

TONS LIGHTOLOGY INC.
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 2018 AND 2017

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

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

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2018 and 2017, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

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 Parent Company Only Financial Statements* section of our report. We are independent of the Company 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 parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only 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 Company’s parent company only financial statements of the current period are stated as follows:

Timing of recognising sales revenue

Description

Please refer to Note 4(24) for a description of accounting policy on sales revenue. Please refer to Note 6(14) for details of sales revenue.

The Company is primarily engaged in manufacturing and trading lighting equipment and lamps and the transaction mode is the 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 shipment 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

The Company is primarily engaged in manufacturing and trading lighting equipment and lamps and the transaction mode is the Company receives orders and transfers the orders to the subsidiaries for manufacturing and delivering. Considering that the inventory valuation policy of the Company's subsidiary (presented as investments accounted for using the equity method) is measured at the lower of cost and net realisable value and 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, we thus identified inventory valuation of the subsidiary (presented as investments

accounted for using the equity method) 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 Company 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 inventory internal control.
- C. Obtained the Company inventory aging report and verified dates of movements with supporting documents. Ensured the proper categorisation of inventory aging report in accordance with the Company'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.

Responsibilities of management and those charged with governance for parent company only financial statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company'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 Company 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 Company's financial reporting process.

Auditor's responsibilities for the audit of the parent company only financial statements

Our objectives are to obtain reasonable assurance about whether the parent company only 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 parent company only 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 parent company only 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 Company'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 Company'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 parent company only 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 Company to cease to continue as a going concern.
- E. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

F. Obtain sufficient appropriate audit evidence regarding the parent company only financial information of the entities or business activities within the Company to express an opinion on the parent company only 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 parent company only 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 parent company only 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 parent company only 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.
PARENT COMPANY ONLY 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) | \$ 178,714 | 12 | \$ 158,494 | 11 |
| 1150 | Notes receivable, net | 6(2) | 1,403 | - | 1,824 | - |
| 1170 | Accounts receivable, net | 6(2) | 145,236 | 10 | 149,395 | 10 |
| 1180 | Accounts receivable - related parties | 6(2) and 7 | - | - | 136 | - |
| 1200 | Other receivables | | 405 | - | 1,453 | - |
| 130X | Inventories | 6(3) | 9,665 | 1 | 9,715 | 1 |
| 1410 | Prepayments | | 3,991 | - | 4,765 | - |
| 1470 | Other current assets | | 97 | - | 91 | - |
| 11XX | Current Assets | | <u>339,511</u> | <u>23</u> | <u>325,873</u> | <u>22</u> |
| Non-current assets | | | | | | |
| 1517 | Non-current financial assets at fair value through other comprehensive income | 6(4) | 133,342 | 9 | - | - |
| 1523 | Available-for-sale financial assets - noncurrent | 12(4) | - | - | 127,576 | 9 |
| 1550 | Investments accounted for under equity method | 6(5) | 982,788 | 66 | 1,006,685 | 68 |
| 1600 | Property, plant and equipment | 6(6) | 3,435 | - | 5,198 | 1 |
| 1780 | Intangible assets | | 3,499 | - | 4,923 | - |
| 1840 | Deferred income tax assets | 6(19) | 5,227 | - | 3,510 | - |
| 1990 | Other non-current assets, others | 8 | 30,238 | 2 | 1,805 | - |
| 15XX | Non-current assets | | <u>1,158,529</u> | <u>77</u> | <u>1,149,697</u> | <u>78</u> |
| 1XXX | Total assets | | <u>\$ 1,498,040</u> | <u>100</u> | <u>\$ 1,475,570</u> | <u>100</u> |

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TONS LIGHTOLOGY INC.
PARENT COMPANY ONLY 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 | | | | | |
| 2150 | Notes payable | \$ - | - | \$ 59 | - |
| 2170 | Accounts payable | 1,815 | - | 5,173 | - |
| 2180 | Accounts payable - related parties 7 | 218,911 | 15 | 204,963 | 14 |
| 2200 | Other payables | 29,183 | 2 | 33,282 | 2 |
| 2220 | Other payables - related parties 7 | 19,696 | 1 | 13,144 | 1 |
| 2230 | Current income tax liabilities 6(19) | 13,755 | 1 | 5,423 | - |
| 2300 | Other current liabilities 6(14) | 5,997 | - | 10,204 | 1 |
| 21XX | Current Liabilities | <u>289,357</u> | <u>19</u> | <u>272,248</u> | <u>18</u> |
| Non-current liabilities | | | | | |
| 2550 | Provisions for liabilities - noncurrent 6(9) | 341 | - | 557 | - |
| 2570 | Deferred income tax liabilities 6(19) | 2,488 | - | 9,532 | 1 |
| 2600 | Net defined benefit liability - noncurrent 6(7) | 11,954 | 1 | 11,619 | 1 |
| 25XX | Non-current liabilities | <u>14,783</u> | <u>1</u> | <u>21,708</u> | <u>2</u> |
| 2XXX | Total Liabilities | <u>304,140</u> | <u>20</u> | <u>293,956</u> | <u>20</u> |
| Equity | | | | | |
| Share capital | | | | | |
| 3110 | Share capital - common stock 6(10) | 399,628 | 27 | 398,118 | 27 |
| 3140 | Advance receipts for share capital 6(10) | - | - | 537 | - |
| Capital surplus | | | | | |
| 3200 | Capital surplus 6(11) | 505,825 | 33 | 502,257 | 34 |
| Retained earnings | | | | | |
| 3310 | Legal reserve 6(12) | 74,663 | 5 | 62,555 | 4 |
| 3320 | Special reserve 6(12) | 38,429 | 3 | 38,429 | 3 |
| 3350 | Unappropriated retained earnings 6(12) | 191,466 | 13 | 189,770 | 13 |
| Other equity interest | | | | | |
| 3400 | Other equity interest 6(13) | (16,111) | (1) | (10,052) | (1) |
| 3XXX | Total equity | <u>1,193,900</u> | <u>80</u> | <u>1,181,614</u> | <u>80</u> |
| Significant contingent liabilities and unrecognised contract commitments | | | | | |
| Significant events after the balance sheet date | | | | | |
| 3X2X | Total liabilities and equity | <u>\$ 1,498,040</u> | <u>100</u> | <u>\$ 1,475,570</u> | <u>100</u> |

The accompanying notes are an integral part of these parent company only financial statements.

TONS LIGHTOLOGY INC.
PARENT COMPANY ONLY 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(14) | \$ 956,000 | 100 | \$ 933,157 | 100 |
| 5000 | Operating costs | 6(3) | (795,694) | (83) | (759,610) | (81) |
| 5900 | Net operating margin | | 160,306 | 17 | 173,547 | 19 |
| | Operating expenses | | | | | |
| 6100 | Selling expenses | | (40,431) | (4) | (38,923) | (4) |
| 6200 | General and administrative expenses | | (50,212) | (5) | (49,822) | (5) |
| 6300 | Research and development expenses | | (6,069) | (1) | (6,630) | (1) |
| 6000 | Total operating expenses | 6(17)(18) | (96,712) | (10) | (95,375) | (10) |
| 6900 | Operating profit | | 63,594 | 7 | 78,172 | 9 |
| | Non-operating income and expenses | | | | | |
| 7010 | Other income | 6(15) | 7,744 | 1 | 6,272 | - |
| 7020 | Other gains and losses | 6(16) | (823) | - | 8,542 | 1 |
| 7070 | Share of profit of associates and joint ventures accounted for using equity method, net | 6(5) | 53,220 | 5 | 53,486 | 6 |
| 7000 | Total non-operating income and expenses | | 60,141 | 6 | 68,300 | 7 |
| 7900 | Profit before income tax | | 123,735 | 13 | 146,472 | 16 |
| 7950 | Income tax expense | 6(19) | (18,178) | (2) | (25,389) | (3) |
| 8200 | Profit for the year | | \$ 105,557 | 11 | \$ 121,083 | 13 |
| | 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(7) | (\$ 243) | - | \$ 735 | - |
| 8316 | Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income | | 5,766 | 1 | - | - |
| 8349 | Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | 6(19) | 1,135 | - | (125) | - |
| 8310 | Components of other comprehensive income that will not be reclassified to profit or loss | | 6,658 | 1 | 610 | - |
| | Components of other comprehensive income that will be reclassified to profit or loss | | | | | |
| 8361 | Other comprehensive income, before tax, exchange differences on translation | 6(13) | (12,712) | (2) | (12,710) | (2) |
| 8362 | Other comprehensive income, before tax, available-for-sale financial assets | 6(13) | - | - | 6,456 | 1 |
| 8399 | Aggregated income tax relating to components of other comprehensive income | 6(19) | - | - | 1,109 | - |
| 8360 | Components of other comprehensive income that will be reclassified to profit or loss | | (12,712) | (2) | (5,145) | (1) |
| 8300 | Other comprehensive loss for the year | | (\$ 6,054) | (1) | (\$ 4,535) | (1) |
| 8500 | Total comprehensive income for the year | | \$ 99,503 | 10 | \$ 116,548 | 12 |
| | Basic earnings per share | | | | | |
| 9750 | Total basic earnings per share | 6(20) | \$ 2.65 | | \$ 3.04 | |
| | Diluted earnings per share | | | | | |
| 9850 | Total diluted earnings per share | 6(20) | \$ 2.61 | | \$ 3.00 | |

The accompanying notes are an integral part of these parent company only financial statements.

TONS LIGHTOLOGY INC.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| Notes | Share capital | | Capital surplus | | | Retained earnings | | Other equity interest | | | Total equity |
|---|------------------------------|------------------------------------|----------------------------|-------------------------|---------------|-------------------|----------------------------------|--|---|--|--------------|
| | Share capital - common stock | Advance receipts for share capital | Additional paid-in capital | Employee stock warrants | Legal reserve | Special reserve | Unappropriated retained earnings | Financial statements differences of foreign operations | Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income | Unrealized gain or loss on available-for-sale financial assets | |
| 2017 | | | | | | | | | | | |
| Balance at January 1, 2017 | \$ 390,689 | \$ 3,252 | \$ 491,889 | \$ 3,723 | \$ 50,054 | \$ 38,429 | \$ 187,006 | (\$ 23,355) | \$ - | \$ 18,448 | \$ 1,160,135 |
| Profit for the year | - | - | - | - | - | - | 121,083 | - | - | - | 121,083 |
| Other comprehensive income (loss) for the year | - | - | - | - | - | - | 610 | (12,710) | - | 7,565 | (4,535) |
| Total comprehensive income (loss) | - | - | - | - | - | - | 121,693 | (12,710) | - | 7,565 | 116,548 |
| Appropriation and distribution of 2016 retained earnings (Note 1) | - | - | - | - | - | - | (12,501) | - | - | - | - |
| Legal reserve | 3,942 | - | - | - | - | - | (3,942) | - | - | - | - |
| Stock dividends | - | - | - | - | - | - | (102,486) | - | - | - | (102,486) |
| Cash dividends | - | - | - | - | - | - | - | - | - | - | - |
| Share based payment transactions- employee stock options | 3,487 | (2,715) | 6,959 | (314) | - | - | - | - | - | - | 7,417 |
| Balance at December 31, 2017 | \$ 398,118 | \$ 537 | \$ 498,848 | \$ 3,409 | \$ 62,555 | \$ 38,429 | \$ 189,770 | (\$ 36,065) | \$ - | \$ 26,013 | \$ 1,181,614 |
| 2018 | | | | | | | | | | | |
| Balance at January 1, 2018 | \$ 398,118 | \$ 537 | \$ 498,848 | \$ 3,409 | \$ 62,555 | \$ 38,429 | \$ 189,770 | (\$ 36,065) | \$ - | \$ 26,013 | \$ 1,181,614 |
| Effect of retrospective application and retrospective restatement | - | - | - | - | - | - | - | - | 26,013 | (26,013) | - |
| Balance at 1 January after adjustments | 398,118 | 537 | 498,848 | 3,409 | 62,555 | 38,429 | 189,770 | (36,065) | 26,013 | (26,013) | 1,181,614 |
| Profit for the year | - | - | - | - | - | - | 103,557 | - | - | - | 103,557 |
| Other comprehensive income (loss) for the year | - | - | - | - | - | - | 5 | (12,712) | - | - | (6,054) |
| Total comprehensive income (loss) | - | - | - | - | - | - | 103,562 | (12,712) | - | - | 99,503 |
| Appropriation and distribution of 2017 retained earnings (Note 2) | - | - | - | - | - | - | (12,108) | - | - | - | - |
| Legal reserve | - | - | - | - | - | - | (91,758) | - | - | - | (91,758) |
| Cash dividends | - | - | - | - | - | - | - | - | - | - | - |
| Share based payment transactions- employee stock options | 1,510 | (537) | 2,866 | 702 | - | - | - | - | - | - | 4,541 |
| Balance at December 31, 2018 | \$ 399,628 | \$ - | \$ 501,714 | \$ 4,111 | \$ 74,663 | \$ 38,429 | \$ 191,466 | (\$ 48,777) | \$ 32,666 | \$ - | \$ 1,193,900 |

Note 1: 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.
Note 2: 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 parent company only financial statements.

TONS LIGHTOLOGY INC.
PARENT COMPANY ONLY 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 OPERATING ACTIVITIES</u> | | | |
| Profit before tax | | \$ 123,735 | \$ 146,472 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Depreciation | 6(6)(17) | 3,440 | 2,749 |
| Amortisation | 6(17) | 2,581 | 2,038 |
| Expected credit loss/Reversal of provision for bad debt expense | 12(2) | 522 (| 704) |
| Reversal of warranty expense | 6(9) | (216) (| 622) |
| Dividend income | | (2,612) (| 701) |
| Interest income | 6(15) | (4,587) (| 3,953) |
| Wages and salaries-employee stock options | 6(8) | 1,883 | 1,973 |
| Share of profit of subsidiaries, associates and joint ventures accounted for using equity method | 6(5) | (53,220) (| 53,486) |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Notes receivable, net | | 422 | 1,050 |
| Accounts receivable (including related parties), net | | 3,790 (| 5,275) |
| Other receivables | | 1,035 (| 1,056) |
| Inventories | | 51 (| 691) |
| Prepayments | | 778 (| 531) |
| Other current assets | | (6) (| 58) |
| Changes in operating liabilities | | | |
| Notes payable | | (59) | 51 |
| Accounts payable | | (3,357) | 2,863 |
| Accounts payable to related parties | | 13,935 | 1,007 |
| Other payables | | (4,126) | 414 |
| Other payables to related parties | | 6,552 | 6,869 |
| Contract liabilities | | (3,897) (| 955) |
| Other current liabilities | | (312) | 581 |
| Other non-current liabilities | | 91 | 30 |
| Cash inflow generated from operations | | 86,423 | 98,065 |
| Interest received | | 4,599 | 3,945 |
| Dividend received | | 2,612 | 701 |
| Income taxes paid | | (17,472) (| 19,911) |
| Net cash flows from operating activities | | <u>76,162</u> | <u>82,800</u> |

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TONS LIGHTOLOGY INC.
PARENT COMPANY ONLY 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> | | | |
| Decrease in other receivables to related parties | | \$ - | \$ 28,014 |
| Acquisition of investments accounted for using equity method | | - | (77,842) |
| Acquisition of property, plant and equipment | 6(6)(22) | (1,677) | (4,583) |
| Acquisition of intangible deposits | | (1,157) | (5,550) |
| Increase in refundable deposits | | (28,424) | (269) |
| Dividend income | | 64,240 | - |
| Net cash flows from (used in) investing activities | | 32,982 | (60,230) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | |
| Decrease in guarantee deposits received | | - | (583) |
| Cash dividends paid | 6(12) | (91,758) | (102,486) |
| Exercise of employee share options | | 2,658 | 5,444 |
| Net cash flows used in financing activities | | (89,100) | (97,625) |
| Effect of exchange rate changes on cash and cash equivalents | | 176 | (390) |
| Net increase (decrease) in cash and cash equivalents | | 20,220 | (75,445) |
| Cash and cash equivalents at beginning of year | | 158,494 | 233,939 |
| Cash and cash equivalents at end of year | | \$ 178,714 | \$ 158,494 |

The accompanying notes are an integral part of these parent company only financial statements.

TONS LIGHTOLOGY INC.
NOTES TO THE PARENT COMPANY ONLY 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 is primarily engaged in manufacturing and trading of lighting equipment and lamps.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These parent company only 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 Company’s financial

condition and financial performance based on the Company's assessment.

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

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

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

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company'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 Company 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 Company may increase 'right-of-use asset' and lease liability by \$7,047 and \$7,047, 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:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|--|
| 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 Company's financial condition and financial performance based on the Company'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 parent company only financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The parent company only financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

(2) Basis of preparation

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

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

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company 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) Foreign currency translation

Items included in the parent company only financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The parent company only financial statements are presented in New Taiwan dollars (NTD), which is the Company's functional and 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 company 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.

(4) 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.

(5) 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.

(6) 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 Company 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 Company measures the financial assets at fair value plus transaction costs. The Company 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 Company and the amount of the dividend can be measured reliably.

(7) Accounts and notes receivable

A. Accounts and notes receivable entitle the Company 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.

(8) Impairment of financial assets

At each reporting date, for accounts receivable, the Company 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 Company recognises the impairment provision for lifetime ECLs.

(9) Derecognition of financial assets

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

(10) 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.

(11) Investments accounted for using equity method - subsidiaries

- A. The Company's share of its subsidiaries' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary together with any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the subsidiary.
- B. Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. In the case that an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Company's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

(12) 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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each 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:

| | | |
|--------------------------|---|-----------|
| Machinery and equipment | 3 | years |
| Transportation equipment | 5 | years |
| Office equipment | 3 | ~ 5 years |
| Leasehold improvements | 2 | ~ 3 years |
| Other assets | 3 | ~ 5 years |

(13) 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.

(14) Intangible assets

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

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

(15) Impairment of non-financial assets

The Company 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.

(16) 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.

(17) 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.

(18) Provisions

Provisions (including warranties) are recognised when the Company 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.

(19) 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 Company 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 Company 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 Company'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 Company 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 Company calculates the number of shares based on the fair value per share estimated using a valuation technique specified in IFRS 2, 'Share-based Payment'.

(20) 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.

(21) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the Company operates and generates 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 parent company only 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 Company 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.

(22) 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.

(23) 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.

(24) Revenue recognition

Sales of goods

- A. The Company 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 Company 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 Company

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 Company's obligation to provide standard warranty terms is recognised as a provision.

D. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company'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 Company'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 Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company 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 \$9,665 thousand.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---------------------------------------|--------------------------|--------------------------|
| Cash on hand | \$ 100 | \$ 104 |
| Checking accounts and demand deposits | 21,006 | 26,250 |
| Time deposits | 157,608 | 132,140 |
| | <u>\$ 178,714</u> | <u>\$ 158,494</u> |

A. The Company 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 Company has no cash and cash equivalents pledged to others.

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

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Notes receivable | \$ 1,403 | \$ 1,824 |
| Accounts receivable | \$ 145,869 | \$ 149,506 |
| Accounts receivable due from related parties | - | 136 |
| Less: Allowance for bad debts | (633) | (111) |
| | <u>\$ 145,236</u> | <u>\$ 149,531</u> |

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

| | <u>December 31, 2018</u> | | <u>December 31, 2017</u> | |
|----------------|--------------------------|----------------------------|--------------------------|----------------------------|
| | <u>Notes receivable</u> | <u>Accounts receivable</u> | <u>Notes receivable</u> | <u>Accounts receivable</u> |
| Not past due | \$ 1,252 | \$ 126,562 | \$ 1,588 | \$ 124,761 |
| Up to 30 days | 151 | 14,347 | 236 | 24,145 |
| 31 to 120 days | - | 4,169 | - | 489 |
| over 120 days | - | 158 | - | - |
| | <u>\$ 1,403</u> | <u>\$ 145,236</u> | <u>\$ 1,824</u> | <u>\$ 149,395</u> |

The above ageing analysis was based on past due date.

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

C. The Company did not hold any collateral.

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(3) Inventories

| | December 31, 2018 | | |
|------------------|-------------------|--|-----------------|
| | Cost | Allowance for slow-moving inventories and valuation loss | Book value |
| Goods | \$ 15,087 | (\$ 6,451) | \$ 8,636 |
| Raw materials | 1,369 | (949) | 420 |
| Finished goods | 39 | (39) | - |
| Goods in transit | 609 | - | 609 |
| | <u>\$ 17,104</u> | <u>(\$ 7,439)</u> | <u>\$ 9,665</u> |

| | December 31, 2017 | | |
|----------------|-------------------|--|-----------------|
| | Cost | Allowance for slow-moving inventories and valuation loss | Book value |
| Goods | \$ 15,196 | (\$ 6,455) | \$ 8,741 |
| Raw materials | 1,589 | (615) | 974 |
| Finished goods | 39 | (39) | - |
| | <u>\$ 16,824</u> | <u>(\$ 7,109)</u> | <u>\$ 9,715</u> |

The cost of inventories recognised as expense for the year:

| | Years ended December 31 | |
|--|-------------------------|-------------------|
| | 2018 | 2017 |
| Cost and expense of goods sold | \$ 795,553 | \$ 758,501 |
| Allowance for slow-moving inventories and valuation loss | 330 | 279 |
| Gain from sale of scraps | - (3) | |
| Loss on scrapping inventory | - | 614 |
| Reversal of provision for warranty expenses | (189) | 219 |
| | <u>\$ 795,694</u> | <u>\$ 759,610</u> |

(4) 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>\$</u> | <u>133,342</u> |

A. The Company 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:

| <u>Equity instruments at fair value through other comprehensive income</u> | <u>Year ended December 31, 2018</u> |
|--|---|
| Fair value change recognised in other comprehensive income | <u>\$ 6,653</u> |

C. The Company 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).

(5) Investments accounted for using equity method

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|------------------------------|--------------------------|--------------------------|
| WORLD EXTEND HOLDING INC. | \$ 819,712 | \$ 845,641 |
| HONG BO INVESTMENT CO., LTD. | <u>163,076</u> | <u>161,044</u> |
| | <u>\$ 982,788</u> | <u>\$ 1,006,685</u> |

A. Subsidiaries

(a) The information regarding the Company's subsidiaries is provided in Note 4(3) in the consolidated financial statements for the year ended December 31, 2018.

(b) The Company's share of profit of subsidiaries accounted for using equity method for the years ended December 31, 2018 and 2017 amounted to \$53,220 thousand and \$53,486 thousand, respectively.

B. For the Group's investment flexibility, the Board of Directors during its meeting on July 28, 2017 and December 23, 2016, resolved to increase capital by \$20 million and \$15 million, respectively, in the subsidiary-HONG BO. As of December 31, 2018, the registration of abovementioned capital increase was completed on May 19, 2017 and October 16, 2017, respectively.

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(6) Property, plant and equipment

2018

| | At January 1 | Additions | Disposals | Transfers | Net exchange differences | At December 31 |
|--------------------------|-------------------|-------------------|-----------------|-------------|--------------------------|-------------------|
| Cost | | | | | | |
| Machinery and equipment | \$ 358 | \$ - | \$ 93 | \$ - | \$ - | \$ 265 |
| Transportation equipment | 1,670 | - | - | - | - | 1,670 |
| Office equipment | 248 | - | (10) | - | 4 | 242 |
| Leasehold improvements | 6,675 | 1,333 | (2,950) | 174 | 5 | 5,237 |
| Other facilities | 1,224 | 344 | (75) | - | 4 | 1,497 |
| Construction in progress | 177 | - | - | (177) | - | - |
| | <u>\$ 10,352</u> | <u>\$ 1,677</u> | <u>\$ 3,128</u> | <u>\$ 3</u> | <u>\$ 13</u> | <u>\$ 8,911</u> |
| Accumulated depreciation | | | | | | |
| Machinery and equipment | (\$ 243) | (\$ 115) | \$ 93 | \$ - | \$ - | (\$ 265) |
| Transportation equipment | (929) | (334) | - | - | - | (1,263) |
| Office equipment | (120) | (70) | 10 | - | (3) | (183) |
| Leasehold improvements | (3,329) | (2,526) | 2,950 | - | (4) | (2,909) |
| Other facilities | (533) | (395) | 75 | - | (3) | (856) |
| | <u>(\$ 5,154)</u> | <u>(\$ 3,440)</u> | <u>\$ 3,128</u> | <u>\$ -</u> | <u>(\$ 10)</u> | <u>(\$ 5,476)</u> |
| | <u>\$ 5,198</u> | | | | | <u>\$ 3,435</u> |

2017

| | At January 1 | Additions | Disposals | Transfers | Net exchange differences | At December 31 |
|---------------------------------|-------------------|-------------------|-----------------|-------------|--------------------------|-------------------|
| Cost | | | | | | |
| Machinery and equipment | \$ 358 | \$ - | \$ - | \$ - | \$ - | \$ 358 |
| Transportation equipment | 1,670 | - | - | - | - | 1,670 |
| Office equipment | 178 | 82 | - | - | 12) | 248 |
| Leasehold improvements | 2,644 | 343 | - | 3,730 | (42) | 6,675 |
| Other facilities | 1,504 | 415 | (684) | - | (11) | 1,224 |
| Construction in progress | 177 | 3,730 | - | (3,730) | - | 177 |
| | <u>\$ 6,531</u> | <u>\$ 4,570</u> | <u>(\$ 684)</u> | <u>\$ -</u> | <u>(\$ 65)</u> | <u>\$ 10,352</u> |
| Accumulated depreciation | | | | | | |
| Machinery and equipment | (\$ 124) | \$ 119) | \$ - | \$ - | \$ - | (\$ 243) |
| Transportation equipment | (595) | (334) | - | - | - | (929) |
| Office equipment | (58) | (67) | - | - | 5 | (120) |
| Leasehold improvements | (1,461) | (1,891) | - | - | 23 | (3,329) |
| Other facilities | (883) | (338) | 684 | - | 4 | (533) |
| | <u>(\$ 3,121)</u> | <u>(\$ 2,749)</u> | <u>\$ 684</u> | <u>\$ -</u> | <u>\$ 32</u> | <u>(\$ 5,154)</u> |
| | <u>\$ 3,410</u> | | | | | <u>\$ 5,198</u> |

A. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalisation: None for the years ended December 31, 2018 and 2017.

B. Information about the property, plant and equipment that were pledged to others as collaterals None for the years ended December 31, 2018 and 2017.

(7) Pensions

A. (a) The Company has 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 obligations</u> | <u>Fair value of plan assets</u> | <u>Present value of defined benefit obligations</u> |
|--|---|----------------------------------|---|
| Year ended December 31, 2018 | | | |
| Balance at January 1 | \$ 14,278 | (\$ 3,905) | \$ 10,373 |
| Interest income | <u>196</u> | <u>(54)</u> | <u>142</u> |
| | <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 | <u>(235)</u> | <u>(105)</u> | <u>(340)</u> |
| | <u>349</u> | <u>(105)</u> | <u>244</u> |
| Pension fund contribution | <u>-</u> | <u>(\$ 52)</u> | <u>(\$ 52)</u> |
| Balance at December 31 | <u>\$ 14,823</u> | <u>(\$ 4,116)</u> | <u>\$ 10,707</u> |

| | Present value of defined benefit obligations | Fair value of plan assets | Present value of defined benefit obligations |
|--|--|------------------------------|--|
| 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 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 | <u>1.375%</u> | <u>1.125%</u> |
| Future salary increases | <u>3.00%</u> | <u>3.00%</u> |

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 Company 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 has a defined contribution plan in accordance with the local regulations, and contributions to endowment insurance and pension reserve are based on the employees' salaries and wages.
- (c) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017, were \$1,933 thousand and \$2,029 thousand, respectively.

(8) Share-based payment

- A. For the years ended December 31, 2018 and 2017, the Company'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 | <u>600</u> | 29.90 | - | - |
| Options outstanding at December 31 | <u>600</u> | 29.90 | <u>-</u> | - |
| Options exercisable at December 31 | <u>-</u> | | <u>-</u> | |

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 |

(9) Provisions – non-current

| | Warranty provisions | |
|-------------------------|---------------------|------|
| | 2018 | |
| At January 1 | \$ | 557 |
| Unused amounts reversed | (| 216) |
| At December 31 | \$ | 341 |

Analysis of total provisions:

| | December 31, 2018 | December 31, 2017 |
|-------------|-------------------|-------------------|
| Non-current | \$ 341 | \$ 557 |

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

(10) Share capital

- As of December 31, 2018, the Company's authorised 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.
- 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 in dollars 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.
- 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 in dollars 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.
- 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 in dollars, 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> |

(11) 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 Act 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.

(12) 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 been approved at the meeting of shareholders.

- E. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(18).

(13) 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> |

(14) Operating revenue

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services at a point in time in the following major geographical regions:

| | Year ended December 31, 2018 | | | | | | |
|--|------------------------------|------------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| | Lamps | | | | Service revenue | | Total |
| | Asia | Europe | America | Others | Asia | America | |
| Revenue from external customer contracts | \$145,346 | \$704,715 | \$ 4,226 | \$75,453 | \$ - | \$ - | \$ 929,740 |
| Inter-segment revenue | <u>294</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>25,966</u> | <u>26,260</u> |
| Total segment revenue | <u>\$145,640</u> | <u>\$704,715</u> | <u>\$ 4,226</u> | <u>\$75,453</u> | <u>\$ -</u> | <u>\$25,966</u> | <u>\$ 956,000</u> |
| Timing of revenue recognition | | | | | | | |
| At a point in time | <u>\$145,640</u> | <u>\$704,715</u> | <u>\$ 4,226</u> | <u>\$75,453</u> | <u>\$ -</u> | <u>\$25,966</u> | <u>\$ 956,000</u> |

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

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

| | December 31, 2018 |
|-----------------------|-------------------|
| Contract liabilities: | |
| Contract liabilities | <u>\$ 5,514</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>\$ 9,263</u> |

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

(15) Other income

| | Years ended December 31, | |
|------------------------------------|--------------------------|-----------------|
| | 2018 | 2017 |
| Interest income: | | |
| Interest income from bank deposits | \$ 4,587 | \$ 3,953 |
| Other income-others | 3,157 | 2,319 |
| | <u>\$ 7,744</u> | <u>\$ 6,272</u> |

(16) Other gains and losses

| | Years ended December 31, | |
|-----------------------------------|--------------------------|-----------------|
| | 2018 | 2017 |
| Net currency exchange gain (loss) | (\$ 779) | \$ 9,687 |
| Other losses | (44) | (1,145) |
| | <u>(\$ 823)</u> | <u>\$ 8,542</u> |

(17) Expenses by nature

| | Years ended December 31, | |
|--|--------------------------|-----------|
| | 2018 | 2017 |
| Employee benefit expense | \$ 65,837 | \$ 68,319 |
| Depreciation charges on property, plant and equipment | 3,440 | 2,749 |
| Amortisation charges | 2,581 | 2,038 |

(18) Employee benefit expense

| | Years ended December 31, | |
|----------------------------------|--------------------------|------------------|
| | 2018 | 2017 |
| Wages and salaries | \$ 52,861 | \$ 55,388 |
| Labour and health insurance fees | 3,741 | 3,615 |
| Pension costs | 2,075 | 2,153 |
| Directors' remunerations | 3,954 | 3,794 |
| Other employee benefit expense | 3,206 | 3,369 |
| | <u>\$ 65,837</u> | <u>\$ 68,319</u> |

Note: For the years ended December 31, 2018 and 2017, the Company had 54 and 56 employees, respectively, and 5 directors for both years.

- 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.

(19) Income tax

A. Income tax expense

(a) Components of income tax expense:

| | Years ended December 31, | |
|---|--------------------------|------------------|
| | 2018 | 2017 |
| Current tax: | | |
| Current tax on profits for the year | \$ 24,021 | \$ 14,147 |
| Tax on undistributed surplus earnings | 1,783 | 556 |
| Prior year income tax underestimation | - | 14 |
| Total current tax | 25,804 | 14,717 |
| Deferred tax: | | |
| Effect of taxation law amendments | (388) | - |
| Origination and reversal of temporary differences | (7,238) | 10,672 |
| Income tax expense | <u>\$ 18,178</u> | <u>\$ 25,389</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 | \$ 24,746 | \$ 26,252 |
| Expenses disallowed by tax regulation | (7,809) | (1,433) |
| Tax exempt income by tax regulation | (154) | - |
| Prior year income tax underestimation | - | 14 |
| Effect from changes in tax regulation | (388) | - |
| Tax on undistributed surplus earnings | 1,783 | 556 |
| Income tax expense | <u>\$ 18,178</u> | <u>\$ 25,389</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 | | | |
|--|------------|----------------|----------------------|-------------|
| | | Recognised in | Recognised in other | |
| | January 1 | profit or loss | 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 | | | |
|---|-----------|----------------|----------------------|-------------|
| | | Recognised in | Recognised in other | |
| | January 1 | profit or loss | 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 | | | |
|---|------------------|---|---|--------------------|
| | <u>January 1</u> | <u>Recognised in profit or loss</u> | <u>Recognised in other comprehensive income</u> | <u>December 31</u> |
| -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) |
| | <u>\$ 3,666</u> | <u>(\$ 10,672)</u> | <u>\$ 984</u> | <u>(\$ 6,022)</u> |

- 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 Company has assessed the impact of the change in income tax rate.

(20) Earnings per share

| | 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 for the year | \$ 105,557 | 39,895 | \$ 2.65 |
| <u>Diluted earnings per share</u> | | | |
| Profit for the year | 105,557 | 39,895 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| - Employees' compensation | - | 352 | |
| - Employee stock options | - | 145 | |
| Profit plus assumed conversion of all dilutive potential ordinary shares | <u>\$ 105,557</u> | <u>40,392</u> | <u>\$ 2.61</u> |

| | 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 for the year | \$ 121,083 | 39,796 | \$ 3.04 |
| <u>Diluted earnings per share</u> | | | |
| Profit for the year | 121,083 | 39,796 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| - Employees' compensation | - | 425 | |
| - Employee stock options | - | 110 | |
| Profit plus assumed conversion of all dilutive potential ordinary shares | \$ 121,083 | 40,331 | \$ 3.00 |

(21) Operating leases

The Company 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. Some leases are charged extra rents following the changes of local price indexes. The Company recognised rental expenses of \$7,672 thousand and \$7,607 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 | \$ 7,127 | \$ 7,571 |
| Later than one year but not later than five years | - | 7,099 |
| | \$ 7,127 | \$ 14,670 |

(22) Supplemental cash flow information

Investing activities with partial cash payments:

| | Years ended December 31, | |
|--|--------------------------|----------|
| | 2018 | 2017 |
| Purchase of property, plant and equipment | \$ 1,677 | \$ 4,570 |
| Add: Opening balance of payable on equipment | - | 13 |
| Cash paid during the year | \$ 1,677 | \$ 4,583 |

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

| Names of related parties | Relationship with the Company |
|--|-------------------------------|
| WORLD EXTEND HOLDING INC. (WORLD EXTEND) | Subsidiary of the Company |
| LUMINOUS HOLDING INCORPORATED (LUMINOUS) | Subsidiary of the Company |
| TONS LIGHTING CO., LTD. (TL) | Subsidiary of the Company |
| GREATSUPER TECHNOLOGY LIMITED (GS) | Subsidiary of the Company |
| TITAN LIGHTING CO., LTD. (TITAN) | Subsidiary of the Company |
| ZHONGSHAN TONS LIGHTING CO., LTD. (ZHONGSHAN TONS) | Subsidiary of the Company |
| HONG BO INVESTMENT CO., LTD. (HONG BO) | Subsidiary of the Company |
| SHANGHAI TONS LIGHTOLOGY CO., LTD. (SHANGHAI TONS) | Subsidiary of the Company |

(2) Significant related party transactions

A. Operating revenue

| | Years ended December 31, | |
|--------------------|--------------------------|------------------|
| | 2018 | 2017 |
| Sales of goods: | | |
| -Subsidiaries | \$ 294 | \$ 615 |
| Sales of services: | | |
| -TL | 25,967 | 29,049 |
| | <u>\$ 26,261</u> | <u>\$ 29,664</u> |

Revenues arising from sales of goods are mainly purchases of components on behalf of the above related parties and the transaction prices are based on the original purchase prices plus certain profit margin. The credit term is 30~60 days after the shipment of goods and payments are collected according to the capital needs of the Company. There is no comparison for these transactions as the Company does not have similar products sold to the third parties.

Revenues arising from sales of services are consultation services, such as production management and technology research and development, the Company renders to the subsidiaries. The transaction prices are based on the actual cost plus certain profit margin and payment is collected according to the capital needs of the Company.

B. Purchases

| | Years ended December 31, | |
|---------------------|--------------------------|-------------------|
| | 2018 | 2017 |
| Purchases of goods: | | |
| -TL | \$ 763,031 | \$ 735,155 |
| -Others | 20,242 | 9,878 |
| | <u>\$ 783,273</u> | <u>\$ 745,033</u> |

(a) Purchase transactions between the Company and subsidiaries are mainly consists of the Company's purchases of lamps and related products from the indirect subsidiaries in Mainland China through the subsidiaries. Transaction amount is based on the transfer pricing policy of Tons Lightology Inc. The credit term is 30~60 days after the purchases and payments are made according to the capital needs of the subsidiaries. There is no comparison for these transactions as the Company does not purchase similar products from the suppliers.

(b) To meet the operational needs, the Company directly (or indirectly) sold raw materials

amounting to \$12,714 thousand and \$22,573 thousand to the indirect subsidiaries in Mainland China. The processed goods would then be sold back to the Company and such transactions were not recognised as the Company's sales and purchase for the years ended December 31, 2018 and 2017. The amounts were eliminated in the Company's parent company only financial statements.

C. Receivables from related parties

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|----------------------|--------------------------|--------------------------|
| Accounts receivable: | | |
| -Subsidiaries | \$ - | \$ 136 |

D. Payables to related parties

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|-------------------|--------------------------|--------------------------|
| Accounts payable: | | |
| -TL | \$ 213,941 | \$ 201,876 |
| -Others | 4,970 | 3,087 |
| | <u>\$ 218,911</u> | <u>\$ 204,963</u> |

The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase. The payables bear no interest.

E. Other payables

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|------------------------------------|--------------------------|--------------------------|
| Other payables to related parties: | | |
| -Subsidiaries | \$ 19,696 | \$ 13,144 |

F. Loans to /from related parties

(a) Interest income

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--------------|--------------------------|--------------------------|
| Subsidiaries | \$ - | \$ 186 |

The principal and interest regarding loans to subsidiaries are repayable over a year. The Board of Directors approved to extend the repayment and decreased the interest rate from 2.5% to 1.9%, further decreased the interest to 1.25% and extend the repayment and increased the interest from 1.25% to 1.65% on April 30, 2015, November 3, 2015 and April 29, 2016, respectively.

G. Endorsements and guarantees provided to related parties

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--------------|--------------------------|--------------------------|
| Subsidiaries | USD 0 thousand | USD 1,500 thousand |

(3) Key management compensation

| | <u>Years ended December 31,</u> | |
|---|---------------------------------|------------------|
| | <u>2018</u> | <u>2017</u> |
| Salary and short-term employee benefits | \$ 25,611 | \$ 23,697 |
| Post-employment benefits | 599 | 702 |
| Share-based payments | 1,019 | 1,098 |
| | <u>\$ 27,229</u> | <u>\$ 25,497</u> |

8. PLEDGED ASSETS

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

| Pledged asset | Book value | | Purpose |
|--|-------------------|-------------------|--|
| | December 31, 2018 | December 31, 2017 | |
| Guarantee deposits paid (shown as 'other non-current assets') | \$ 30,238 | \$ 1,805 | Security and investment commitment deposits |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT

COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A. The Company entered into leases for its plants under non-cancellable operating lease agreements as follows:

| Lessee | Leased object | Period | Monthly rent |
|-------------|---|-----------------------|----------------|
| The Company | 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 Company 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 and it was 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 Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders and issue new shares to reduce debt. The Company 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 Company'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 | \$ 304,140 | \$ 293,956 |
| Total assets | \$ 1,498,040 | \$ 1,475,570 |
| Gearing ratio | 20% | 20% |

(2) Financial instruments

A. Financial instruments by category

| | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| <u>Financial assets</u> | | |
| Financial assets at fair value through other comprehensive income | \$ 133,342 | \$ - |
| Available-for-sale financial assets | \$ - | \$ 127,576 |
| Financial assets at amortised cost/Loans and receivables / loans and receivables | | |
| Cash and cash equivalents | \$ 178,714 | \$ 158,494 |
| Notes receivable | 1,403 | 1,824 |
| Accounts receivable (including related parties) | 145,236 | 149,531 |
| Other receivables | 405 | 1,453 |
| Guarantee deposits paid | 30,238 | 1,805 |
| | \$ 355,996 | \$ 313,107 |
| | December 31, 2018 | December 31, 2017 |
| <u>Financial liabilities</u> | | |
| Financial liabilities at amortised cost | | |
| Notes payable | \$ - | \$ 59 |
| Accounts payable (including related parties) | 220,726 | 210,136 |
| Other accounts payable (including related parties) | 48,879 | 46,426 |
| Guarantee deposits received | 1,246 | 1,246 |
| | \$ 270,851 | \$ 257,867 |

B. Financial risk management policies

(a) The Company'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.

(b) Risk management is carried out by a central treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close cooperation with the Company'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. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company 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 Company treasury is responsible for hedging the entire foreign exchange risk exposure. Exchange rate risk is measured through a forecast of highly probable USD and RMB income and expenditures. The treasury uses natural hedge to decrease the risk exposure in the foreign currency.
- iii. The Company'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 Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). 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

| | 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 | \$ 3,146 | 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 | - |
| <u>Non-monetary items</u> | | | | | | |
| USD : NTD | \$ 337 | 30.665 \$ | 10,334 | 1% \$ | - \$ | 103 |
| <u>Investments accounted for using equity method</u> | | | | | | |
| USD : NTD | \$ 18,333 | 30.665 \$ | 562,181 | 1% \$ | - \$ | 5,622 |
| <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) | - |

December 31, 2017

| | Foreign currency amount (In thousands) | Exchange rate | Book value (In thousands of NTD) | Degree of variation | Sensitivity analysis | |
|--|---|---------------|-------------------------------------|---------------------|--------------------------|--------------------------------------|
| | | | | | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | | | |
| Financial assets | | | | | | |
| <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 | - |
| <u>Non-monetary items</u> | | | | | | |
| USD : NTD | \$ 337 | 29.710 | \$ 10,012 | 1% | \$ - | \$ 100 |
| Investments accounted for using equity method | | | | | | |
| USD : NTD | \$ 18,333 | 29.710 | 544,673 | 1% | \$ - | \$ 5,447 |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD : NTD | \$ 5,744 | 29.810 | \$ 171,229 | 1% | (\$ 1,712) | \$ - |
| EUR : NTD | 10,916 | 4.590 | 50,104 | 1% | (501) | - |
| RMB : NTD | 196 | 35.770 | 7,011 | 1% | (70) | - |

vi. Total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2018 and 2017 amounted to (\$779 thousand) and \$9,687 thousand, respectively.

Price risk

- i. The Company's equity securities, which are exposed to price risk, are the held financial assets at fair value through other comprehensive income and available-for-sale financial assets.
- ii. The Company's investments in equity securities comprise shares issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, for the years ended December 31, 2018 and 2017, other components of equity 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 Company 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 Company 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 Company manages their credit risk taking into consideration the entire Company's concern. The Company regularly examines credit of the bank that the Company used to deposit their capital based on the rating from independently rated parties (if no rating information can be referred, the Company will use loan-to-deposit ratio, non-performing loans ratio and capital adequacy ratio instead). In addition, the Company deposits the capital based on the rating in order to disperse credit risk to avoid centralised deposits. The Company 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 Company's credit policy, each local entity in the Company 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 Company adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 1 year.

- iv. The Company 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 Company applies the simplified approach using loss rate methodology to estimate expected credit loss under the provision matrix basis.
- vi. The Company 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 | - | 0.43% | |
| Total book value | \$ - | \$ 147,272 | \$ 147,272 |
| Loss allowance | \$ - | \$ 633 | \$ 633 |

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

| | 2018 | |
|--------------------------|---------------------|-----|
| | Accounts receivable | |
| At January 1 | \$ | 111 |
| Provision for impairment | | 522 |
| At December 31 | \$ | 633 |

- 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 Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company'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 Company'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 | \$ 1,815 | \$ - | \$ - | \$ - | \$ - |
| Accounts payable- related parties | 218,911 | - | - | - | - |
| Other payables | 29,183 | - | - | - | - |
| Other payables- related parties | 19,696 | - | - | - | - |

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 | \$ 5,232 | \$ - | \$ - | \$ - | \$ - |
| Accounts payable -related parties | 204,963 | - | - | - | - |
| Other payables | 33,282 | - | - | - | - |
| Other payables- related parties | 13,144 | - | - | - | - |

(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 Company'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 other comprehensive income-equity securities | \$ 124,705 | \$ - | \$ 8,637 | \$ 133,342 |
| 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 other comprehensive income-equity securities | \$ 114,209 | \$ - | \$ 13,367 | \$ 127,576 |

(b) The Company 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 Company'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 instrument: | | | | | |
| 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 instrument: | | | | | |
| 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 Company 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) 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.

(b) 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.

(c) Impairment of financial assets

- i. The Company 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 Company 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 Company, 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 Company 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.

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

| | Available-for-sale-equity | Effects | |
|---------------|--|----------------------|--------------|
| | Measured at fair value through other comprehensive income-equity | Retained earnings | Other equity |
| IAS 39 | \$ 127,576 | \$ 290,754 | (\$ 10,052) |
| IFRS 9 | \$ 127,576 | \$ 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:

Available-for-sale financial assets

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

The Company 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 respectively.

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

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

| | December 31, 2017 |
|---------|-------------------|
| Group 1 | \$ 93,709 |
| Group 2 | 19,028 |
| Group 3 | 9,956 |
| Group 4 | 2,068 |
| | \$ 124,761 |

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

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

Group 3: Other customers.

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

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

| | December 31, 2017 |
|----------------|-------------------|
| Up to 30 days | \$ 24,144 |
| 31 to 60 days | 311 |
| 61 to 90 days | 207 |
| 91 to 120 days | 25 |
| | \$ 24,687 |

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 Company's accounts receivable that has been impaired amounted to \$58 thousand.

| | December 31, 2017 | | |
|---------------------------------|----------------------|-----------------|---------------|
| | Individual provision | Group provision | Total |
| Beginning balance of the period | \$ 693 | \$ 122 | \$ 815 |
| Reversal of impairment loss | (635) | (69) | (704) |
| 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 Company 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 Company's activities. Revenue arising from the sales of goods is recognised when the Company 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 Company 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 Company offers customers volume discounts and right of return for defective products. The Company 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:

| | Year ended December 31, 2017 |
|---------------|------------------------------|
| Sales revenue | <u>\$ 933,157</u> |

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

| | December 31, 2018 | | |
|----------------------------|-----------------------------|--|---|
| | Balance by using IFRS 15 | Balance by using previous accounting polices | Effects from changes in accounting policies |
| <u>Balance sheet items</u> | | | |
| Contract liabilities | <u>\$ 5,514</u> | <u>\$ 5,514</u> | <u>\$ -</u> |

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding 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 4.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 5.
- I. Trading in derivative financial instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

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

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 8.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area for the year ended December 31, 2018 are provided in Note 13(1) J.

14. SEGMENT INFORMATION

None.

TONS LIGHTLOGY INC.
Provision of endorsements and guarantees to others
Year ended December 31, 2018

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

| Number (Note 1) | Endorser/ guarantor | Party being endorsed/guaranteed | Relationship with the endorser/ guarantor (Note 2) | Limit on endorsements/ guarantees provided for a single party (Note 3) | Maximum outstanding endorsement/ guarantee amount as of December 31, 2018 (Note 4) | Outstanding endorsement/ guarantee amount at December 31, 2018 (Note 4) | 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 endorsements/ guarantees by parent company to subsidiary (Note 5) | Provision of endorsements/ guarantees by parent company (Note 5) | Provision of endorsements/ guarantees to the party in Mainland China (Note 5) | Footnote |
|--------------------|---------------------------|------------------------------------|--|---|---|---|--|--|--|--|---|---|----------|
| | | | | | | | | | | | | | |
| 0 | TONS LIGHTLOGY INC. | | (2) | \$ 238,780 (Note 3) | \$ 43,793 (Note 4) | \$ - | \$ - | 0.00 | \$ 477,560 (Note 3) | Y | N | N | - |

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

(1) The Company is '0'.

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

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

(1) Having business relationship.

(2) The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.

(4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.

(5) Mutual guarantee of the trade made by the endorsed/guaranteed company or joint contractor as required under the construction contract.

(6) Due to joint venture, all shareholders provide endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

(7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

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

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

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

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

TONS LIGHTOLOGY INC.

Holding of marketable securities at the end of the year (not including subsidiaries, associates and joint ventures)

Year ended December 31, 2018

| 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 | |

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

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.

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

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 3

| Purchaser/seller | Counterparty | Relationship with the counterparty | Purchases (sales) | Amount | Percentage of total purchases (sales) | Differences in transaction terms compared to third party transactions | | | Notes/accounts receivable (payable) | Percentage of total notes/accounts receivable (payable) | Footnote (Note 2) |
|-------------------------|--------------------------|------------------------------------|-------------------|------------|---------------------------------------|---|------------|-------------|-------------------------------------|---|-------------------|
| | | | | | | Credit term | Unit price | Credit term | | | |
| 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.

TONS LIGHTOLOGY INC.

Receivables from related parties reaching NTS100 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 | 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.

TONS LIGHTOLOGY INC.

Significant inter-company transactions during the reporting period
Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 5

| 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 LIGHTOLOGY INC.
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 | | | 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 |
|---------------------------|-------------------------------|------------------------|--|---------------------------|-------------------|-------------------------------------|------------------|---------------|--|---|------------------------------|
| | | | | December 31, 2018 | December 31, 2017 | Balance as at December 31, 2018 | Number of shares | Ownership (%) | | | |
| TONS LIGHTOLOGY INC. | WORLD EXTEND HOLDING INC. | Samoa | Reinvestment company | \$ 545,972 | \$ 545,972 | \$ 819,712 | 18,333,402 | 100 | \$ 33,644 | \$ 33,749 | Subsidiary (Note 1) |
| TONS LIGHTOLOGY INC. | HONG BO INVESTMENT CO., LTD. | Taiwan | Reinvestment company | 140,000 | 125,000 | 163,076 | 14,000,000 | 100 | 19,471 | 19,471 | Subsidiary |
| WORLD EXTEND HOLDING INC. | TONS LIGHTING CO., LTD. | Belize | Sales of various lighting products and accessories | 1,625 | 1,625 | 12,235 | 500,000 | 100 | 5,866 | - | Indirect subsidiary (Note 2) |
| WORLD EXTEND HOLDING INC. | LUMINOUS HOLDING INCORPORATED | Samoa | Reinvestment company | 100,590 | 100,590 | 90,236 | 3,250,000 | 100 | (6,962) | - | Indirect subsidiary (Note 2) |
| WORLD EXTEND HOLDING INC. | GREATSUPER TECHNOLOGY LIMITED | British Virgin Islands | Reinvestment company | 500,917 | 500,917 | 701,542 | 27,666 | 100 | 34,756 | - | Indirect subsidiary (Note 2) |

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.

TONS LIGHTOLOGY INC.
Information on investments in Mainland China
Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 7

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 | Amount remitted from Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018 | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 | Net income of investee as of December 31, 2018 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognised by the Company for the year ended December 31, 2018 | 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 |
|--|--|-----------------|-------------------|--|--|--|--|--|---|---|---|----------------|
| | | | | | | | | | | | | |
| TITAN LIGHTING CO., LTD. | Main business activities Design of products, manufacturing of hardware parts, and production and trading of lamps and accessories | 376,336 | (2) | 368,845 | - | 368,845 | 24,882 | 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 | - | 110,585 | 10,309 | 100.00 | 10,309 | 90,331 | - | Note 1,2,4,5 |
| SHANGHAI TONS LIGHTOLOGY CO., LTD. | Design of products, manufacturing of hardware parts, and production and trading of lamps and accessories | 98,288 | (2) | 42,842 | - | 42,842 | (6,953) | 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 | - | 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 | - | 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. (Tian Lighting Co., Ltd. and Zhongshan Tons Lighting Co., Ltd. reinvested through World Extend Holding Inc.; ShangHai Grand Canyon LED Lighting Systems Co., Ltd. and Grand Canyon Opto Tech (Su Zhou) Co., Ltd. reinvested through StrongLED Lighting System (Cayman) Co., Ltd.)

(3) Others.

Note 2: Investment income (loss) recognised by the Company for the 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. and SHANGHAI TONS LIGHTOLOGY 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 Tian Lighting Co., Ltd., Zhongshan Tons Lighting Co., Ltd. and SHANGHAI TONS LIGHTOLOGY 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 LIGHTOLOGY 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.

TONS LIGHTOLOGY INC.
Information on investments in Mainland China
Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 7

| 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 Investment Commission of MOEA (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.

TONS LIGHTOLOGY INC.
DETAILS OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Statement 1

| <u>Items</u> | <u>Summary</u> | <u>Amount</u> |
|---------------------------|--|-------------------|
| Petty cash | | \$ 100 |
| Cash in banks | | |
| Demand deposit | TWD \$6,964 thousand | 11,175 |
| | HKD \$1,074 thousand, conversion rate \$3.921 | |
| Foreign exchange deposits | USD \$168 thousand, conversion rate \$30.665 | 9,161 |
| | EUR \$49 thousand, conversion rate \$35.000 | |
| | HKD \$544 thousand, conversion rate \$3.891 | |
| | RMB \$40 thousand, conversion rate \$4.447 | |
| Checking deposits | TWD \$562 thousand | 670 |
| | HKD \$27 thousand, conversion rate \$3.921 | |
| Time deposits | TWD \$20,258 thousand | 157,608 |
| | Period 2018.11.20~2019.02.26 | |
| | Interest rate range 0.58% ~ 0.59% | |
| | USD \$507 thousand, conversion rate \$30.665 | |
| | Period 2018.12.18~2019.01.08 | |
| | Interest rate range 1.96% ~ 2.20% | |
| | RMB \$27,390 thousand, conversion rate \$4.447 | |
| | Period 2018.05.07~2019.09.26 | |
| | Interest rate range 2.8% ~ 4.5% | |
| | | <u>\$ 178,714</u> |

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TONS LIGHTOLOGY INC.
DETAILS OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Statement 2

| <u>Customer name</u> | <u>Summary</u> | <u>Amount</u> | <u>Note</u> |
|-------------------------------|----------------|-------------------|---|
| Non-related parties: | | | |
| B Company | | \$ 29,305 | |
| C Company | | 17,051 | |
| A Company | | 14,355 | |
| D Company | | 12,915 | |
| E Company | | 9,686 | |
| F Company | | 7,304 | |
| | | | The balance of each customer has not exceeded 5% of the accounts receivable |
| Others | | 55,253 | |
| | | 145,869 | |
| Less: Allowance for bad debts | | (633) | |
| | | <u>\$ 145,236</u> | |

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TONS LIGHTOLOGY INC.
DETAILS OF INVENTORIES
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Statement 3

| <u>Items</u> | <u>Summary</u> | <u>Amount</u> | | <u>Note</u> <u>Market price</u> <u>determination</u> |
|--|----------------|---------------|---------------------|--|
| | | <u>Cost</u> | <u>Market price</u> | |
| Merchandise | | \$ 15,087 | \$ 8,636 | Net realisable value |
| Materials | | 1,369 | 420 | Replacement cost |
| Finished goods | | 39 | - | Net realisable value |
| Inventory in transit | | 609 | 609 | |
| | | 17,104 | \$ 9,665 | |
| Less: Allowance for slow-moving inventories and valuation loss | | (7,439) | | |
| | | \$ 9,665 | | |

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TONS LIGHTTOLOGY INC.
MOVEMENT SUMMARY OF NON-CURRENT FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Statement 4

| Name | Opening balance | | Additions | | Reductions | | Ending balance | | Pledged as collateral | Note |
|--|------------------|-------------------|------------------|------------------|------------------|-------------------|------------------|-------------------|-----------------------|------|
| | Number of shares | Carrying amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Fair value | | |
| TITAN AURORA INC. | 1,900 | \$ 9,306 | - | \$ - | - | (\$ 2,704) | 1,900 | \$ 6,602 | None | - |
| GRIFFIN LIGHTING CO., LTD. | 66,500 | 3,136 | - | - | - | (1,611) | 66,500 | 1,525 | None | - |
| ANDERSEN LIGHTING CO., LTD | - | 925 | - | - | - | (415) | - | 510 | None | Note |
| StrongLED Lighting System (Cayman) Co., Ltd. | 1,700,000 | 62,475 | - | 3,740 | - | - | 1,700,000 | 66,215 | None | - |
| HEP TECH CO., LTD. | 3,860,760 | 51,734 | - | 6,756 | - | - | 3,860,760 | 58,490 | None | - |
| | | <u>\$ 127,576</u> | | <u>\$ 10,496</u> | | <u>(\$ 4,730)</u> | | <u>\$ 133,342</u> | | |

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

TONS LIGHTTOLOGY INC.
 MOVEMENT SUMMARY OF INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
 YEAR ENDED DECEMBER 31, 2018
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Statement 5

| Name | Opening balance | | Additions | | Reductions | | Ending balance | | Evaluation basis | Market price or Price (in dollars) | value per share | Total price | Pledged as collateral |
|------------------------------|-----------------|---------------------|-----------------|------------------|-----------------|--------------------|-----------------|-------------------|------------------|------------------------------------|-----------------|-------------------|-----------------------|
| | Number of share | Amount | Number of share | Amount | Number of share | Amount | Number of share | Amount | | | | | |
| WORLD EXTEND HOLDING INC. | 18,333,402 | \$ 845,641 | - | \$ 33,749 | - | (\$ 59,678) | 18,333,402 | \$ 819,712 | Equity method | \$ - | \$ 819,712 | | None |
| HONG BO INVESTMENT CO., LTD. | 12,500,000 | 161,044 | 1,500,000 | 19,471 | - | (17,439) | 14,000,000 | 163,076 | Equity method | - | 163,076 | | None |
| | | <u>\$ 1,006,685</u> | | <u>\$ 53,220</u> | | <u>(\$ 77,117)</u> | | <u>\$ 982,788</u> | | | | <u>\$ 982,788</u> | |

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TONS LIGHTOLOGY INC.
DETAILS OF ACCOUNTS PAYABLE
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Statement 6

| <u>Customer name</u> | <u>Summary</u> | <u>Amount</u> | <u>Note</u> |
|----------------------|----------------|-------------------|--|
| Non-related parties: | | | |
| A Company | | \$ 1,370 | |
| B Company | | 399 | |
| Others | | <u>46</u> | Has not exceeded 5% of the accounts payable |
| | | <u>\$ 1,815</u> | |
| Related parties: | | | |
| TL | | \$ 213,941 | |
| ZHONGSHAN TONS | | <u>4,970</u> | |
| | | <u>\$ 218,911</u> | |
| | | <u>\$ 220,726</u> | |

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TONS LIGHTOLOGY INC.
DETAILS OF SALES REVENUE
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Statement 7

| <u>Items</u> | <u>Quantity</u> <u>(in thousand pieces)</u> | <u>Amount</u> | <u>Note</u> |
|---|--|-------------------|-------------|
| Lamps | 3,427 | \$ 931,416 | |
| Less: Sale returns | | (217) | |
| Sales rebates | | (1,193) | |
| Add: Allowance for sales returns and rebates | | 27 | |
| Other sales of services | | <u>25,967</u> | |
| | | <u>\$ 956,000</u> | |

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TONS LIGHTOLOGY INC.
DETAILS OF COST OF GOODS SOLD
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Statement 8

| <u>Items</u> | <u>Amount</u> |
|---|-------------------|
| Goods | |
| Goods at the beginning | \$ 15,196 |
| Add : Goods purchased during the year | 785,728 |
| Less: Material cost transferred to expense | (616) |
| Disposal | - |
| Goods used as raw materials | (68) |
| Goods at the end | <u>(15,087)</u> |
| The cost of sales | <u>785,153</u> |
| Direct materials | |
| Raw materials at the beginning | \$ 1,589 |
| Add: Material purchased during the year | 13,513 |
| Goods used as raw materials | 68 |
| Less: Material cost transferred to expense | (35) |
| Raw materials sold | (1,052) |
| Purchases of processed goods outsourced to overseas subsidiaries | (12,714) |
| Raw materials at the end | <u>(1,369)</u> |
| Raw material consumption | - |
| Manufacturing overhead | <u>9,348</u> |
| Manufacturing cost | 9,348 |
| Finished goods at the beginning | 39 |
| Finished goods at the end | <u>(39)</u> |
| Cost of goods sold during the year | 794,501 |
| Cost of raw material sold | 1,052 |
| Allowance for slow-moving inventories and valuation loss | 330 |
| Guarantee cost | <u>(189)</u> |
| Cost of goods sold | <u>\$ 795,694</u> |

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TONS LIGHTOLOGY INC.
DETAILS OF MANUFACTURING EXPENSE
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Statement 9

| <u>Item</u> | <u>Selling</u> | <u>Administrative</u> | <u>Total</u> |
|-----------------------|------------------|-----------------------|------------------|
| Wages and salaries | \$ 16,823 | \$ 34,669 | \$ 51,492 |
| Advertisement expense | 4,270 | 30 | 4,300 |
| Rent expense | 4,184 | 1,357 | 5,541 |
| Depreciations expense | 3,072 | 264 | 3,336 |
| Service expense | 1,223 | 7,121 | 8,344 |
| Other expense | <u>10,859</u> | <u>6,771</u> | <u>17,630</u> |
| | <u>\$ 40,431</u> | <u>\$ 50,212</u> | <u>\$ 90,643</u> |

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