ 4,375	\$ 2,823	\$ 11,556
Losses on scrap and disposal of intangible assets	-	-	4,696	19,223
Net loss on financial instruments at fair value through profit or loss	-	-	812	3,324
Tax loss on customs bonded goods	-	-	5,676	23,236
Others	<u>2</u>	<u>8</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,054</u>	<u>\$ 4,383</u>	<u>\$ 14,007</u>	<u>\$ 57,339</u>

f. Finance costs

	For the Years Ended December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Interest expense arising from bank borrowings	<u>\$ 7,015</u>	<u>\$ 29,169</u>	<u>\$ 6,367</u>	<u>\$ 26,064</u>

21. INCOME TAXES

a. Major components of tax expense recognized in profit or loss

	For the Years Ended December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Current tax				
In respect of the current year	\$ 12,390	\$ 51,519	\$ 10,556	\$ 43,212
Adjustments for prior years	1,716	7,136	1,487	6,087
Deferred tax				
In respect of the current year	<u>173</u>	<u>719</u>	<u>(878)</u>	<u>(3,594)</u>
Income tax expenses recognized in profit or loss	<u>\$ 14,279</u>	<u>\$ 59,374</u>	<u>\$ 11,165</u>	<u>\$ 45,705</u>

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

	For the Years Ended December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Profit before tax	<u>\$ 46,449</u>	<u>\$ 193,306</u>	<u>\$ 73,554</u>	<u>\$ 300,979</u>
Income tax expense calculated at the statutory rate (16.5%)	\$ 7,664	\$ 31,868	\$ 12,136	\$ 49,680
Tax-exempt income and non-deductible expenses in determining taxable income	1,685	7,006	(3,396)	(13,901)
Underestimated income tax for prior years	1,716	7,136	1,487	6,087
Unrecognized effect of deferred tax income for prior years	678	2,819	(64)	(262)
Effect of different tax rate of foreign operations in other jurisdictions	<u>2,536</u>	<u>10,545</u>	<u>1,002</u>	<u>4,101</u>
Income tax expense recognized in profit or loss	<u>\$ 14,279</u>	<u>\$ 59,374</u>	<u>\$ 11,165</u>	<u>\$ 45,705</u>

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

The EAH and ETH of the Group according to Hong Kong tax regulation, the local tax rate for Hong Kong subsidiaries is 16.5%. Different period and interim period income tax allocation shall be estimated in accordance with IFRSs.

Effective from January 1, 2008, subsidiaries in the PRC shall be subject to an applicable tax rate of 25% upon implementation of new Enterprise Income Tax Law. In addition, HYEА and HYDM obtained the innovation and high technology enterprise certificates issued by local tax authorities in July 2013. Therefore, HYEА and HYDM are subject to the applicable preferential income tax rate in the next three years. Their enterprise income tax rate has been reduced from 25% to 15%. HYEА and HYDM obtained the proof of review in February 2016. Therefore, HYEА and HYDM are still subject to the applicable preferential income tax rate from 2015 to 2017.

In accordance with Enterprise Income Tax Law of the PRC, effective on 2008 and taxation on the interpretations and implementation of some clauses in the arrangement between the Mainland of China and Hong Kong Special Administrative Region on the avoidance of double taxation. If foreign dividends allocated to the Hong Kong company meets certain conditions the Department of 5% levy tax earnings distribution.

The local tax rate in 2015 for the subsidiary in Denmark is 23.5%, which is reduced to 22% in 2016 onwards. The local tax rate for the subsidiary in Taiwan is 17%.

b. Deferred tax assets

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Tax losses	\$ -	\$ -	\$ 678	\$ 2,886
Allowance of inventories provision	1,805	7,512	719	3,061
Defined benefit plan	449	1,866	326	1,334
Others	<u>865</u>	<u>3,602</u>	<u>889</u>	<u>3,839</u>
	<u>\$ 3,119</u>	<u>\$ 12,980</u>	<u>\$ 2,612</u>	<u>\$ 11,120</u>

The movements of deferred tax assets were as follows:

					Unit: HKD
	Tax Losses	Allowance of Inventories Provision	Defined Benefit Plan	Others	Total
Balance at January 1, 2015	\$ 694	\$ 474	\$ -	\$ 306	\$ 1,474
Acquisition of ETT's assets (Note 29)	-	-	-	2,008	2,008
Recognized in profit or loss	64	282	-	(1,356)	(1,010)
Recognized in other comprehensive income	-	-	324	-	324
Reclassification	-	-	-	(11)	(11)
Effect of exchange rate changes	<u>(80)</u>	<u>(37)</u>	<u>2</u>	<u>(58)</u>	<u>(173)</u>
Balance at December 31, 2015	678	719	326	889	2,612
Recognized in profit or loss	(678)	1,177	-	(52)	447
Recognized in other comprehensive income	-	-	123	-	123
Effect of exchange rate changes	<u>-</u>	<u>(91)</u>	<u>-</u>	<u>28</u>	<u>(63)</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 1,805</u>	<u>\$ 449</u>	<u>\$ 865</u>	<u>\$ 3,119</u>

Unit: TWD

	Tax Losses	Allowance of Inventories Provision	Defined Benefit Plan	Others	Total
Balance at January 1, 2015	\$ 2,835	\$ 1,936	\$ -	\$ 1,250	\$ 6,021
Acquisition of ETT's assets (Note 29)	-	-	-	8,202	8,202
Recognized in profit or loss	262	1,154	-	(5,552)	(4,136)
Recognized in other comprehensive income	-	-	1,334	-	1,334
Reclassification	-	-	-	(47)	(47)
Effect of exchange rate changes	<u>(211)</u>	<u>(29)</u>	<u>-</u>	<u>(14)</u>	<u>(254)</u>
Balance at December 31, 2015	2,886	3,061	1,334	3,839	11,120
Recognized in profit or loss	(2,819)	4,894	-	(216)	1,859
Recognized in other comprehensive income	-	-	511	-	511
Effect of exchange rate changes	<u>(67)</u>	<u>(443)</u>	<u>21</u>	<u>(21)</u>	<u>(510)</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 7,512</u>	<u>\$ 1,866</u>	<u>\$ 3,602</u>	<u>\$ 12,980</u>

c. Deferred tax liabilities

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Temporary differences on other intangible assets	\$ 5,842	\$ 24,312	\$ 4,862	\$ 20,698
Temporary differences on inventory and depreciation of property, plant and equipment	7,533	31,348	8,987	38,258
Unappropriated earnings of subsidiaries	<u>14,246</u>	<u>59,285</u>	<u>13,391</u>	<u>57,007</u>
	<u>\$ 27,621</u>	<u>\$ 114,945</u>	<u>\$ 27,240</u>	<u>\$ 115,963</u>

The movements of deferred tax liabilities were as follows:

	Unit: HKD			
	Temporary Differences on Other Intangible Assets	Temporary Differences on Inventory and Depreciation of Property, Plant and Equipment	Unappropriated Earnings of Subsidiaries	Total
Balance at January 1, 2015	\$ 6,386	\$ 1,837	\$ 650	\$ 8,873
Acquisition of ETT's liabilities (Note 29)	-	8,343	12,730	21,073
Recognized in profit or loss	(860)	(1,028)	-	(1,888)
Reclassification	-	-	11	11
Effect of exchange rate changes	<u>(664)</u>	<u>(165)</u>	<u>-</u>	<u>(829)</u>
Balance at December 31, 2015	4,862	8,987	13,391	27,240
Recognized in profit or loss	1,096	(1,342)	866	620
Effect of exchange rate changes	<u>(116)</u>	<u>(112)</u>	<u>(11)</u>	<u>(239)</u>
Balance at December 31, 2016	<u>\$ 5,842</u>	<u>\$ 7,533</u>	<u>\$ 14,246</u>	<u>\$ 27,621</u>

Unit: TWD

	Temporary Differences on Other Intangible Assets	Temporary Differences on Inventory and Depreciation of Property, Plant and Equipment	Unappropriated Earnings of Subsidiaries	Total
Balance at January 1, 2015	\$ 26,087	\$ 7,504	\$ 2,655	\$ 36,246
Acquisition of ETT's liabilities (Note 29)	-	34,081	52,002	86,083
Recognized in profit or loss	(3,520)	(4,210)	-	(7,730)
Reclassification	-	-	47	47
Effect of exchange rate changes	<u>(1,869)</u>	<u>883</u>	<u>2,303</u>	<u>1,317</u>
Balance at December 31, 2015	20,698	38,258	57,007	115,963
Recognized in profit or loss	4,557	(5,582)	3,601	2,576
Effect of exchange rate changes	<u>(943)</u>	<u>(1,328)</u>	<u>(1,323)</u>	<u>(3,594)</u>
Balance at December 31, 2016	<u>\$ 24,312</u>	<u>\$ 31,348</u>	<u>\$ 59,285</u>	<u>\$ 114,945</u>

d. Income tax assessments

The Company and its subsidiaries are located in the Cayman Islands, PRC, Hong Kong and Denmark. The aforementioned tax authorities will not take the initiative to send a tax returns assessment to enterprises. When there are tax disputes, they issued a tax payment notice to enterprises and reserve the right to propose additional taxes. The tax authorities have assessed income tax returns of ETT up to 2014.

22. EARNINGS PER SHARE

	Amount (In Thousands)		Weighted Average Shares (In Thousands)	Earnings Per Share (Dollars)	
	HK\$	NT\$		HK\$	NT\$
For the year ended December 31, <u>2016</u>					
Basic earnings per share (Note)					
Net profit attributable to owner of the Company	<u>\$ 32,170</u>	<u>\$ 133,932</u>	<u>60,270</u>	<u>\$ 0.53</u>	<u>\$ 2.22</u>
For the year ended December 31, <u>2015</u>					
Basic earnings per share (Note)					
Net profit attributable to owner of the Company	<u>\$ 62,389</u>	<u>\$ 255,274</u>	<u>60,393</u>	<u>\$ 1.03</u>	<u>\$ 4.23</u>

Note: The restricted shares plan for employees is entitled to vote and to receive dividends after granted. In addition, if employees resign in the vested period, they are not required to return restricted shares and dividends. Therefore, the restricted shares are considered as the outstanding shares at the issuance date of restricted shares, and there is no dilutive effect on earnings per share.

23. RELATED-PARTY TRANSACTIONS

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

a. Payable to related parties

Related Party Categories	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Other payables				
Related company	<u>\$ 8,920</u>	<u>\$ 37,120</u>	<u>\$ 19,586</u>	<u>\$ 83,380</u>

Other payables in current period include payable for acquiring ETT Group and the temporary payable for ETT Group's derivative financial instruments. Please refer to Notes 7 and 29.

Classification by payment period as follows:

Related Party Categories	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Current	\$ 8,920	\$ 37,120	\$ 11,680	\$ 49,723
Non-current	<u>-</u>	<u>-</u>	<u>7,906</u>	<u>33,657</u>
	<u>\$ 8,920</u>	<u>\$ 37,120</u>	<u>\$ 19,586</u>	<u>\$ 83,380</u>

b. Compensation of key management personnel

The remuneration of directors and other key management was determined by the compensation committee in accordance with the individual performance and the market trends. Please refer to Note 20(c) for details.

24. PLEDGED ASSETS

The following assets and treasury shares disclosed in Note 19 were provided as collateral for bank borrowings. Part of loan guarantees is provided by the Chairman of the Company.

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Other intangible assets	\$ 4,451	\$ 18,523	\$ 4,488	\$ 19,106
Accounts receivable with recourse	3,381	14,070	10,666	45,406
Property, plant and equipment	7,356	30,611	6,619	28,178
Inventories and other assets	14,073	58,565	13,640	58,067
Pledge deposits (recognized under restricted assets - current)	<u>1,397</u>	<u>5,814</u>	<u>3,261</u>	<u>13,882</u>
	<u>\$ 30,658</u>	<u>\$ 127,583</u>	<u>\$ 38,674</u>	<u>\$ 164,639</u>

25. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

a. Lease agreement

Operating leases involve leases of land, offices premises and other operating assets, except prepayments for land lease (refer to Note 15), that terms of leases are mainly from 1 to 50 years. For operating lease period with more than 5 years, the lease contracts stipulate that the rental should be increased by certain percentage for every 5 years. The Group does not have acquisition rights to the leased land at the termination of the lease.

b. Non-cancellable operating leases

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Within 1 year	\$ 7,462	\$ 31,053	\$ 10,224	\$ 43,525
More than 1 year and within 5 years	13,966	58,120	15,609	66,449
More than 5 years	<u>15,226</u>	<u>63,363</u>	<u>18,671</u>	<u>79,484</u>
	<u>\$ 36,654</u>	<u>\$ 152,536</u>	<u>\$ 44,504</u>	<u>\$ 189,458</u>

Rental expenses of the Group arising from operating leases for years ended December 31, 2016 and 2015 amounted to HK\$9,494 thousand and HK\$10,340 thousand (equivalent to approximately NT\$39,477 thousand and NT\$42,328 thousand), respectively.

26. COMMITMENTS AND CONTINGENT LIABILITIES

a. Litigation

In December 2005, EAH entered into an agreement with an independent third party to establish a company in Brazil, Eastern Asia Unicoba Electronics Da Amazonia Ltda. (“EAB”). In 2006, EAH invested approximately HK\$12,600 thousand in a 68% equity interest in EAB. Since 2007, the investment cost was reclassified as other receivable under current assets due to the withdrawal of EAH as a shareholder of EAB. EAH is involved in several legal matters in Brazil where it is the plaintiff as well as defendant. Regarding aforementioned lawsuit related to EAB please see below for further explanation:

1) The legal matters whereby EAH is the plaintiff are:

As of December 31, 2016 and 2015, the amounts sought for legal matters whereby EAH is the plaintiff are R\$16,400 thousand and R\$14,500 thousand (approximately NT\$162,100 thousand and NT\$122,200 thousand) (the amount has considered accrued interest from the date of the prosecution and local court’s provision such as inflation index, etc.), respectively. Since EAH does not have any assets in Brazil, EAH must provide security deposits to the courts as possible court costs incurred in the litigation.

Since the outcome of litigation is dependent on the Courts’ judgements, EAH has recognized related impairment of aforementioned other receivables based on current litigation progress.

EAH has received partial compensation payments from the court, totaling HK\$895 thousand (equivalent to approximately NT\$3,721 thousand) which directly recorded as decrease in other receivables.

As of December 31, 2016 and 2015, amounts recorded as other receivables (net of impairment loss) are HK\$8,654 thousand and HK\$9,549 thousand (approximately NT\$36,013 thousand and NT\$40,651 thousand converted by the spot exchange rate of each balance sheet date), respectively.

Based on the assessment of the legal opinion obtained and the assessment of the financial background of the defendants as of December 31, 2016 and 2015, EAH considers that the impairment loss taken is reasonable and sufficient.

EAH is required to place bonds with the Courts in Brazil to secure payment of court costs. As of December 31, 2016 and 2015, pledged deposit recorded as other receivables (net of impairment loss) are HK\$1,059 thousand and HK\$1,029 thousand (approximately NT\$4,407 thousand and NT\$4,381 thousand), respectively.

2) The legal matters whereby EAH is the defendant are:

The plaintiff sought partial dissolution of EAB with the withdrawal of EAH from EAB; and the assessment of assets and liabilities of the partners arising from the termination of the partnership. The plaintiff also sought an injunction to prevent or suspend the effects of the shareholders meeting held in November 2006. In June 2008, the judge ordered that an accounting expert examination takes place to verify the reimbursement of the amount equivalent to EAH's equity interest in EAB. As of July 16, 2012, the accounting expert examination report identified when EAH divestment of EAB, EAB's net equity is positive (R\$1,978 thousand, approximately NT\$19,552 thousand). Hence, EAH is not liable for any debt of EAB. In contrast, after consideration of interest and inflation factors, the court ruled that the plaintiff shall pay EAH R\$4,429 thousand (approximately NT\$43,779 thousand) within 90 days from the date of the judgment. Since the plaintiff has filed an appeal on September 4, 2012 and the recoverability of any potential awards by the courts is also subject to the availability of assets by the defendants to the litigations, EAH will recognized related income when actual recovery. At current stage, it has no material impact on the Group's financial position.

b. Financial guarantees within the Group refer to Table 2 of Note 30.

27. DISCLOSURE ON FINANCIAL INSTRUMENTS

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return through the optimization of the capital and debt structure balance. The Group's overall strategy remains unchanged in 2016.

The Group regularly review to the appropriate categories of capital structure. The Group manages based on the cost of capital and the risks associated with the various types of capital determine a reasonable proportion of the Group's capital structure.

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

	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Debt (bank borrowing)	\$ (221,066)	\$ (919,966)	\$ (258,188)	\$ (1,099,132)
Cash and cash equivalents (pledged deposit)	<u>226,415</u>	<u>942,226</u>	<u>206,326</u>	<u>878,350</u>
Net cash	<u>\$ 5,349</u>	<u>\$ 22,260</u>	<u>\$ (51,862)</u>	<u>\$ (220,782)</u>
Equity	<u>\$ 351,239</u>	<u>\$ 1,461,681</u>	<u>\$ 391,945</u>	<u>\$ 1,668,549</u>
Debt-equity ratio	<u>NA</u>	<u>NA</u>	<u>13%</u>	<u>13%</u>

b. Fair value of financial instruments

The Group's financial instruments involve publicly traded stocks and derivative financial instruments (refer to Note 7) which are recognized at fair value, grouped into Levels 1 (are measured from quoted prices in active markets) and 2 (are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities), respectively.

If a non-derivative instrument has short maturity, its future amount receivable and payable approximate its carrying amount, and its carrying amount provides a reasonable basis for estimation of fair value, then the fair value of which shall be estimated based on its carrying amount as shown in the balance sheet. Hence, the carrying amounts of the following financial instruments approximate their fair values:

Cash and cash in banks, notes and accounts receivable, accounts receivables from related parties, other financial assets, notes and accounts payable, accounts payable and other payables to related parties, other payables, finance lease payables and bank borrowings.

c. Financial risk management objectives and policies

The Group's major financial instruments include cash and cash in bank, notes and accounts receivable, other financial assets, bank borrowings loans and financial liabilities, etc. Details of the aforementioned financial instruments have been disclosed in the consolidated financial statements.

Set out below are the risks related to the financial instruments, policies to mitigate the risks, how the management monitor the risks in order to adopt timely, appropriate and effective measures.

d. Financial risk information

Based on the internal report containing analysis of exposure of and amount involved in risks by financial units, the Group monitors and manages financial risks relating to the enterprise as a whole, the domestic and international financial market and the operations of the Group. These risks include market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk.

Financial units of the Group constantly report to the management. Management will then monitor the risks and execute policies according to its duties and responsibilities so as to mitigate exposure.

There is no change on the Group's type of exposure and its management and measurement thereof.

1) Market risk

The Group's financial instrument transaction is exposed to foreign exchange risk and interest rate risk (refer to 2 and 3 below).

2) Foreign exchange risk

The Group has foreign currency-denominated transactions that are exposed to the risk caused by fluctuation of exchange rates in the market. To monitor the risk, the responsible team of the Group reviews constantly the portion of assets and liabilities that are exposed to the risk and makes appropriate adjustment so as to control any risk arising from fluctuation of exchange rates.

Since the principal currency of the Group is the US dollar, thus the Group is exposed to risk of exchange rate fluctuation. Fortunately, the risk is mitigated as the majority of receivables and payables and bank borrowings are denominated in US dollar.

As of the reporting period, the carrying amounts of the significant foreign currency-denominated assets and liabilities that are expected to be exposed to exchange rates fluctuation were as follows:

	Assets			
	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
USD	\$ 319,479	\$ 1,329,512	\$ 465,174	\$ 1,980,292
HKD	<u>624</u>	<u>2,597</u>	<u>437</u>	<u>1,860</u>
	<u>\$ 320,103</u>	<u>\$ 1,332,109</u>	<u>\$ 465,611</u>	<u>\$ 1,982,152</u>

	Liabilities			
	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
USD	\$ 276,463	\$ 1,150,501	\$ 360,840	\$ 1,536,132
HKD	<u>51,303</u>	<u>213,497</u>	<u>101,003</u>	<u>429,980</u>
	<u>\$ 327,766</u>	<u>\$ 1,363,998</u>	<u>\$ 461,843</u>	<u>\$ 1,966,112</u>

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

	Currency USD Impact		Currency USD Impact	
	For the Year Ended December 31, 2016		For the Year Ended December 31, 2015	
	HK\$	NT\$	HK\$	NT\$
Profit or loss	<u>\$ 2,151</u>	<u>\$ 8,951</u>	<u>\$ 5,217</u>	<u>\$ 22,208</u>

	Currency HKD Impact		Currency HKD Impact	
	For the Year Ended December 31, 2016		For the Year Ended December 31, 2015	
	HK\$	NT\$	HK\$	NT\$
Profit or loss	<u>\$ (2,534)</u>	<u>\$ (10,545)</u>	<u>\$ (5,028)</u>	<u>\$ (21,406)</u>

The management considers that the sensitivity analysis is unrepresentative of the inherent foreign exchange rate risk as the year end exposure does not reflect the exposure during the period.

3) Interest rate risk

Management of interest rate risk

The Group is subject to interest rate risk arising from bank deposits and borrowings bearing floating interest rate. The current policy of the Group is to maintain borrowings bearing floating interest rate so as to mitigate risk arising from interest rate fluctuation. There is no financial instrument held for hedging purpose. Management of the Group reviews interest rate risk periodically and will implement measures when necessary to address significant interest rate risk for proper monitoring in light of any change in market interest rate.

Sensitivity analysis of Interest rate

The following sensitivity analysis is prepared based on the exposure to interest rate of non-derivative instrument at the end of the reporting period.

0.5% increase or decrease has been used by the Group as a reasonable estimation of interest rate fluctuation when reporting to the management. With other variations remain unchanged, without taking into account capitalization of interests, if the interest rate increased 0.5%, the profit and loss of the Group for the years ended 2016 and 2015 would have been decreased by HK\$25 thousand and HK\$260 thousand (equivalent to approximately NT\$106 thousand NT\$1,009 thousand), respectively.

4) Credit risk

The Group is exposed to credit risk in the event of the counterparties' failure to perform their obligations under the contracts. The credit risk of the Group is assessed based on the contracts with positive fair values as at the end of the reporting period. Counterparties of the Group are creditworthy financial institutes and corporate entities, and the extent of credit risk that may arise from the counterparties and their creditworthiness are reviewed annually by a special team. Therefore, it is expected that the credit risk is insignificant.

The accounts receivables of the Group concentrate in certain clients who are mainly internationally renowned brands of media players and are not connected. Credit assessments on the financial status of the clients have been conducted. Therefore, it is expected that the credit risk from accounts receivables is minimal.

The maximum exposure of the Group to credit risk is the net amount of carrying amount less amount required to be offset and impairment loss required to be recognized under relevant rules (i.e. carrying amount of financial assets), without taking into account any security and other credit enhancement. The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

5) Liquidity risk

Appropriate management structure addressing liquidity risk is formulated by the management to monitor short, medium and long term financing and solvency. As such, the Group is not exposed to any liquidity risk attributable to failure to perform obligation under the contract due to inability to finance funds.

The table below analyzes the remaining unexpired maturity of non-derivative financial liabilities with fixed term of repayment based on the undiscounted cash flow of the financial liabilities on the earliest date that repayment shall be made on demand, and the interest and principal are included in the analysis. In respect of the interest cash flow payable at floating rates, the undiscounted interests are estimated based on yield curve as at the end of the reporting period. Maturities of contracts are estimated on the earliest date of repayment on demand. When the amount payable or receivable is not fixed, disclosure of such amount is determined based on the estimated interest rate derived from the yield curve on the balance sheet date.

Unit: HKD

	December 31, 2016				
	Effective Interest Rate	On Demand or Within 1 Year	2 Years to 5 Years	More than 5 Years	Total
<u>Non-interest bearing liabilities</u>					
Notes and accounts payable	-	\$ 294,686	\$ -	\$ -	\$ 294,686
Other payables to related parties	-	8,920	-	-	8,920
Other payables	-	103,941	-	-	103,941
<u>Interest bearing liabilities</u>					
Finance lease payables	-	185	-	-	185
Bank borrowings	2.39%	219,366	6,983	-	226,349

Unit: HKD

	December 31, 2015				
	Effective Interest Rate	On Demand or Within 1 Year	2 Years to 5 Years	More than 5 Years	Total
<u>Non-interest bearing liabilities</u>					
Notes and accounts payable	-	\$ 330,504	\$ -	\$ -	\$ 330,504
Other payables to related parties	-	11,680	7,906	-	19,586
Other payables	-	104,330	4,543	-	108,873
<u>Interest bearing liabilities</u>					
Finance lease payables	-	234	192	-	426
Bank borrowings	2.44%	232,789	31,699	-	264,488

Unit: NTD

December 31, 2016					
	Effective Interest Rate	On Demand or Within 1 Year	2 Years to 5 Years	More than 5 Years	Total
<u>Non-interest bearing liabilities</u>					
Notes and accounts payable	-	\$ 1,226,336	\$ -	\$ -	\$ 1,226,336
Other payables to related parties	-	37,120	-	-	37,120
Other payables	-	432,550	-	-	432,550
<u>Interest bearing liabilities</u>					
Finance lease payables	-	770	-	-	770
Bank borrowings	2.39%	912,892	29,060	-	941,952

December 31, 2015					
	Effective Interest Rate	On Demand or Within 1 Year	2 Years to 5 Years	More than 5 Years	Total
<u>Non-interest bearing liabilities</u>					
Notes and accounts payable	-	\$ 1,406,989	\$ -	\$ -	\$ 1,406,989
Other payables to related parties	-	49,723	33,657	-	83,380
Other payables	-	444,143	19,340	-	463,483
<u>Interest bearing liabilities</u>					
Finance lease payables	-	996	817	-	1,813
Bank borrowings	2.44%	991,006	134,946	-	1,125,952

e. Financial facilities

1) Bank overdraft facility

	Liabilities			
	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Unsecured bank overdraft facility				
Amount unused	\$ 600	\$ 2,497	\$ 1,600	\$ 6,811

2) Bank borrowings

	Liabilities			
	December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Secured borrowings				
Amount unused	<u>\$ 76,702</u>	<u>\$ 319,195</u>	<u>\$ 188,030</u>	<u>\$ 1,359,769</u>
Unsecured borrowings				
Amount unused	<u>\$ 335,810</u>	<u>\$ 1,397,473</u>	<u>\$ 390,647</u>	<u>\$ 1,663,023</u>

f. Significant assets and liabilities denominated in foreign currencies

The following information was aggregated by the foreign currencies other than functional currencies of the Group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

Unit: Foreign Currencies (In Thousands)

	Foreign Currencies	Function Currencies	Exchange Rate (Note)	Carrying Amount (NT\$)
<u>Financial assets</u>				
Monetary items				
USD	\$ 30,819	HKD	32.235	\$ 993,459
USD	10,009	NTD	32.235	322,624
USD	245	RMB	32.235	7,886
USD	<u>172</u>	DKK	32.235	<u>5,543</u>
	<u>\$ 41,245</u>			<u>\$ 1,329,512</u>
<u>Financial liabilities</u>				
Monetary items				
USD	\$ 23,802	HKD	32.235	\$ 767,260
USD	9,573	RMB	32.235	308,592
USD	2,070	NTD	32.235	66,738
USD	<u>245</u>	DKK	32.235	<u>7,911</u>
	<u>\$ 35,690</u>			<u>\$ 1,150,501</u>
HKD	<u>\$ 51,302</u>	RMB	4.1615	<u>\$ 213,497</u>

December 31, 2015

Unit: Foreign Currencies (In Thousands)

	Foreign Currencies	Function Currencies	Exchange Rate (Note)	Carrying Amount (NT\$)
<u>Financial assets</u>				
Monetary items				
USD	\$ 47,099	HKD	32.8300	\$ 1,546,263
USD	12,911	NTD	32.8300	423,858
USD	167	RMB	32.8300	5,492
USD	<u>143</u>	DKK	32.8300	<u>4,679</u>
	<u>\$ 60,320</u>			<u>\$ 1,980,292</u>
<u>Financial liabilities</u>				
Monetary items				
USD	\$ 31,708	RMB	32.8300	\$ 1,040,967
USD	11,524	HKD	32.8300	378,346
USD	3,206	NTD	32.8300	105,244
USD	<u>353</u>	DKK	32.8300	<u>11,575</u>
	<u>\$ 46,791</u>			<u>\$ 1,536,132</u>
HKD	\$ 100,238	RMB	4.2571	\$ 426,723
HKD	<u>765</u>	NTD	4.2571	<u>3,257</u>
	<u>\$ 101,003</u>			<u>\$ 429,980</u>

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

Information of foreign exchange gains and losses are as follow:

	For the Years Ended December 31			
	2016		2015	
	HK\$	NT\$	HK\$	NT\$
Realized foreign exchange gain	\$ 9,751	\$ 40,545	\$ 11,365	\$ 46,523
Unrealized foreign exchange (loss) gain	<u>(925)</u>	<u>(3,846)</u>	<u>4,169</u>	<u>17,067</u>
	<u>\$ 8,826</u>	<u>\$ 36,699</u>	<u>\$ 15,534</u>	<u>\$ 63,590</u>

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

g. Information of transferred financial assets

In 2016 and 2015, the Group entered into several trade receivable factoring agreements with the banks. According to the factoring agreement, the Group received certain percentage of trade receivable in cash from the bank in advance. If the trade receivables are collected at maturity, the bank has the right to request the Group to repay the unsettled difference. As the Group has not transferred the significant risks and rewards relating to these trade receivables, the Group continues to recognize the full carrying amount of the receivables and the factoring amount as secured bank borrowings.

As of December 31, 2016 and 2015, the carrying amount of the trade receivables that have been transferred but have not been derecognized and the related liability recognized please refer to Note 16 and Note 24, respectively.

28. SEGMENT INFORMATION

a. Operating segments

IFRS 8 requires that operating units shall be identified based on the internal report to the chief decision maker for periodical review for the purpose of resource allocation to each component of the Group and assessment of their performance. Since the Group is engaged in the processing of speaker systems, and AV electronics products (from acquisition of ETT Group's original business units), under the model that the Hong Kong or Taiwan outsources production orders to the subsidiaries in PRC, there is no other segment which has allocated resources or whose performance has been assessed other than processing of speaker systems, earphones and AV electronics products.

The chief decision makers of the Group allocate resources and assess performance based on the internal management accounts which are reviewed constantly, and depending on the overall operating results of the speaker systems and earphones segment. The segment information only covers the sales, cost of sales and gross profit from speaker systems, earphones and AV electronics products (from acquisition of ETT Group's original business units) disclosed in below table. Other than that, no further financial information can be splitted by segment.

Unit: HKD

	For the Year Ended December 31, 2015				
	Speaker Systems	Earphones	AV Electronics	Unallocated Costs Among Segments (Including Inter-segments Transaction)	Total
Revenue	\$ 1,097,868	\$ 150,380	\$ 864,918	\$ (118,229)	\$ 1,994,937
Cost of revenue	<u>938,256</u>	<u>119,797</u>	<u>757,740</u>	<u>(122,012)</u>	<u>1,693,781</u>
Gross profit	<u>\$ 159,612</u>	<u>\$ 30,583</u>	<u>\$ 107,178</u>	<u>\$ 3,783</u>	<u>\$ 301,156</u>

Unit: NTD

For the Year Ended December 31, 2015

	Speaker Systems	Earphones	AV Electronics	Unallocated Costs Among Segments (Including Inter-segments Transaction)	Total
Revenue	\$ 4,494,232	\$ 615,596	\$ 3,540,628	\$ (483,982)	\$ 8,166,474
Cost of revenue	<u>3,840,844</u>	<u>490,401</u>	<u>3,101,886</u>	<u>(499,469)</u>	<u>6,933,662</u>
Gross profit	<u>\$ 653,388</u>	<u>\$ 125,195</u>	<u>\$ 438,742</u>	<u>\$ 15,487</u>	<u>\$ 1,232,812</u>

In response to the market trends which the traditional speaker systems need to integrate with the electronic component in the function and structure, the Group has actively integrated the resources and product line of speaker systems, earphones and AV electronics sectors in 2016. The chief operational decision-maker of the Group is the General Manager of the Company who is responsible to coordinate the overall resource allocation and to evaluate their overall performance. The aforementioned change in operation was approved by the board of directors of the Company in August 2016.

Since the Group's speaker systems, earphones and AV electronics sectors have been fully integrated and centrally managed and the financial management information provided to chief decision maker has also been changed to a single segment, the entire Group's resources to be allocated to and evaluates the overall performance, no longer distinguish from the speaker system, headphones and audio-visual electronic sector. As a result, the operating information to the chief decision maker for periodical review is measured in the same way as the financial statements, which is reported by a single segment. For the year ended December 31, 2016, the revenue and operating results of the operating segment can be found in the consolidated income statement for the year from January 1 to December 31, 2016. The product revenue will be divided into the following: Traditional Speakers, Speakers and Audio Products with Electronics, Wireless Speakers, Earphones, Premium Speakers, and other products (see Note 20).

b. Geographic information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

For the Years Ended December 31

	2016		2015	
	Revenue from External Customers		Revenue from External Customers	
	HK\$	NT\$	HK\$	NT\$
China	\$ 785,481	\$ 3,266,108	\$ 942,686	\$ 3,858,979
Hong Kong	354,004	1,471,984	648,043	2,652,828
Japan	146,845	610,597	46,862	191,836
Brazil	6,418	26,686	80,828	330,877
Others	<u>263,021</u>	<u>1,093,668</u>	<u>276,518</u>	<u>1,131,954</u>
	<u>\$ 1,555,769</u>	<u>\$ 6,469,043</u>	<u>\$ 1,994,937</u>	<u>\$ 8,166,474</u>

	December 31			
	2016		2015	
	Non-current Assets		Non-current Assets	
	HK\$	NT\$	HK\$	NT\$
China	\$ 240,602	\$ 1,001,265	\$ 281,233	\$ 1,197,234
Hong Kong	11,393	47,412	13,065	55,619
Taiwan	5,156	21,457	6,602	28,106
Denmark	<u>45,829</u>	<u>190,717</u>	<u>49,251</u>	<u>209,668</u>
	<u>\$ 302,980</u>	<u>\$ 1,260,851</u>	<u>\$ 350,151</u>	<u>\$ 1,490,627</u>

c. Information of key customers

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

	For the Years Ended December 31					
	2016			2015		
	HK\$	NT\$	%	HK\$	NT\$	%
Company A	\$ 380,682	\$ 1,582,914	24	\$ 332,401	\$ 1,360,717	17
Company B	280,496	1,166,330	18	384,532	1,574,120	19
Company C	204,204	849,101	13	377,550	1,545,539	19

29. BUSINESS COMBINATIONS

a. Subsidiaries acquired - ETT

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
ETT	Design, production and sales of AV electronics products	January 1, 2015	99.98	HK\$121,718 (approximately NT\$497,219 thousand)

As stated in Note 1, for the trend of joint connections between the speaker systems and 3C electronic appliances and sales expansion, EAH acquired 99.98% interests in ETT (including its subsidiaries, ETH and ETHY) from Luster Green Limited.

b. Considerations transferred

	HK\$	NT\$
Cash	\$ 97,129	\$ 396,773
Payables for investment cost (recognized under other payables from related parties)	<u>24,589</u>	<u>100,446</u>
	<u>\$ 121,718</u>	<u>\$ 497,219</u>

Regarding the above investment payable (final payments of the 20% acquisition consideration), 10% investment amount had been paid in the beginning of 2016 and remaining 10% investment amount expected to pay in the beginning of 2017. As of December 31, 2016, investment payable is recorded as other payable, please refer to Note 23.

c. Assets acquired and liabilities assumed at the date of acquisition - ETT Group

	HK\$	NT\$
Current assets		
Cash and cash equivalents	\$ 110,374	\$ 450,878
Pledged deposits	14,226	58,115
Accounts receivables (including related parties)	242,514	990,670
Financial assets at fair value through profit and loss	11,942	48,783
Income tax refund receivable	3,329	13,597
Other receivable and prepayments	65,140	266,097
Inventories	67,881	277,295
Non-current assets		
Property, plant and equipment	138,224	564,645
Financial assets measured at cost	23,677	96,719
Prepayments for land lease	17,486	71,431
Net defined benefit assets	1,081	4,416
Deferred tax assets	2,008	8,202
Intangible assets	3,525	14,400
Current liabilities		
Accounts payables and other payables (including related parties)	(332,365)	(1,357,713)
Current tax liabilities	(3,062)	(12,507)
Bank borrowings	(185,042)	(755,896)
Financial liabilities at fair value through profit or loss (Note)	(24,329)	(99,384)
Non-current liabilities		
Long-term bank borrowings	(3,672)	(15,000)
Deferred tax liabilities	<u>(21,073)</u>	<u>(86,083)</u>
	<u>\$ 131,864</u>	<u>\$ 538,665</u>

Note: As stated in Note 7, all gains and losses arising from derivative financial instruments after acquisition date (January 1, 2015) shall be attributed to seller and the aforementioned gain and loss will be adjusted in other payable to related parties.

d. Gain from bargain purchase of acquisitions on ETT

	HK\$	NT\$
Consideration transferred	\$ 121,718	\$ 497,219
Less: Fair value of the identifiable net assets acquired	<u>(131,864)</u>	<u>(538,665)</u>
Gain from bargain purchase	<u>\$ (10,146)</u>	<u>\$ (41,446)</u>

Since the consideration paid for the acquisition of ETT less than the fair value of the identifiable net assets acquired, the gain from bargain purchase attributed to the buyer.

e. Net cash outflow on acquisition of subsidiaries

	HK\$	NT\$
Consideration paid in cash	\$ 97,129	\$ 396,773
Less: Cash and cash equivalent balances acquired	<u>(110,374)</u>	<u>(450,878)</u>
	<u>\$ (13,245)</u>	<u>\$ (54,105)</u>

- f. According to the acquisition agreement, the Group is expected to pay the remaining 30% acquisition considerations by installments after 2015. The installment is interest-free and 10% of the acquisition consideration each, with payment dates in the end of first quarter in the following three years, respectively. In addition, the remaining 30% consideration will be adjusted based on the actual profit or loss of ScS in 2014, 2015 and 2016 (contingent consideration). The fair value of such obligation (contingent consideration agreement) on the acquisition date is estimated to be HK\$16,984 thousand (approximately NT\$66,788 thousand). The detail of investment payables please refer to Note 17(b).