

**TONS LIGHTOLOGY INC. AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REVIEW REPORT OF INDEPENDENT  
ACCOUNTANTS  
SEPTEMBER 30, 2018 AND 2017**

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

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

**To the Board of Directors and Shareholders of Tons Lightology Inc.**

***Introduction***

We have reviewed the accompanying consolidated balance sheets of Tons Lightology Inc. and subsidiaries (the “Group”) as at September 30, 2018 and 2017, and the related consolidated statements of comprehensive income, for the three months and nine months then ended, as well as the statements of changes in equity and of cash flows for the nine months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

***Scope of Review***

We conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Conclusion***

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2018 and 2017, and of its consolidated financial performance for the three months and nine months then ended and its consolidated cash flows for the nine months then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

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Wang, Yu-Chuan

Liu, Mei-Lan

For and on behalf of PricewaterhouseCoopers, Taiwan

November 2, 2018

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

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

**TONS LIGHTOLOGY INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)  
(The balance sheets as of September 30, 2018 and 2017 are reviewed, not audited)

| Assets                    | Notes                                 | September 30, 2018 |                     | December 31, 2017 |                     | September 30, 2017 |                     |            |
|---------------------------|---------------------------------------|--------------------|---------------------|-------------------|---------------------|--------------------|---------------------|------------|
|                           |                                       | AMOUNT             | %                   | AMOUNT            | %                   | AMOUNT             | %                   |            |
| <b>Current assets</b>     |                                       |                    |                     |                   |                     |                    |                     |            |
| 1100                      | Cash and cash equivalents             | 6(1)               | \$ 343,630          | 21                | \$ 369,163          | 26                 | \$ 343,199          | 25         |
| 1110                      | Financial assets at fair value        | 6(2) and           |                     |                   |                     |                    |                     |            |
|                           | through profit or loss - current      | 12(4)              | 255,351             | 16                | 148,029             | 10                 | 112,981             | 8          |
| 1150                      | Notes receivable, net                 | 6(3)               | 638                 | -                 | 1,824               | -                  | 839                 | -          |
| 1170                      | Accounts receivable, net              | 6(3)               | 153,855             | 9                 | 155,804             | 11                 | 146,295             | 11         |
| 1180                      | Accounts receivable - related         | 6(3) and 7         |                     |                   |                     |                    |                     |            |
|                           | parties                               |                    | 1                   | -                 | 4                   | -                  | 17                  | -          |
| 1200                      | Other receivables                     |                    | 1,479               | -                 | 3,557               | -                  | 4,251               | -          |
| 130X                      | Inventories                           | 6(4)               | 154,704             | 9                 | 156,027             | 11                 | 159,371             | 12         |
| 1410                      | Prepayments                           |                    | 26,326              | 2                 | 20,806              | 1                  | 27,004              | 2          |
| 1470                      | Other current assets                  | 6(5)               | 73,755              | 5                 | 71,854              | 5                  | 76,370              | 5          |
| 11XX                      | <b>Current Assets</b>                 |                    | <u>1,009,739</u>    | <u>62</u>         | <u>927,068</u>      | <u>64</u>          | <u>870,327</u>      | <u>63</u>  |
| <b>Non-current assets</b> |                                       |                    |                     |                   |                     |                    |                     |            |
| 1517                      | Total non-current financial assets    | 6(6)               |                     |                   |                     |                    |                     |            |
|                           | at fair value through other           |                    |                     |                   |                     |                    |                     |            |
|                           | comprehensive income                  |                    | 215,616             | 13                | -                   | -                  | -                   | -          |
| 1523                      | Available-for-sale financial assets - | 12(4)              |                     |                   |                     |                    |                     |            |
|                           | noncurrent                            |                    | -                   | -                 | 127,576             | 9                  | 121,723             | 9          |
| 1600                      | Property, plant and equipment         | 6(7)               | 317,191             | 20                | 331,908             | 23                 | 330,050             | 24         |
| 1780                      | Intangible assets                     |                    | 4,077               | -                 | 5,087               | 1                  | 5,688               | -          |
| 1840                      | Deferred income tax assets            | 6(22)              | 4,784               | -                 | 3,510               | -                  | 3,866               | -          |
| 1900                      | Other non-current assets              | 6(8)               | 75,233              | 5                 | 45,758              | 3                  | 48,314              | 4          |
| 15XX                      | <b>Non-current assets</b>             |                    | <u>616,901</u>      | <u>38</u>         | <u>513,839</u>      | <u>36</u>          | <u>509,641</u>      | <u>37</u>  |
| 1XXX                      | <b>Total assets</b>                   |                    | <u>\$ 1,626,640</u> | <u>100</u>        | <u>\$ 1,440,907</u> | <u>100</u>         | <u>\$ 1,379,968</u> | <u>100</u> |

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**TONS LIGHTOLOGY INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)  
(The balance sheets as of September 30, 2018 and 2017 are reviewed, not audited)

| Liabilities and Equity                                    | Notes  | September 30, 2018 |                     | December 31, 2017 |                     | September 30, 2017 |                     |            |
|---|--|--------------------|---------------------|-------------------|---------------------|--------------------|---------------------|------------|
|   |  | AMOUNT             | %                   | AMOUNT            | %                   | AMOUNT             | %                   |            |
| <b>Current liabilities</b>                                |  |                    |                     |                   |                     |                    |                     |            |
| 2120  | Financial liabilities at fair value through profit or loss - current | 6(2)               | \$ 2,294            | -                 | \$ -                | -                  | \$ -                | -          |
| 2150  | Notes payable  |                    | 24                  | -                 | 59                  | -                  | 57                  | -          |
| 2170  | Accounts payable   |                    | 86,198              | 5                 | 99,934              | 7                  | 93,991              | 7          |
| 2180  | Accounts payable - related parties                                   | 7                  | 21,840              | 1                 | 12,144              | 1                  | 19,745              | 1          |
| 2200  | Other payables   | 6(9)               | 121,145             | 8                 | 105,588             | 7                  | 105,617             | 8          |
| 2230  | Current income tax liabilities                                       | 6(22)              | 17,999              | 1                 | 7,484               | -                  | 3,178               | -          |
| 2250  | Provisions for liabilities - current                                 |                    | 163                 | -                 | 535                 | -                  | 394                 | -          |
| 2300  | Other current liabilities  | 6(17)              | 6,769               | 1                 | 11,773              | 1                  | 13,821              | 1          |
| 21XX  | <b>Current Liabilities</b>   |                    | <u>256,432</u>      | <u>16</u>         | <u>237,517</u>      | <u>16</u>          | <u>236,803</u>      | <u>17</u>  |
| <b>Non-current liabilities</b>                            |  |                    |                     |                   |                     |                    |                     |            |
| 2550  | Provisions for liabilities - noncurrent                              | 6(12)              | 550                 | -                 | 625                 | -                  | 679                 | -          |
| 2570  | Deferred income tax liabilities                                      | 6(22)              | 2,120               | -                 | 9,532               | 1                  | 1,555               | -          |
| 2600  | Other non-current liabilities  |                    | 11,686              | 1                 | 11,619              | 1                  | 13,012              | 1          |
| 25XX  | <b>Non-current liabilities</b>                                       |                    | <u>14,356</u>       | <u>1</u>          | <u>21,776</u>       | <u>2</u>           | <u>15,246</u>       | <u>1</u>   |
| 2XXX  | <b>Total Liabilities</b>   |                    | <u>270,788</u>      | <u>17</u>         | <u>259,293</u>      | <u>18</u>          | <u>252,049</u>      | <u>18</u>  |
| <b>Equity attributable to owners of parent</b>            |  |                    |                     |                   |                     |                    |                     |            |
| <b>Share capital</b>                                      |  |                    |                     |                   |                     |                    |                     |            |
| 3110  | Share capital - common stock   | 6(13)              | 398,948             | 24                | 398,118             | 28                 | 398,118             | 29         |
| 3140  | Advance receipts for share capital                                   |                    | 31                  | -                 | 537                 | -                  | -                   | -          |
| <b>Capital surplus</b>                                    |  |                    |                     |                   |                     |                    |                     |            |
| 3200  | Capital surplus  | 6(14)              | 504,438             | 31                | 502,257             | 35                 | 501,766             | 36         |
| <b>Retained earnings</b>                                  |  |                    |                     |                   |                     |                    |                     |            |
| 3310  | Legal reserve  | 6(15)              | 74,663              | 5                 | 62,555              | 4                  | 62,555              | 5          |
| 3320  | Special reserve  |                    | 38,429              | 2                 | 38,429              | 3                  | 38,429              | 3          |
| 3350  | Unappropriated retained earnings                                     |                    | 280,615             | 17                | 189,770             | 13                 | 145,484             | 11         |
| <b>Other equity interest</b>                              |  |                    |                     |                   |                     |                    |                     |            |
| 3400  | Other equity interest  | 6(16)              | 58,728              | 4                 | (10,052)            | (1)                | (18,433)            | (2)        |
| 31XX  | <b>Equity attributable to owners of the parent</b>                   |                    | <u>1,355,852</u>    | <u>83</u>         | <u>1,181,614</u>    | <u>82</u>          | <u>1,127,919</u>    | <u>82</u>  |
| 3XXX  | <b>Total equity</b>  |                    | <u>1,355,852</u>    | <u>83</u>         | <u>1,181,614</u>    | <u>82</u>          | <u>1,127,919</u>    | <u>82</u>  |
| <b>Significant commitments and contingent liabilities</b> |  |                    |                     |                   |                     |                    |                     |            |
| 3X2X  | <b>Total liabilities and equity</b>                                  | 9                  | <u>\$ 1,626,640</u> | <u>100</u>        | <u>\$ 1,440,907</u> | <u>100</u>         | <u>\$ 1,379,968</u> | <u>100</u> |

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

**TONS LIGHTOLOGY INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)  
(Reviewed, not audited)

| Items   | Notes     | Three months ended September 30 |             |                  |           | Nine months ended September 30 |           |                     |             |
|---|-----------|---------------------------------|-------------|------------------|-----------|--------------------------------|-----------|---------------------|-------------|
|   |           | 2018                            |             | 2017             |           | 2018                           |           | 2017                |             |
|   |           | AMOUNT                          | %           | AMOUNT           | %         | AMOUNT                         | %         | AMOUNT              | %           |
| 4000 Sales revenue  | 6(17)     | \$ 287,896                      | 100         | \$ 268,307       | 100       | \$ 793,979                     | 100       | \$ 724,714          | 100         |
| 5000 Operating costs  | 6(4)      | ( 189,773)                      | ( 66)       | ( 171,958)       | ( 64)     | ( 525,974)                     | ( 66)     | ( 468,255)          | ( 64)       |
| 5900 Net operating margin   |           | <u>98,123</u>                   | <u>34</u>   | <u>96,349</u>    | <u>36</u> | <u>268,005</u>                 | <u>34</u> | <u>256,459</u>      | <u>36</u>   |
| <b>Operating expenses</b>   | 6(20)(21) |                                 |             |                  |           |                                |           |                     |             |
| 6100 Selling expenses   |           | ( 34,661)                       | ( 12)       | ( 28,024)        | ( 11)     | ( 92,021)                      | ( 12)     | ( 77,733)           | ( 11)       |
| 6200 General and administrative expenses  |           | ( 25,444)                       | ( 9)        | ( 28,524)        | ( 11)     | ( 84,939)                      | ( 11)     | ( 76,290)           | ( 10)       |
| 6300 Research and development expenses  |           | ( 9,887)                        | ( 3)        | ( 8,809)         | ( 3)      | ( 27,858)                      | ( 3)      | ( 25,555)           | ( 4)        |
| 6000 Total operating expenses   |           | ( 69,992)                       | ( 24)       | ( 65,357)        | ( 25)     | ( 204,818)                     | ( 26)     | ( 179,578)          | ( 25)       |
| 6900 Operating profit   |           | <u>28,131</u>                   | <u>10</u>   | <u>30,992</u>    | <u>11</u> | <u>63,187</u>                  | <u>8</u>  | <u>76,881</u>       | <u>11</u>   |
| <b>Non-operating income and expenses</b>  |           |                                 |             |                  |           |                                |           |                     |             |
| 7010 Other income   | 6(18)     | 8,481                           | 3           | 4,491            | 2         | 14,063                         | 1         | 9,768               | 1           |
| 7020 Other gains and losses   | 6(19)     | 2,610                           | 1           | 8,510            | 3         | 142,363                        | 18        | 8,051               | 1           |
| 7000 Total non-operating income and expenses  |           | <u>11,091</u>                   | <u>4</u>    | <u>13,001</u>    | <u>5</u>  | <u>156,426</u>                 | <u>19</u> | <u>17,819</u>       | <u>2</u>    |
| 7900 Profit before income tax   |           | 39,222                          | 14          | 43,993           | 16        | 219,613                        | 27        | 94,700              | 13          |
| 7950 Income tax expense   | 6(22)     | ( 8,018)                        | ( 3)        | ( 6,952)         | ( 2)      | ( 25,101)                      | ( 3)      | ( 17,293)           | ( 2)        |
| 8200 Profit for the period  |           | <u>\$ 31,204</u>                | <u>11</u>   | <u>\$ 37,041</u> | <u>14</u> | <u>\$ 194,512</u>              | <u>24</u> | <u>\$ 77,407</u>    | <u>11</u>   |
| <b>Other comprehensive income</b>   |           |                                 |             |                  |           |                                |           |                     |             |
| <b>Components of other comprehensive income that will not be reclassified to profit or loss</b>                     |           |                                 |             |                  |           |                                |           |                     |             |
| 8316 Total expenses, by nature  | 6(16)     | \$ 5,742                        | 2           | \$ -             | -         | \$ 88,040                      | 11        | \$ -                | -           |
| 8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | 6(22)     | -                               | -           | -                | -         | 140                            | -         | -                   | -           |
| 8310 Components of other comprehensive income that will not be reclassified to profit or loss                       |           | <u>5,742</u>                    | <u>2</u>    | <u>-</u>         | <u>-</u>  | <u>88,180</u>                  | <u>11</u> | <u>-</u>            | <u>-</u>    |
| <b>Components of other comprehensive income that will be reclassified to profit or loss</b>                         |           |                                 |             |                  |           |                                |           |                     |             |
| 8361 Financial statements translation differences of foreign operations   | 6(16)     | ( 26,020)                       | ( 9)        | 10,901           | 4         | ( 19,201)                      | ( 2)      | ( 14,129)           | ( 2)        |
| 8362 Unrealized loss on valuation of available-for-sale financial assets  | 6(16)     | -                               | -           | 2,366            | 1         | -                              | -         | 603                 | -           |
| 8360 Components of other comprehensive income that will be reclassified to profit or loss                           |           | ( 26,020)                       | ( 9)        | <u>13,267</u>    | <u>5</u>  | ( 19,201)                      | ( 2)      | ( 13,526)           | ( 2)        |
| 8300 Total other comprehensive (loss) income for the period   |           | <u>( \$ 20,278)</u>             | <u>( 7)</u> | <u>\$ 13,267</u> | <u>5</u>  | <u>\$ 68,979</u>               | <u>9</u>  | <u>( \$ 13,526)</u> | <u>( 2)</u> |
| 8500 Total comprehensive income for the period  |           | <u>\$ 10,926</u>                | <u>4</u>    | <u>\$ 50,308</u> | <u>19</u> | <u>\$ 263,491</u>              | <u>33</u> | <u>\$ 63,881</u>    | <u>9</u>    |
| <b>Basic earnings per share</b>   |           |                                 |             |                  |           |                                |           |                     |             |
| 9750 Total basic earnings per share   | 6(23)     | <u>\$ 0.78</u>                  |             | <u>\$ 0.93</u>   |           | <u>\$ 4.88</u>                 |           | <u>\$ 1.95</u>      |             |
| <b>Diluted earnings per share</b>   |           |                                 |             |                  |           |                                |           |                     |             |
| 9850 Total diluted earnings per share   | 6(23)     | <u>\$ 0.77</u>                  |             | <u>\$ 0.92</u>   |           | <u>\$ 4.82</u>                 |           | <u>\$ 1.93</u>      |             |

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

**TONS LIGHTLOGY INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
 (Expressed in thousands of New Taiwan dollars)  
 (Reviewed, not audited)

| Notes                                       | Equity attributable to owners of the parent                                    |                                    |                                   |                            |                         |                   |                 |                                  |   |   | Total equity |  |
|---|--|------------------------------------|-----------------------------------|----------------------------|-------------------------|-------------------|-----------------|----------------------------------|---|---|--------------|--|
|   | Share capital  |                                    | Capital surplus                   |                            |                         | Retained earnings |                 | Other equity interest            |   |   |              |  |
|   | Share capital - common stock   | Advance receipts for share capital | Stock dividends to be distributed | Additional paid-in capital | Employee stock warrants | Legal reserve     | Special reserve | Unappropriated retained earnings | Financial statements transition differences of foreign operations | Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income |              | Unrealized gain or loss on available-for-sale financial assets |
| <b>Nine months ended September 30, 2017</b> |  |                                    |                                   |                            |                         |                   |                 |                                  |   |   |              |  |
|   | Balance at January 1, 2017   | \$ 3,252                           | \$ -                              | \$ 491,889                 | \$ 3,723                | \$ 50,054         | \$ 38,429       | \$ 187,006                       | (\$ 23,355)   | \$ -  | \$ 18,448    | \$ 1,160,135   |
|   | Profit for the nine months ended September 30, 2017                            | -                                  | -                                 | -                          | -                       | -                 | -               | 77,407                           | -   | -   | -            | 77,407   |
|   | Other comprehensive loss for the nine months ended September 30, 2017          | -                                  | -                                 | -                          | -                       | -                 | -               | -                                | (14,129)  | -   | 603          | (13,526)   |
|   | Total other comprehensive income (loss) income                                 | -                                  | -                                 | -                          | -                       | -                 | -               | 77,407                           | (14,129)  | -   | 603          | 63,881   |
|   | Appropriation and distribution of 2016 retained earnings                       | -                                  | -                                 | -                          | -                       | -                 | -               | -                                | -   | -   | -            | -  |
|   | Legal reserve appropriated   | -                                  | -                                 | -                          | -                       | 12,501            | -               | (12,501)                         | -   | -   | -            | -  |
| 6(15)                                       | Stock dividends  | 3,942                              | -                                 | -                          | -                       | -                 | -               | (3,942)                          | -   | -   | -            | -  |
| 6(15)                                       | Cash dividends   | -                                  | -                                 | -                          | -                       | -                 | -               | (102,486)                        | -   | -   | -            | (102,486)  |
|   | Share-based payment transactions-employees stock options                       | 3,487                              | (3,252)                           | 6,728                      | (574)                   | -                 | -               | -                                | -   | -   | -            | 6,389  |
|   | Balance at September 30, 2017  | \$ 398,118                         | \$ -                              | \$ 498,617                 | \$ 3,149                | \$ 62,555         | \$ 38,429       | \$ 145,484                       | (\$ 37,484)   | \$ -  | \$ 19,051    | \$ 1,127,919   |
| <b>Nine months ended September 30, 2018</b> |  |                                    |                                   |                            |                         |                   |                 |                                  |   |   |              |  |
|   | Balance at January 1, 2018   | \$ 398,118                         | \$ 537                            | \$ 498,848                 | \$ 3,409                | \$ 62,555         | \$ 38,429       | \$ 189,770                       | (\$ 36,065)   | \$ 26,013   | \$ -         | \$ 1,181,614   |
|   | Balance at 1 January after adjustments   | 398,118                            | 537                               | 498,848                    | 3,409                   | 62,555            | 38,429          | 189,770                          | (36,065)  | 26,013  | -            | 1,181,614  |
|   | Profit for the nine months ended September 30, 2018                            | -                                  | -                                 | -                          | -                       | -                 | -               | 194,512                          | -   | -   | -            | 194,512  |
|   | Other comprehensive (loss) income for the nine months ended September 30, 2018 | -                                  | -                                 | -                          | -                       | -                 | -               | 199                              | (19,201)  | 87,981  | -            | 68,979   |
|   | Total other comprehensive income   | -                                  | -                                 | -                          | -                       | -                 | -               | 194,711                          | (19,201)  | 87,981  | -            | 283,491  |
|   | Appropriation and distribution of 2017 retained earnings                       | -                                  | -                                 | -                          | -                       | -                 | -               | -                                | -   | -   | -            | -  |
|   | Legal reserve appropriated   | -                                  | -                                 | -                          | -                       | 12,108            | -               | (12,108)                         | -   | -   | -            | -  |
| 6(15)                                       | Cash dividends   | -                                  | -                                 | -                          | -                       | -                 | -               | (91,758)                         | -   | -   | -            | (91,758)   |
| 6(11)                                       | Share-based payment transactions-employees stock options                       | 830                                | (506)                             | 1,530                      | 651                     | -                 | -               | -                                | -   | -   | -            | 2,505  |
|   | Balance at September 30, 2018  | \$ 398,948                         | \$ 31                             | \$ 500,378                 | \$ 4,060                | \$ 74,663         | \$ 38,429       | \$ 280,615                       | (\$ 55,266)   | \$ 113,994  | \$ -         | \$ 1,355,852   |

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

**TONS LIGHTOLOGY INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of New Taiwan dollars)  
(Reviewed, not audited)

|   | Notes    | Nine months ended September 30 |           |
|---|----------|--------------------------------|-----------|
|   |          | 2018                           | 2017      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |          |                                |           |
| Profit before tax   |          | \$ 219,613                     | \$ 94,700 |
| Adjustments   |          |                                |           |
| Adjustments to reconcile profit (loss)  |          |                                |           |
| Depreciation  | 6(7)(20) | 36,979                         | 32,966    |
| Amortisation  | 6(20)    | 2,036                          | 1,432     |
| Provision (reversal of provision) for doubtful accounts                                       | 12(2)    | 722 (                          | 1,232 )   |
| Reversal of warranty expense  | 6(12)    | ( 66 ) (                       | 877 )     |
| Interest income   | 6(18)    | ( 6,765 ) (                    | 6,672 )   |
| Dividend income   |          | ( 5,714 ) (                    | 1,248 )   |
| Wages and salaries-employee stock options   | 6(11)    | 1,210                          | 1,482     |
| Net gain on financial assets and liabilities at fair value through other comprehensive income | 6(19)    | ( 132,206 ) (                  | 6,016 )   |
| Loss on disposal of property, plant and equipment   | 6(7)(19) | 170                            | 1         |
| Changes in operating assets and liabilities   |          |                                |           |
| Changes in operating assets   |          |                                |           |
| Notes receivable, net   | 6(3)     | 1,186                          | 4,305     |
| Accounts receivable, net  |          | 675                            | 18,013    |
| Accounts receivable due from related parties  | 7(2)     | 3 (                            | 17 )      |
| Other receivables   |          | 1,878 (                        | 2,224 )   |
| Inventories   | 6(4)     | ( 3,025 ) (                    | 13,665 )  |
| Prepayments   |          | ( 5,953 ) (                    | 7,589 )   |
| Other current assets  |          | ( 70 )                         | 308       |
| Changes in operating liabilities  |          |                                |           |
| Notes payable   |          | ( 36 )                         | 51        |
| Accounts payable  |          | ( 11,389 ) (                   | 12,646 )  |
| Accounts payable to related parties   | 7(2)     | 10,397                         | 19,489    |
| Other payables  |          | 13,434 (                       | 6,325 )   |
| Contract liabilities  | 6(17)    | ( 5,232 )                      | 624       |
| Other current liabilities   |          | ( 76 )                         | 2,016     |
| Other non-current liabilities   |          | 67                             | 22        |
| Cash inflow generated from operations   |          | 117,838                        | 116,898   |
| Interest received   |          | 6,936                          | 6,693     |
| Dividend received   |          | 5,714                          | 1,248     |
| Income tax paid   | 6(22)    | ( 23,016 ) (                   | 27,364 )  |
| Net cash flows from operating activities  |          | 107,472                        | 97,475    |

(Continued)



**TONS LIGHTOLOGY INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of New Taiwan dollars)  
(Reviewed, not audited)

|   | Notes | Nine months ended September 30 |              |
|---|-------|--------------------------------|--------------|
|   |       | 2018                           | 2017         |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                              |       |                                |              |
| Acquisition of financial assets at fair value through profit or loss            | 6(2)  | (\$ 18,775 )                   | (\$ 38,621 ) |
| Proceeds from disposal of financial assets at fair value through profit or loss | 6(2)  | 48,495                         | -            |
| Increase (decrease) in other non-current assets                                 |       | ( 1,852 )                      | 2,210        |
| Acquisition of property, plant and equipment                                    | 6(25) | ( 25,114 )                     | ( 90,041 )   |
| Proceeds from disposal of property, plant and equipment                         |       | 12                             | 204          |
| Acquisition of intangible deposits  |       | ( 1,028 )                      | ( 5,453 )    |
| Increase in refundable deposits   |       | ( 28,032 )                     | ( 431 )      |
| Increase in other non-current assets  |       | ( 7,141 )                      | ( 6,387 )    |
| Net cash flows used in investing activities                                     |       | ( 33,435 )                     | ( 138,519 )  |
| <b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>                              |       |                                |              |
| Increase in guarantee deposits received   |       | -                              | 83           |
| Cash dividends paid   | 6(15) | ( 91,758 )                     | ( 102,486 )  |
| Excercise of employee stock options   | 6(11) | 1,295                          | 4,907        |
| Net cash flows used in financing activities                                     |       | ( 90,463 )                     | ( 97,496 )   |
| Effect of exchange rate changes on cash equivalents                             |       | ( 9,107 )                      | ( 7,325 )    |
| Net decrease in cash and cash equivalents                                       |       | ( 25,533 )                     | ( 145,865 )  |
| Cash and cash equivalents at beginning of period                                |       | 369,163                        | 489,064      |
| Cash and cash equivalents at end of period                                      |       | \$ 343,630                     | \$ 343,199   |

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

TONS LIGHTOLOGY INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

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

(Reviewed, not audited)

**1. ORGANIZATION AND OPERATIONS**

Tons Lightology Inc. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C) on August 20, 1992. On June 17, 2013, the Company’s stocks were officially listed on the Taipei Exchange. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in manufacturing and trading of lighting equipment and lamps.

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

These consolidated financial statements were reported to the Board of Directors on November 2, 2018.

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

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

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

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

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

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

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

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

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

IFRS 16, 'Leases'

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

In the first quarter of 2018, the Group reported to the Board of Directors that IFRS 16 has material impact to the Group.

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"), and the effects will be adjusted on January 1, 2019.

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

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

| New Standards, Interpretations and Amendments   | Effective date by International Accounting Standards Board   |
|---|--|
| Amendments to IFRS 3, 'Definition of a business'  | January 1, 2020  |
| Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture' | To be determined by International Accounting Standards Board |
| IFRS 17, 'Insurance contracts'  | January 1, 2021  |

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2017, except for the compliance statement, basis of preparations, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

- A. The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and IAS 34, "Interim Financial Reporting" as endorsed by the FSC.
- B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2017.

##### (2) Basis of preparation

- A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
  - (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
  - (b) Financial assets at fair value through other comprehensive income / available-for-sale financial assets measured at fair value.
  - (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs" ) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach and the financial statements for the year ended December 31, 2017 and the third quarter were not restated. The financial statements for the year ended December 31, 2017 and the third quarter were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements

The basis for preparation of consolidated financial statements are consistent with those of the year ended December 31, 2017.

B. Subsidiaries included in the consolidated financial statements:

| Name of investor              | Name of subsidiary                                | Main business activities   | Ownership (%)      |                   | Description |
|-------------------------------|---|--|--------------------|-------------------|-------------|
|                               |   |  | September 30, 2018 | December 31, 2017 |             |
| TONS LIGHTOLOGY INC.          | WORLD EXTEND HOLDING INC. (WORLD EXTEND)          | Reinvestment company   | 100                | 100               | Note 1      |
| TONS LIGHTOLOGY INC.          | HONG BO INVESTMENT CO., LTD. (HONG BO)            | Reinvestment company   | 100                | 100               |             |
| WORLD EXTEND HOLDING INC.     | TONS LIGHTING CO., LTD. (TL)                      | Sales of various lighting products and accessories   | 100                | 100               |             |
| WORLD EXTEND HOLDING INC.     | GREATSUPER TECHNOLOGY LIMITED (GS)                | Reinvestment company   | 100                | 100               | Note 1      |
| WORLD EXTEND HOLDING INC.     | LUMINOUS HOLDING INCORPORATED (LUMINOUS)          | Reinvestment company   | 100                | 100               |             |
| GREATSUPER TECHNOLOGY LIMITED | TITAN LIGHTING CO., LTD (TITAN)                   | Design of products, manufacturing of hardware parts, production and trading of lighting products and accessories | 100                | 100               | Note 1      |
| GREATSUPER TECHNOLOGY LIMITED | ZHONGSHAN TONS LIGHTING CO., LTD (ZHONGSHAN TONS) | Design of products, manufacturing of hardware parts, production and trading of lighting products and accessories | 100                | 100               |             |
| LUMINOUS HOLDING INCORPORATED | SHANGHAI TONS LIGHTOLOGY CO., LTD (SHANGHAI TONS) | Sales of various lighting products and accessories   | 100                | 100               | Note 2      |

| Name of investor              | Name of subsidiary                                | Main business activities   | Ownership (%)      |             |
|-------------------------------|---|--|--------------------|-------------|
|                               |   |  | September 30, 2017 | Description |
| TONS LIGHTOLOGY INC.          | WORLD EXTEND HOLDING INC. (WORLD EXTEND)          | Reinvestment company   | 100                | Note 1      |
| TONS LIGHTOLOGY INC.          | HONG BO INVESTMENT CO., LTD. (HONG BO)            | Reinvestment company   | 100                |             |
| WORLD EXTEND HOLDING INC.     | TONS LIGHTING CO., LTD. (TL)                      | Sales of various lighting products and accessories   | 100                |             |
| WORLD EXTEND HOLDING INC.     | GREATSUPER TECHNOLOGY LIMITED (GS)                | Reinvestment company   | 100                | Note 1      |
| WORLD EXTEND HOLDING INC.     | LUMINOUS HOLDING INCORPORATED (LUMINOUS)          | Reinvestment company   | 100                |             |
| GREATSUPER TECHNOLOGY LIMITED | TITAN LIGHTING CO., LTD (TITAN)                   | Design of products, manufacturing of hardware parts, production and trading of lighting products and accessories | 100                | Note 1      |
| GREATSUPER TECHNOLOGY LIMITED | ZHONGSHAN TONS LIGHTING CO., LTD (ZHONGSHAN TONS) | Design of products, manufacturing of hardware parts, production and trading of lighting products and accessories | 100                |             |
| LUMINOUS HOLDING INCORPORATED | SHANGHAI TONS LIGHTOLOGY CO., LTD (SHANGHAI TONS) | Sales of various lighting products and accessories   | 100                | Note 2      |

Note 1: The subsidiary is material to the Company.

Note 2: On July 11, 2016, the Board of Directors approved the reinvestment in Mainland China and the establishment of a subsidiary, Shanghai Tons Lightology Co., Ltd., through Luminous Holding Incorporated for business development. The establishment was completed in January 2017.

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

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

E. Significant restrictions: None.

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

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

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.

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

C. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

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

(a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and

(b) The assets' contractual cash flows represent solely payments of principal and interest.

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

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

The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(6) Accounts and notes receivable

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

(7) Impairment of financial assets

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

(8) Derecognition of financial assets

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

(9) Notes and accounts payable

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

(10) Non-hedging and embedded derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

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

- A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:
  - (a) Hybrid (combined) contracts; or
  - (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
  - (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.
- B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.



(12) Income tax

If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(13) Revenue recognition

Sales of goods

- A. The Group manufactures and sells a range of lighting equipment and lamps. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customers have full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- B. Sales revenue of lighting equipment and lamps is often recognised based on the price specified in the contract, net of the estimated sales discounts and allowances. Sales discounts and allowances are calculated based on accumulated sales amount over 12 months. The Group calculates revenue based on the contracts, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. As of reporting date, sales discounts and allowances payable were recognised in short-term provisions. No element of financing is deemed present as the sales are made with a credit term of 30 to 60 days after delivery, which is consistent with market practice.
- C. The Group's obligation to provide standard warranty terms is recognised as a provision.
- D. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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

There have been no significant changes as of September 30, 2018. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2017.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

|                                       | <u>September 30, 2018</u> | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|---------------------------------------|---------------------------|--------------------------|---------------------------|
| Cash on hand                          | \$ 1,050                  | \$ 773                   | \$ 1,022                  |
| Checking accounts and demand deposits | 76,269                    | 70,416                   | 91,913                    |
| Time deposits                         | 266,311                   | 297,974                  | 250,264                   |
|                                       | <u>\$ 343,630</u>         | <u>\$ 369,163</u>        | <u>\$ 343,199</u>         |

- A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
- B. The Group's time deposits with maturity over three months that did not meet short-term cash commitments were classified as 'other current assets', please refer to Note 6 (5).
- C. The Group has no cash and cash equivalents pledged to others.

### (2) Financial assets/liabilities at fair value through profit or loss-current

| <u>Items</u>  | <u>September 30, 2018</u> |
|---|---------------------------|
| Financial assets mandatorily measured at fair value through profit or loss: |                           |
| Listed stocks   | \$ 113,159                |
| Valuation adjustment  | 142,192                   |
| Total   | <u>\$ 255,351</u>         |
| Financial liabilities held for trading                                      |                           |
| Derivative instruments-Forward foreign exchange contracts                   | <u>(\$ 2,294)</u>         |

- A. For the three months and nine months ended September 30, 2018, the Group recognises net losses gains on financial assets at fair value through profit or loss amounting to (\$543) thousand and \$136,758 thousand, respectively.
- B. The Group entered into contracts relating to derivative financial liabilities which were not accounted for under hedge accounting. The information is listed below:

|  | <u>September 30, 2018</u>                       |                        |
|--|---|------------------------|
| <u>Derivative financial assets<br/>(liabilities)</u> | <u>Contract amount<br/>(notional principal)</u> | <u>Contract period</u> |
| Forward foreign exchange contracts                   | USD 1,800 thousands                             | 2018.10.24~2019.9.15   |

The Group entered into forward foreign exchange contracts to sell (sell USD and buy RMB) to hedge exchange rate risk of import and export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting. For the three months and nine months ended September 30, 2018, the Group recognised net loss of \$1,260 thousand and \$4,552 thousand, respectively.

- C. The Group has no financial assets at fair value through profit or loss pledged to others.  
The information on financial assets at fair value through profit or loss as of December 31, 2017

and September 30, 2017, is provided in Note 12(4).

(3) Notes and accounts receivable, net (including related parties)

|  | <u>September 30, 2018</u> | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|--|---------------------------|--------------------------|---------------------------|
| Notes receivable                             | \$ 638                    | \$ 1,824                 | \$ 839                    |
| Accounts receivable                          | \$ 154,671                | \$ 155,915               | \$ 146,577                |
| Accounts receivable due from related parties | 1                         | 4                        | 17                        |
| Less: Allowance for bad debts                | ( 816)                    | ( 111)                   | ( 282)                    |
|  | <u>\$ 153,856</u>         | <u>\$ 155,808</u>        | <u>\$ 146,312</u>         |

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

|                | <u>September 30, 2018</u> |                        | <u>December 31, 2017</u> |                        | <u>September 30, 2017</u> |                        |
|----------------|---------------------------|------------------------|--------------------------|------------------------|---------------------------|------------------------|
|                | Notes<br>receivable       | Accounts<br>receivable | Notes<br>receivable      | Accounts<br>receivable | Notes<br>receivable       | Accounts<br>receivable |
| Not past due   | \$ 638                    | \$ 124,076             | \$ 1,588                 | \$ 131,017             | \$ 362                    | \$ 127,363             |
| Up to 30 days  | -                         | 28,380                 | 236                      | 24,226                 | 477                       | 18,442                 |
| 31 to 120 days | -                         | 1,261                  | -                        | 565                    | -                         | 503                    |
| over 120 days  | -                         | 139                    | -                        | -                      | -                         | 4                      |
|                | <u>\$ 638</u>             | <u>\$ 153,856</u>      | <u>\$ 1,824</u>          | <u>\$ 155,808</u>      | <u>\$ 839</u>             | <u>\$ 146,312</u>      |

The above ageing analysis was based on past due date.

B. Information relating to credit risk of notes and accounts receivable is provided in Note 12(2).

(4) Inventories

|                            | <u>September 30, 2018</u> |                                 |                   |
|----------------------------|---------------------------|---------------------------------|-------------------|
|                            | Cost                      | Allowance for<br>valuation loss | Book value        |
| Raw materials and supplies | \$ 92,914                 | (\$ 3,892)                      | \$ 89,022         |
| Work in progress           | 21,000                    | ( 575)                          | 20,425            |
| Semi-finished goods        | 32,441                    | ( 2,350)                        | 30,091            |
| Finished goods             | 22,435                    | ( 7,269)                        | 15,166            |
|                            | <u>\$ 168,790</u>         | <u>(\$ 14,086)</u>              | <u>\$ 154,704</u> |
|                            | <u>December 31, 2017</u>  |                                 |                   |
|                            | Cost                      | Allowance for<br>valuation loss | Book value        |
| Raw materials and supplies | \$ 97,148                 | (\$ 6,504)                      | \$ 90,644         |
| Work in progress           | 17,104                    | ( 419)                          | 16,685            |
| Semi-finished goods        | 36,285                    | ( 3,827)                        | 32,458            |
| Finished goods             | 22,841                    | ( 6,601)                        | 16,240            |
|                            | <u>\$ 173,378</u>         | <u>(\$ 17,351)</u>              | <u>\$ 156,027</u> |

|                            | September 30, 2017 |                                 |                   |
|----------------------------|--------------------|---------------------------------|-------------------|
|                            | Cost               | Allowance for<br>valuation loss | Book value        |
| Raw materials and supplies | \$ 96,979          | (\$ 7,207)                      | \$ 89,772         |
| Work in progress           | 20,181             | ( 1,200)                        | 18,981            |
| Semi-finished goods        | 35,296             | ( 3,737)                        | 31,559            |
| Finished goods             | 26,243             | ( 7,184)                        | 19,059            |
|                            | <u>\$ 178,699</u>  | <u>(\$ 19,328)</u>              | <u>\$ 159,371</u> |

The cost of inventories recognised as expense for the period:

|   | Three months ended September 30, |                   |
|---|----------------------------------|-------------------|
|   | 2018                             | 2017              |
| Cost of goods sold  | \$ 188,886                       | \$ 170,387        |
| Gain on reversal of market price decline and obsolescence | ( 2,716)                         | ( 775)            |
| Gain from sale of scraps                                  | ( 721)                           | ( 603)            |
| Gain on physical inventory                                | -                                | ( 8)              |
| Loss on scrapping inventory                               | 4,378                            | 2,900             |
| Reversal of provision for warranty expenses               | ( 54)                            | 57                |
|   | <u>\$ 189,773</u>                | <u>\$ 171,958</u> |
|   | Nine months ended September 30,  |                   |
|   | 2018                             | 2017              |
| Cost of goods sold  | \$ 524,143                       | \$ 464,281        |
| Gain on reversal of market price decline and obsolescence | ( 3,045)                         | ( 125)            |
| Gain from sale of scraps                                  | ( 2,140)                         | ( 2,172)          |
| Gain on physical inventory                                | ( 2)                             | ( 12)             |
| Loss on scrapping inventory                               | 6,972                            | 6,254             |
| Reversal for warranty expenses                            | 46                               | 29                |
|   | <u>\$ 525,974</u>                | <u>\$ 468,255</u> |

The Group reversed a previous inventory write-down because obsolete and slow-moving inventories and inventories with decline in market value were partially sold and scrapped by the Group for the three months and nine months ended September 30, 2018.

(5) Other current assets

|               | September 30, 2018 | December 31, 2017 | September 30, 2017 |
|---------------|--------------------|-------------------|--------------------|
| Time deposits | \$ 70,194          | \$ 68,262         | \$ 72,635          |
| Others        | 3,561              | 3,592             | 3,735              |
|               | <u>\$ 73,755</u>   | <u>\$ 71,854</u>  | <u>\$ 76,370</u>   |

- A. The time deposits mentioned above did not meet the requirement of short-term commitments.  
 B. Details of the Group's time deposits pledged to others as collateral are provided in Note 8.

(6) Financial assets at fair value through other comprehensive income - non-current

| <u>Items</u>         | <u>September 30, 2018</u> |
|----------------------|---------------------------|
| Non-current items:   |                           |
| Equity instruments   |                           |
| Listed stocks        | \$ 89,834                 |
| Unlisted stocks      | 11,393                    |
| Valuation adjustment | <u>114,389</u>            |
| Total                | <u>\$ 215,616</u>         |

A. The Group has elected to classify stock investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$215,616 thousand as at September 30, 2018.

B. Amounts recognised in other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

| <u>Equity instruments at fair value through other comprehensive income</u> | <u>September 30, 2018</u> |
|--|---------------------------|
| Fair value change recognised in other comprehensive income                 | <u>\$ 87,981</u>          |

C. The Group did not pledge non-current financial assets at fair value through other comprehensive income to others as collateral.

D. The information on available-for-sale financial assets as of December 31, 2017 and September 30, 2017, is provided in Note 12(4).

(7) Property, plant and equipment

Nine months ended September 30, 2018

|                                    | At January 1        | Additions        | Disposals       | Transfers       | Net exchange differences | At September 30     |
|------------------------------------|---------------------|------------------|-----------------|-----------------|--------------------------|---------------------|
| <b>Cost</b>                        |                     |                  |                 |                 |                          |                     |
| Buildings and structures           | \$ 381,447          | \$ 2,441         | \$ -            | \$ 11,596       | \$ 11,260                | \$ 384,224          |
| Molding equipment                  | 155,109             | 10,580           | ( 313)          | 3,282           | ( 4,839)                 | 163,819             |
| Machinery and equipment            | 131,635             | 739              | ( 1,728)        | 64              | ( 3,331)                 | 127,379             |
| Research and development equipment | 26,507              | 647              | ( 44)           | 647             | ( 792)                   | 26,965              |
| Transportation equipment           | 15,139              | -                | ( -)            | 56              | ( 378)                   | 14,705              |
| Others                             | 90,076              | 4,552            | ( 5,120)        | 563             | ( 2,360)                 | 87,711              |
| Construction in progress           | 10,428              | 8,225            | ( -)            | ( 11,773)       | ( 172)                   | 6,708               |
|                                    | <u>\$ 810,341</u>   | <u>\$ 27,184</u> | <u>\$ 7,205</u> | <u>\$ 4,323</u> | <u>\$ 23,132</u>         | <u>\$ 811,511</u>   |
| <b>Accumulated depreciation</b>    |                     |                  |                 |                 |                          |                     |
| Buildings and structures           | (\$ 141,642)        | \$ 14,387        | \$ -            | \$ -            | \$ 4,498                 | (\$ 151,531)        |
| Molding equipment                  | ( 135,463)          | ( 9,884)         | 313             | -               | ( 4,156)                 | ( 140,878)          |
| Machinery and equipment            | ( 92,143)           | ( 5,260)         | 1,560           | -               | ( 2,375)                 | ( 93,468)           |
| Research and development equipment | ( 23,043)           | ( 814)           | 44              | -               | ( 677)                   | ( 23,136)           |
| Transportation equipment           | ( 9,735)            | ( 1,518)         | -               | 3               | ( 292)                   | ( 10,958)           |
| Others                             | ( 76,407)           | ( 5,116)         | 5,106           | -               | ( 2,068)                 | ( 74,349)           |
|                                    | <u>(\$ 478,433)</u> | <u>\$ 36,979</u> | <u>\$ 7,023</u> | <u>\$ 3</u>     | <u>\$ 14,066</u>         | <u>(\$ 494,320)</u> |
|                                    | <u>\$ 331,908</u>   |                  |                 |                 |                          | <u>\$ 317,191</u>   |

Nine months ended September 30, 2017

|                                    | Nine months ended September 30, 2017 |                    |                    |                  |                          | At September 30     |
|------------------------------------|--------------------------------------|--------------------|--------------------|------------------|--------------------------|---------------------|
|                                    | At January 1                         | Additions          | Disposals          | Transfers        | Net exchange differences |                     |
| <b>Cost</b>                        |                                      |                    |                    |                  |                          |                     |
| Buildings and structures           | \$ 298,539                           | \$ 72,999          | \$ -               | \$ 4,873         | (\$ 3,242)               | \$ 373,169          |
| Molding equipment                  | 149,181                              | 7,783              | 4,243              | 924              | ( 2,073)                 | 151,572             |
| Machinery and equipment            | 135,410                              | 1,784              | 5,483              | 1,215            | ( 2,427)                 | 130,499             |
| Research and development equipment | 26,864                               | -                  | ( 54)              | -                | ( 385)                   | 26,425              |
| Transportation equipment           | 15,369                               | 1,190              | 1,264              | -                | ( 197)                   | 15,098              |
| Others                             | 83,982                               | 2,403              | 1,787              | 7,219            | ( 1,138)                 | 90,679              |
| Construction in progress           | 5,185                                | 8,132              | -                  | 4,066            | ( 17)                    | 9,234               |
|                                    | <u>\$ 714,530</u>                    | <u>\$ 94,291</u>   | <u>(\$ 12,831)</u> | <u>\$ 10,165</u> | <u>(\$ 9,479)</u>        | <u>\$ 796,676</u>   |
| <b>Accumulated depreciation</b>    |                                      |                    |                    |                  |                          |                     |
| Buildings and structures           | (\$ 126,022)                         | \$ 12,195          | \$ -               | \$ -             | \$ 1,640                 | (\$ 136,577)        |
| Molding equipment                  | ( 129,398)                           | ( 8,837)           | 4,243              | -                | 1,789                    | ( 132,203)          |
| Machinery and equipment            | ( 92,062)                            | ( 5,233)           | 5,339              | -                | 1,780                    | ( 90,176)           |
| Research and development equipment | ( 22,257)                            | ( 826)             | 54                 | -                | 308                      | ( 22,721)           |
| Transportation equipment           | ( 8,868)                             | ( 1,683)           | 1,264              | -                | 116                      | ( 9,171)            |
| Others                             | ( 74,340)                            | ( 4,192)           | 1,726              | -                | 1,028                    | ( 75,778)           |
|                                    | <u>(\$ 452,947)</u>                  | <u>(\$ 32,966)</u> | <u>\$ 12,626</u>   | <u>\$ -</u>      | <u>\$ 6,661</u>          | <u>(\$ 466,626)</u> |
|                                    | <u>\$ 261,583</u>                    |                    |                    |                  |                          | <u>\$ 330,050</u>   |

The Group has no property, plant and equipment that were pledged to others.

(8) Other non-current assets

|                                     | <u>September 30, 2018</u> | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|-------------------------------------|---------------------------|--------------------------|---------------------------|
| Land use right                      | \$ 30,484                 | \$ 32,028                | \$ 32,148                 |
| Guarantee deposits paid             | 32,118                    | 4,131                    | 4,073                     |
| Prepayments for business facilities | 8,077                     | 4,773                    | 6,464                     |
| Other non-current assets            | 4,554                     | 4,826                    | 5,629                     |
|                                     | <u>\$ 75,233</u>          | <u>\$ 45,758</u>         | <u>\$ 48,314</u>          |

In November 2007, the Group entered into a land use right contract with Zhongshan Administration for Industry & Commerce for use of the land in Xiaolan Town, Zhongshan Prefecture, Guangdong Province in China, with a term of 47 years. Rents have been paid on the contract date. The Group recognised rental expenses of \$217 thousand, \$218 thousand, \$662 thousand and \$647 thousand for the three months and nine months ended September 30, 2018 and 2017, respectively.

(9) Other payables

|  | <u>September 30, 2018</u> | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|--|---------------------------|--------------------------|---------------------------|
| Salary and bonus payable                                       | \$ 44,676                 | \$ 52,913                | \$ 35,541                 |
| Insurance and pension expense payable                          | 14,641                    | 13,370                   | 14,643                    |
| Payable for consumables and purchases                          | 12,445                    | 13,372                   | 13,406                    |
| Exhibition participation fee and advertisement expense payable | 12,286                    | 306                      | 8,543                     |
| Others   | 37,097                    | 25,627                   | 33,484                    |
|  | <u>\$ 121,145</u>         | <u>\$ 105,588</u>        | <u>\$ 105,617</u>         |

(10) Pensions

- A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.
- (b) For the aforementioned pension plan, the Group recognised pension costs of \$35 thousand, \$31 thousand, \$106 thousand and \$93 thousand for the three months and nine months ended September 30, 2018 and 2017, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2018 amounts to \$142 thousand.
- B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with



R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

- (b) The Company's Hong Kong branch contributes 5% of employees' salaries and wages (below the ceiling of HKD1,500) pursuant to the mandatory provident fund schemes. The accrued benefits is deposited in a specialised account in Manulife (International) Limited and can only be withdrawn when scheme members reach the age of 65.
- (c) Titan Lighting Co. Ltd. and Zhongshan Tons Lighting Co. Ltd. have a defined contribution plan. Monthly contribution to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on a certain percentage of employees' monthly salaries and wages. On January 1, 2018 and 2017, abovementioned contribution percentage was both 13%. Other than the monthly contributions, the Group has no further obligations.
- (d) The pension costs under defined contribution pension plans of the Group for the three months and nine months ended September 30, 2018 and 2017, were \$3,949 thousand, \$3,819 thousand, \$11,468 thousand and \$11,585 thousand, respectively.

(11) Share-based payment

- A. For the nine months ended September 30, 2018 and 2017, the Group's share-based payment arrangements were as follows:

| Type of arrangement              | Grant date | Quantity granted (in thousands) | Contract period | Vesting conditions | Actual turnover rate in the third quarter of 2018 | Actual turnover rate in the third quarter of 2017 | Estimated future turnover rate |
|----------------------------------|------------|---------------------------------|-----------------|--------------------|---|---|--------------------------------|
| Third (1) employee stock options | 2012.03.21 | 600                             | 5 years         | 2~4 years' service | 0%  | 0%  | 0%                             |
| Third (2) employee stock options | 2012.12.26 | 70                              | 5 years         | 2~4 years' service | 0%  | 0%  | 0%                             |
| Fourth employee stock options    | 2014.11.13 | 600                             | 5 years         | 2~4 years' service | 0%  | 3.75%   | 0%                             |
| Fifth employee stock options     | 2016.12.23 | 600                             | 5 years         | 2~4 years' service | 2.56%   | 13.04%  | 0%                             |

B. Details of the share-based payment arrangements are as follows:

(a) Third (1) employee stock options

|                                     | 2018                             |  | 2017                             |  |
|-------------------------------------|----------------------------------|--|----------------------------------|--|
|                                     | No. of options<br>(in thousands) | Weighted-average<br>exercise price<br>(in dollars) | No. of options<br>(in thousands) | Weighted-average<br>exercise price<br>(in dollars) |
| Options outstanding at January 1    | -                                | \$ -   | 86                               | \$ 22.70   |
| Options exercised                   | -                                | -  | (86)                             | 22.70  |
| Options outstanding at September 30 | -                                |  | -                                |  |
| Options exercisable at September 30 | -                                |  | -                                |  |

(b) Third (2) employee stock options

|                                     | 2018                             |  | 2017                             |  |
|-------------------------------------|----------------------------------|--|----------------------------------|--|
|                                     | No. of options<br>(in thousands) | Weighted-average<br>exercise price<br>(in dollars) | No. of options<br>(in thousands) | Weighted-average<br>exercise price<br>(in dollars) |
| Options outstanding at January 1    | -                                | \$ -   | 4                                | \$ 21.90   |
| Options exercised                   | -                                | -  | (4)                              | 21.90  |
| Options outstanding at September 30 | -                                |  | -                                |  |
| Options exercisable at September 30 | -                                |  | -                                |  |

(c) Fourth employee stock options

|                                     | 2018                             |  | 2017                             |  |
|-------------------------------------|----------------------------------|--|----------------------------------|--|
|                                     | No. of options<br>(in thousands) | Weighted-average<br>exercise price<br>(in dollars) | No. of options<br>(in thousands) | Weighted-average<br>exercise price<br>(in dollars) |
| Options outstanding at January 1    | 243                              | \$ 21.70   | 390                              | \$ 23.80   |
| Options forfeited                   | -                                | -  | (2)                              | 21.70  |
| Options exercised                   | (59)                             | 21.70  | -                                | -  |
| Options exercised                   | (1)                              | 20.50  | (120)                            | 23.80  |
| Options outstanding at September 30 | <u>183</u>                       | 20.50(Note)  | <u>268</u>                       | 21.70(Note)  |
| Options exercisable at September 30 | <u>61</u>                        |  | <u>22</u>                        |  |

Note : Price was adjusted due to ex-right.

(d) Fifth employee stock options

|                                     | 2018                             |   | 2017                             |   |
|-------------------------------------|----------------------------------|---|----------------------------------|---|
|                                     | No. of options<br>(in thousands) | Weighted-average exercise price<br>(in dollars) | No. of options<br>(in thousands) | Weighted-average exercise price<br>(in dollars) |
| Options outstanding at January 1    | 573                              | \$ 31.80  | 600                              | \$ 34.95  |
| Options forfeited                   | (2)                              | 31.80   | (21)                             | 34.95   |
| Options forfeited                   | -                                | -   | (4)                              | 31.80   |
| Options outstanding at September 30 | <u>571</u>                       | 30.00 (Note)                                    | <u>575</u>                       | 31.80 (Note)                                    |
| Options exercisable at September 30 | <u>-</u>                         |   | <u>-</u>                         |   |

Note: Price was adjusted due to ex-right.

C. The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

|                                  | Expiry date | September 30, 2018               |                | December 31, 2017                |                |
|----------------------------------|-------------|----------------------------------|----------------|----------------------------------|----------------|
|                                  |             | No. of options<br>(in thousands) | Exercise price | No. of options<br>(in thousands) | Exercise price |
| Third (1) employee stock options | 2017.3.20   | -                                | \$ -           | -                                | \$ -           |
| Third (2) employee stock options | 2017.12.25  | -                                | -              | -                                | -              |
| Fourth employee stock options    | 2019.11.12  | 183                              | 20.50          | 243                              | 21.70          |
| Fifth employee stock options     | 2021.12.22  | 571                              | 30.00          | 573                              | 31.80          |

|                                  | Expiry date | September 30, 2017               |                |
|----------------------------------|-------------|----------------------------------|----------------|
|                                  |             | No. of options<br>(in thousands) | Exercise price |
| Third (1) employee stock options | 2017.3.20   | -                                | \$ -           |
| Third (2) employee stock options | 2017.12.25  | -                                | -              |
| Fourth employee stock options    | 2019.11.12  | 268                              | 21.70          |
| Fifth employee stock options     | 2021.12.22  | 575                              | 31.80          |

D. Expenses incurred on share-based payment transactions are shown below:

|   | Three months ended September 30, |        |
|---|----------------------------------|--------|
|   | 2018                             | 2017   |
| Equity-settled - employee stock options | \$ 405                           | \$ 487 |

|   | Nine months ended September 30, |          |
|---|---------------------------------|----------|
|   | 2018                            | 2017     |
| Equity-settled - employee stock options | \$ 1,210                        | \$ 1,482 |

(12) Provisions – non-current

|                             | Warranty provisions |     |
|-----------------------------|---------------------|-----|
|                             | 2018                |     |
| At January 1                | \$                  | 625 |
| Unused amounts reversed     | (                   | 66) |
| Effects of foreign exchange | (                   | 9)  |
| At September 30             | \$                  | 550 |

Analysis of total provisions:

|             | September 30, 2018 | December 31, 2017 | September 30, 2017 |
|-------------|--------------------|-------------------|--------------------|
| Non-current | \$ 550             | \$ 625            | \$ 679             |

The Group gives warranties on lighting equipment lamps sold. Provision for warranty is estimated based on historical warranty data of lighting equipment lamps.

(13) Share capital

- A. As of September 30, 2018, the Company's authorized capital was \$500 million, consisting of 50,000 thousand shares of ordinary stock (including 5 million shares reserved for employee stock options). The paid-in capital was \$398,948 thousand with a par value of \$10 (in dollars) per share. Advance receipts for ordinary shares of \$31 thousand, which were equivalent to 1 thousand shares, were the employees exercised options. The total share capital was \$398,979 thousand and the number of outstanding shares was 39,896 thousand shares.
- B. The employees exercised options for 83 thousand shares of common stock during the period from November 13, 2017 to February 8, 2018, and the subscription price was NT\$21.7 per share. The share issuance became effective on March 6, 2018, as resolved at the meeting of Board of Directors on February 23, 2018. The registration was completed on March 20, 2018.
- C. The stockholders at their annual stockholders' meeting on May 26, 2017 adopted a resolution to increase capital for 394 thousand shares with a par value of \$10 (in dollars), through capitalization of unappropriated retained earnings of \$3,942 thousand. The capital increase had been resolved by the Board of Directors and the effective date had been set on July 24, 2017. On August 4, 2017, the registration was completed.
- D. The employees exercised 2012 Third (1), 2012 Third (2) and 2014 Fourth employee stock options for 117 thousand shares, 7 thousand shares and 225 thousand shares, respectively, for a total of 349 thousand shares of common stock during the period from November 1, 2016 to February 15, 2017, and the subscription price was NT\$22.7, NT\$21.9 and NT\$23.8, respectively. On February 24, 2017, the Board of Directors at their meeting resolved that the effective date of issuing new shares was March 3, 2017. The registration has been completed on March 17, 2017.

Movements in the number of the Company's ordinary shares outstanding are as follows:

|                                  | (Unit: shares in Thousands) |               |
|----------------------------------|-----------------------------|---------------|
|                                  | 2018                        | 2017          |
| At January 1                     | 39,836                      | 39,207        |
| Employee stock options exercised | 60                          | 211           |
| Stock dividends                  | -                           | 394           |
| At September 30                  | <u>39,896</u>               | <u>39,812</u> |

(14) Capital surplus

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

(15) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall be distributed in the following order:

- (a) Offset prior years' operating losses, if any.
- (b) Set aside 10% of the remaining amount as legal reserve, and set aside or reverse special reserve when necessary.
- (c) The remainder along with the unappropriated earnings of prior years is the accumulated distributable earnings. The appropriation of accumulated distributable earnings shall be proposed by the Board of Directors and be resolved by the shareholders.

The Company is at the development stage. In line with current and future development plans and investment environment, and to respond to capital needs and domestic and foreign competition, as well as shareholders' benefits, balanced dividends and the Company's long-term financial plan, etc., the earnings shall be appropriated in compliance with the above regulations. The ratio of dividends to shareholders shall account for at least 50% of the accumulated distributable earnings, and dividends shall be preferably distributed in the form of shares. The ratio of cash dividends shall account for at least 10% of the total dividends distributed. However, the Board of Directors shall adjust the ratios based on current year's operating status and shall report to the shareholders for a resolution.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

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

(b) The amount previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be the same as the amount reclassified from accumulated translation adjustment under shareholders' equity to retained earnings for the exemptions elected by the Group. The increase in special reserve as a result of retained earnings arising from the adoption of IFRS

was \$38,429 thousand.

D. The appropriations proposal of 2017 and 2016 earnings, which was resolved at the shareholders' meeting on May 30, 2018, and May 26, 2017, respectively, are detailed as follows:

|                 | Years ended December 31, |                                  |                   |                                  |
|-----------------|--------------------------|----------------------------------|-------------------|----------------------------------|
|                 | 2017                     |                                  | 2016              |                                  |
|                 | Amount                   | Dividends per share (in dollars) | Amount            | Dividends per share (in dollars) |
| Legal reserve   | \$ 12,108                |                                  | \$ 12,501         |                                  |
| Stock dividends | -                        | \$ -                             | 3,942             | \$ 0.1                           |
| Cash dividends  | 91,758                   | 2.3                              | 102,486           | 2.6                              |
|                 | <u>\$ 103,866</u>        |                                  | <u>\$ 118,929</u> |                                  |

For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(21).

(16) Other equity items

|   | 2018                 |  | 2017                 |  |
|---|----------------------|--|----------------------|--|
|   | Currency translation | Unrealised gains (losses) on valuation | Currency translation | Unrealised gains (losses) on valuation |
| At January 1                              | (\$ 36,065)          | \$ 26,013                              | (\$ 23,355)          | \$ 18,448                              |
| Currency translation differences: - Group | ( 19,201)            | -                                      | ( 14,129)            | -                                      |
| Revaluation                               | -                    | 88,040                                 | -                    | 603                                    |
| Revaluation-tax                           | -                    | ( 59)                                  | -                    | -                                      |
| At September 30                           | <u>(\$ 55,266)</u>   | <u>\$ 113,994</u>                      | <u>(\$ 37,484)</u>   | <u>\$ 19,051</u>                       |

(17) Operating revenue

|               | Three months ended September 30, 2018 | Nine months ended September 30, 2018 |
|---------------|---------------------------------------|--------------------------------------|
| Sales revenue | <u>\$ 287,896</u>                     | <u>\$ 793,979</u>                    |

A. Disaggregation of revenue from contracts with customers

Please refer to Note 14 for details.

B. Contract liabilities (shown as 'other current liabilities')

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

|                       | September 30, 2018 |
|-----------------------|--------------------|
| Contract liabilities: |                    |
| Contract liabilities  | <u>\$ 5,707</u>    |

Revenue recognised that was included in the contract liability balance at the beginning of the period:

|   | Three months ended<br>September 30, 2018 | Nine months ended<br>September 30, 2018 |
|---|--|---|
| Revenue recognised that was included in the contract liability balance at the beginning of the period | \$ 29                                    | \$ 10,540                               |

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

(18) Other income

|                                    | Three months ended September 30, |                 |
|------------------------------------|----------------------------------|-----------------|
|                                    | 2018                             | 2017            |
| Interest income:                   |                                  |                 |
| Interest income from bank deposits | \$ 2,229                         | \$ 2,194        |
| Other income-others                | 6,252                            | 2,297           |
|                                    | <u>\$ 8,481</u>                  | <u>\$ 4,491</u> |

|                                    | Nine months ended September 30, |                 |
|------------------------------------|---------------------------------|-----------------|
|                                    | 2018                            | 2017            |
| Interest income:                   |                                 |                 |
| Interest income from bank deposits | \$ 6,765                        | \$ 6,672        |
| Other income-others                | 7,298                           | 3,096           |
|                                    | <u>\$ 14,063</u>                | <u>\$ 9,768</u> |

(19) Other gains and losses

|  | Three months ended September 30, |                 |
|--|----------------------------------|-----------------|
|  | 2018                             | 2017            |
| Loss on disposal of property, plant and equipment                                      | (\$ 69)                          | (\$ 3)          |
| Net currency exchange gain   | 4,508                            | 2,869           |
| Net (loss) gain on financial assets (liabilities) at fair value through profit or loss | ( 1,803)                         | 6,777           |
| Other losses   | ( 26)                            | ( 1,133)        |
|  | <u>\$ 2,610</u>                  | <u>\$ 8,510</u> |

|   | Nine months ended September 30, |                 |
|---|---------------------------------|-----------------|
|   | 2018                            | 2017            |
| Loss on disposal of property, plant and equipment                               | (\$ 170)                        | (\$ 1)          |
| Net currency exchange gain  | 10,374                          | 3,177           |
| Net gain on financial assets (liabilities) at fair value through profit or loss | 132,206                         | 6,016           |
| Other losses  | (47)                            | (1,141)         |
|   | <u>\$ 142,363</u>               | <u>\$ 8,051</u> |

(20) Expenses by nature

|   | Three months ended September 30, |           |
|---|----------------------------------|-----------|
|   | 2018                             | 2017      |
| Employee benefit expense                              | \$ 66,683                        | \$ 67,270 |
| Depreciation charges on property, plant and equipment | 12,424                           | 11,895    |
| Amortisation charges                                  | 673                              | 678       |

|   | Nine months ended September 30, |            |
|---|---------------------------------|------------|
|   | 2018                            | 2017       |
| Employee benefit expense                              | \$ 198,557                      | \$ 185,526 |
| Depreciation charges on property, plant and equipment | 36,979                          | 32,966     |
| Amortisation charges                                  | 2,036                           | 1,432      |

(21) Employee benefit expense

|                                  | Three months ended September 30, |                  |
|----------------------------------|----------------------------------|------------------|
|                                  | 2018                             | 2017             |
| Wages and salaries               | \$ 56,585                        | \$ 57,197        |
| Labour and health insurance fees | 2,431                            | 2,113            |
| Pension costs                    | 3,984                            | 3,850            |
| Directors' remunerations         | 859                              | 1,322            |
| Other personnel changes          | 2,824                            | 2,788            |
|                                  | <u>\$ 66,683</u>                 | <u>\$ 67,270</u> |

|                                  | Nine months ended September 30, |                   |
|----------------------------------|---------------------------------|-------------------|
|                                  | 2018                            | 2017              |
| Wages and salaries               | \$ 169,339                      | \$ 156,885        |
| Labour and health insurance fees | 6,222                           | 6,406             |
| Pension costs                    | 11,574                          | 11,678            |
| Directors' remunerations         | 3,509                           | 2,771             |
| Other personnel changes          | 7,913                           | 7,786             |
|                                  | <u>\$ 198,557</u>               | <u>\$ 185,526</u> |



Note: On September 30, 2018 and 2017, the Group had 733 and 739 employees, respectively, and have 5 directors for both periods.

- A. In accordance with the amended Articles of Incorporation as resolved by the shareholders' meeting on May 30, 2018, the current year's earnings, if profit, the Company shall appropriate 5% to 15% as the employees' compensation; if loss, shall first reserve the offset amount. The ratio before amendment was 8% to 12% for employees' compensation and shall not be higher than 2% for directors' remuneration.
- B. For the three months and nine months ended September 30, 2018, the accrued employees' compensation and directors' and supervisors' remuneration is as follows:

|  | Three months ended September 30, |                 |
|--|----------------------------------|-----------------|
|  | 2018                             | 2017            |
| Employees' compensation                  | \$ 1,825                         | \$ 3,994        |
| Directors' and supervisors' remuneration | 292                              | 705             |
|  | <u>\$ 2,117</u>                  | <u>\$ 4,699</u> |

  

|  | Nine months ended September 30, |                 |
|--|---------------------------------|-----------------|
|  | 2018                            | 2017            |
| Employees' compensation                  | \$ 11,075                       | \$ 8,446        |
| Directors' and supervisors' remuneration | 1,772                           | 1,491           |
|  | <u>\$ 12,847</u>                | <u>\$ 9,937</u> |

The aforementioned amounts were recognised in salary expenses, and accrued based on 5 % and 0.8%, respectively, of the pretax income that has not been accrued for the above expenses of the current period. For the nine months ended September 30, 2018, employees' compensation and directors' and supervisors' remuneration was accrued based on 8.5 % and 1.5%, respectively, of the pretax income that has not been accrued for the above expenses of the current period. Employees' compensation and directors' and supervisors' remuneration for 2017 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2017 financial statements. The employees' compensation will be distributed in the form of cash. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(22) Income tax

A. Income tax expense

(a) Components of income tax expense:

|   | Three months ended September 30, |                 |
|---|----------------------------------|-----------------|
|   | 2018                             | 2017            |
| Current tax:                                      |                                  |                 |
| Current tax on profits for the period             | \$ 7,165                         | \$ 6,681        |
| Prior year income tax overestimation              | ( 3)                             | ( 3)            |
| Total current tax                                 | 7,162                            | 6,678           |
| Deferred tax:                                     |                                  |                 |
| Origination and reversal of temporary differences | 856                              | 274             |
| Income tax expense                                | <u>\$ 8,018</u>                  | <u>\$ 6,952</u> |

|   | Nine months ended September 30, |           |
|---|---------------------------------|-----------|
|   | 2018                            | 2017      |
| Current tax:                                      |                                 |           |
| Current tax on profits for the period             | \$ 31,528                       | \$ 15,974 |
| Tax on undistributed surplus earnings             | 1,783                           | 556       |
| Prior year income tax under (over)estimation      | 336                             | (592)     |
| Total current tax                                 | 33,647                          | 15,938    |
| Deferred tax:                                     |                                 |           |
| Effect of taxation law amendments                 | ( 388)                          | -         |
| Origination and reversal of temporary differences | ( 8,158)                        | 1,355     |
| Income tax expense                                | \$ 25,101                       | \$ 17,293 |

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

|                              | Three months ended September 30, |      |
|------------------------------|----------------------------------|------|
|                              | 2018                             | 2017 |
| Impact of change in tax rate | \$ -                             | \$ - |
|                              | Nine months ended September 30,  |      |
|                              | 2018                             | 2017 |
| Impact of change in tax rate | (\$ 140)                         | \$ - |

B. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(23) Earnings per share

Earnings per share of ordinary shares

Three months ended September 30, 2018

|  | <u>Amount after tax</u> | <u>Weighted average<br/>number of ordinary<br/>shares outstanding<br/>(shares in thousands)</u> | <u>Earnings per<br/>share (in dollars)</u> |
|--|-------------------------|---|--|
| <u>Basic earnings per share</u>  |                         |   |  |
| Profit attributable to ordinary shareholders of the parent   | \$ 31,204               | \$ 39,896   | \$ 0.78                                    |
| <u>Diluted earnings per share</u>  |                         |   |  |
| Profit attributable to ordinary shareholders of the parent   | 31,204                  | 39,896  |  |
| Assumed conversion of all dilutive potential ordinary shares   |                         |   |  |
| - Employees' compensation  | -                       | 316   |  |
| - Employee stock options   | -                       | 160   |  |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | \$ 31,204               | 40,372  | \$ 0.77                                    |

Three months ended September 30, 2017

|  | <u>Amount after tax</u> | <u>Weighted average<br/>number of ordinary<br/>shares outstanding<br/>(shares in thousands)</u> | <u>Earnings per<br/>share (in dollars)</u> |
|--|-------------------------|---|--|
| <u>Basic earnings per share</u>  |                         |   |  |
| Profit attributable to ordinary shareholders of the parent   | \$ 37,041               | 39,812  | \$ 0.93                                    |
| <u>Diluted earnings per share</u>  |                         |   |  |
| Profit attributable to ordinary shareholders of the parent   | 37,041                  | 39,812  |  |
| Assumed conversion of all dilutive potential ordinary shares   |                         |   |  |
| - Employees' compensation  | -                       | 286   |  |
| - Employee stock options   | -                       | 71  |  |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | \$ 37,041               | 40,169  | \$ 0.92                                    |

Nine months ended September 30, 2018

|  | Amount after tax | Weighted average<br>number of ordinary<br>shares outstanding<br>(shares in thousands) | Earnings per<br>share (in dollars) |
|--|------------------|---|------------------------------------|
| <u>Basic earnings per share</u>  |                  |   |                                    |
| Profit attributable to ordinary shareholders of the parent   | \$ 194,512       | 39,889  | \$ 4.88                            |
| <u>Diluted earnings per share</u>  |                  |   |                                    |
| Profit attributable to ordinary shareholders of the parent   | 194,512          | 39,889  |                                    |
| Assumed conversion of all dilutive potential ordinary shares   |                  |   |                                    |
| - Employees' compensation  | -                | 316   |                                    |
| - Employee stock options   | -                | 166   |                                    |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | \$ 194,512       | 40,371  | \$ 4.82                            |

Nine months ended September 30, 2017

|  | Amount after tax | Weighted average<br>number of ordinary<br>shares outstanding<br>(shares in thousands) | Earnings per<br>share (in dollars) |
|--|------------------|---|------------------------------------|
| <u>Basic earnings per share</u>  |                  |   |                                    |
| Profit attributable to ordinary shareholders of the parent   | \$ 77,407        | 39,787  | \$ 1.95                            |
| <u>Diluted earnings per share</u>  |                  |   |                                    |
| Profit attributable to ordinary shareholders of the parent   | 77,407           | 39,787  |                                    |
| Assumed conversion of all dilutive potential ordinary shares   |                  |   |                                    |
| - Employees' compensation  | -                | 286   |                                    |
| - Employee stock options   | -                | 96  |                                    |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | \$ 77,407        | 40,169  | \$ 1.93                            |

(24) Operating leases

The Group leases real estate under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and all these lease agreements are renewable at the end of the lease period. Rental is increased every year to reflect market rental rates. Partial leases are charged extra rents following the changes of local price indexes. The Group recognised rental expenses of \$4,408 thousand, \$4,465 thousand, \$13,473 thousand and \$13,387 thousand for these leases in profit or loss

for the three months and nine months ended September 30, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|  | <u>September 30, 2018</u> | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|--|---------------------------|--------------------------|---------------------------|
| Not later than one year                              | \$ 7,356                  | \$ 13,320                | \$ 7,310                  |
| Later than one year but<br>not later than five years | <u>1,329</u>              | <u>5,316</u>             | <u>6,645</u>              |
|  | <u>\$ 8,685</u>           | <u>\$ 18,636</u>         | <u>\$ 13,955</u>          |

(25) Supplemental cash flow information

Investing activities with partial cash payments

|   | <u>Nine months ended September 30,</u> |                  |
|---|--|------------------|
|   | <u>2018</u>                            | <u>2017</u>      |
| Purchase of property, plant and equipment       | \$ 27,184                              | \$ 94,291        |
| Add: Opening balance of payable on<br>equipment | 496                                    | 497              |
| Less: Ending balance of payable on<br>equipment | <u>(2,566)</u>                         | <u>(4,747)</u>   |
| Cash paid during the period                     | <u>\$ 25,114</u>                       | <u>\$ 90,041</u> |

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

| <u>Names of related parties</u> | <u>Relationship with the Group</u> |
|---------------------------------|------------------------------------|
| WeiSen Electronic Co., Ltd      | Other related party (Note)         |

Note: On June 20, 2017, the Group was elected as juristic person director of HEP TECH CO., LTD. (hereinafter "HEP"), and the Group became a related party of "HEP" and its subsidiaries starting from the same day. The following purchase and sale transactions in 2017 were calculated from June 20, 2017 to September 30, 2017; accounts receivable, accounts payable and other payables were calculated by using the balance on September 30, 2017.

(2) Significant related party transactions

A. Operating revenue

|                         | <u>Three months ended September 30,</u>     |   |
|-------------------------|---|---|
|                         | <u>2018</u>                                 | <u>2017</u>                                     |
| Sales of goods:         |   |   |
| - Other related parties | <u>\$ 1</u>                                 | <u>\$ 14</u>                                    |
|                         | <u>Nine months ended September 30, 2018</u> | <u>From June 20, 2017 to September 30, 2017</u> |
| Sales of goods:         |   |   |
| - Other related parties | <u>\$ 9</u>                                 | <u>\$ 14</u>                                    |

B. Accounts receivable

|                         | <u>September 30, 2018</u> | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|-------------------------|---------------------------|--------------------------|---------------------------|
| Accounts receivable:    |                           |                          |                           |
| - Other related parties | <u>\$ 1</u>               | <u>\$ 4</u>              | <u>\$ 17</u>              |

C. Purchases

|                             | Three months ended September 30, |                       |
|-----------------------------|----------------------------------|-----------------------|
|                             | 2018                             | 2017                  |
| Purchases of raw materials: |                                  |                       |
| - Other related parties     | \$ <u>15,978</u>                 | \$ <u>11,707</u>      |
|                             | Nine months ended                | From June 20, 2017    |
|                             | September 30, 2018               | to September 30, 2017 |
| Purchases of raw materials: |                                  |                       |
| - Other related parties     | \$ <u>32,914</u>                 | \$ <u>14,680</u>      |

The purchases from related parties mostly were starter, ballast and transformer, the payment term was 90 days after monthly billing.

D. Accounts payable

|                               | September 30, 2018 | December 31, 2017 | September 30, 2017 |
|-------------------------------|--------------------|-------------------|--------------------|
| Accounts payable:             |                    |                   |                    |
| - WeiSen Electronic Co., Ltd. | \$ <u>21,840</u>   | \$ <u>12,144</u>  | \$ <u>19,745</u>   |

(3) Key management compensation

|                              | Three months ended September 30, |                  |
|------------------------------|----------------------------------|------------------|
|                              | 2018                             | 2017             |
| Short-term employee benefits | \$ 7,055                         | \$ 7,908         |
| Post-employment benefits     | 136                              | 175              |
| Share-based payments         | 222                              | 275              |
|                              | \$ <u>7,413</u>                  | \$ <u>8,358</u>  |
|                              | Nine months ended September 30,  |                  |
|                              | 2018                             | 2017             |
| Short-term employee benefits | \$ 23,896                        | \$ 21,160        |
| Post-employment benefits     | 454                              | 527              |
| Share-based payments         | 663                              | 824              |
|                              | \$ <u>25,013</u>                 | \$ <u>22,511</u> |

8. PLEDGED ASSETS

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

| Pledged asset        | Book value         |                   |                    | Purpose                  |
|----------------------|--------------------|-------------------|--------------------|--------------------------|
|                      | September 30, 2018 | December 31, 2017 | September 30, 2017 |                          |
| Other current assets | \$ 4,436           | \$ -              | \$ -               | Forward foreign exchange |
| - Time deposits      |                    |                   |                    |                          |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

Details of the endorsements/guarantees provided for subsidiaries are provided in Note 13(1).

(2) Commitments

The Group entered into leases for its plants under non-cancellable operating lease agreements as

follows:

| Lessee                            | Leased object  | Period                | Monthly rent   |
|-----------------------------------|--|-----------------------|----------------|
| TONS LIGHTOLOGY INC.              | 4F., No.236, Bo'ai St., New Taipei City, Taiwan          | 2017.1.1 ~ 2019.12.31 | \$443 thousand |
| ZHONGSHAN TONS LIGHTING CO., LTD. | No. 6 HuaCheng Rd., ZhongShan, GuangDong Province, China | 2018.1.1 ~ 2018.12.31 | \$680 thousand |

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders and issue new shares to reduce debt. The Group monitors capital on the basis of the debt-to-asset ratio. This ratio is calculated as net debt divided by total assets.

During the nine months ended September 30, 2018, the Group's strategy, which was unchanged from 2017, was to maintain the debt-to-asset ratio within 20% to 40%. The debt-to-asset ratios at September 30, 2018, December 31, 2017 and September 30, 2017, were as follows:

|                   | September 30, 2018 | December 31, 2017 | September 30, 2017 |
|-------------------|--------------------|-------------------|--------------------|
| Total liabilities | \$ 270,788         | \$ 259,293        | \$ 252,049         |
| Total assets      | \$ 1,626,640       | \$ 1,440,907      | \$ 1,379,968       |
| Gearing ratio     | 17%                | 18%               | 18%                |

(2) Financial instruments

A. Financial instruments by category

|  | <u>September 30, 2018</u> | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|--|---------------------------|--------------------------|---------------------------|
| <b><u>Financial assets</u></b>   |                           |                          |                           |
| Financial assets at fair value through profit or loss                        |                           |                          |                           |
| Financial assets mandatorily measured at fair value through profit or loss   | \$ 255,351                | \$ 148,029               | \$ 112,981                |
| Financial assets at fair value through comprehensive income                  | 215,616                   | -                        | -                         |
| Available-for-sale financial assets  | -                         | 127,576                  | 121,723                   |
| Financial assets at amortised cost/Loans receivables / loans and receivables |                           |                          |                           |
| Cash and cash equivalents  | 343,630                   | 369,163                  | 343,199                   |
| Notes receivable   | 638                       | 1,824                    | 839                       |
| Accounts receivable (including related parties)                              | 153,856                   | 155,808                  | 146,312                   |
| Other receivables  | 1,479                     | 3,557                    | 4,251                     |
| Guarantee deposits paid  | 32,118                    | 4,131                    | 4,073                     |
| Other financial assets (Note)  | 70,194                    | 68,262                   | 72,635                    |
|  | <u>\$ 1,072,882</u>       | <u>\$ 878,350</u>        | <u>\$ 806,013</u>         |

Note: These are time deposits that did not meet the requirement of short-term commitments.

|  | <u>September 30, 2018</u> | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|--|---------------------------|--------------------------|---------------------------|
| <b><u>Financial liabilities</u></b>                        |                           |                          |                           |
| Financial liabilities at fair value through profit or loss |                           |                          |                           |
| Financial liabilities held for trading                     | \$ 2,294                  | \$ -                     | \$ -                      |
| Financial liabilities at amortised cost                    |                           |                          |                           |
| Notes payable  | 24                        | 59                       | 57                        |
| Accounts payable (including related parties)               | 108,038                   | 112,078                  | 113,736                   |
| Other accounts payable                                     | 121,145                   | 105,588                  | 105,617                   |
| Guarantee deposits received                                | 1,246                     | 1,246                    | 1,913                     |
|  | <u>\$ 232,747</u>         | <u>\$ 218,971</u>        | <u>\$ 221,323</u>         |

#### B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts are used to hedge certain exchange rate risk. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.



(c) Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Note 6(2).

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.
- ii. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and RMB income and expenditures. Entities in the Group use natural hedge to decrease the risk exposure in the foreign currency, transacted with Group treasury.
- iii. The Group hedges foreign exchange rate by using forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2).
- iv. The Group's risk management policy is to hedge anticipated cash flows (mainly from export sales and purchase of inventory) in each major foreign currency.

v. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations and analysis of foreign currency market risk arising from significant foreign exchange variation are as follows:

September 30, 2018

|  | Sensitivity analysis                      |               |                                     |                     |                          |                                      |
|--|---|---------------|-------------------------------------|---------------------|--------------------------|--------------------------------------|
|  | Foreign currency amount<br>(In thousands) | Exchange rate | Book value<br>(In thousands of NTD) | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| <b>(Foreign currency: functional currency)</b> |   |               |                                     |                     |                          |                                      |
| <u>Financial assets</u>                        |   |               |                                     |                     |                          |                                      |
| <u>Monetary items</u>                          |   |               |                                     |                     |                          |                                      |
| USD : NTD                                      | \$ 2,457                                  | 30.475 \$     | 74,877                              | 1%                  | \$ 749                   | \$ -                                 |
| EUR : NTD                                      | 1,584                                     | 35.280        | 55,884                              | 1%                  | 559                      | -                                    |
| RMB : NTD                                      | 32,714                                    | 4.411         | 144,301                             | 1%                  | 1,443                    | -                                    |
| RMB : USD                                      | 17,925                                    | 0.145         | 79,067                              | 1%                  | 791                      | -                                    |
| USD : RMB                                      | 5,303                                     | 6.881         | 161,609                             | -1%                 | ( 1,616)                 | -                                    |
| EUR : RMB                                      | 171                                       | 7.998         | 6,033                               | 1%                  | 60                       | -                                    |
| <u>Non-monetary items</u>                      |   |               |                                     |                     |                          |                                      |
| USD : NTD                                      | \$ 337                                    | 30.475 \$     | 10,270                              | 1%                  | -                        | \$ 103                               |

September 30, 2018

| Foreign currency amount<br>(In thousands) | Exchange rate | Book value<br>(In thousands of NTD) | Sensitivity analysis |                          |                                      |
|---|---------------|-------------------------------------|----------------------|--------------------------|--------------------------------------|
|   |               |                                     | Degree of variation  | Effect on profit or loss | Effect on other comprehensive income |
| \$ 5,802                                  | 30.575 \$     | 177,396                             | 1% (                 | 1,774) \$                | -                                    |
| 212                                       | 35.680        | 7,564                               | 1% (                 | 76)                      | -                                    |
| 12,371                                    | 4.461         | 55,187                              | 1% (                 | 552)                     | -                                    |
| 9,430                                     | 0.146         | 42,067                              | 1% (                 | 421)                     | -                                    |
| 1,800                                     | 6.885         | 2,294                               | -1%                  | 551                      | -                                    |

Financial liabilities

Monetary items

USD : NTD

EUR : NTD

RMB : NTD

RMB : USD

USD : RMB (Note)

Note : The Group's subsidiaries have forward foreign exchange contracts. Foreign currency amount is the notional principal.

Exchange rate is forward exchange rate that is estimated to be settled at the balance sheet date, and the book value is the amount recognised.

December 31, 2017

|  | Foreign currency amount<br>(In thousands) | Exchange rate | Book value<br>(In thousands of NTD) | Degree of variation | Sensitivity analysis     |                                      |
|--|---|---------------|-------------------------------------|---------------------|--------------------------|--------------------------------------|
|  |   |               |                                     |                     | Effect on profit or loss | Effect on other comprehensive income |
| <b>(Foreign currency: functional currency)</b> |   |               |                                     |                     |                          |                                      |
| <u>Financial assets</u>                        |   |               |                                     |                     |                          |                                      |
| <u>Monetary items</u>                          |   |               |                                     |                     |                          |                                      |
| USD : NTD                                      | \$ 3,257                                  | 29.710        | \$ 96,765                           | 1%                  | \$ 968                   | \$ -                                 |
| EUR : NTD                                      | 1,485                                     | 35.370        | 52,524                              | 1%                  | 525                      | -                                    |
| RMB : NTD                                      | 24,808                                    | 4.540         | 112,628                             | 1%                  | 1,126                    | -                                    |
| RMB : USD                                      | 16,387                                    | 0.153         | 74,397                              | 1%                  | 744                      | -                                    |
| USD : RMB                                      | 4,932                                     | 6.519         | 146,530                             | -1%                 | ( 1,465)                 | -                                    |
| EUR : RMB                                      | 130                                       | 7.792         | 4,598                               | 1%                  | 46                       | -                                    |
| USD : RMB (Note)                               | 1,800                                     | 6.550         | 2,162                               | -1%                 | 539                      | -                                    |
| <u>Non-monetary items</u>                      |   |               |                                     |                     |                          |                                      |
| USD : NTD                                      | \$ 337                                    | 29.710        | \$ 10,012                           | 1%                  | \$ -                     | \$ 100                               |
| <u>Financial liabilities</u>                   |   |               |                                     |                     |                          |                                      |
| <u>Monetary items</u>                          |   |               |                                     |                     |                          |                                      |
| USD : NTD                                      | \$ 5,744                                  | 29.810        | \$ 171,229                          | 1%                  | (\$ 1,712)               | \$ -                                 |
| EUR : NTD                                      | 196                                       | 35.770        | 7,011                               | 1%                  | ( 70)                    | -                                    |
| RMB : NTD                                      | 10,916                                    | 4.590         | 50,104                              | 1%                  | ( 501)                   | -                                    |
| RMB : USD                                      | 9,186                                     | 0.154         | 42,164                              | 1%                  | ( 422)                   | -                                    |

Note : The Group's subsidiaries have forward foreign exchange contracts. Foreign currency amount is the notional principal.

Exchange rate is forward exchange rate that is estimated to be settled at the balance sheet date, and the book value is the amount recognised.

September 30, 2017

|  | Sensitivity analysis                   |               |                                  |                     |                          |                                      |
|--|--|---------------|----------------------------------|---------------------|--------------------------|--------------------------------------|
|  | Foreign currency amount (In thousands) | Exchange rate | Book value (In thousands of NTD) | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| <b>(Foreign currency: functional currency)</b> |  |               |                                  |                     |                          |                                      |
| <b>Financial assets</b>                        |  |               |                                  |                     |                          |                                      |
| <u>Monetary items</u>                          |  |               |                                  |                     |                          |                                      |
| USD : NTD                                      | \$ 3,570                               | 30.210        | \$ 107,850                       | 1%                  | \$ 1,079                 | \$ -                                 |
| HKD : NTD                                      | 744                                    | 3.843         | 2,859                            | 1%                  | 29                       | -                                    |
| EUR : NTD                                      | 1,511                                  | 35.550        | 53,716                           | 1%                  | 537                      | -                                    |
| RMB : NTD                                      | 19,839                                 | 4.526         | 89,791                           | 1%                  | 898                      | -                                    |
| RMB : USD                                      | 13,374                                 | 0.150         | 60,531                           | -1%                 | ( 605)                   | -                                    |
| USD : RMB                                      | 5,234                                  | 6.649         | 158,119                          | 1%                  | 1,581                    | -                                    |
| EUR : RMB                                      | 116                                    | 7.855         | 4,124                            | 1%                  | 41                       | -                                    |
| USD : RMB (Note)                               | 1,800                                  | 6.173         | 1,352                            | 1%                  | ( 551)                   | -                                    |
| <u>Non-monetary items</u>                      |  |               |                                  |                     |                          |                                      |
| USD : NTD                                      | \$ 337                                 | 30.210        | 10,181                           | 1%                  | \$ -                     | \$ 102                               |
| <b>Financial liabilities</b>                   |  |               |                                  |                     |                          |                                      |
| <u>Monetary items</u>                          |  |               |                                  |                     |                          |                                      |
| USD : NTD                                      | \$ 6,341                               | 30.310        | \$ 192,196                       | 1%                  | (\$ 1,922)               | \$ -                                 |
| EUR : NTD                                      | 118                                    | 35.950        | 4,242                            | 1%                  | ( 42)                    | -                                    |
| RMB : NTD                                      | 7,941                                  | 4.576         | 36,338                           | 1%                  | ( 363)                   | -                                    |
| RMB : USD                                      | 6,492                                  | 0.151         | 29,707                           | -1%                 | 297                      | -                                    |

Note : The Group's subsidiaries have forward foreign exchange contracts. Foreign currency amount is the notional principal.

Exchange rate is forward exchange rate that is estimated to be settled at the balance sheet date, and the book value is the amount recognised.

vi. Total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the three months and nine months ended September 30, 2018 and 2017 amounted to \$4,508 thousand, \$2,869 thousand \$10,374 thousand and \$3,177 thousand, respectively.

(a) Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets.
- ii. Shares issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the nine months ended September 30, 2018 and 2017 would have increased/decreased by \$2,554 thousand and \$1,130 thousand, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity and available-for-sale equity investment would have increased/decreased by \$2,156 thousand and \$1,217 thousand, respectively, as a result of other comprehensive income classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

For the nine months ended September 30, 2018 and 2017, the Group has no items with impact on profit (loss) due to changes in interest rates.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. The Group regularly examines credit of the bank that the Group used to deposit their capital based on the rating from independently rated parties (if no rating information can be referred, the Group will use loan-to-deposit ratio, non-performing loans ratio and capital adequacy ratio instead). In addition, the Group deposits the capital based on the rating in order to disperse credit risk to avoid centralised deposits. The Group deposits with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote after assessment. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual

risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.

- iii. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition: If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 1 year.
- v. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss under the provision matrix basis.
- vi. The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable. On September 30, 2018, the loss rate methodology is as follows:

| September 30, 2018 | Individual | Group      | Total      |
|--------------------|------------|------------|------------|
| Expected loss rate | -          | 0.53%      |            |
| Total book value   | \$ -       | \$ 155,310 | \$ 155,310 |
| Loss allowance     | \$ -       | \$ 816     | \$ 816     |

- vii. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable, contract assets and lease payments receivable are as follows:

|                                 | 2018                |     |
|---------------------------------|---------------------|-----|
|                                 | Accounts receivable |     |
| At January 1                    | \$                  | 111 |
| Provision for impairment        |                     | 722 |
| Effect of exchange rate changes |                     | 17  |
| At September 30                 | \$                  | 816 |

- viii. Credit risk information for the third quarter of 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements.
- ii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities

|                                  |               | Between<br>1 and 2<br>years | Between<br>2 and 3<br>years | Between<br>3 and 5<br>years | Over 5 years |
|----------------------------------|---------------|-----------------------------|-----------------------------|-----------------------------|--------------|
| September 30, 2018               | Within 1 year |                             |                             |                             |              |
| Notes and accounts receivable    | \$ 86,222     | \$ -                        | \$ -                        | \$ -                        | \$ -         |
| Accounts payable-related parties | 21,840        | -                           | -                           | -                           | -            |
| Other payables                   | 121,145       | -                           | -                           | -                           | -            |

Non-derivative financial liabilities:

|                                    |           | Between<br>1 and 2<br>years | Between<br>2 and 3<br>years | Between<br>3 and 5<br>years | Over 5 years |
|------------------------------------|-----------|-----------------------------|-----------------------------|-----------------------------|--------------|
| December 31, 2017                  | 1 year    |                             |                             |                             |              |
| Notes payable and accounts payable | \$ 99,993 | \$ -                        | \$ -                        | \$ -                        | \$ -         |
| Accounts payable -related parties  | 12,144    | -                           | -                           | -                           | -            |
| Other payables                     | 105,588   | -                           | -                           | -                           | -            |

Non-derivative financial liabilities:

|                                     |                     | Between<br>1 and 2<br>years | Between<br>2 and 3<br>years | Between<br>3 and 5<br>years | Over 5 years |
|-------------------------------------|---------------------|-----------------------------|-----------------------------|-----------------------------|--------------|
| September 30, 2018                  | Less than<br>1 year |                             |                             |                             |              |
| Notes payable and accounts payable  | \$ 94,048           | \$ -                        | \$ -                        | \$ -                        | \$ -         |
| Accounts payable to related parties | 19,745              | -                           | -                           | -                           | -            |
| Other payables                      | 105,617             | -                           | -                           | -                           | -            |

Derivative financial liabilities:

|                            |                     | Between<br>1 and 2<br>years | Between<br>2 and 3<br>years | Between<br>3 and 5<br>years | Over 5 years |
|----------------------------|---------------------|-----------------------------|-----------------------------|-----------------------------|--------------|
| September 30, 2018         | Less than<br>1 year |                             |                             |                             |              |
| Forward exchange contracts | \$ 2,294            | \$ -                        | \$ -                        | \$ -                        | \$ -         |

Derivative financial liabilities :

December 31, 2017 and September 30, 2017: None.



(3) Fair value information

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

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

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

Level 3: Unobservable inputs for the asset or liability.

B. Financial instruments not measured at fair value

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, accounts receivable-related parties, other receivables, notes payable, accounts payable, accounts payable-related parties and other payables) are approximate to their fair values.

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

(a) The related information of natures of the assets and liabilities is as follows:

| <u>September 30, 2018</u>  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------|----------------|----------------|--------------|
| <b>Assets</b>  |                |                |                |              |
| <u>Recurring fair value measurements</u>                                 |                |                |                |              |
| Financial assets at fair value through profit or loss                    | \$ 255,351     | \$ -           | \$ -           | \$ 255,351   |
| Financial assets at fair value through other comprehensive income-Equity | \$ 202,249     | \$ -           | \$ 13,367      | \$ 215,616   |
| <b>Liabilities</b>   |                |                |                |              |
| <u>Recurring fair value measurements</u>                                 |                |                |                |              |
| Financial liabilities at fair value through profit or loss               | \$ -           | \$ 2,294       | \$ -           | \$ 2,294     |
| <u>December 31, 2017</u>   | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| <b>Assets</b>  |                |                |                |              |
| <u>Recurring fair value measurements</u>                                 |                |                |                |              |
| Financial assets at fair value through profit or loss                    | \$ 145,867     | \$ 2,162       | \$ -           | \$ 148,029   |
| Financial assets at fair value through other comprehensive income-Equity | \$ 114,209     | \$ -           | \$ 13,367      | \$ 127,576   |

| <u>September 30, 2017</u>   | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| <b>Assets</b>   |                |                |                |              |
| <u>Recurring fair value measurements</u>                          |                |                |                |              |
| Financial assets at fair value through profit or loss             | \$ 111,629     | \$ 1,352       | \$ -           | \$ 112,981   |
| Financial assets at fair value through other comprehensive income |                |                |                |              |
| -Equity securities  | \$ 101,832     | \$ -           | \$ 19,891      | \$ 121,723   |

- (b) The Group used market quoted prices as the fair values of the instruments in Level 1. Based on the characteristics, the closing prices are used for emerging shares.
- D. For the nine months ended September 30, 2018 and 2017, there was no transfer between Level 1 and Level 2.
- E. For the nine months ended September 30, 2018 and 2017, there was no transfer into or out from Level 3.
- F. Experts and the Group's treasury department are in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- G. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

|                              | <u>Fair value at<br/>September 30,<br/>2018</u> | <u>Valuation<br/>technique</u> | <u>Significant<br/>unobservable<br/>input</u> | <u>Range</u> | <u>Relationship<br/>of inputs to<br/>fair value</u> |
|------------------------------|---|--------------------------------|---|--------------|---|
| <b>Non-derivative equity</b> |   |                                |   |              |   |
| Unlisted shares              | \$ 13,367                                       | Market comparable companies    | Net equity ratio and price to earnings ratio  | 0.96~9.18    | The higher the multiple, the higher the fair value  |

|                                      | Fair value at<br>December 31,<br>2017  | Valuation<br>technique            | Significant<br>unobservable<br>input                  | Range     | Relationship<br>of inputs to<br>fair value                  |
|--------------------------------------|--|-----------------------------------|---|-----------|---|
| Non-derivative<br>equity             |  |                                   |   |           |   |
| Unlisted shares                      | \$ 13,367                              | Market<br>comparable<br>companies | Net equity<br>ratio and price<br>to earnings<br>ratio | 0.96~9.18 | The higher the<br>multiple, the<br>higher the fair<br>value |
|                                      | Fair value at<br>September 30,<br>2017 | Valuation<br>technique            | Significant<br>unobservable<br>input                  | Range     | Relationship<br>of inputs to<br>fair value                  |
| Non-derivative<br>equity instrument: |  |                                   |   |           |   |
| Unlisted shares                      | \$ 19,891                              | Market<br>comparable<br>companies | Price-book<br>ratio and price<br>to earnings          | 0.91~9.07 | The higher the<br>multiple, the higher<br>the fair value    |

H. The Group has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in difference measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

|                   |  |               |    | <u>September 30, 2018</u>                       |                            |
|-------------------|--|---------------|----|---|----------------------------|
|                   |  |               |    | <u>Recognised in other comprehensive income</u> |                            |
|                   | <u>Input</u>                                 | <u>Change</u> |    | <u>Favourable change</u>                        | <u>Unfavourable change</u> |
| Financial assets  |  |               |    |   |                            |
| Equity securities | Net equity ratio and price to earnings ratio | ± 5%          | \$ | 673   | (\$ 673)                   |
|                   |  |               |    |   |                            |
|                   |  |               |    | <u>December 31, 2017</u>                        |                            |
|                   |  |               |    | <u>Recognised in other comprehensive income</u> |                            |
|                   | <u>Input</u>                                 | <u>Change</u> |    | <u>Favourable change</u>                        | <u>Unfavourable change</u> |
| Financial assets  |  |               |    |   |                            |
| Equity securities | Net equity ratio and price to earnings ratio | ±5%           | \$ | 683   | (\$ 683)                   |
|                   |  |               |    |   |                            |
|                   |  |               |    | <u>September 30, 2017</u>                       |                            |
|                   |  |               |    | <u>Recognised in other comprehensive income</u> |                            |
|                   | <u>Input</u>                                 | <u>Change</u> |    | <u>Favourable change</u>                        | <u>Unfavourable change</u> |
| Financial assets  |  |               |    |   |                            |
| Equity securities | Net equity ratio and price to earnings ratio | ±5%           | \$ | 945   | (\$ 945)                   |

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017 and in the third quarter of 2017

A. Summary of significant accounting policies adopted in 2017:

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

i. Financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(i) Hybrid (combined) contracts; or

(ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(iii) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

iii. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(b) Available-for-sale financial assets

i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.

ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

iii. They are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

(c) Loans and receivables

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

(d) Impairment of financial assets

i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired as a result of one events that occurred after the initial

- recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.
- ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
- (i) Significant financial difficulty of the issuer or debtor;
  - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
  - (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
  - (iv) The disappearance of an active market for that financial asset because of financial difficulties;
  - (v) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
  - (vi) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
- (i) Financial assets at amortised cost  
The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.
  - (ii) Available-for-sale financial assets  
The amount of the impairment loss is measured as the difference between the asset's acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment

loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018 IFRS 9, were as follows:

|        | Available-for-sale-equity<br>Measured at fair value |  | Effects    |                   |              |
|--------|---|--|------------|-------------------|--------------|
|        | Measured at fair value through profit or loss       | Measured at fair value through other comprehensive income-equity | Total      | Retained earnings | Other equity |
| IAS 39 | \$ 148,029  | \$ 127,576   | \$ 275,605 | \$ 290,754        | (\$ 10,052)  |
| IFRS 9 | \$ 148,029  | \$ 127,576   | \$ 275,605 | \$ 290,754        | (\$ 10,052)  |

Under IAS 39, because the equity instruments, which were classified as available-for-sale financial assets were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)". Due to all belong to equity instruments, therefore, no retained earnings and other equity interest will be increased/decreased upon initial application of IFRS 9.

C. The significant accounts as of September 30, 2017 and for the year ended December 31, 2017 are as follows:

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

| Items   | December 31, 2017 | September, 30 2017 |
|---|-------------------|--------------------|
| Financial assets items:                       |                   |                    |
| Listed stocks                                 | \$ 111,495        | \$ 111,494         |
| Valuation adjustment                          | 34,372            | 135                |
|   | <u>145,867</u>    | <u>111,629</u>     |
| Financial assets held for trading             |                   |                    |
| Non-hedging derivatives financial instruments |                   |                    |
| -Forward foreign exchange contracts           | 2,162             | 1,325              |
|   | <u>\$ 148,029</u> | <u>\$ 112,981</u>  |

i. The Group recognised net profit amounting to \$4,153 thousand, \$578 thousand and \$3,346 thousand on financial assets held for trading for the year ended December 31, 2017 and for the three months and nine months ended September 30, 2017, respectively. The Group recognised net profit amounting to \$36,907 thousand, \$6,199 thousand and \$2,670 thousand on financial assets at fair value through profit or loss for the year ended December 31, 2017 and for the three months and nine months ended September 30, 2017, respectively. The Company recognised the above listed valuations, disposals and different kinds of amount in profit or loss.

ii. The non-hedging derivative instruments transaction and contract information are as follows:

| <u>Derivative instruments</u>      | <u>December 31, 2017</u>    |                          | <u>September 30, 2017</u>   |                          |
|------------------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|
|                                    | Contract amount             |                          | Contract amount             |                          |
|                                    | <u>(Notional principal)</u> | <u>Expiry date</u>       | <u>(Notional principal)</u> | <u>Expiry date</u>       |
| Current items:                     |                             |                          |                             |                          |
| Forward foreign exchange contracts | USD 1,800 thousand          | 2018.01.14 to 2018.12.16 | USD 1,800 thousand          | 2017.10.10 to 2018.09.22 |

Forward foreign exchange contracts

The Group entered into forward foreign exchange contracts (sell USD and buy RMB) to hedge exchange rate risk of import and export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

iii. The Group has no financial assets at fair value through profit or loss pledged to others.

(b) Available-for-sale financial assets

| Items                | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|----------------------|--------------------------|---------------------------|
| Non-current items:   |                          |                           |
| Listed stocks        | \$ 89,834                | \$ 89,834                 |
| Unlisted stocks      | 11,393                   | 11,393                    |
| Valuation adjustment | 26,349                   | 20,496                    |
|                      | <u>\$ 127,576</u>        | <u>\$ 121,723</u>         |

The Group recognised \$7,565 thousand, \$2,366 thousand, and \$603 thousand in other comprehensive income for fair value change and reclassified \$0 from equity to profit or loss for the year ended December 31, 2017 and for the three months and nine months ended September 30, 2017, respectively.

D. Credit risk information for the year ended December 31, 2017 and as at September 30, 2017 are as follows:

(A) The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

|         | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|---------|--------------------------|---------------------------|
| Group 1 | \$ 93,904                | \$ 88,002                 |
| Group 2 | 22,473                   | 23,760                    |
| Group 3 | 12,521                   | 13,017                    |
| Group 4 | 2,122                    | 2,584                     |
|         | <u>\$ 131,020</u>        | <u>\$ 127,363</u>         |

Group 1: Existing customers (more than 6 months from the initial transaction), which are within the list of top 10 customers of the Group.

Group 2: Existing customers (more than 6 months from the first transaction), which are within the list of top 11 to 30 customers of the Group.

Group 3: Other customers.

Group 4: New customers (less than 6 months from the first transaction).

(b) The ageing analysis of accounts receivable that were past due but not impaired is as follows:

|                | <u>December 31, 2017</u> | <u>September 30, 2017</u> |
|----------------|--------------------------|---------------------------|
| Up to 30 days  | \$ 24,284                | \$ 18,494                 |
| 31 to 60 days  | 325                      | 451                       |
| 61 to 90 days  | 207                      | 4                         |
| 91 to 120 days | 25                       | -                         |
|                | <u>\$ 24,841</u>         | <u>\$ 18,949</u>          |

The above ageing analysis was based on past due date.

(c) Movement analysis of financial assets allowance were impaired is as follows:

On December 31, 2017 and September 30, 2017, the Group's accounts receivable that has been impaired amounted to \$58 thousand and \$282 thousand, respectively.

|                                 | <u>September 30, 2017</u>   |                        |               |
|---------------------------------|-----------------------------|------------------------|---------------|
|                                 | <u>Individual provision</u> | <u>Group provision</u> | <u>Total</u>  |
| Beginning balance of the period | \$ 693                      | \$ 840                 | \$ 1,533      |
| Reversal of impairment loss     | ( 411)                      | ( 821)                 | ( 1,232)      |
| Effect of exchange rate changes | -                           | ( 19)                  | ( 19)         |
| Ending balance of the period    | <u>\$ 282</u>               | <u>\$ -</u>            | <u>\$ 282</u> |

(5) Effects of initial application of IFRS15 and information on application IAS11 and IAS18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 and for the three months and nine months ended September 30, 2017 are set out below:

(a) Sales of goods

- i. The Group manufactures and sells of lighting equipment and lamps. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.
- ii. The Group offers customers volume discounts and right of return for defective products. The Group estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognised.



B. The revenue recognised by using above accounting policies for the three months and nine months ended September 30, 2017 are as follows:

|                  | <u>Three months ended September 30, 2017</u> | <u>Nine months ended September 30, 2017</u> |
|------------------|--|---|
| Sales revenue \$ | 268,307                                      | \$ 724,714                                  |

C. The effects and description of current balance sheets items if the Group continues adopting above accounting policies in the third quarter of 2018 are as follows:

|                            |                    | <u>September 30, 2018</u>                 |  |  |
|----------------------------|--------------------|---|--|--|
| <u>Balance sheet items</u> | <u>Description</u> | <u>Balance by using</u><br><u>IFRS 15</u> | <u>Balance by using</u><br><u>previous accounting</u><br><u>policies</u> | <u>Effects from</u><br><u>changes in</u><br><u>accounting policies</u> |
| Contract liabilities       | -                  | \$ 5,707                                  | \$ 5,707   | \$ -   |

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: Please refer to table 1.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.
- D. Acquisition or sale of the same security with the accumulated cost exceeding NT\$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 3.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 4.
- I. Trading in derivative financial instruments undertaken during the reporting periods: Titan Lighting Co., Ltd. entered into forward foreign exchange contracts for the nine months ended September 30, 2018. As of September 30, 2018, financial liabilities at fair value through profit or loss of \$2,294 thousand was recognised.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 6.

#### (3) Information on investments in Mainland China

- A. Basic information: Please refer to table 7.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Significant transactions, either directly or indirectly through a third area,

with investee companies in the Mainland Area for the nine months ended September 30, 2018 and 2017 are provided in Note 13(1) J.

#### 14. SEGMENT INFORMATION

##### (1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Chief Operating Decision-Maker that are used to make strategic decisions. Business organization is divided into Tons Lightology Inc., Titan Lighting Co., Ltd. and Zhongshan Tons Lighting Co., Ltd. based on the nature. The Group's revenue is mainly from manufacturing and trading of lighting equipment and lamps.

##### (2) Segment information

A. The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

|                                  | Nine months ended September 30, 2018 |                                |  |                     |
|----------------------------------|--------------------------------------|--------------------------------|--|---------------------|
|                                  | TONS<br>LIGHTOLOGY<br>INC.           | TITAN<br>LIGHTING CO.,<br>LTD. | ZHONGSHAN<br>TONS<br>LIGHTING CO.,<br>LTD. | Total               |
| Revenue from external customers  | \$ 696,866                           | \$ 3,181                       | \$ 93,398                                  | \$ 793,445          |
| Inter-segment revenue            | 21,871                               | 563,646                        | 14,463                                     | 599,980             |
| Segment revenue                  | <u>\$ 718,737</u>                    | <u>\$ 566,827</u>              | <u>\$ 107,861</u>                          | <u>\$ 1,393,425</u> |
| Segment profit (loss) before tax | <u>\$ 54,125</u>                     | <u>\$ 24,397</u>               | <u>\$ 6,760</u>                            | <u>\$ 85,282</u>    |
|                                  | Nine months ended September 30, 2017 |                                |  |                     |
|                                  | TONS<br>LIGHTOLOGY<br>INC.           | TITAN<br>LIGHTING CO.,<br>LTD. | ZHONGSHAN<br>TONS<br>LIGHTING CO.,<br>LTD. | Total               |
| Revenue from external customers  | \$ 663,093                           | \$ 3,392                       | \$ 58,229                                  | \$ 724,714          |
| Inter - segment revenue          | 20,153                               | 541,576                        | 7,605                                      | 569,334             |
| Segment revenue                  | <u>\$ 683,246</u>                    | <u>\$ 544,968</u>              | <u>\$ 65,834</u>                           | <u>\$ 1,294,048</u> |
| Segment profit (loss) before tax | <u>\$ 67,393</u>                     | <u>\$ 28,037</u>               | <u>(\$ 958)</u>                            | <u>\$ 94,472</u>    |

B. The Group's reportable operating segments are the result of the organisation divided by operating business.

C. The Group's revenue is mainly from manufacturing and trading of lighting equipment and lamps.

D. The Group did not allocate income tax expense to reportable segments. The reportable amounts are in agreement with the amount stated in the report to the Chief Operating Decision-Maker.

E. The accounting policies of the operating segments are in agreement with the significant accounting policies summarized in Note 4. The Group's segment profit (loss) is measured with the operating profit (loss) before tax, which is used as a basis for the Group in assessing the performance of the operating segments.

(3) Reconciliation for segment income (loss)

A. A reconciliation of total revenue after adjustment to the total revenue from continuing operating during the period is provided as follows:

|  | Nine months ended September 30, |                    |
|--|---------------------------------|--------------------|
|  | 2018                            | 2017               |
| Reportable operating segments revenue after adjustment | \$ 1,393,425                    | \$ 1,294,048       |
| Other operating segments revenue after adjustment      | <u>566,812</u>                  | <u>543,086</u>     |
| Total operating segments revenue                       | 1,960,237                       | 1,837,134          |
| Elimination of intersegment revenue                    | <u>(1,166,258)</u>              | <u>(1,112,420)</u> |
| Total consolidated operating revenue                   | <u>\$ 793,979</u>               | <u>\$ 724,714</u>  |

B. A reconciliation of income or loss before tax after adjustment to the income before tax from continuing operating during the period is provided as follows:

|  | Nine months ended September 30, |                  |
|--|---------------------------------|------------------|
|  | 2018                            | 2017             |
| Reportable operating segments income before tax after adjustment | \$ 85,282                       | \$ 94,472        |
| Other operating segments income before tax after adjustment      | <u>133,731</u>                  | <u>561</u>       |
| Total operating segments revenue                                 | 219,013                         | 95,033           |
| Elimination of intersegment (loss) revenue                       | <u>600</u>                      | <u>(333)</u>     |
| Income before tax from continuing operations                     | <u>\$ 219,613</u>               | <u>\$ 94,700</u> |

TONS LIGHTOLOGY INC. AND SUBSIDIARIES  
 Provision of endorsements and guarantees to others  
 Nine months ended September 30, 2018

Expressed in thousands of NTD  
 (Except as otherwise indicated)

Table 1

| Number<br>(Note 1) | Endorser/<br>guarantor     | Party being<br>endorsed/guaranteed  | Relationship<br>with the<br>endorser/<br>guarantor<br>(Note 2) | Limit on<br>endorsements/<br>guarantees<br>provided for a<br>single party<br>(Note 3) | Maximum<br>outstanding<br>endorsement/<br>guarantee<br>amount as of<br>September 30,<br>2018<br>(Note 4) | Outstanding<br>endorsement/<br>guarantee<br>amount at<br>September 30,<br>2018<br>(Note 4) | Amount of<br>endorsements/<br>guarantees<br>secured with<br>collateral | Ratio of<br>accumulated<br>endorsement/<br>guarantee<br>amount to net<br>asset value of<br>the endorser/<br>guarantor<br>company | Ceiling on<br>total amount of<br>endorsements/<br>guarantees<br>provided<br>(Note 3) | Provision of<br>endorsements/<br>guarantees by<br>parent<br>company to<br>subsidiary<br>(Note 5) |   | Provision of<br>endorsements/<br>endorsements/<br>guarantees to<br>the party in<br>Mainland<br>China<br>(Note 5) | Footnote |
|--------------------|----------------------------|-------------------------------------|--|---|--|--|--|--|--|--|---|--|----------|
|                    |                            |                                     |  |   |  |  |  |  |  | Y  | N |  |          |
| 0                  | TONS<br>LIGHTOLOGY<br>INC. | GREATSUPER<br>TECHNOLOGY<br>LIMITED | (2)  | \$ 271,170  | \$ 43,793  | \$ -   | \$ -   | 0.00   | \$ 542,341   | Y  | N | N  | -        |

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories; fill in the number of category each case belongs to:

- (1) Having business relationship.
- (2) The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.
- (4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.
- (5) Mutual guarantee of the trade made by the endorsed/guaranteed company or joint contractor as required under the construction contract.
- (6) Due to joint venture, all shareholders provide endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
- (7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: Ceiling on total endorsements/guarantees to others is 40% of the Company's current net assets.

Limit on endorsements/guarantees to a single party is 20% of the Company's current net assets.

Note 4: Maximum outstanding endorsement/guarantee amount of USD \$1.5 million was translated into NTD using the average rate of buying and selling spot rate of the month when the maximum amount incurred.

Note 5: Fill in 'Y' for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

TONS LIGHTOLOGY INC. AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)  
 Nine months ended September 30, 2018

| Securities held by           | Marketable securities<br>(Note 1)                               | Relationship with the<br>securities issuer | General<br>ledger account   | As of September 30, 2018 |            |               | Expressed in thousands of NTD<br>(Except as otherwise indicated) |
|------------------------------|---|--|---|--------------------------|------------|---------------|--|
|                              |   |  |   | Number of shares         | Book value | Ownership (%) |  |
| TONS LIGHTOLOGY INC.         | Share ownership / TITAN AURORA INC.                             | None                                       | Financial assets at fair value through other comprehensive income-non-current | 1,900 \$                 | 9,306      | 19.00         | 9,306  |
| TONS LIGHTOLOGY INC.         | Share ownership / GRIFFIN LIGHTING CO., LTD.                    | None                                       | Financial assets at fair value through other comprehensive income-non-current | 66,500                   | 3,136      | 19.00         | 3,136  |
| TONS LIGHTOLOGY INC.         | Share ownership / ANDERSEN LIGHTING CO., LTD                    | None                                       | Financial assets at fair value through other comprehensive income-non-current | -                        | 925        | 19.00         | 925  |
| TONS LIGHTOLOGY INC.         | Stock / HEP TECH CO., LTD.                                      | None                                       | Financial assets at fair value through other comprehensive income-non-current | 3,860,760                | 67,949     | 12.73         | 67,949   |
| TONS LIGHTOLOGY INC.         | Share ownership / Strong LED Lighting System (Cayman) Co., Ltd. | None                                       | Financial assets at fair value through other comprehensive income-non-current | 1,700,000                | 134,300    | 4.59          | 134,300  |
| HONG BO INVESTMENT CO., LTD. | Stock / HEP TECH CO., LTD.                                      | None                                       | Financial assets at fair value through profit or loss -- current              | 2,093,000                | 36,837     | 6.90          | 36,837   |
| HONG BO INVESTMENT CO., LTD. | Stock / Strong LED Lighting System (Cayman) Co., Ltd.           | None                                       | Financial assets at fair value through profit or loss -- current              | 2,766,000                | 218,514    | 7.47          | 218,514  |
|                              |   | Total                                      |   |                          | 470,967    | Total         | 470,967  |

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Andersen Lighting Co., Ltd. is a limited company. The shareholding ratio is calculated proportionately to the contributed amount.

TONS LIGHTOLOGY INC. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more

Nine months ended September 30, 2018

Table 3

Expressed in thousands of NTD  
(Except as otherwise indicated)

| Purchaser/seller        | Counterparty             | Relationship with the counterparty | Purchases (sales) | Amount     | Percentage of total purchases (sales) | Differences in transaction terms compared to third party transactions |            |             |              | Notes/accounts receivable (payable) | Percentage of total notes/accounts receivable (payable) | Footnote (Note 2) |
|-------------------------|--------------------------|------------------------------------|-------------------|------------|---------------------------------------|---|------------|-------------|--------------|-------------------------------------|---|-------------------|
|                         |                          |                                    |                   |            |                                       | Credit term   | Unit price | Credit term | Balance      |                                     |   |                   |
| TONS LIGHTOLOGY INC.    | TONS LIGHTING CO., LTD.  | Subsidiary of the Company          | Purchases         | \$ 568,047 | 97                                    | 30-60 days after purchases of goods                                   | Note 1     | Note 2      | (\$ 215,558) | ( 98)                               | Note 4  |                   |
| TONS LIGHTING CO., LTD. | TITAN LIGHTING CO., LTD. | Same ultimate parent               | Purchases         | 544,648    | 100                                   | 30-60 days after purchases of goods                                   | Note 3     | Note 2      | ( 189,844)   | ( 97)                               | Note 4  |                   |

Note 1: Transaction amount is based on the transfer pricing policy of Tons Lightology Inc. The credit term is 30-60 days after the purchases and payment is made timely according to the capital needs of subsidiaries.

Note 2: There are no purchases (sales) of the same products, thus, no third party transaction can be compared with.

Note 3: Transaction amount is based on the transfer pricing policy of Tons Lightology Inc. The credit term is 30-60 days after the shipment of goods.

Note 4: The transactions were eliminated when preparing the consolidated financial statements.

TONS LIGHTOLOGY INC. AND SUBSIDIARIES

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more  
 Nine months ended September 30, 2018

Table 4

Expressed in thousands of NT\$  
 (Except as otherwise indicated)

| Creditor                 | Counterparty            | Relationship<br>with the counterparty | Balance as at<br>September 30, 2018<br>(Note 2) | Turnover rate | Overdue receivables |              | Amount collected<br>subsequent to the<br>balance sheet date<br>(Note 1) | Allowance for<br>doubtful accounts |
|--------------------------|-------------------------|---------------------------------------|---|---------------|---------------------|--------------|---|------------------------------------|
|                          |                         |                                       |   |               | Amount              | Action taken |   |                                    |
| TONS LIGHTING CO., LTD.  | TONS LIGHTOLOGY INC.    | Parent company                        | Accounts receivable<br>\$215,558                | 3.63          | \$ -                | -            | 66,530  | \$ -                               |
| TITAN LIGHTING CO., LTD. | TONS LIGHTING CO., LTD. | Same ultimate parent                  | Accounts receivable<br>\$189,844                | 3.95          | -                   | -            | 66,420  | -                                  |

Note 1: Subsequent collection is the amount of receivables collected from related parties as of November 2, 2018.

Note 2: The transactions were eliminated when preparing the consolidated financial statements.

TONS LIGHTOLOGY INC. AND SUBSIDIARIES

Significant inter-company transactions during the reporting period

Nine months ended September 30, 2018

Table 5

Expressed in thousands of NTID  
(Except as otherwise indicated)

| Number<br>(Note 1) | Company name            | Counterparty             | Relationship<br>(Note 2) | Transaction            |     | Amount<br>(Note 4) | Transaction terms                      | Percentage of<br>consolidated total<br>operating<br>revenues or total assets<br>(Note 3) |
|--------------------|-------------------------|--------------------------|--------------------------|------------------------|-----|--------------------|--|--|
|                    |                         |                          |                          | General ledger account | (\$ |                    |  |  |
| 0                  | TONS LIGHTOLOGY INC.    | TONS LIGHTING CO., LTD.  | (1)                      | (Purchases)            | (   | 568,047            | 30-60 days after purchases<br>of goods | 71.54  |
| 0                  | TONS LIGHTOLOGY INC.    | TONS LIGHTING CO., LTD.  | (1)                      | (Accounts payable)     | (   | 215,558            | 30-60 days after purchases<br>of goods | 13.25  |
| 1                  | TONS LIGHTING CO., LTD. | TITAN LIGHTING CO., LTD. | (3)                      | (Purchases)            | (   | 544,648            | 30-60 days after purchases<br>of goods | 68.60  |
| 1                  | TONS LIGHTING CO., LTD. | TITAN LIGHTING CO., LTD. | (3)                      | (Accounts payable)     | (   | 189,844            | 30-60 days after purchases<br>of goods | 11.67  |

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: Transaction amounts account for at least 20% of the paid-in capital.



TONS LIGHTTOLOGY INC. AND SUBSIDIARIES

Information on investees

Nine months ended September 30, 2018

Table 6

Expressed in thousands of NTD  
(Except as otherwise indicated)

| Investor                  | Investee                      | Location               | Main business activities                           | Initial investment amount        |                                 | Shares held as at September 30, 2018 |               | Book value | Net profit (loss) of the investee for the nine months ended September 30, 2018 | Investment income (loss) recognised by the Company for the nine months ended September 30, 2018 | Footnote                        |
|---------------------------|-------------------------------|------------------------|--|----------------------------------|---------------------------------|--------------------------------------|---------------|------------|--|---|---------------------------------|
|                           |                               |                        |  | Balance as at September 30, 2018 | Balance as at December 31, 2017 | Number of shares                     | Ownership (%) |            |  |   |                                 |
| TONS LIGHTTOLOGY INC.     | WORLD EXTEND HOLDING INC.     | Samoa                  | Reinvestment company                               | \$ 545,972                       | \$ 545,972                      | 18,333,402                           | 100           | \$ 797,835 | \$ 17,728  | \$ 18,328   | Subsidiary (Note 1, 3)          |
| TONS LIGHTTOLOGY INC.     | HONG BO INVESTMENT CO., LTD.  | Taiwan                 | Reinvestment company                               | 140,000                          | 125,000                         | 14,000,000                           | 100           | 279,800    | 136,196  | 136,196   | Subsidiary (Note 3)             |
| WORLD EXTEND HOLDING INC. | TONS LIGHTING CO., LTD.       | Belize                 | Sales of various lighting products and accessories | 1,625                            | 1,625                           | 500,000                              | 100           | 6,069      | ( 149)   | -   | Indirect subsidiary (Note 2, 3) |
| WORLD EXTEND HOLDING INC. | LUMINOUS HOLDING INCORPORATED | Samoa                  | Reinvestment company                               | 100,590                          | 100,590                         | 3,250,000                            | 100           | 91,099     | ( 5,371)   | -   | Indirect subsidiary (Note 2, 3) |
| WORLD EXTEND HOLDING INC. | GREATSUPER TECHNOLOGY LIMITED | British Virgin Islands | Reinvestment company                               | 500,917                          | 500,917                         | 27,666                               | 100           | 684,550    | 23,231   | -   | Indirect subsidiary (Note 2, 3) |

Note 1: Including investment income (loss) used to offset against upstream transactions.

Note 2: The investees are the Company's second-tier subsidiaries and investee of such subsidiaries. Investment income (loss) is not disclosed.

Note 3: The transactions were eliminated when preparing the consolidated financial statements.

TONS LIGHTLOGY INC. AND SUBSIDIARIES  
Information on investments in Mainland China  
Nine months ended September 30, 2018

Table 7

Expressed in thousands of NTD  
(Except as otherwise indicated)

| Investee in<br>Mainland China                              | Main business<br>activities   | Paid-in capital | Investment<br>method | Amount remitted from<br>Taiwan to   |                    | Accumulated<br>amount of<br>remittance from<br>Taiwan to<br>Mainland China<br>as of January 1,<br>2018 | Accumulated<br>amount<br>of remittance<br>from Taiwan to<br>Mainland China<br>as of September<br>30, 2018 | Net income of<br>investee as of<br>September 30,<br>2018 | Ownership<br>held by<br>the<br>Company<br>(direct or<br>indirect) | Investment<br>income (loss)<br>recognised<br>by the Company<br>for the nine<br>months ended<br>September 30,<br>2018 | Book value of<br>investments in<br>Mainland China<br>as of September<br>30, 2018 | Accumulated<br>amount<br>of investment<br>income<br>remitted back to<br>Taiwan as of<br>September 30,<br>2018 | Footnote |
|--|---|-----------------|----------------------|---|--------------------|--|---|--|---|--|--|---|----------|
|  |   |                 |                      | Mainland China/<br>Amount remitted back<br>to Taiwan for the nine<br>months ended September<br>30, 2018 | China<br>to Taiwan |  |   |  |   |  |  |   |          |
| TITAN LIGHTING<br>CO., LTD.                                | Main business<br>activities<br>Design of products,<br>manufacturing of hardware<br>parts, and production and<br>trading of lamps and<br>accessories | \$ 374,008      | (2)                  | \$ 368,845  | \$ -               | \$ 368,845   | \$ 17,253   | 100.00   | \$ 17,253   | \$ 570,723   | \$ 66,296  | Note<br>1,2,3,4,5   |          |
| ZHONGSHAN TONS<br>LIGHTING CO., LTD.                       | Design of products,<br>manufacturing of hardware<br>parts, and production and<br>trading of lamps and<br>accessories                                | 109,890         | (2)                  | 110,585   | -                  | 110,585  | 6,660   | 100.00   | 6,660   | 86,006   | -  | Note<br>1,2,4,5   |          |
| SHANGHAI TONS<br>LIGHTLOGY CO.,<br>LTD.                    | Design of products,<br>manufacturing of hardware<br>parts, and production and<br>trading of lamps and<br>accessories                                | 97,650          | (2)                  | 42,842  | -                  | 42,842   | ( 5,387)  | 100.00   | ( 5,387)  | 89,593   | -  | Note<br>1,2,4,5,6   |          |
| Shanghai Grand<br>Canyon LED Lighting<br>Systems Co., Ltd. | Research, development,<br>production and sales of<br>LED semiconductor<br>application and other   | 33,356          | (2)                  | 901   | -                  | 901  | -   | 11.73  | -   | -  | -  | Note 1,7  |          |
| Grand Canyon (Su<br>Zhou) Co., Ltd.                        | Research, development,<br>production and sales of<br>LED semiconductor<br>application and other   | 356,487         | (2)                  | 43,299  | -                  | 43,299   | -   | 11.73  | -   | -  | 510  | Note 1,7,8  |          |

Note 1: Investment methods are classified into the following three categories:

(1) Directly invest in a company in Mainland China.

(2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China. (Tian Lighting Co., Ltd. and Zhongshan Tons Lighting Co., Ltd. reinvested through World Extend Holding Inc.; Shanghai Grand Canyon LED Lighting Systems Co., Ltd. and Grand Canyon Opto Tech (Su Zhou) Co., Ltd. reinvested through StrongLED Lighting System (Cayman) Co., Ltd.)

(3) Others.

Note 2: Investment income (loss) recognised by the Company for the nine months ended September 30, 2018 is based on financial statements audited and attested by R.O.C. parent company's CPA.

Note 3: Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018, including \$34,945 thousand for the share ownership in Hong Bo Investment Co., Ltd., an investee company that has conducted a short-form merger.

Note 4: Paid-in capital of Tian Lighting Co., Ltd., Zhongshan Tons Lighting Co., Ltd. and SHANGHAI TONS LIGHTLOGY CO., LTD. of USD \$12,253 thousand, USD \$3,600 thousand and USD \$3,200 thousand, respectively, was translated at the average buying and selling spot rate on September 30, 2018.

Note 5: Accumulated investment amount in Tian Lighting Co., Ltd., Zhongshan Tons Lighting Co., Ltd. and SHANGHAI TONS LIGHTLOGY CO., LTD. of USD \$11,816 thousand, USD \$3,577 thousand and USD \$1,400 thousand, respectively, was translated at the average buying and selling spot rate on September 30, 2018.

Note 6: SHANGHAI TONS LIGHTLOGY CO., LTD. has USD 3,200 thousand paid-in capital, which was composed by reinvestment of the third party, WORLD EXTEND HOLDING INC. through LUMINOUS HOLDING INCORPORATED of USD 1,800 thousand, and the remittances from Taiwan through WORLD EXTEND HOLDING INC and LUMINOUS HOLDING INCORPORATED to reinvest USD 1,400 thousand.

Note 7: Shanghai Grand Canyon LED Lighting Systems Co., Ltd. and Grand Canyon Opto Tech (Su Zhou) Co., Ltd. reinvested through StrongLED Lighting System (Cayman) Co., Ltd. The investment was recorded as available-for-sale financial assets - non-current.

Note 8: Grand Canyon Opto Tech (Su Zhou) Co., Ltd. was renamed as Grand Canyon (Su Zhou) Co., Ltd. on January 30, 2018.

| Company name         | Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2018 | Investment amount approved by the investment Commission of the Ministry of Economic Affairs (MOEA) (Notes 2,3) | Ceiling on investments in Mainland China imposed by the Commission of Investment in Taiwan to Mainland China as of September 30, 2018 |
|----------------------|---|--|---|
| TONS LIGHTOLOGY INC. | \$ 566,472  | \$ 635,072   | \$ 813,511  |

Note 1: Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2018 was USD \$19,357 thousand and NTD \$44,200 thousand, including USD \$1,059 thousand for the share ownership in Hong Bo Investment Co., Ltd., an investee company that has conducted a short-form merger, the cash amounts of USD which was calculated at the actual exchange rate at outward remittance.

Note 2: Approved amount was USD \$19,357 thousand and NTD \$44,200 thousand, and has been translated at the average buying and selling spot rate on September 30, 2018.

Note 3: The approved USD \$19,357 thousand includes USD \$1,890 thousand, own funds of the investee located in the third area, World Extend Holding, Inc.

Note 4: Ceiling on investments was calculated based on the limit (60% of net assets) specified in Regulations Governing Security Investment and Technical Cooperation in the Mainland Area imposed by the Ministry of Economic Affairs.