

**TONS LIGHTOLOGY INC. AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2018 AND 2017**

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

Representation Letter

In connection with the Consolidated Financial Statements of Affiliated Enterprises of TONS LIGHTOLOGY INC. (the “Consolidated Financial Statements of the Affiliates”), we represent to you that, the entities required to be included in the Consolidated Financial Statements of the Affiliates as of and for the year ended December 31, 2018 in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as those required to be included in the Consolidated Financial Statements of TONS LIGHTOLOGY INC. and its subsidiaries (the “Consolidated Financial Statements of the Group”) in accordance with International Financial Reporting Standard 10. In addition, the information required to be disclosed in the Consolidated Financial Statements of the Affiliates is disclosed in the Consolidated Financial Statements of the Group. Consequently, TONS LIGHTOLOGY INC. does not prepare a separate set of Consolidated Financial Statements of the Affiliates.

Very truly yours,

TONS LIGHTOLOGY INC. AND SUBSIDIARIES

By

TANG, SHIH-CHUAN, Chairman

February 26, 2019

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

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

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

Basis for opinion

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

Key audit matters

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

Key audit matters for the Group’s consolidated financial statements of the current period are stated as

follows:

Timing of recognising sales revenue.

Description

Please refer to Note 4(27) for a description of accounting policy on sales revenue. Please refer to Note 6(17) for details of sales revenue.

The Group is primarily engaged in manufacturing and trading lighting equipment and lamps and the transaction mode is the parent company receives orders and transfers the orders to the subsidiaries for manufacturing and delivery. Sales revenues are recognised when the control of goods are transferred upon loading on board for shipping in accordance with the contract terms and the risk being transferred. Considering that the revenue might not be recognised in the proper period as the timing of recognition mainly occurs when loading from subsidiaries and the consistency between the shipment date and the actual on board date is inspected manually. Thus, we identified the timing of sales revenue recognition as one of the key areas of focus for this year's audit.

How our audit addressed the matter

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

- A. Obtained an understanding and evaluated the operating procedures and internal controls over sales revenue, and assessed the effectiveness on how the management controls the timing of recognising sales revenue.
- B. Performed sales cut-off test for a certain period before and after balance sheet date to assess the accuracy of the timing of sales revenues.

Inventory valuation

Description

Please refer to Note 4(12) for a description of accounting policy on inventory valuation. Please refer to Note 5(2) for accounting estimates and assumption uncertainty in relation to inventory valuation. Please refer to Note 6(4) for a description of inventory. As of December 31, 2018, the Group's inventory amounted to NT\$180,357 thousand and inventory valuation losses amounted to NT\$ 10,335 thousand. The Group is primarily engaged in manufacturing and trading lighting equipment and lamps. Under the

Group's inventory policy, inventory valuation is measured at the lower of cost and net realisable value. Determination of net realisable value for inventory that is over a certain age and individually identified for impairment involves subjective judgement and are material to its financial statements. Thus, we identified inventory valuation as one of the key areas of focus for this year's audit.

How our audit addressed the matter

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

- A. Obtained an understanding of the Group's inventory policy and assessed the reasonableness of the policy.
- B. Reviewed annual inventory counting plan and observed the annual inventory counting event in order to assess the classification of obsolete inventory and effectiveness of obsolete inventory internal control.
- C. Obtained the Group's inventory aging report and verified dates of movements with supporting documents. Ensured the proper categorisation of inventory aging report in accordance with the Group's policy.
- D. Obtained the net realisable value statement of each inventory, assessed whether the estimation policy was consistently applied, tested the estimation basis of the net realisable value with relevant information, including verifying the sales and purchase prices with supporting evidence, and recalculated and evaluated the reasonableness of the inventory valuation.

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Tons Lightology Inc. as at and for the years ended December 31, 2018 and 2017.

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

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

to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the Group's financial reporting process.

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

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

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

- A. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- B. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- D. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- E. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- F. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Wang, Yu-Chuan

Liu, Mei-Lan

For and on behalf of PricewaterhouseCoopers, Taiwan

February 26, 2019

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

As the financial statements are the responsibility of the management, PricewaterhouseCoopers 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
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| Assets | Notes | December 31, 2018 | | December 31, 2017 | | |
|---------------------------|---|-------------------|---------------------|-------------------|---------------------|------------|
| | | AMOUNT | % | AMOUNT | % | |
| Current assets | | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | \$ 366,898 | 25 | \$ 369,163 | 26 |
| 1110 | Financial assets at fair value | 6(2) and 12(4) | | | | |
| | through profit or loss - current | | 152,240 | 10 | 148,029 | 10 |
| 1150 | Notes receivable, net | 6(3) | 1,403 | - | 1,824 | - |
| 1170 | Accounts receivable, net | 6(3) | 157,687 | 11 | 155,804 | 11 |
| 1180 | Accounts receivable - related parties | 6(3) and 7(2) | - | - | 4 | - |
| 1200 | Other receivables | | 1,994 | - | 3,557 | - |
| 130X | Inventories | 6(4) | 170,022 | 12 | 156,027 | 11 |
| 1410 | Prepayments | | 22,176 | 1 | 20,806 | 1 |
| 1470 | Other current assets | 6(5) and 8 | 53,767 | 4 | 71,854 | 5 |
| 11XX | Current Assets | | <u>926,187</u> | <u>63</u> | <u>927,068</u> | <u>64</u> |
| Non-current assets | | | | | | |
| 1517 | Non-current financial assets at fair value through other comprehensive income | 6(6) | 133,342 | 9 | - | - |
| 1523 | Available-for-sale financial assets - noncurrent | 12(4) | - | - | 127,576 | 9 |
| 1600 | Property, plant and equipment | 6(7) | 324,120 | 22 | 331,908 | 23 |
| 1780 | Intangible assets | | 3,568 | - | 5,087 | 1 |
| 1840 | Deferred income tax assets | 6(22) | 5,227 | 1 | 3,510 | - |
| 1900 | Other non-current assets | 6(8) and 8 | 76,091 | 5 | 45,758 | 3 |
| 15XX | Non-current assets | | <u>542,348</u> | <u>37</u> | <u>513,839</u> | <u>36</u> |
| 1XXX | Total assets | | <u>\$ 1,468,535</u> | <u>100</u> | <u>\$ 1,440,907</u> | <u>100</u> |

(Continued)

TONS LIGHTOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| Liabilities and Equity | Notes | December 31, 2018 | | December 31, 2017 | |
|---|--|-------------------|---------------------|---------------------|------------|
| | | AMOUNT | % | AMOUNT | % |
| Current liabilities | | | | | |
| 2120 | Financial liabilities at fair value | 6(2) | | | |
| | through profit or loss - current | | \$ 957 | \$ - | - |
| 2150 | Notes payable | | - | 59 | - |
| 2170 | Accounts payable | | 97,148 | 99,934 | 7 |
| 2180 | Accounts payable - related parties | 7(2) | 17,158 | 12,144 | 1 |
| 2200 | Other payables | 6(9) | 110,892 | 105,588 | 7 |
| 2230 | Current income tax liabilities | 6(22) | 20,433 | 7,484 | - |
| 2250 | Provisions for liabilities - current | | 152 | 535 | - |
| 2300 | Other current liabilities | 6(17) | 12,306 | 11,773 | 1 |
| 21XX | Current Liabilities | | <u>259,046</u> | <u>237,517</u> | <u>16</u> |
| Non-current liabilities | | | | | |
| 2550 | Provisions for liabilities - noncurrent | 6(12) | 1,148 | 625 | - |
| 2570 | Deferred income tax liabilities | 6(22) | 2,488 | 9,532 | 1 |
| 2600 | Other non-current liabilities | 6(10) | 11,953 | 11,619 | 1 |
| 25XX | Non-current liabilities | | <u>15,589</u> | <u>21,776</u> | <u>2</u> |
| 2XXX | Total Liabilities | | <u>274,635</u> | <u>259,293</u> | <u>18</u> |
| Equity attributable to owners of parent | | | | | |
| Share capital | | | | | |
| 3110 | Share capital - common stock | 6(13) | 399,628 | 398,118 | 28 |
| 3140 | Advance receipts for share capital | | - | 537 | - |
| Capital surplus | | | | | |
| 3200 | Capital surplus | 6(14) | 505,825 | 502,257 | 35 |
| Retained earnings | | | | | |
| 3310 | Legal reserve | 6(15) | 74,663 | 62,555 | 4 |
| 3320 | Special reserve | | 38,429 | 38,429 | 3 |
| 3350 | Unappropriated retained earnings | | 191,466 | 189,770 | 13 |
| Other equity interest | | | | | |
| 3400 | Other equity interest | 6(16) | (16,111) | (10,052) | (1) |
| 31XX | Equity attributable to owners of the parent | | <u>1,193,900</u> | <u>1,181,614</u> | <u>82</u> |
| 3XXX | Total equity | | <u>1,193,900</u> | <u>1,181,614</u> | <u>82</u> |
| Significant contingent liabilities and unrecognised contract commitments | | | | | |
| Significant events after the balance sheet date | | | | | |
| 3X2X | Total liabilities and equity | | <u>\$ 1,468,535</u> | <u>\$ 1,440,907</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
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

| Items | Notes | Year ended December 31 | | | | |
|-------|--|------------------------|--------------|--------|------------|-------|
| | | 2018 | | 2017 | | |
| | | AMOUNT | % | AMOUNT | % | |
| 4000 | Sales revenue | 6(17) and 7(2) | \$ 1,053,036 | 100 | \$ 986,926 | 100 |
| 5000 | Operating costs | 6(4) | (692,343) | (66) | (641,111) | (65) |
| 5900 | Net operating margin | | 360,693 | 34 | 345,815 | 35 |
| | Operating expenses | 6(20)(21) | | | | |
| 6100 | Selling expenses | | (115,519) | (11) | (106,194) | (11) |
| 6200 | General and administrative expenses | | (111,526) | (10) | (107,900) | (11) |
| 6300 | Research and development expenses | | (40,133) | (4) | (34,771) | (3) |
| 6000 | Total operating expenses | | (267,178) | (25) | (248,865) | (25) |
| 6900 | Operating profit | | 93,515 | 9 | 96,950 | 10 |
| | Non-operating income and expenses | | | | | |
| 7010 | Other income | 6(18) | 16,886 | 2 | 13,194 | 1 |
| 7020 | Other gains and losses | 6(19) | 26,621 | 2 | 43,326 | 4 |
| 7000 | Total non-operating income and expenses | | 43,507 | 4 | 56,520 | 5 |
| 7900 | Profit before income tax | | 137,022 | 13 | 153,470 | 15 |
| 7950 | Income tax expense | 6(22) | (31,465) | (3) | (32,387) | (3) |
| 8200 | Profit for the year | | \$ 105,557 | 10 | \$ 121,083 | 12 |
| | Other comprehensive income | | | | | |
| | Components of other comprehensive income that will not be reclassified to profit or loss | | | | | |
| 8311 | Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans | 6(10) | (\$ 243) | - | \$ 735 | - |
| 8316 | Total expenses, by nature | 6(16) | 5,766 | - | - | - |
| 8349 | Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | 6(22) | 1,135 | - | (125) | - |
| 8310 | Components of other comprehensive income that will not be reclassified to profit or loss | | 6,658 | - | 610 | - |
| | Components of other comprehensive income that will be reclassified to profit or loss | | | | | |
| 8361 | Financial statements translation differences of foreign operations | 6(16) | (12,712) | (1) | (12,710) | (1) |
| 8362 | Unrealized gain on valuation of available-for-sale financial assets | 6(16) | - | - | 6,456 | 1 |
| 8399 | Income tax relating to the components of other comprehensive income | 6(22) | - | - | 1,109 | - |
| 8360 | Components of other comprehensive income that will be reclassified to profit or loss | | (12,712) | (1) | (5,145) | - |
| 8300 | Total other comprehensive loss for the year | | (\$ 6,054) | (1) | (\$ 4,535) | - |
| 8500 | Total comprehensive income for the year | | \$ 99,503 | 9 | \$ 116,548 | 12 |
| | Basic earnings per share | | | | | |
| 9750 | Total basic earnings per share | 6(23) | \$ 2.65 | | \$ 3.04 | |
| 9850 | Total diluted earnings per share | 6(23) | \$ 2.61 | | \$ 3.00 | |

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

IONS LIGHTLOGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| Notes | Equity attributable to owners of the parent | | | | | | | Unrealized gain or loss on available-for-sale financial assets | Total equity |
|---|---|------------------------------|----------------------------|-------------------------|---------------|-------------------|----------------------------------|---|--------------|
| | Share capital - common stock | Capital collected in advance | Additional paid-in capital | Employee stock warrants | Legal reserve | Special reserve | Unappropriated retained earnings | | |
| | Share capital | | | Capital surplus | | Retained earnings | | Other equity interest | |
| | | | | | | | | Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income | |
| | | | | | | | | Financial statements translation differences of foreign operations | |
| 2017 | | | | | | | | | |
| Balance at January 1, 2017 | \$ 390,689 | \$ 3,252 | \$ 491,889 | \$ 3,723 | \$ 50,054 | \$ 38,429 | \$ 187,006 | \$ 23,355 | \$ 18,448 |
| Profit for the year | - | - | - | - | - | - | 121,083 | - | - |
| Other comprehensive income (loss) for the year | - | - | - | - | - | - | 610 | (12,710) | 7,565 |
| Total comprehensive income (loss) | - | - | - | - | - | - | 121,693 | (12,710) | 7,565 |
| Appropriation and distribution of 2016 retained earnings (Note 1) | - | - | - | - | - | - | (12,501) | - | - |
| Legal reserve | 3,942 | - | - | - | 12,501 | - | (3,942) | - | - |
| Stock dividends | - | - | - | - | - | - | (102,486) | - | - |
| Cash dividends | - | - | - | - | - | - | - | - | - |
| Share-based payment transactions-employee stock options | 3,487 | (2,715) | 6,959 | (314) | - | - | 189,770 | (36,065) | 26,013 |
| Balance at December 31, 2017 | \$ 398,118 | \$ 537 | \$ 498,848 | \$ 3,409 | \$ 62,555 | \$ 38,429 | \$ 189,770 | \$ 36,065 | \$ 26,013 |
| 2018 | | | | | | | | | |
| Balance at January 1, 2018 | \$ 398,118 | \$ 537 | \$ 498,848 | \$ 3,409 | \$ 62,555 | \$ 38,429 | \$ 189,770 | \$ 36,065 | \$ 26,013 |
| Effect of retrospective application and retrospective restatement | - | - | - | - | - | - | - | - | - |
| Balance at 1 January after adjustments | \$ 398,118 | \$ 537 | \$ 498,848 | \$ 3,409 | \$ 62,555 | \$ 38,429 | \$ 189,770 | \$ 36,065 | \$ 26,013 |
| Profit for the year | - | - | - | - | - | - | 105,557 | - | - |
| Other comprehensive income (loss) for the year | - | - | - | - | - | - | 5 | (12,712) | 6,653 |
| Total other comprehensive income (loss) | - | - | - | - | - | - | 105,562 | (12,712) | 6,653 |
| Appropriation and distribution of 2017 retained earnings (Note 2) | - | - | - | - | - | - | - | - | - |
| Legal reserve | - | - | - | - | 12,108 | - | (12,108) | - | - |
| Cash dividends | - | - | - | - | - | - | (91,758) | - | - |
| Share-based payment transactions-employee stock options | 1,510 | 537 | 2,866 | 702 | - | - | - | - | - |
| Balance at December 31, 2018 | \$ 399,628 | \$ 537 | \$ 501,714 | \$ 4,111 | \$ 74,663 | \$ 38,429 | \$ 191,466 | \$ 48,777 | \$ 32,666 |

Note1: Directors' and supervisors' remuneration and employees' compensation for 2016 amounting to \$2,391 thousand and \$13,548 thousand, respectively, were deducted from parent company only statements of comprehensive income.
Note2: Directors' and supervisors' remuneration and employees' compensation for 2017 amounting to \$1,936 thousand and \$12,906 thousand, respectively, were deducted from parent company only statements of comprehensive income.

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

TONS LIGHTOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Notes | 2018 | 2017 |
|---|----------|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | \$ 137,022 | \$ 153,470 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Depreciation | 6(7)(20) | 49,513 | 44,939 |
| Amortisation | 6(20) | 2,675 | 2,130 |
| Expected credit loss/ Reversal of provision for bad debt expense | 12(2) | 917 | (1,405) |
| Reversal of warranty expense | 6(12) | 540 | (932) |
| Interest income | 6(18) | (8,981) | (8,608) |
| Dividend income | 6(18) | (5,714) | (1,258) |
| Wages and salaries-employee stock options | 6(11) | 1,883 | 1,973 |
| Net gain on financial assets and liabilities at fair value through other comprehensive income | 6(19) | (16,900) | (41,060) |
| Loss on disposal of property, plant and equipment | 6(19) | 271 | 17 |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Notes receivable, net | 6(3) | 422 | 3,303 |
| Accounts receivable, net | | (3,036) | 8,704 |
| Accounts receivable due from related parties | 7(2) | 4 | (4) |
| Other receivables | | 1,389 | (1,232) |
| Inventories | | (17,354) | (9,927) |
| Prepayments | | (1,690) | (1,386) |
| Other current assets | | (335) | 461 |
| Changes in operating liabilities | | | |
| Notes payable | | (59) | 53 |
| Accounts payable | | (825) | (7,052) |
| Accounts payable to related parties | 7(2) | 5,365 | 11,989 |
| Other payables | | 3,834 | (338) |
| Contract liabilities | 6(17) | 623 | 24 |
| Other current liabilities | | (345) | 732 |
| Other non-current liabilities | | 90 | 30 |
| Cash inflow generated from operations | | 149,309 | 154,623 |
| Interest received | | 9,124 | 8,336 |
| Dividend received | | 5,714 | 1,258 |
| Income tax paid | 6(22) | (26,081) | (28,852) |
| Net cash flows from operating activities | | 138,066 | 135,365 |

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TONS LIGHTOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Notes | 2018 | 2017 |
|---|-------|--------------|--------------|
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | |
| Acquisition of financial assets at fair value through profit or loss | 6(2) | (\$ 32,130) | (\$ 40,604) |
| Proceeds from disposal of financial assets at fair value through profit or loss | 6(2) | 48,495 | - |
| Decrease in other non-current assets | | 18,722 | 6,028 |
| Acquisition of property, plant and equipment | 6(25) | (42,323) | (105,275) |
| Proceeds from disposal of property, plant and equipment | | 12 | 205 |
| Acquisition of intangible deposits | | (1,157) | (5,550) |
| Increase in refundable deposits | | (28,020) | (488) |
| Increase in other non-current assets | | (9,322) | (5,735) |
| Net cash flows used in investing activities | | (45,723) | (151,419) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | |
| Decrease in guarantee deposits received | | - | (583) |
| Cash dividends paid | 6(15) | (91,758) | (102,486) |
| Exercise of employee stock options | 6(11) | 2,658 | 5,444 |
| Net cash flows used in financing activities | | (89,100) | (97,625) |
| Effect of exchange rate changes on cash equivalents | | (5,508) | (6,222) |
| Net decrease in cash and cash equivalents | | (2,265) | (119,901) |
| Cash and cash equivalents at beginning of year | | 369,163 | 489,064 |
| Cash and cash equivalents at end of year | | \$ 366,898 | \$ 369,163 |

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

TONS LIGHTOLOGY INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

1. ORGANISATION 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 AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

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

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

| <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:

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

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

IFRS 16, 'Leases'

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

The Group expects to 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"). On January 1, 2019, the Group might increase 'right-of-use asset' and lease liability by \$38,171 and \$7,312, respectively.

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

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

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

The above standards and interpretations have no significant impact to the 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 applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

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

(2) Basis of preparation

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

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

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

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements

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

B. Subsidiaries included in the consolidated financial statements:

| Name of investor | Name of subsidiary | Main business activities | Ownership (%) | | Description |
|-------------------------------|---|--|-------------------|-------------------|-------------|
| | | | December 31, 2018 | December 31, 2017 | |
| 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 |

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) Foreign currency translation

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

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

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

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

(5) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;

- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

(7) Financial assets at fair value through 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.

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

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.
- 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.

(9) Accounts and notes receivable

A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

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.

(11) Derecognition of financial assets

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

(12) Inventories

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

(13) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. If each part of an item of property, plant, and equipment with a cost that is significant

in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

| | |
|--|--------------|
| Buildings and structures | 21 years |
| Molding equipment | 3 ~ 4 years |
| Machinery and equipment | 3 ~ 16 years |
| Equipment for research and development | 5 ~ 6 years |
| Transportation equipment | 5 ~ 6 years |
| Other assets | 2 ~ 11 years |

(14) Leased assets/ leases (lessee)

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

(15) Intangible assets

A. Patent is stated initially at its cost and amortised using the straight-line method over its estimated economic service life of 10 years.

B. Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 1 to 3 years.

C. Other intangible assets are stated at cost and amortised on a straight-line basis over the estimated useful life of 3 years.

(16) Impairment of non-financial assets

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

(17) 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.

(18) 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.

(19) Derecognition of financial liabilities

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

(20) Non-hedging 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.

(21) Provisions

Provisions (including warranties) are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(22) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent

of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.
- ii. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognised immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees', directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the fair value per share estimated using a valuation technique specified in IFRS 2, 'Share-based Payment'.

(23) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service

conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(24) Income tax

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

(25) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(26) Dividends

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

(27) 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.

(28) Operating segments

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

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

As of December 31, 2018, the carrying amount of inventories was \$170,022 thousand.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---------------------------------------|--------------------------|--------------------------|
| Cash on hand | \$ 686 | \$ 773 |
| Checking accounts and demand deposits | 67,995 | 70,416 |
| Time deposits | 298,217 | 297,974 |
| | <u>\$ 366,898</u> | <u>\$ 369,163</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 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>December 31, 2018</u> |
|---|--------------------------|
| Financial assets mandatorily measured at fair value through profit or loss: | |
| Listed stocks | \$ 126,770 |
| Valuation adjustment | 25,470 |
| | <u>\$ 152,240</u> |
| Financial liabilities held for trading | |
| Derivative instruments-Forward foreign exchange contracts | <u>(\$ 957)</u> |

- A. For the year ended December 31, 2018, the Group recognises net losses on financial assets at fair value through profit or loss amounting to \$8,902 thousand.
- B. The Group entered into contracts relating to derivative financial liabilities which were not accounted for under hedge accounting. The information is listed below:

| Derivative financial assets (liabilities) | December 31, 2018 | |
|--|---|----------------------|
| | Contract amount (notional principal) | Contract period |
| Forward foreign exchange contracts | USD 1,800 thousand | 2019.1.25~2019.12.16 |

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 year ended December 31, 2018, the Group recognised net loss of \$3,135 thousand.

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

D. The information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

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

| | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Notes receivable | \$ 1,403 | \$ 1,824 |
| Accounts receivable | \$ 158,708 | \$ 155,915 |
| Accounts receivable due from related parties | - | 4 |
| Less: Allowance for bad debts | (1,021) | (111) |
| | \$ 157,687 | \$ 155,808 |

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

| | December 31, 2018 | | December 31, 2017 | |
|----------------|-------------------|---------------------|-------------------|---------------------|
| | Notes receivable | Accounts receivable | Notes receivable | Accounts receivable |
| Not past due | \$ 1,252 | \$ 132,858 | \$ 1,588 | \$ 131,017 |
| Up to 30 days | 151 | 15,994 | 236 | 24,226 |
| 31 to 120 days | - | 8,678 | - | 565 |
| over 120 days | - | 157 | - | - |
| | \$ 1,403 | \$ 157,687 | \$ 1,824 | \$ 155,808 |

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

| | December 31, 2018 | | |
|----------------------------|-------------------|---------------------------------|-------------------|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials and supplies | \$ 98,111 | (\$ 1,985) | \$ 96,126 |
| Work in progress | 22,581 | (491) | 22,090 |
| Semi-finished goods | 34,877 | (1,382) | 33,495 |
| Finished goods | 24,487 | (6,477) | 18,010 |
| Inventory in transit | 301 | - | 301 |
| | <u>\$ 180,357</u> | <u>(\$ 10,335)</u> | <u>\$ 170,022</u> |

| | December 31, 2017 | | |
|----------------------------|-------------------|---------------------------------|-------------------|
| | Cost | Allowance for 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> |

The cost of inventories recognised as expense for the year:

| | Years ended December 31 | |
|--|-------------------------|-------------------|
| | 2018 | 2017 |
| Cost of goods sold | \$ 692,209 | \$ 637,139 |
| Gain on reversal of market price decline and obsolescence | (6,909) | (2,126) |
| Gain from sale of scraps | (3,036) | (2,793) |
| Gain on physical inventory | (7) | (16) |
| Loss on scrapping inventory | 9,585 | 8,872 |
| Reversal for warranty expenses | 501 | 35 |
| | <u>\$ 692,343</u> | <u>\$ 641,111</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 years ended December 31, 2018 and 2017.

(5) Other current assets

| | December 31, 2018 | December 31, 2017 |
|---------------|-------------------|-------------------|
| Time deposits | \$ 49,917 | \$ 68,262 |
| Others | 3,850 | 3,592 |
| | <u>\$ 53,767</u> | <u>\$ 71,854</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

| Items | December 31, 2018 | |
|----------------------|-------------------|----------------|
| Non-current items: | | |
| Equity instruments | | |
| Listed stocks | \$ | 89,834 |
| Unlisted stocks | | 11,393 |
| Valuation adjustment | | 32,115 |
| | \$ | <u>133,342</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 \$133,342 thousand as at December 31, 2018.
- B. Amounts recognised in other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

| | Year ended December 31, |
|--|-------------------------|
| <u>Equity instruments at fair value through other comprehensive income</u> | <u>2018</u> |
| Fair value change recognised in other comprehensive income | \$ <u>6,653</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 is provided in Note 12(4).

(Remainder of page intentionally left blank)

(7) Property, plant and equipment

2018

| | At January 1 | Additions | Disposals | Transfers | Net exchange differences | At December 31 |
|------------------------------------|---------------------|--------------------|------------------|-----------------|--------------------------|---------------------|
| Cost | | | | | | |
| Buildings and structures | \$ 381,447 | \$ 2,423 | \$ - | \$ 11,511 | \$ 8,039 | \$ 387,342 |
| Molding equipment | 155,109 | 11,389 | 940 | 4,124 | 3,435 | 166,247 |
| Machinery and equipment | 131,635 | 1,078 | 2,002 | 63 | 2,425 | 128,349 |
| Research and development equipment | 26,507 | 1,287 | 57 | 1,494 | 593 | 28,638 |
| Transportation equipment | 15,139 | - | - | 55 | 273 | 14,811 |
| Others | 90,076 | 8,684 | 27,260 | 560 | 1,339 | 70,721 |
| Construction in progress | 10,428 | 17,800 | - | 11,687 | 330 | 16,211 |
| | <u>\$ 810,341</u> | <u>\$ 42,661</u> | <u>\$ 30,259</u> | <u>\$ 6,010</u> | <u>\$ 16,434</u> | <u>\$ 812,319</u> |
| Accumulated depreciation | | | | | | |
| Buildings and structures | (\$ 141,642) | \$ 19,212 | \$ - | \$ - | \$ 3,257 | (\$ 157,597) |
| Molding equipment | (135,463) | (13,372) | 940 | - | 2,999 | (144,896) |
| Machinery and equipment | (92,143) | (6,959) | 1,828 | - | 1,736 | (95,538) |
| Research and development equipment | (23,043) | (1,101) | 57 | - | 490 | (23,597) |
| Transportation equipment | (9,735) | (1,967) | - | - | 214 | (11,488) |
| Others | (76,407) | (6,902) | 27,151 | - | 1,075 | (55,083) |
| | <u>(\$ 478,433)</u> | <u>(\$ 49,513)</u> | <u>\$ 29,976</u> | <u>\$ -</u> | <u>\$ 9,771</u> | <u>(\$ 488,199)</u> |
| | <u>\$ 331,908</u> | | | | | <u>\$ 324,120</u> |

2017

| | At January 1 | Additions | Disposals | Transfers | Net exchange differences | At December 31 |
|------------------------------------|---------------------|--------------------|------------------|------------------|--------------------------|---------------------|
| Cost | | | | | | |
| Buildings and structures | \$ 298,539 | \$ 75,318 | \$ - | \$ 9,853 | \$ 2,263 | \$ 381,447 |
| Molding equipment | 149,181 | 9,743 | 4,502 | 2,270 | 1,583 | 155,109 |
| Machinery and equipment | 135,410 | 1,910 | 5,555 | 1,877 | 2,007 | 131,635 |
| Research and development equipment | 26,864 | - | 54 | - | 303 | 26,507 |
| Transportation equipment | 15,369 | 1,194 | 1,269 | - | 155 | 15,139 |
| Others | 83,982 | 2,713 | 3,104 | 7,404 | 919 | 90,076 |
| Construction in progress | 5,185 | 14,396 | - | 9,164 | 11 | 10,428 |
| | <u>\$ 714,530</u> | <u>\$ 105,274</u> | <u>\$ 14,484</u> | <u>\$ 12,240</u> | <u>\$ 7,219</u> | <u>\$ 810,341</u> |
| Accumulated depreciation | | | | | | |
| Buildings and structures | (\$ 126,022) | \$ 16,822 | \$ - | \$ - | \$ 1,202 | (\$ 141,642) |
| Molding equipment | (129,398) | (11,929) | 4,502 | - | 1,362 | (135,463) |
| Machinery and equipment | (92,062) | (6,964) | 5,403 | - | 1,480 | (92,143) |
| Research and development equipment | (22,257) | (1,077) | 54 | - | 237 | (23,043) |
| Transportation equipment | (8,868) | (2,220) | 1,268 | - | 85 | (9,735) |
| Others | (74,340) | (5,927) | 3,035 | - | 825 | (76,407) |
| | <u>(\$ 452,947)</u> | <u>(\$ 44,939)</u> | <u>\$ 14,262</u> | <u>\$ -</u> | <u>\$ 5,191</u> | <u>(\$ 478,433)</u> |
| | <u>\$ 261,583</u> | | | | | <u>\$ 331,908</u> |

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

(8) Other non-current assets

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|-------------------------------------|--------------------------|--------------------------|
| Land use right | \$ 30,517 | \$ 32,028 |
| Guarantee deposits paid | 32,121 | 4,131 |
| Prepayments for business facilities | 9,387 | 4,773 |
| Other non-current assets | 4,066 | 4,826 |
| | <u>\$ 76,091</u> | <u>\$ 45,758</u> |

- A. 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 \$875 thousand and \$865 thousand for the years ended December 31, 2018 and 2017, respectively.
- B. Information about the guarantee deposits paid that were pledged to others as collaterals is provided in Notes 8 and 9.

(9) Other payables

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---------------------------------------|--------------------------|--------------------------|
| Salary and bonus payable | \$ 50,870 | \$ 52,913 |
| Insurance and pension expense payable | 14,836 | 13,370 |
| Payable for consumables and purchases | 13,763 | 13,372 |
| Housing fund payable | 5,054 | 4,469 |
| Others | 26,369 | 21,464 |
| | <u>\$ 110,892</u> | <u>\$ 105,588</u> |

(10) Pensions

- A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 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) The amounts recognised in the balance sheet are as follows:

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | \$ 14,823 | \$ 14,278 |
| Fair value of plan assets | (4,116) | (3,905) |
| Net defined benefit liability | <u>\$ 10,707</u> | <u>\$ 10,373</u> |

(c) Movements in net defined benefit liabilities are as follows:

| | <u>Present value of defined benefit obligation</u> | <u>Fair value of plan assets</u> | <u>Net defined benefit obligation</u> |
|--|--|----------------------------------|---------------------------------------|
| Year ended December 31, 2018 | | | |
| Balance at January 1 | \$ 14,278 | (\$ 3,905) | \$ 10,373 |
| Interest income | 196 | (54) | 142 |
| | <u>14,474</u> | <u>(3,959)</u> | <u>10,515</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expense) | - | - | - |
| Change in financial assumptions | 584 | - | 584 |
| Experience adjustments | (235) | (105) | (340) |
| | <u>349</u> | <u>(105)</u> | <u>244</u> |
| Pension fund contribution | - | (\$ 52) | (\$ 52) |
| Balance at December 31 | <u>\$ 14,823</u> | <u>(\$ 4,116)</u> | <u>\$ 10,707</u> |
| Year ended December 31, 2017 | | | |
| Balance at January 1 | \$ 14,878 | (\$ 3,778) | \$ 11,100 |
| Interest income | 167 | (43) | 124 |
| | <u>15,045</u> | <u>(3,821)</u> | <u>11,224</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expense) | - | - | - |
| Change in financial assumptions | (423) | - | (423) |
| Experience adjustments | (344) | 10 | (334) |
| | <u>(767)</u> | <u>10</u> | <u>(757)</u> |
| Pension fund contribution | - | (94) | (94) |
| Balance at December 31 | <u>\$ 14,278</u> | <u>(\$ 3,905)</u> | <u>\$ 10,373</u> |

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and

Utilisation of the Labor Retirement Fund” (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitisation products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorised by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

| | Years ended December 31, | |
|-------------------------|--------------------------|--------|
| | 2018 | 2017 |
| Discount rate | 1.375% | 1.125% |
| Future salary increases | 3.00% | 3.00% |

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

| | Discount rate | | Future salary increases | |
|---|---------------|----------|-------------------------|----------|
| | Increase | Decrease | Increase | Decrease |
| | 0.25% | 0.25% | 0.25% | 0.25% |
| December 31, 2018 | | | | |
| Effect on present value of defined benefit obligation | \$ 392 | (\$ 404) | (\$ 388) | \$ 378 |
| December 31, 2017 | | | | |
| Effect on present value of defined benefit obligation | \$ 409 | (\$ 423) | (\$ 408) | \$ 397 |

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once.

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amounts to \$107.

(g) As of December 31, 2018, the weighted average duration of that retirement plan is 9.73 years. The analysis of timing of the future pension payment was as follows:

| | | |
|--------------|----|--------------|
| 2-5 years | \$ | 567 |
| Over 5 years | | 4,418 |
| | \$ | <u>4,985</u> |

B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump

sum upon termination of employment.

(b) The 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 years ended December 31, 2018 and 2017, were \$15,721 thousand and \$15,375 thousand, respectively.

(11) Share-based payment

A. For the years ended December 31, 2018 and 2017, the Group's share-based payment arrangements were as follows:

| Type of arrangement | Grant date | Quantity granted (in thousands) | Contract period | Vesting conditions | Actual turnover rate in 2018 | Actual turnover rate in 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% | 3.57% | 0% |
| Fifth employee stock options | 2016.12.23 | 600 | 5 years | 2~4 years' service | 2.56% | 15.22% | 0% |
| Sixth employee stock options | 2018.11.02 | 600 | 5 years | 2~4 years' service | 0% | 0% | 0% |

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

(a) Third (1) employee stock options

| | 2018 | | 2017 | |
|------------------------------------|-------------------------------|--|-------------------------------|--|
| | No. of options (in thousands) | Weighted-average exercise price (in dollars) | No. of options (in thousands) | Weighted-average exercise price (in dollars) |
| Options outstanding at January 1 | - | \$ - | 86 | \$ 22.70 |
| Options exercised | - | - | (86) | 22.70 |
| Options outstanding at December 31 | - | - | - | - |
| Options exercisable at December 31 | - | - | - | - |

(b) Third (2) employee stock options

| | 2018 | | 2017 | |
|---------------------------------------|----------------------------------|--|----------------------------------|--|
| | No. of options (in thousands) | Weighted-average exercise price (in dollars) | No. of options (in thousands) | Weighted-average exercise price (in dollars) |
| Options outstanding at January 1 | - | \$ - | 4 | \$ 21.90 |
| Options exercised | - | - | (4) | 21.90 |
| Options outstanding at December 31 | - | | - | |
| Options exercisable at December 31 | - | | - | |

(c) Fourth employee stock options

| | 2018 | | 2017 | |
|---------------------------------------|----------------------------------|--|----------------------------------|--|
| | No. of options (in thousands) | Weighted-average exercise price (in dollars) | No. of options (in thousands) | Weighted-average exercise price (in dollars) |
| Options outstanding at January 1 | 243 | \$ 21.70 | 390 | \$ 23.80 |
| Options forfeited | - | - | (2) | 21.70 |
| Options exercised | (59) | 21.70 | (120) | 23.80 |
| Options exercised | (68) | 20.50 | (25) | 21.70 |
| Options outstanding at December 31 | <u>116</u> | 20.50(Note) | <u>243</u> | 21.70(Note) |
| Options exercisable at December 31 | <u>116</u> | | <u>120</u> | |

Note : Price was adjusted due to ex-right.

(d) Fifth employee stock options

| | 2018 | | 2017 | |
|---------------------------------------|-------------------------------------|--|-------------------------------------|--|
| | No. of options (in thousands) | Weighted-average exercise price (in dollars) | No. of options (in thousands) | Weighted-average exercise price (in dollars) |
| Options outstanding at January 1 | 573 | \$ 31.80 | 600 | \$ 34.95 |
| Options forfeited | (2) | 31.80 | (21) | 34.95 |
| Options forfeited | - | - | (6) | 31.80 |
| Options outstanding at December 31 | <u>571</u> | 30.00 (Note) | <u>573</u> | 31.80 (Note) |
| Options exercisable at December 31 | <u>289</u> | | <u>-</u> | |

Note: Price was adjusted due to ex-right.

(e) Sixth employee stock options

| | 2018 | | 2017 | |
|------------------------------------|----------------------------------|---|----------------------------------|---|
| | No. of options (in thousands) | Weighted-average exercise price (in dollars) | No. of options (in thousands) | Weighted-average exercise price (in dollars) |
| Options outstanding at January 1 | - | \$ - | - | \$ - |
| Options granted | 600 | 29.90 | - | - |
| Options outstanding at December 31 | 600 | 29.90 | - | - |
| Options exercisable at December 31 | - | - | - | - |

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

| | Expiry date | December 31, 2018 | | December 31, 2017 | |
|----------------------------------|-------------|----------------------------------|----------------|----------------------------------|----------------|
| | | No. of options (in thousands) | Exercise price | No. of options (in thousands) | Exercise price |
| Third (1) employee stock options | 2017.03.20 | - | \$ - | - | \$ - |
| Third (2) employee stock options | 2017.12.25 | - | - | - | - |
| Fourth employee stock options | 2019.11.12 | 116 | 20.50 | 243 | 21.70 |
| Fifth employee stock options | 2021.12.22 | 571 | 30.00 | 573 | 31.80 |
| Sixth employee stock options | 2023.11.01 | 600 | 29.90 | - | - |

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

| | Years ended December 31 | |
|---|-------------------------|----------|
| | 2018 | 2017 |
| Equity-settled - employee stock options | \$ 1,883 | \$ 1,973 |

(12) Provisions – non-current

| | Warranty provisions | |
|-------------------------------|---------------------|-------------------|
| | 2018 | |
| At January 1 | \$ | 625 |
| Additional provisions | | 540 |
| Effects of foreign exchange | (| 17) |
| At December 31 | \$ | 1,148 |
| Analysis of total provisions: | | |
| | December 31, 2018 | December 31, 2017 |
| Non-current | \$ 1,148 | \$ 625 |

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 December 31, 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 \$399,628 thousand with a par value of \$10 (in dollars) per share. The total share capital was \$399,628 thousand.
- B. The employees exercised options for 68 thousand shares of common stock during the period from July 13, 2018 to December 18, 2018, and the subscription price was NT\$20.5 per share. The share issuance became effective on December 26, 2018, as resolved at the meeting of Board of Directors on December 21, 2018. The registration was completed on January 11, 2019.
- C. The employees exercised options for 83 thousand shares of common stock during the period from November 13, 2017 to February 6, 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.
- D. 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 capitalisation 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.
- E. 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 14, 2016 to February 14, 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 | 127 | 235 |
| Stock dividends | - | 394 |
| At December 31 | <u>39,963</u> | <u>39,836</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. (a) 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> | |

- (b) The details about the appropriation of 2018 earnings which was proposed at the Board of Directors' meeting on February 26, 2019 are as follows:

| | Year ended December 31, 2018 | |
|----------------|------------------------------|--------------------------------|
| | Amount | Dividend per share (in dollar) |
| Legal reserve | \$ 10,556 | |
| Cash dividends | 92,094 | \$ 2.3 |
| | <u>\$ 102,650</u> | |

The appropriation proposal of 2017 earnings has not yet approved at the meeting of shareholders.

E. 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 | (12,712) | - | (12,710) | - |
| Revaluation | - | 5,766 | - | 6,456 |
| Revaluation-tax | - | 887 | - | 1,109 |
| At December 31 | <u>(\$ 48,777)</u> | <u>\$ 32,666</u> | <u>(\$ 36,065)</u> | <u>\$ 26,013</u> |

(17) Operating revenue

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:

| | December 31, 2018 |
|-----------------------|-------------------|
| Contract liabilities: | |
| Contract liabilities | <u>\$ 11,499</u> |

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

| | Year ended December 31, 2018 |
|---|------------------------------|
| Revenue recognised that was included in the contract liability balance at the beginning of the year | <u>\$ 10,714</u> |

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

(18) Other income

| | Years ended December 31, | |
|------------------------------------|--------------------------|------------------|
| | 2018 | 2017 |
| Interest income: | | |
| Interest income from bank deposits | \$ 8,981 | \$ 8,608 |
| Dividend income | \$ 5,714 | \$ 1,258 |
| Other income-others | 2,191 | 3,328 |
| | <u>\$ 16,886</u> | <u>\$ 13,194</u> |

(19) Other gains and losses

| | Years ended December 31, | |
|---|--------------------------|------------------|
| | 2018 | 2017 |
| Loss on disposal of property, plant and equipment | (\$ 271) | (\$ 17) |
| Net currency exchange gain | 10,084 | 3,455 |
| Net gain on financial assets (liabilities) at fair value through profit or loss | 16,900 | 41,060 |
| Other losses | (92) | (1,172) |
| | <u>\$ 26,621</u> | <u>\$ 43,326</u> |

(20) Expenses by nature

| | Years ended December 31, | |
|---|--------------------------|------------|
| | 2018 | 2017 |
| Employee benefit expense | \$ 266,814 | \$ 267,615 |
| Depreciation charges on property, plant and equipment | 49,513 | 44,939 |
| Amortisation charges | 2,675 | 2,130 |

(21) Employee benefit expense

| | Years ended December 31, | |
|----------------------------------|--------------------------|-------------------|
| | 2018 | 2017 |
| Wages and salaries | \$ 227,970 | \$ 228,836 |
| Labour and health insurance fees | 8,003 | 8,837 |
| Pension costs | 15,863 | 15,499 |
| Directors' remunerations | 3,954 | 3,794 |
| Other employee benefit expense | 11,024 | 10,649 |
| | <u>\$ 266,814</u> | <u>\$ 267,615</u> |

Note: On December 31, 2018 and 2017, the Group had 712 and 715 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 years ended December 31, 2018 and 2017, the accrued employees' compensation and directors' and supervisors' remuneration is as follows:

| | Years ended December 31, | |
|--|--------------------------|------------------|
| | 2018 | 2017 |
| Employees' compensation | \$ 10,902 | \$ 12,906 |
| Directors' and supervisors' remuneration | 1,635 | 1,936 |
| | <u>\$ 12,537</u> | <u>\$ 14,842</u> |

For the years ended December 31, 2018 and 2017, the aforementioned amounts were recognised in salary expenses, and accrued both based on 8% and 1.2%, 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 2018 and 2017 as resolved by the Board of Directors were in agreement with those amounts recognised in the 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:

| | Years ended December 31, | |
|---|--------------------------|------------------|
| | 2018 | 2017 |
| Current tax: | | |
| Current tax on profit for the year | \$ 38,231 | \$ 21,513 |
| Tax on undistributed surplus earnings | 1,783 | 556 |
| Prior year income tax overestimation | (923) | (354) |
| Total current tax | 39,091 | 21,715 |
| Deferred tax: | | |
| Effect of taxation law amendments | (388) | - |
| Origination and reversal of temporary differences | (7,238) | 10,672 |
| Income tax expense | <u>\$ 31,465</u> | <u>\$ 32,387</u> |

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

| | Years ended December 31, | |
|--|--------------------------|-----------------|
| | 2018 | 2017 |
| Remeasurement of defined benefit obligations | (\$ 49) | \$ 125 |
| Unrealised gain (loss) on available-for-sale financial assets | - | (1,109) |
| Unrealised loss on financial assets at fair value through other comprehensive income | (946) | - |
| Impact of change in tax rate | (140) | \$ - |
| | <u>(\$ 1,135)</u> | <u>(\$ 984)</u> |

B. Reconciliation between income tax expense and accounting profit

| | Years ended December 31, | |
|--|--------------------------|------------------|
| | 2018 | 2017 |
| Tax calculated based on profit before tax and statutory tax rate | \$ 40,574 | \$ 33,831 |
| Expenses disallowed by tax regulation | (6,747) | (1,646) |
| Tax exempt income by tax regulation | (6,002) | - |
| Prior year income tax overestimation | (923) | (354) |
| Effect from Alternative Minimum Tax | 3,168 | - |
| Effect from changes in tax regulation | (388) | - |
| Tax on undistributed surplus earnings | 1,783 | 556 |
| Income tax expense | <u>\$ 31,465</u> | <u>\$ 32,387</u> |

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

| | 2018 | | | |
|--|-----------------|------------------------------|--|-----------------|
| | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | December 31 |
| Temporary differences: | | | | |
| -Deferred tax assets: | | | | |
| Allowance for inventory valuation and obsolescence losses | \$ 1,209 | \$ 279 | \$ - | \$ 1,488 |
| Unrealised sales returns and discounts | 57 | (26) | - | 31 |
| Warranty liabilities | 94 | (26) | - | 68 |
| Unallocated amount of accrued pension expense | 634 | 130 | - | 764 |
| Unrealised foreign exchange losses | 179 | 460 | - | 639 |
| Remeasurement of defined benefit obligations | 1,129 | - | 248 | 1,377 |
| Unrealised loss on financial assets at fair value through other comprehensive income | - | - | 552 | 552 |
| Unused compensated absences | <u>208</u> | <u>100</u> | <u>-</u> | <u>308</u> |
| | <u>\$ 3,510</u> | <u>\$ 917</u> | <u>\$ 800</u> | <u>\$ 5,227</u> |

| | | 2018 | | | |
|--|------------|-----------|---------------------------------|---|-------------|
| | | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | December 31 |
| -Deferred tax liabilities: | | | | | |
| Amount of allowance for bad debts that exceed the limit for tax purpose | (\$ 182) | \$ 182 | \$ | - | \$ - |
| Gains on foreign long-term investments | (9,015) | 6,527 | - | - | (2,488) |
| Unrealised gain on financial assets at fair value through other comprehensive income | (335) | - | - | 335 | - |
| | (\$ 9,532) | \$ 6,709 | \$ | 335 | (\$ 2,488) |
| | (\$ 6,022) | \$ 7,626 | \$ | 1,135 | \$ 2,739 |

| | | 2017 | | | |
|---|----------|------------|---------------------------------|---|-------------|
| | | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | December 31 |
| Temporary differences: | | | | | |
| -Deferred tax assets: | | | | | |
| Allowance for inventory valuation and obsolescence losses | \$ 1,162 | \$ 47 | \$ | - | \$ 1,209 |
| Unrealised sales returns and discounts | - | 57 | - | - | 57 |
| Warranty liabilities | 200 | (106) | - | - | 94 |
| Unallocated amount of accrued pension expense | 629 | 5 | - | - | 634 |
| Unrealised foreign exchange losses | 1,718 | (1,539) | - | - | 179 |
| Remeasurement of defined benefit obligations | 1,254 | - | - | (125) | 1,129 |
| Unused compensated absences | 258 | (50) | - | - | 208 |
| | \$ 5,221 | (\$ 1,586) | (\$ | 125) | \$ 3,510 |

2017

| | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | December 31 |
|---|------------|---------------------------------|---|-------------|
| -Deferred tax liabilities: | | | | |
| Amount of allowance for bad debts that exceed the limit for tax purpose | (\$ 111) | (\$ 71) | \$ - | (\$ 182) |
| Gains on foreign long-term investments | - | (9,015) | - | (9,015) |
| Unrealised gain on valuation of available-for-sale financial assets | (1,444) | - | 1,109 | (335) |
| | (\$ 1,555) | (\$ 9,086) | \$ 1,109 | (\$ 9,532) |
| | \$ 3,666 | (\$ 10,672) | \$ 984 | (\$ 6,022) |

- D. The Company has not recognised taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities. As of December 31, 2018 and 2017, the amounts of temporary difference unrecognised as deferred tax liabilities were \$47,279 and \$36,890 thousand, respectively.
- E. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.
- F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China 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:

| | Year ended December 31, 2018 | | |
|--|------------------------------|---|------------------------------------|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 105,557 | 39,895 | \$ 2.65 |
| <u>Diluted earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | 105,557 | 39,895 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| - Employees' compensation | - | 352 | |
| - Employee stock options | - | 145 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | \$ 105,557 | 40,392 | \$ 2.61 |

| | Year ended December 31, 2017 | | |
|--|------------------------------|---|------------------------------------|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 121,083 | 39,796 | \$ 3.04 |
| <u>Diluted earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | 121,083 | 39,796 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| - Employees' compensation | - | 425 | |
| - Employee stock options | - | 110 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | \$ 121,083 | 40,331 | \$ 3.00 |

(24) Operating leases

The Group leases real estate under non-cancellable operating lease agreements. The lease terms are between 2 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 \$17,878 thousand and \$17,904 thousand for these leases in profit or loss for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| Not later than one year | \$ 7,736 | \$ 17,680 |
| Later than one year but not later than five years | - | 7,721 |
| | \$ 7,736 | \$ 25,401 |

(25) Supplemental cash flow information

Investing activities with partial cash payments:

| | Years ended December 31, | |
|--|--------------------------|------------|
| | 2018 | 2017 |
| Purchase of property, plant and equipment | \$ 42,661 | \$ 105,274 |
| Add: Opening balance of payable on equipment | 496 | 497 |
| Less: Ending balance of payable on equipment | (834) | (496) |
| Cash paid during the year | \$ 42,323 | \$ 105,275 |

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

| Names of related parties | Relationship with the Group |
|----------------------------|-----------------------------|
| 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 December 31, 2017; accounts receivable, accounts payable and other payables were calculated by using the balance on December 31, 2017.

(2) Significant related party transactions

A. Operating revenue

| | Years ended December 31, | |
|-------------------------|--------------------------|-------|
| | 2018 | 2017 |
| Sales of goods: | | |
| - Other related parties | \$ 30 | \$ 18 |

B. Accounts receivable

| | December 31, 2018 | December 31, 2017 |
|-------------------------|-------------------|-------------------|
| Accounts receivable: | | |
| - Other related parties | \$ - | \$ 4 |

C. Purchases

| | Years ended December 31, | |
|-----------------------------|--------------------------|-----------|
| | 2018 | 2017 |
| Purchases of raw materials: | | |
| - Other related parties | \$ 43,254 | \$ 22,418 |

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

D. Accounts payable

| | December 31, 2018 | December 31, 2017 |
|-------------------------------|-------------------|-------------------|
| Accounts payable: | | |
| - WeiSen Electronic Co., Ltd. | \$ 17,158 | \$ 12,144 |

(3) Key management compensation

| | Years ended December 31, | |
|------------------------------|--------------------------|-----------|
| | 2018 | 2017 |
| Short-term employee benefits | \$ 31,689 | \$ 29,391 |
| Post-employment benefits | 599 | 702 |
| Share-based payments | 1,019 | 1,098 |
| | \$ 33,307 | \$ 31,191 |

8. PLEDGED ASSETS

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

| Pledged asset | Book value | | Purpose |
|--|-------------------|-------------------|--|
| | December 31, 2018 | December 31, 2017 | |
| Time deposits (shown as 'other current assets') | \$ 4,472 | \$ - | Forward foreign exchange |
| Guarantee deposits paid (shown as 'other non-current assets') | 32,121 | 4,131 | Security and investment commitment deposits |
| | <u>\$ 36,593</u> | <u>\$ 4,131</u> | |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT

COMMITMENTS

(1) Contingencies

Details of the endorsements/guarantees provided for subsidiaries are provided in Table 1.

(2) Commitments

A. 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 |

B. Due to the investment demand of industry, the Company's Board of Directors resolved to create new investment in ArtSo Trading Limited (hereinafter ArtSo) on July 27, 2018. The expected investment amount was limited to \$75 million. The Group paid \$28,000 thousand on August 21, 2018 as deposit for investment commitment (shown as 'guarantee deposits paid') and received an equivalent amount of promissory note from the counterparty.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

A. The Company was transferred 28% equity (700,000 shares) of the investment company SAMOA ART SO TRADING LIMITED in the third area held by CHEN, KUO-HUNG for a consideration of \$28,000 thousand and indirectly acquired 28% equity (USD 450 thousand paid-in capital) of ART SO ZHONG TRADING LIMITED in Mainland China. The transactions were approved by the Investment Commission of the Ministry of Economic Affairs on January 19, 2019.

B. The Company plans to invest USD 1,400 thousand in SAMOA ART SO TRADING LIMITED, which was approved by the Investment Commission of the Ministry of Economic Affairs on February 13, 2019. The Company acquired a total of 48.57% equity of SAMOA ART SO TRADING LIMITED after the above two transactions.

C. The Company plans to each invest USD 615 thousand (approximately RMB 4,000 thousand) in BEIJING ARTSO FURNITURE CO.,LTD and Shanghai Art So Zhong Trading Limited through investing in SAMOA ART SO TRADING LIMITED in the third area and the investments were approved by the Investment Commission of the Ministry of Economic Affairs on February 13, 2019.

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 year ended December 31, 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 December 31,

2018 and 2017, were as follows:

| | December 31, 2018 | December 31, 2017 |
|-------------------|-------------------|-------------------|
| Total liabilities | \$ 274,635 | \$ 259,293 |
| Total assets | \$ 1,468,535 | \$ 1,440,907 |
| Gearing ratio | 19% | 18% |

(2) Financial instruments

A. Financial instruments by category

| | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| <u>Financial assets</u> | | |
| Financial assets at fair value through profit or loss | | |
| Financial assets mandatorily measured at fair value through profit or loss | \$ 152,240 | \$ 148,029 |
| Financial assets at fair value through comprehensive income | 133,342 | - |
| Available-for-sale financial assets | - | 127,576 |
| Financial assets at amortised cost/Loans receivables / loans and receivables | | |
| Cash and cash equivalents | 366,898 | 369,163 |
| Notes receivable | 1,403 | 1,824 |
| Accounts receivable (including related parties) | 157,687 | 155,808 |
| Other receivables | 1,994 | 3,557 |
| Guarantee deposits paid | 32,121 | 4,131 |
| Other financial assets (Note) | 49,917 | 68,262 |
| | <u>\$ 895,602</u> | <u>\$ 878,350</u> |

Note: These are time deposits and restricted cash in banks that did not meet the requirement of short-term commitments.

| | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| <u>Financial liabilities</u> | | |
| Financial liabilities at fair value through profit or loss | | |
| Financial liabilities held for trading | \$ 957 | \$ - |
| Financial liabilities at amortised cost | | |
| Notes payable | - | 59 |
| Accounts payable (including related parties) | 114,306 | 112,078 |
| Other accounts payable | 110,892 | 105,588 |
| Guarantee deposits received | 1,246 | 1,246 |
| | <u>\$ 227,401</u> | <u>\$ 218,971</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.

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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:

December 31, 2018

| | 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 |
| (Foreign currency: functional currency) | | | | | | |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD : NTD | \$ 3,146 | 30.665 \$ | 96,472 | 1% \$ | 965 \$ | - |
| HKD : NTD | 1,052 | 3.891 | 4,093 | 1% | 41 | - |
| EUR : NTD | 1,279 | 35.000 | 44,765 | 1% | 448 | - |
| RMB : NTD | 30,658 | 4.447 | 136,336 | 1% | 1,363 | - |
| RMB : USD | 14,822 | 0.145 | 65,913 | 1% | 659 | - |
| USD : RMB | 5,597 | 6.868 | 171,632 | -1% (| 1,716) | - |
| EUR : RMB | 173 | 7.871 | 6,055 | 1% | 61 | - |
| <u>Non-monetary items</u> | | | | | | |
| USD : NTD | \$ 337 | 30.665 \$ | 10,334 | 1% \$ | - | 103 |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD : NTD | \$ 6,353 | 30.765 \$ | 195,450 | 1% (| 1,955) \$ | - |
| EUR : NTD | 211 | 35.400 | 7,469 | 1% (| 75) | - |
| RMB : NTD | 9,209 | 4.497 | 41,413 | 1% (| 414) | - |
| RMB : USD | 5,872 | 0.146 | 26,406 | 1% (| 264) | - |

December 31, 2017

| | Foreign currency amount (In thousands) | Exchange rate | Book value (In thousands of NTD) | Sensitivity analysis | | |
|--|---|---------------|-------------------------------------|----------------------|--------------------------|--------------------------------------|
| | | | | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | | | |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD : NTD | \$ 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 | - |
| <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) | - |

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 years ended December 31, 2018 and 2017 amounted to \$10,084 thousand and \$3,455 thousand, respectively.

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets.
- ii. The Group mainly invest 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 years ended December 31, 2018 and 2017 would have increased/decreased by \$1,513 thousand and \$1,480 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 \$1,333 thousand and \$1,276 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 years ended December 31, 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 the assumptions under IFRS 9, the default occurs when the contract payments are past due over 1 year.

- iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition: If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. The Group 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 December 31, 2018, the loss rate methodology is as follows:

| December 31, 2018 | Individual | Group | Total |
|--------------------|------------|------------|------------|
| Expected loss rate | - | 0.64% | |
| Total book value | \$ - | \$ 160,111 | \$ 160,111 |
| Loss allowance | \$ - | \$ 1,021 | \$ 1,021 |

- vii. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable is as follows:

| | 2018 | |
|---------------------------------|---------------------|-------|
| | Accounts receivable | |
| At January 1 | \$ | 111 |
| Provision for impairment | | 917 |
| Effect of exchange rate changes | (| 7) |
| At December 31 | \$ | 1,021 |

- viii. Credit risk information for 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:

| | Less than 1 year | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 5 years | Over 5 years |
|--------------------------------------|---------------------|-----------------------------|-----------------------------|-----------------------------|--------------|
| December 31, 2018 | | | | | |
| Accounts receivable | \$ 97,148 | \$ - | \$ - | \$ - | \$ - |
| Accounts payable- related parties | 17,158 | - | - | - | - |
| Other payables | 110,892 | - | - | - | - |

Non-derivative financial liabilities:

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

Derivative financial liabilities:

| | Less than 1 year | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 5 years | Over 5 years |
|-------------------------------|---------------------|-----------------------------|-----------------------------|-----------------------------|--------------|
| December 31, 2018 | | | | | |
| Forward exchange contracts | \$ 957 | \$ - | \$ - | \$ - | \$ - |

Derivative financial liabilities :

December 31, 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:

| December 31, 2018 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| Assets | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial assets at fair value through profit or loss | \$ 152,240 | \$ - | \$ - | \$ 152,240 |
| Financial assets at fair value through other comprehensive income-equity securities | \$ 124,705 | \$ - | \$ 8,637 | \$ 133,342 |
| Liabilities | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial liabilities at fair value through profit or loss | \$ - | \$ 957 | \$ - | \$ 957 |
| December 31, 2017 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Assets | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial assets at fair value through profit or loss | \$ 145,867 | \$ 2,162 | \$ - | \$ 148,029 |
| Financial assets at fair value through other comprehensive income-equity securities | \$ 114,209 | \$ - | \$ 13,367 | \$ 127,576 |

(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 years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

E. For the years ended December 31, 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:

| | Fair value at December 31, 2018 | Valuation technique | Significant unobservable input | Range | Relationship of inputs to fair value |
|---------------------------------------|---------------------------------------|-----------------------------------|---|-----------|---|
| Non-derivative equity instruments: | | | | | |
| Unlisted shares | \$ 8,637 | Market comparable companies | Net equity ratio and price to earnings ratio | 0.59 | The higher the multiple, the higher the fair value |
| | Fair value at December 31, 2017 | Valuation technique | Significant unobservable input | Range | Relationship of inputs to fair value |
| Non-derivative equity instruments: | | | | | |
| 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 |

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>December 31, 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% | \$ 425 | (\$ 425) | |
| | | <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) | |

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

A. Summary of significant accounting policies adopted in 2017:

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

i. 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 categorised 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:

| | Measured at fair value through profit or loss | Available-for-sale-equity Measured at fair value through other comprehensive income-equity | Total | Effects | |
|---------------|--|---|-----------|----------------------|-----------------|
| | | | | 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 December 31, 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 | |
|---|-------------------|----------------|
| Financial assets items: | | |
| Listed stocks | \$ | 111,495 |
| Valuation adjustment | | 34,372 |
| | | <u>145,867</u> |
| Financial assets held for trading | | |
| Non-hedging derivatives financial instruments | | |
| -Forward foreign exchange contracts | | 2,162 |
| | \$ | <u>148,029</u> |

i. The Group recognised net profit amounting to \$4,153 thousand on financial assets held for trading for the year ended December 31, 2017. The Group recognised net profit amounting to \$36,907 thousand on financial assets at fair value through profit or loss for the year ended December 31, 2017. 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:

| | December 31, 2017 | |
|------------------------------------|---|-----------------------------|
| Derivative instruments | Contract amount (Notional principal) | Expiry date |
| Current items: | | |
| Forward foreign exchange contracts | USD 1,800 thousand | 2018.01.14 to 2018.12.16 |

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

The Group recognised \$7,565 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.

D. Credit risk information for the year ended December 31, 2017 is 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:

| | December 31, 2017 | |
|---------|-------------------|----------------|
| Group 1 | \$ | 93,904 |
| Group 2 | | 22,473 |
| Group 3 | | 12,521 |
| Group 4 | | 2,122 |
| | \$ | <u>131,020</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 initial 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 initial transaction).

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

| | <u>December 31, 2017</u> | |
|----------------|--------------------------|---------------|
| Up to 30 days | \$ | 24,284 |
| 31 to 60 days | | 325 |
| 61 to 90 days | | 207 |
| 91 to 120 days | | 25 |
| | <u>\$</u> | <u>24,841</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, the Group's accounts receivable that has been impaired amounted to \$58 thousand.

| | <u>December 31, 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 | (635) | (770) | (1,405) |
| Effect of exchange rate changes | - | (17) | (17) |
| Ending balance of the period | <u>\$ 58</u> | <u>\$ 53</u> | <u>\$ 111</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 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 year ended December 31, 2017

are as follows:

| | |
|---------------|-------------------------------------|
| | <u>Year ended December 31, 2017</u> |
| Sales revenue | \$ <u>986,926</u> |

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>December 31, 2018</u> | | |
| | Balance by using | Balance by using | Effects from changes |
| Balance sheet items | IFRS 15 | previous accounting | in accounting policies |
| | polices | | |
| Contract liabilities | \$ <u>11,499</u> | \$ <u>11,499</u> | \$ <u>-</u> |

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 year ended December 31, 2018. As of December 31, 2018, financial liabilities at fair value through profit or loss of \$957 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 years ended December 31, 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 organisation 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) Measurement of segment information

The operating gains and losses are measured by the amount before tax and used as basis for performance appraisal. This measurement excludes the effects of non-recurring expenditures from the operating segments, equity-settled share-based payments and unrealised gains (losses) from financial assets.

(3) Information about segment profit or loss, assets and liabilities

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

| | Year ended December 31, 2018 | | | |
|---|------------------------------|--------------------------------|--|--------------------|
| | TONS LIGHTOLOGY INC. | TITAN LIGHTING CO., LTD. | ZHONGSHAN TONS LIGHTING CO., LTD. | Total |
| Revenue from external customers | \$ 929,740 | \$ 3,713 | \$ 116,500 | \$1,049,953 |
| Inter-segment revenue | 26,260 | 753,757 | 23,877 | 803,894 |
| Segment revenue | <u>\$ 956,000</u> | <u>\$ 757,470</u> | <u>\$ 140,377</u> | <u>\$1,853,847</u> |
| Segment profit before tax | <u>\$ 70,515</u> | <u>\$ 33,969</u> | <u>\$ 10,764</u> | <u>\$ 115,248</u> |
| Segment income (loss) including: | | | | |
| Depreciation and amortisation | \$ 6,021 | \$ 40,427 | \$ 1,803 | \$ 48,251 |
| Income tax expense | 18,178 | 9,087 | 455 | 27,720 |
| Investment income adopting equity method | 53,220 | - | - | 53,220 |

Year ended December 31, 2017

| | ZHONGSHAN | | | Total |
|--|----------------------------|--------------------------------|-------------------------------|---------------------|
| | TONS LIGHTOLOGY INC. | TITAN LIGHTING CO., LTD. | TONS LIGHTING CO., LTD. | |
| Revenue from external customers | \$ 903,494 | \$ 3,997 | \$ 79,435 | \$ 986,926 |
| Inter - segment revenue | <u>29,663</u> | <u>730,921</u> | <u>12,891</u> | <u>773,475</u> |
| Segment revenue | <u>\$ 933,157</u> | <u>\$ 734,918</u> | <u>\$ 92,326</u> | <u>\$ 1,760,401</u> |
| Segment profit (loss) before tax | <u>\$ 92,986</u> | <u>\$ 29,970</u> | <u>(\$ 100)</u> | <u>\$ 122,856</u> |
| Segment income (loss) including: | | | | |
| Depreciation and amortisation | \$ 4,787 | \$ 38,405 | \$ 2,044 | \$ 45,236 |
| Income tax expense | 25,389 | 6,796 | 116 | 32,301 |
| Investment income adopting equity method | 53,486 | - | - | 53,486 |

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.

(4) 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:

| | Years ended December 31, | |
|--|--------------------------|--------------------|
| | 2018 | 2017 |
| Reportable operating segments revenue after adjustment | \$ 1,853,847 | \$ 1,760,401 |
| Other operating segments revenue after adjustment | <u>763,787</u> | <u>733,106</u> |
| Total operating segments revenue | 2,617,634 | 2,493,507 |
| Elimination of intersegment revenue | <u>(1,564,598)</u> | <u>(1,506,581)</u> |
| Total consolidated operating revenue | <u>\$ 1,053,036</u> | <u>\$ 986,926</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:

| | Years ended December 31, | |
|--|--------------------------|-------------------|
| | 2018 | 2017 |
| Reportable operating segments income before tax after adjustment | \$ 115,249 | \$ 122,856 |
| Other operating segments income before tax after adjustment | 21,668 | 30,286 |
| Total operating segments revenue | 136,917 | 153,142 |
| Elimination of intersegment revenue | 105 | 328 |
| Income before tax from continuing operations | <u>\$ 137,022</u> | <u>\$ 153,470</u> |

(5) Information on products and services

Revenues from external customers are mainly from manufacturing and sales of lighting equipment and lamps. Details of revenue are provided in Note 6(17):

(6) Geographical information

Revenues were calculated based on the location of customers. Non-current assets, including property, plant and equipment, intangible assets, were categorised based on the location of the assets.

The geographical information is as follows:

| | Years ended December 31, | | | |
|---------|--------------------------|--------------------|-------------------|--------------------|
| | 2018 | | 2017 | |
| | Revenue | Non-current assets | Revenue | Non-current assets |
| Europe | \$ 705,639 | \$ - | \$ 681,451 | \$ - |
| Asia | 266,591 | 327,688 | 229,248 | 336,995 |
| America | 4,450 | - | 8,816 | - |
| Others | 76,356 | - | 67,411 | - |
| | <u>\$ 1,053,036</u> | <u>\$ 327,688</u> | <u>\$ 986,926</u> | <u>\$ 336,995</u> |

(7) Major customer information

The major customer information is as follows:

| | Years ended December 31, | | | |
|---|--------------------------|---|-------------------|---|
| | 2018 | | 2017 | |
| | Revenue | Segment | Revenue | Segment |
| A | \$ 196,384 | TONS LIGHTOLOGY INC and TITAN LIGHTING CO., LTD | \$ 198,697 | TONS LIGHTOLOGY INC and TITAN LIGHTING CO., LTD |
| B | 113,808 | TONS LIGHTOLOGY INC and TITAN LIGHTING CO., LTD | 92,044 | TONS LIGHTOLOGY INC and TITAN LIGHTING CO., LTD |
| | <u>\$ 310,192</u> | | <u>\$ 290,741</u> | |

TONS LIGHTOLOGY INC. AND SUBSIDIARIES
Provision of endorsements and guarantees to others

Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 1

| Number (Note 1) | Endorser/ guarantor | Party being endorsed/guaranteed | Relationship with the endorser/ guarantor (Note 2) | Limit on endorsements/ provided for a single party (Note 3) | Maximum outstanding guarantee amount as of December 31, 2018 (Note 4) | Outstanding endorsement/ guarantee amount at December 31, 2018 | Amount of endorsements/ guarantees secured with collateral | Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company | Ceiling on total amount of endorsements/ guarantees provided (Note 3) | Provision of | | Footnote |
|--------------------|----------------------------|-------------------------------------|--|---|---|---|--|--|--|--|---|----------|
| | | | | | | | | | | endorsements/ guarantees by parent company to subsidiary (Note 5) | endorsements/ guarantees by parent company (Note 5) | |
| 0 | TONS LIGHTOLOGY INC. | GREATSUPER TECHNOLOGY LIMITED | (2) | \$ 238,780 | \$ 43,793 | \$ - | \$ - | 0.00 | \$ 477,560 | 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.

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 year (not including subsidiaries, associates and joint ventures)

Year ended December 31, 2018

Table 2
Expressed in thousands of NTD
(Except as otherwise indicated)

| Securities held by | Marketable securities (Note 1) | Relationship with the securities issuer | General ledger account | As of December 31, 2018 | | | Footnote | |
|------------------------------|---|--|---|-------------------------|----------------|---------------|----------------|------------|
| | | | | Number of shares | Book value | Ownership (%) | | Fair value |
| TONS LIGHTOLOGY INC. | Share ownership / TITAN AURORA INC. | None | Financial assets at fair value through other comprehensive income-non-current | 1,900 | \$ 6,602 | 19.00 | 6,602 | - |
| TONS LIGHTOLOGY INC. | Share ownership / GRIFFIN LIGHTING CO., LTD. | None | Financial assets at fair value through other comprehensive income-non-current | 66,500 | 1,525 | 19.00 | 1,525 | - |
| TONS LIGHTOLOGY INC. | Share ownership / ANDERSEN LIGHTING CO., LTD | None | Financial assets at fair value through other comprehensive income-non-current | - | 510 | 19.00 | 510 | Note 2 |
| TONS LIGHTOLOGY INC. | Share ownership / HEP TECH CO., LTD. | None | Financial assets at fair value through other comprehensive income-non-current | 3,860,760 | 58,490 | 12.73 | 58,490 | - |
| 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 | 66,215 | 4.59 | 66,215 | - |
| HONG BO INVESTMENT CO., LTD. | Share ownership / HEP TECH CO., LTD. | None | Financial assets at fair value through profit or loss - current | 2,102,000 | 31,845 | 6.93 | 31,845 | - |
| HONG BO INVESTMENT CO., LTD. | Share ownership / Strong LED Lighting System (Cayman) Co., Ltd. | None | Financial assets at fair value through profit or loss - current | 3,091,000 | 120,395 | 8.35 | 120,395 | - |
| | | | | Total | 285,582 | Total | 285,582 | |

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

Year ended December 31, 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) |
|-------------------------|--------------------------|------------------------------------|-------------------|------------|---------------------------------------|---|-------------|---------|-------------------------------------|---|-------------------|
| | | | | | | Unit price | Credit term | Balance | | | |
| TONS LIGHTOLOGY INC. | TONS LIGHTING CO., LTD. | Subsidiary of the Company | Purchases | \$ 763,031 | 97 | 30-60 days after purchases of goods | Note 1 | Note 2 | (\$ 213,941) | (97) | Note 4 |
| TONS LIGHTING CO., LTD. | TITAN LIGHTING CO., LTD. | Same ultimate parent | Purchases | 728,458 | 100 | 30-60 days after purchases of goods | Note 3 | Note 2 | (180,426) | (100) | 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

Year ended December 31, 2018

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

| Creditor | Counterparty | Relationship with the counterparty | Balance as at December 31, 2018 (Note 2) | Turnover rate | Overdue receivables | | Amount collected subsequent to the balance sheet date (Note 1) | Allowance for doubtful accounts |
|--------------------------|-------------------------|------------------------------------|--|---------------|---------------------|--------------|--|---------------------------------|
| | | | | | Amount | Action taken | | |
| TONS LIGHTING CO., LTD. | TONS LIGHTOLOGY INC. | Parent company | Accounts receivable \$213,941 | 3.67 | \$ | \$ | 122,066 | \$ |
| TITAN LIGHTING CO., LTD. | TONS LIGHTING CO., LTD. | Same ultimate parent | Accounts receivable \$180,426 | 4.07 | - | - | 124,070 | - |

Note 1: Subsequent collection is the amount of receivables collected from related parties as of February 26, 2019.

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

Year ended December 31, 2018

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | General ledger account | Transaction | | Percentage of consolidated total operating revenues or total assets (Note 3) |
|--------------------|-------------------------|--------------------------|--------------------------|------------------------|--------------------|--|--|
| | | | | | Amount (Note 4) | Transaction terms | |
| 0 | TONS LIGHTOLOGY INC. | TONS LIGHTING CO., LTD. | (1) | (Purchases) | (\$ 763,031) | 30-60 days after purchases of goods | 72.46 |
| 0 | TONS LIGHTOLOGY INC. | TONS LIGHTING CO., LTD. | (1) | (Accounts payable) | (213,941) | 30-60 days after purchases of goods | 14.57 |
| 1 | TONS LIGHTING CO., LTD. | TITAN LIGHTING CO., LTD. | (3) | (Purchases) | (728,458) | 30-60 days after purchases of goods | 69.18 |
| 1 | TONS LIGHTING CO., LTD. | TITAN LIGHTING CO., LTD. | (3) | (Accounts payable) | (180,426) | 30-60 days after purchases of goods | 12.29 |

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 LIGHTLOGY INC. AND SUBSIDIARIES

Information on investees
Year ended December 31, 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 December 31, 2018 | | Book value | Net profit (loss) of the investee for the year ended December 31, 2018 | Investment income (loss) recognised by the Company for the year ended December 31, 2018 | Footnote |
|---------------------------|-------------------------------|------------------------|--|---------------------------|------------|-------------------------------------|---------------|------------|--|---|---------------------------------|
| | | | | 2018 | 2017 | Number of shares | Ownership (%) | | | | |
| TONS LIGHTLOGY INC. | WORLD EXTEND HOLDING INC. | Samoa | Reinvestment company | \$ 545,972 | \$ 545,972 | 18,333,402 | 100 | \$ 819,712 | \$ 33,644 | \$ 33,749 | Subsidiary (Note 1, 3) |
| TONS LIGHTLOGY INC. | HONG BO INVESTMENT CO., LTD. | Taiwan | Reinvestment company | 140,000 | 125,000 | 14,000,000 | 100 | 163,076 | 19,471 | 19,471 | 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 | 12,235 | 5,866 | - | Indirect subsidiary (Note 2, 3) |
| WORLD EXTEND HOLDING INC. | LUMINOUS HOLDING INCORPORATED | Samoa | Reinvestment company | 100,590 | 100,590 | 3,250,000 | 100 | 90,236 | (6,962) | - | Indirect subsidiary (Note 2, 3) |
| WORLD EXTEND HOLDING INC. | GREATSUPER TECHNOLOGY LIMITED | British Virgin Islands | Reinvestment company | 500,917 | 500,917 | 27,666 | 100 | 701,542 | 34,756 | - | 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
Year ended December 31, 2018

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method | Amount remitted from Taiwan to | | | Net income of investee as of December 31, 2018 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognised by the Company for the year ended December 31, 2018 | Book value of investments in Mainland China as of December 31, 2018 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018 | Footnote |
|--|--|-----------------|-------------------|--|---|--|--|--|---|---|---|----------|
| | | | | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 | Amount remitted back to Taiwan for the year ended December 31, 2018 | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 | | | | | | |
| TITAN LIGHTING CO., LTD. | Design of products, manufacturing of hardware parts, and production and trading of lamps and accessories | \$ 376,336 | (2) | \$ - | \$ - | \$ 368,845 | 100.00 | \$ 24,882 | \$ 582,960 | \$ 66,296 | Note 1.2,3,4,5 | |
| ZHONGSHAN TONS LIGHTING CO., LTD. | Design of products, manufacturing of hardware parts, and production and trading of lamps and accessories | 110,574 | (2) | - | - | 110,585 | 100.00 | 10,309 | 90,331 | - | Note 1.2,4,5 | |
| SHANGHAI TONS LIGHTLOGY CO., LTD. | Design of products, manufacturing of hardware parts, and production and trading of lamps and accessories | 98,288 | (2) | - | - | 42,842 | 100.00 | (6,953) | 88,745 | - | Note 1.2,4,5,6 | |
| Shanghai Grand Canyon LED Lighting Systems Co., Ltd. | Research, development, production and sales of LED semiconductor application and other products | 33,356 | (2) | - | - | 901 | 12.59 | - | - | - | Note 1.7 | |
| Grand Canyon (Su Zhou) Co., Ltd. | Research, development, production and sales of LED semiconductor application and other products | 356,487 | (2) | - | - | 43,299 | 12.59 | - | - | 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. (Titan 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 year ended December 31, 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 Titan 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 December 31, 2018.

Note 5: Accumulated investment amount in Titan 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 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 December 31, 2018 (Note 1) | 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 Mainland China (Note 4) |
|----------------------|---|--|---|
| TONS LIGHTOLOGY INC. | \$ 566,472 | \$ 638,750 | \$ 716,340 |

Note 1: Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 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 December 31, 2018.

Note 3: The approved USD \$19,357 thousand includes USD \$1,800 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.