

**TONS LIGHTOLOGY INC. AND
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS**

DECEMBER 31, 2017 AND 2016

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

Representation Letter

In connection with the Consolidated Financial Statements of Affiliated Enterprises of TONS LIGHTOLOGY INC. (the "Consolidated Financial Statements of the Affiliates"), we represent to you that, the entities required to be included in the Consolidated Financial Statements of the Affiliates as of and for the year ended December 31, 2017 in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same as those required to be included in the Consolidated Financial Statements of TONS LIGHTOLOGY INC. and its subsidiaries (the "Consolidated Financial Statements of the Group") in accordance with International Financial Reporting Standard 10. In addition, the information required to be disclosed in the Consolidated Financial Statements of the Affiliates is disclosed in the Consolidated Financial Statements of the Group. Consequently, TONS LIGHTOLOGY INC. does not prepare a separate set of Consolidated Financial Statements of the Affiliates.

Very truly yours,

TONS LIGHTOLOGY INC. AND SUBSIDIARIES

By

TANG, SHIH-CHUAN, Chairman

February 23, 2018

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

We have audited the accompanying consolidated balance sheets of Tons Lightology Inc. and its subsidiaries (the “Group”) as at December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion

thereon, we do not provide a separate opinion on these matters.

Timing of recognizing sales revenue.

Description

Please refer to Note 4(26) for a description of accounting policy on sales revenue. Please refer to Note 6(17) for details of sales revenue.

The Group is primarily engaged in manufacturing and trading lighting equipment and lamps. Sales revenue and transaction terms are based on risk being transferred when loading on board for shipping, and primarily use triangular trade as transaction modes, which is the parent company receiving orders and having the subsidiaries perform the manufacturing and delivering work. Also, the sales revenue are recognized when loading from subsidiaries.

Due to the sales revenue being recognized when loading from subsidiaries, the shipment date and the actual on board date may be different. This would make the timing of recognition on revenue complicated. Thus, we determine this 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 and the result is as follows:

- A. Obtained an understanding and evaluated the operating procedures and internal controls over sales revenue, and assessing the effectiveness on how the management controls the timing of recognizing sales revenue.
- B. To evaluate the rationality of sale revenue recognition timing, we conducted the following:
 - a. Checked whether the sales revenue around the balance sheet date is recognized in the proper period.
 - b. The change in inventory and estimated cost are recorded in the proper period.
- C. Based on our understanding of the Group's operation, we have verified the amount of accounts receivable at the end of the period and the status of subsequent collections. Also, we have confirmed that the accounts receivable and sales revenue are recorded in the proper period.

Allowance for obsolete and slow-moving inventory, and inventory valuation losses

Description

Please refer to Note 4(12) for a description of accounting policy on inventory valuation. Please refer to Note 5(2) for accounting estimates and assumption uncertainty in relation to inventory valuation. Please refer to Note 6(4) for a description of allowance for obsolete and slow-moving inventory, and inventory valuation losses. As of December 31, 2017, the Group's inventory amounted to NT\$173,378 thousand, allowance for obsolete and slow-moving inventory and inventory valuation losses amounted to NT\$ 17,351 thousand.

The Group is primarily engaged in manufacturing and trading lighting equipment and lamps. Inventory items are numerous, and the Group's inventory is measured at the lower of cost and net realisable value. For inventory that is over a certain age and individually identified for impairment, the net realisable value are determined based on historical data of inventory usage and range of discount.

Determination of net realisable value for impairment inventory involves subjective judgement resulting in high degree of estimation uncertainty. Considering that the Group's inventory and the allowance for inventory valuation losses are material to its financial statements, we identified the estimates of the allowance for obsolete and slow-moving inventory and inventory valuation losses as one of the key areas of focus for this year's audit.

How our audit addressed the matter

For inventory valuation, inventory that is over a certain age, allowance for obsolete and slow-moving inventory, and inventory valuation loss, we tailored the audit scope as follows:

- A. Obtained an understanding of the Group's inventory control procedures. Reviewed annual inventory counting plan and observed the annual inventory counting event in order to assess the classification of obsolete inventory and effectiveness of obsolete inventory internal control.
- B. First, obtained an understanding of the Group's operation and industry. Second, assessed whether the policy and procedures to recognise allowance for inventory valuation losses are appropriate. The assessment shall consider the following factors:
 - (a). Classification of inventory for determining net realizable value;
 - (b). Sources of historical data of inventory usage and discount range; and
 - (c). Method of determining whether the inventory is obsolete.



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- C. Checked sales contracts and conducted interviews with management in order to assess the rationality of using ending inventory balance to evaluate the net realizable value. Selected a sample of inventory part numbers to check inventory usage and historical data of inventory discount. Compared prior consecutive periods' allowance for inventory valuation losses and assessed events occurring after balance sheet date in order to evaluate the reasonability of allowance of inventory valuation losses.
- D. Verified whether the systematic logic used in the Group's inventory aging report is appropriate and in accordance with the Group's accounting policy.

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Tons Lightology Inc. as at and for the years ended December 31, 2017 and 2016.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's



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

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

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



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solely responsible for our audit opinion.

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

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

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

Wang, Yu-Chuan

Hung, Shu-Hua

For and on behalf of PricewaterhouseCoopers, Taiwan

February 23, 2018

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

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

TONS LIGHTOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 369,163	26	\$ 489,064	34
1110	Financial assets at fair value	6(2)				
	through profit or loss - current		148,029	10	71,505	5
1150	Notes receivable, net		1,824	-	5,189	-
1170	Accounts receivable, net	6(3)	155,804	11	163,547	12
1180	Accounts receivable - related	6(3) and 7				
	parties		4	-	-	-
1200	Other receivables		3,557	-	2,073	-
130X	Inventories, net	6(4)	156,027	11	147,574	10
1410	Prepayments		20,806	1	22,530	2
1470	Other current assets	6(5)	71,854	5	82,213	6
11XX	Current Assets		<u>927,068</u>	<u>64</u>	<u>983,695</u>	<u>69</u>
Non-current assets						
1523	Available-for-sale financial assets	6(6)				
	- noncurrent		127,576	9	121,120	9
1600	Property, plant and equipment,	6(7)				
	net		331,908	23	261,583	18
1780	Intangible assets		5,087	1	1,672	-
1840	Deferred income tax assets	6(22)	3,510	-	5,221	-
1900	Other non-current assets	6(8)	45,758	3	49,514	4
15XX	Non-current assets		<u>513,839</u>	<u>36</u>	<u>439,110</u>	<u>31</u>
1XXX	Total assets		<u>\$ 1,440,907</u>	<u>100</u>	<u>\$ 1,422,805</u>	<u>100</u>

(Continued)

TONS LIGHTOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
Current liabilities						
2120	Financial liabilities at fair value through profit or loss - current	6(2)	\$ -	-	\$ 2,067	-
2150	Notes payable		59	-	8	-
2170	Accounts payable		99,934	7	108,311	7
2180	Accounts payable - related parties	7	12,144	1	-	-
2200	Other payables	6(9)	105,588	7	110,002	8
2230	Current income tax liabilities	6(22)	7,484	-	14,689	1
2250	Provisions for liabilities - current		535	-	-	-
2300	Other current liabilities		11,773	1	11,566	1
21XX	Current Liabilities		<u>237,517</u>	<u>16</u>	<u>246,643</u>	<u>17</u>
Non-current liabilities						
2550	Provisions for liabilities - noncurrent	6(12)	625	-	1,565	-
2570	Deferred income tax liabilities	6(22)	9,532	1	1,555	-
2600	Other non-current liabilities		11,619	1	12,907	1
25XX	Non-current liabilities		<u>21,776</u>	<u>2</u>	<u>16,027</u>	<u>1</u>
2XXX	Total Liabilities		<u>259,293</u>	<u>18</u>	<u>262,670</u>	<u>18</u>
Equity attributable to owners of parent						
Share capital						
3110	Share capital - common stock	6(13)	398,118	28	390,689	28
3140	Advance receipts for share capital	6(13)	537	-	3,252	-
Capital surplus						
3200	Capital surplus	6(14)	502,257	35	495,612	35
Retained earnings						
3310	Legal reserve	6(15)	62,555	4	50,054	4
3320	Special reserve		38,429	3	38,429	3
3350	Unappropriated retained earnings		189,770	13	187,006	13
Other equity interest						
3400	Other equity interest	6(16)	(10,052)	(1)	(4,907)	(1)
31XX	Equity attributable to owners of the parent		<u>1,181,614</u>	<u>82</u>	<u>1,160,135</u>	<u>82</u>
3XXX	Total equity		<u>1,181,614</u>	<u>82</u>	<u>1,160,135</u>	<u>82</u>
Significant commitments and contingent liabilities						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		<u>\$ 1,440,907</u>	<u>100</u>	<u>\$ 1,422,805</u>	<u>100</u>

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

TONS LIGHTOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

Items	Notes	Year ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(17)	\$ 986,926	100	\$ 1,176,289	100
5000 Operating costs	6(4)	(641,111)	(65)	(760,821)	(64)
5900 Net operating margin		<u>345,815</u>	<u>35</u>	<u>415,468</u>	<u>36</u>
Operating expenses	6(20)(21)				
6100 Selling expenses		(106,194)	(11)	(121,243)	(11)
6200 General & administrative expenses		(107,900)	(11)	(108,636)	(9)
6300 Research and development expenses		(34,771)	(3)	(38,368)	(3)
6000 Total operating expenses		<u>(248,865)</u>	<u>(25)</u>	<u>(268,247)</u>	<u>(23)</u>
6900 Operating profit		<u>96,950</u>	<u>10</u>	<u>147,221</u>	<u>13</u>
Non-operating income and expenses					
7010 Other income	6(18)	13,194	1	16,030	1
7020 Other gains and losses	6(19)	43,326	4	(516)	-
7000 Total non-operating income and expenses		<u>56,520</u>	<u>5</u>	<u>15,514</u>	<u>1</u>
7900 Profit before income tax		153,470	15	162,735	14
7950 Income tax expense	6(22)	(32,387)	(3)	(37,724)	(4)
8200 Profit for the year		<u>\$ 121,083</u>	<u>12</u>	<u>\$ 125,011</u>	<u>10</u>
Other comprehensive income					
Components of other comprehensive income that will not be reclassified to profit or loss					
8311 Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	6(10)	\$ 735	-	(\$ 625)	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		(125)	-	106	-
8310 Components of other comprehensive income that will not be reclassified to profit or loss		<u>610</u>	<u>-</u>	<u>(519)</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Financial statements translation differences of foreign operations	6(16)	(12,710)	(1)	(56,552)	(5)
8362 Unrealized gain on valuation of available-for-sale financial assets	6(16)	6,456	1	7,117	1
8399 Income tax relating to the components of other comprehensive income	6(22)	1,109	-	314	-
8360 Components of other comprehensive income that will be reclassified to profit or loss		<u>(5,145)</u>	<u>-</u>	<u>(49,121)</u>	<u>(4)</u>
8300 Total other comprehensive loss for the year		<u>(\$ 4,535)</u>	<u>-</u>	<u>(\$ 49,640)</u>	<u>(4)</u>
8500 Total comprehensive income for the year		<u>\$ 116,548</u>	<u>12</u>	<u>\$ 75,371</u>	<u>6</u>
9750 Basic earnings per share	6(23)	<u>\$ 3.04</u>		<u>\$ 3.17</u>	
9850 Diluted earnings per share	6(23)	<u>\$ 3.00</u>		<u>\$ 3.11</u>	

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

TONS LIGHTLOGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Equity attributable to owners of the parent									
	Capital		Capital Surplus			Retained Earnings			Other equity interest	
Notes	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 translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	
2016										
	\$ 381,378	\$ -	\$ 486,574	\$ 5,016	\$ 35,593	\$ 38,429	\$ 191,629	\$ 33,197	\$ 11,017	\$ 1,182,833
Balance at January 1, 2016										
Appropriations and distribution of 2015 earnings										
Legal reserve	6(15)	-	-	-	14,461	-	(14,461)	-	-	-
Stock dividends	6(15)	7,644	-	-	-	-	(7,644)	-	-	-
Cash dividends	6(15)	-	-	-	-	-	(107,010)	-	-	(107,010)
Profit for 2016		-	-	-	-	-	125,011	-	-	125,011
Other comprehensive (loss) income for 2016	6(16)	-	-	-	-	-	(519)	(56,552)	7,431	(49,640)
Share-based payment transactions-employee stock options	6(11)	1,667	3,252	(1,293)	-	-	-	-	-	8,941
Balance at December 31, 2016	\$ 390,689	\$ 3,252	\$ 491,889	\$ 3,723	\$ 50,054	\$ 38,429	\$ 187,006	\$ 23,355	\$ 18,448	\$ 1,160,135
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
Appropriations and distribution of 2016 earnings										
Legal reserve	6(15)	-	-	-	12,501	-	(12,501)	-	-	-
Stock dividends	6(15)	3,942	-	-	-	-	(3,942)	-	-	-
Cash dividends	6(15)	-	-	-	-	-	(102,486)	-	-	(102,486)
Profit for 2017		-	-	-	-	-	121,083	-	-	121,083
Other comprehensive (loss) income for 2017	6(16)	-	-	-	-	-	610	(12,710)	7,565	(4,535)
Share-based payment transactions-employee stock options	6(11)	3,487	(2,715)	(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

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

TONS LIGHTOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

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

	Notes	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 153,470	\$ 162,735
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(7)(20)	44,939	45,758
Amortisation	6(20)	2,130	1,566
(Reversal of) provision for doubtful accounts	6(3)	(1,405)	521
(Reversal of) provision for warranty expenses	6(12)	(932)	893
Interest income	6(18)	(8,608)	(10,082)
Dividend income		(1,258)	(2,237)
Wages and salaries-employee stock options	6(11)	1,973	1,734
Net gain on financial assets and liabilities at fair value through profit or loss	6(19)	(41,060)	2,427
Loss (gain) on disposal of property, plant and equipment	6(7)(19)	17	(4,274)
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		3,303	(3,910)
Accounts receivable, net	6(3)	8,704	20,246
Accounts receivable due from related parties	7(2)	(4)	-
Other receivables		(1,232)	2,237
Inventories	6(4)	(9,927)	18,437
Prepayments		(1,386)	(5,434)
Other current assets		461	(2,143)
Changes in operating liabilities			
Notes payable		53	8
Accounts payable		(7,052)	(5,549)
Accounts payable to related parties	7(2)	11,989	-
Other payables		(338)	(4,633)
Advance receipts		24	3,590
Other current liabilities		732	(2,189)
Other non-current liabilities		30	(2,654)
Cash inflow generated from operations		154,623	217,047
Interest received		8,336	10,703
Dividend received		1,258	2,237
Income tax paid	6(22)	(28,852)	(39,787)
Net cash flows from operating activities		135,365	190,200

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TONS LIGHTOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

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

	Notes	2017	2016
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets at fair value through profit or loss	6(2)	(\$ 40,604)	(\$ 72,469)
Proceeds from disposal of financial assets at fair value through profit or loss, designated upon initial recognition		-	5,862
Decrease (increase) in other non-current assets		6,028	(79,175)
Acquisition of property, plant and equipment	6(25)	(105,275)	(18,032)
Proceeds from disposal of property, plant and equipment	6(7)	205	7,648
Acquisition of intangible assets		(5,550)	(1,304)
Increase in refundable deposits		(488)	(613)
Increase in other non-current assets		(5,735)	(9,376)
Net cash flows used in investing activities		(151,419)	(167,459)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in guarantee deposits received		(583)	(66)
Cash dividends paid	6(15)	(102,486)	(107,010)
Exercise of employee stock options	6(11)	5,444	7,207
Net cash flows used in financing activities		(97,625)	(99,869)
Effect of exchange rate changes on cash equivalents		(6,222)	(29,390)
Net decrease in cash and cash equivalents		(119,901)	(106,518)
Cash and cash equivalents at beginning of year		489,064	595,582
Cash and cash equivalents at end of year		\$ 369,163	\$ 489,064

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

TONS LIGHTOLOGY INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. ORGANIZATION AND OPERATIONS

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

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

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on February 23, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

New standards, interpretations and amendments endorsed by the FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortization (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, ‘Levies’	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

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

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

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

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

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

B. IFRS 15, 'Revenue from contracts with customers'

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

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

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

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

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

C. Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from Contracts with Customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a licence should be recognised at a point in time

or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

D. Amendments to IAS 7, 'Disclosure initiative'

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

E. IFRIC 22, 'Foreign currency transactions and advance consideration'

The Interpretation states that the date of the transaction for a foreign currency-denominated contract should be the date of initial recognition of the non-monetary asset or non-monetary liability arising from the receipt or payment of the advance consideration.

When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. Further, the Group expects to adopt IFRS 15 using the modified retrospective approach. There is no significant effect of applying the new standards as of January 1, 2018.

(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 IFRS as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Prepayment features with negative compensation (amendments to IFRS 9)	January 1, 2019
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Long-term interests in associates and joint ventures (amendments to IAS 28)	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

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

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

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements

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

the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
TONS LIGHTOLOGY INC.	WORLD EXTEND HOLDING INC. (WORLD EXTEND)	Reinvestment company	100	100	Note 1
TONS LIGHTOLOGY INC.	HONG BO INVESTMENT CO., LTD. (HONG BO)	Reinvestment company	100	100	
WORLD EXTEND HOLDING INC.	TONS LIGHTING CO., LTD. (TL)	Sales of various lighting products and accessories	100	100	
WORLD EXTEND HOLDING INC.	GREATSUPER TECHNOLOGY LIMITED (GS)	Reinvestment company	100	100	Note 1
WORLD EXTEND HOLDING INC.	LUMINOUS HOLDING INCORPORATED (LUMINOUS)	Reinvestment company	100	100	Note 2

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
GREATSUPER TECHNOLOGY LIMITED	TITAN LIGHTING CO., LTD (TITAN)	Design of products, manufacturing of hardware parts, production and trading of lighting products and accessories	100	100	Note 1
GREATSUPER TECHNOLOGY LIMITED	ZHONGSHAN TONS LIGHTING CO., LTD (ZHONGSHAN TONS)	Design of products, manufacturing of hardware parts, production and trading of lighting products and accessories	100	100	
LUMINOUS HOLDING INCORPORATED	SHANGHAI TONS LIGHTOLOGY CO., LTD (SHANGHAI TONS)	Sales of various lighting products and accessories	100	-	Note 3

Note 1: The subsidiary is material to the Company.

Note 2: On July 11, 2016, the Board of Directors approved the establishment of a subsidiary, Luminous Holding Incorporated, for business development. The establishment was completed in the same year.

Note 3: On July 11, 2016, the Board of Directors approved the reinvestment in Mainland China and the establishment of a subsidiary, Shanghai Tons Lightology Co., Ltd., through Luminous Holding Incorporated for business development. The establishment was completed on January 2017.

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

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

E. Significant restrictions: None.

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

(4) Foreign currency translation

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

is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

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

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

(5) Classification of current and non-current items

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

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

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

are classified as non-current liabilities:

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

(6) Cash equivalents

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

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

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

- (a) Hybrid (combined) contracts; or
- (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
- (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

C. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. 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 profit or loss.

(8) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

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

C. Available-for-sale financial assets 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.

(9) Accounts receivable

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

(10) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired as a result of loss event that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
- (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) The disappearance of an active market for that financial asset because of financial difficulties;
 - (e) 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;
 - (f) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(a) Financial assets measured at amortised cost

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

(b) 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.

(11) Derecognition of financial assets

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

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

(12) 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. Fixed manufacturing overhead was amortised over the normal working hours of production line. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Property, plant and equipment

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

benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

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

(14) Leased assets/ leases (lessee)

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

(15) Intangible assets

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

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

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

(16) Impairment of non-financial assets

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

(17) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for

the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

- (a) Hybrid (combined) contracts; or
- (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
- (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

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

(19) Derecognition of financial liabilities

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

(20) Provisions

Provisions (including warranties) are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense.

(21) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit

obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

- ii. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognised immediately in profit or loss.

C. Termination benefits

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

D. Employees', directors' and supervisors' remuneration

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

(22) 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.

(23) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or

loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

- B. The current income tax expense is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

(24) 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.

(25) Dividends

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

(26) Revenue recognition

A. The Group manufactures and sells lighting equipment and lamps. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to

the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. The Group offers customers volume discounts and right of return for defective products. The Group estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognised.

(27) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

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

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

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

Financial assets—impairment of equity investments

The Group follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

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

As of December 31, 2017, the carrying amount of inventories was \$156,027 thousand.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand	\$ 773	\$ 1,295
Checking accounts and demand deposits	70,416	80,538
Time deposits	297,974	402,234
Cash equivalents	-	4,997
	<u>\$ 369,163</u>	<u>\$ 489,064</u>

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

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

<u>Items</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial asset items:		
Listed stocks	\$ 111,495	\$ 74,040
Valuation adjustment	34,372	(2,535)
Financial assets held for trading	145,867	71,505
Non-hedging derivatives		
- Forward foreign exchange contracts	2,162	-
Total	<u>\$ 148,029</u>	<u>\$ 71,505</u>
Financial liability items:		
Financial liabilities held for trading		
Non-hedging derivatives		
- Forward foreign exchange contracts	<u>\$ -</u>	<u>(\$ 2,067)</u>

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

	<u>December 31, 2017</u>	
<u>Financial instruments</u>	<u>Contract amount (notional principal)</u>	<u>Contract period</u>
Forward foreign exchange contracts	USD 1,800 thousands	2018.1.14~2018.12.16
	<u>December 31, 2016</u>	
<u>Financial instruments</u>	<u>Contract amount (notional principal)</u>	<u>Contract period</u>
Forward foreign exchange contracts	USD 1,800 thousands	2017.1.16~2017.12.24

The Group entered into forward foreign exchange contracts to sell (sell USD and buy RMB) to

hedge exchange rate risk of import and export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting. For the years ended December 31, 2017 and 2016, the Group recognised net gain (loss) of \$4,153 thousand and (\$1,043) thousand, respectively.

B. The Group recognised net gain (loss) of \$36,907 thousand and (\$1,384) thousand on financial assets designated as at fair value through profit or loss for the years ended December 31, 2017 and 2016, respectively.

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

(3) Accounts receivable, net (Including related parties)

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 155,915	\$ 165,080
Accounts receivable due from related parties	4	-
Less: Allowance for bad debts	(111)	(1,533)
	<u>\$ 155,808</u>	<u>\$ 163,547</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Group 1	\$ 93,904	\$ 99,472
Group 2	22,473	24,889
Group 3	12,521	12,857
Group 4	2,122	1,765
	<u>\$ 131,020</u>	<u>\$ 138,983</u>

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

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

Group 3: Other customers.

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

B. The ageing analysis of financial assets that were past due but not impaired is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Up to 30 days	\$ 24,284	\$ 21,079
31 to 60 days	325	1,219
61 to 90 days	207	2,575
91 to 120 days	25	237
151 to 180 days	-	294
	<u>\$ 24,841</u>	<u>\$ 25,404</u>

The above ageing analysis was based on past due date.

C. Movement analysis of financial assets that were impaired and the Group's provision for impairment of accounts receivable are as follows:

As of December 31, 2017 and 2016, the Group's accounts receivable that were impaired amounted to \$58 thousand and \$693 thousand, respectively.

	2017		
	Individual provision	Group provision	Total
At January 1	\$ 693	\$ 840	\$ 1,533
Reversal of impairment	(635)	(770)	(1,405)
Effects of foreign exchange	-	(17)	(17)
At December 31	<u>\$ 58</u>	<u>\$ 53</u>	<u>\$ 111</u>

	2016		
	Individual provision	Group provision	Total
At January 1	\$ 1,771	\$ 1,079	\$ 2,850
Provision for impairment	693	(172)	521
Write-offs during the period	(1,771)	-	(1,771)
Effects of foreign exchange	-	(67)	(67)
At December 31	<u>\$ 693</u>	<u>\$ 840</u>	<u>\$ 1,533</u>

D. The Group does not hold any collateral as security.

(4) Inventories

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials and supplies	\$ 97,148	(\$ 6,504)	\$ 90,644
Work in process	17,104	(419)	16,685
Semi-finished goods	36,285	(3,827)	32,458
Finished goods	22,841	(6,601)	16,240
Total	<u>\$ 173,378</u>	<u>(\$ 17,351)</u>	<u>\$ 156,027</u>

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials and supplies	\$ 87,516	(\$ 7,313)	\$ 80,203
Work in process	16,699	(1,065)	15,634
Semi-finished goods	37,442	(4,706)	32,736
Finished goods	25,584	(6,583)	19,001
Total	<u>\$ 167,241</u>	<u>(\$ 19,667)</u>	<u>\$ 147,574</u>

The cost of inventories recognised as expense for the period:

	Years ended December 31,	
	2017	2016
Cost of goods sold	\$ 637,139	\$ 757,146
Gain on reversal of market value of inventories	(2,126)	(6,224)
Gain from sale of scraps	(2,793)	(3,073)
Gain on physical inventory	(16)	(18)
Loss on scrapping inventory	8,872	12,888
Provision for warranty expenses	35	102
	<u>\$ 641,111</u>	<u>\$ 760,821</u>

The Group reversed a previous inventory write-down because some obsolete and slow-moving inventories and inventories with decline in market value were sold by the Group during the years ended December 31, 2017 and 2016.

(5) Other current assets

	December 31, 2017	December 31, 2016
Time deposits	\$ 68,262	\$ 78,108
Other	3,592	4,105
	<u>\$ 71,854</u>	<u>\$ 82,213</u>

The time deposits mentioned above did not meet the requirement of short-term commitments.

(6) Available-for-sale financial assets- non-current

Items	December 31, 2017	December 31, 2016
Non-current items:		
Listed stocks	\$ 89,834	\$ 89,834
Unlisted stocks	11,393	11,393
Valuation adjustment	26,349	19,893
Total	<u>\$ 127,576</u>	<u>\$ 121,120</u>

The Group recognised gain of \$7,565 thousand and \$7,431 thousand in other comprehensive income for fair value change for the years ended December 31, 2017 and 2016, respectively, and did not reclassify any amount from equity to profit or loss for the years ended December 31, 2017 and 2016.

(7) Property, plant and equipment

	Year ended December 31, 2017					
	At January 1	Additions	Disposals	Transfers	Net exchange differences	At December 31
Cost						
Buildings and structures	\$ 298,539	\$ 75,318	\$ -	\$ 9,853	\$ 2,263	\$ 381,447
Molding equipment	149,181	9,743	4,502	2,270	1,583	155,109
Machinery	135,410	1,910	5,555	1,877	2,007	131,635
Research and development equipment	26,864	-	54	-	303	26,507
Transportation equipment	15,369	1,194	1,269	-	155	15,139
Others	83,982	2,713	3,104	7,404	919	90,076
Construction in progress	5,185	14,396	-	9,164	11	10,428
	<u>\$ 714,530</u>	<u>\$ 105,274</u>	<u>\$ 14,484</u>	<u>\$ 12,240</u>	<u>\$ 7,219</u>	<u>\$ 810,341</u>
Accumulated depreciation						
Buildings and structures	(\$ 126,022)	\$ 16,822	\$ -	\$ -	\$ 1,202	(\$ 141,642)
Molding equipment	(129,398)	(11,929)	4,502	-	1,362	(135,463)
Machinery	(92,062)	(6,964)	5,403	-	1,480	(92,143)
Research and development equipment	(22,257)	(1,077)	54	-	237	(23,043)
Transportation equipment	(8,868)	(2,220)	1,268	-	85	(9,735)
Others	(74,340)	(5,927)	3,035	-	825	(76,407)
	<u>(\$ 452,947)</u>	<u>(\$ 44,939)</u>	<u>\$ 14,262</u>	<u>\$ -</u>	<u>\$ 5,191</u>	<u>(\$ 478,433)</u>
	<u>\$ 261,583</u>					<u>\$ 331,908</u>

Year ended December 31, 2016

Cost	Year ended December 31, 2016				Net exchange differences	At December 31
	At January 1	Additions	Disposals	Transfers		
Buildings and structures	\$ 326,307	\$ -	\$ 3,228	\$ -	\$ 24,540	\$ 298,539
Molding equipment	154,354	11,180	(9,701)	5,356	(12,008)	149,181
Machinery	145,097	550	(930)	1,376	(10,683)	135,410
Research and development equipment	29,015	-	(15)	61	(2,197)	26,864
Transportation equipment	16,287	572	(368)	-	(1,122)	15,369
Others	88,103	3,638	(2,460)	1,184	(6,483)	83,982
Construction in progress	5,655	438	-	(494)	(414)	5,185
	<u>\$ 764,818</u>	<u>\$ 16,378</u>	<u>\$ 16,702</u>	<u>\$ 7,483</u>	<u>\$ 57,447</u>	<u>\$ 714,530</u>
Accumulated depreciation						
Buildings and structures	(\$ 120,779)	\$ 16,458	\$ 1,352	\$ -	\$ 9,863	(\$ 126,022)
Molding equipment	(133,977)	(14,150)	8,311	-	10,418	(129,398)
Machinery	(92,239)	(7,697)	892	-	6,982	(92,062)
Research and development equipment	(22,696)	(1,358)	15	-	1,782	(22,257)
Transportation equipment	(7,284)	(2,562)	368	-	610	(8,868)
Others	(79,090)	(3,533)	2,390	-	5,893	(74,340)
	<u>(\$ 456,065)</u>	<u>\$ 45,758</u>	<u>\$ 13,328</u>	<u>\$ -</u>	<u>\$ 35,548</u>	<u>(\$ 452,947)</u>
	<u>\$ 308,753</u>					<u>\$ 261,583</u>

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

(8) Other non-current assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Land use right	\$ 32,028	\$ 33,279
Other non-current assets	13,730	16,235
	<u>\$ 45,758</u>	<u>\$ 49,514</u>

In November 2007, the Group entered into a land use right contract with Zhongshan Administration for Industry & Commerce for use of the land in Xiaolan Town, Zhongshan Prefecture, Guangdong Province in China, with a term of 47 years. Rents have been paid on the contract date. The Group recognised rental expenses of \$865 thousand and \$931 thousand for the years ended December 31, 2017 and 2016, respectively.

(9) Other payables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Salary and bonus payable	\$ 52,913	\$ 52,621
Insurance and pension expense payable	13,370	14,910
Payable for consumables and purchases	13,372	14,465
Others	25,933	28,006
	<u>\$ 105,588</u>	<u>\$ 110,002</u>

(10) Pensions

A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	\$ 14,278	\$ 14,878
Fair value of plan assets	(3,905)	(3,778)
Net defined benefit liability	<u>\$ 10,373</u>	<u>\$ 11,100</u>

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	\$ 14,878	(\$ 3,778)	\$ 11,100
Interest income	<u>167</u>	<u>-</u>	<u>167</u>
	<u>15,045</u>	<u>(3,778)</u>	<u>11,267</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(43)	(43)
Change in financial assumptions	(423)	-	(423)
Experience adjustments	<u>(344)</u>	<u>10</u>	<u>(334)</u>
	<u>(767)</u>	<u>(33)</u>	<u>(800)</u>
Pension fund contribution	<u>-</u>	<u>(94)</u>	<u>(94)</u>
Balance at December 31	<u>\$ 14,278</u>	<u>(\$ 3,905)</u>	<u>\$ 10,373</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	\$ 14,005	(\$ 889)	\$ 13,116
Interest income	<u>228</u>	<u>-</u>	<u>228</u>
	<u>14,233</u>	<u>(889)</u>	<u>13,344</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(15)	(15)
Change in financial assumptions	911	-	911
Experience adjustments	<u>(266)</u>	<u>(7)</u>	<u>(273)</u>
	<u>645</u>	<u>(22)</u>	<u>623</u>
Pension fund contribution	<u>-</u>	<u>(2,867)</u>	<u>(2,867)</u>
Balance at December 31	<u>\$ 14,878</u>	<u>(\$ 3,778)</u>	<u>\$ 11,100</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization 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 authorized

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, 2017 and 2016 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,	
	2017	2016
Discount rate	1.125%	1.625%
Future salary increases	3.00%	3.00%

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

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

	Discount rate		Future salary increases	
	Increase	Decrease	Increase	Decrease
	0.25%	0.25%	0.25%	0.25%
December 31, 2017				
Effect on present value of defined benefit obligation	\$ 409	(\$ 423)	(\$ 408)	\$ 397
December 31, 2016				
Effect on present value of defined benefit obligation	\$ 464	(\$ 480)	(\$ 463)	\$ 499

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

- (f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2018 amounts to \$142.
- (g) As of December 31, 2017, the weighted average duration of that retirement plan is 10.67 years. The analysis of timing of the future pension payment was as follows:

2-5 years	\$	406
Over 5 years		3,415
	\$	<u>3,821</u>

- B. (a) Effective July 1, 2005, the Company have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contribute 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 subsidiaries have a defined contribution plan. Monthly contributions to endowment insurance or pension reserves in accordance with the pension regulations of local government are based on certain percentage of employees' monthly salaries and wages.
- (c) Titan Lighting Co. Ltd. and Zhongshan Tons Lighting Co. Ltd, have a defined contribution plan. Monthly contribution to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on a certain percentage of employees' monthly salaries and wages. On January 1, 2017 and

2016, abovementioned contribution percentage was both 13%. Other than the monthly contributions, the Group has no further obligations.

(d) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2017 and 2016, were \$15,375 thousand and \$15,614 thousand, respectively.

(11) Share-based payment

A. For the years ended December 31, 2017 and 2016, the Group's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions	Actual turnover rate in 2017	Actual turnover rate in 2016	Estimated future turnover rate
Third (1) employee stock options	2012.03.21	600	5 years	2~4 years' service	0%	4.35%	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	3.57%	6.67%	0%
Fifth employee stock options	2016.12.23	600	5 years	2~4 years' service	15.22%	0%	0%

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

(a) Third (1) employee stock options

	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	276	\$ 24.90
Options exercised	-	-	(75)	24.90
Options exercised	(86)	22.70	(115)	22.70(Note)
Options outstanding at December 31	-	-	86	22.70(Note)
Options exercisable at December 31	-	-	-	-

Note: Price was adjusted due to the ex-rights.

(b) Third (2) employee stock options

	2017		2016	
	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	14	\$ 24.00
Options exercised	-	-	(5)	24.00
Options exercised ()	(4)	21.90	(5)	21.90 (Note)
Options outstanding at December 31	<u>-</u>		<u>4</u>	21.90 (Note)
Options exercisable at December 31	<u>-</u>		<u>4</u>	

(c) Fourth employee stock options

	2017		2016	
	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	390	\$ 23.80	508	\$ 26.10
Options forfeited	-	-	(3)	26.10
Options forfeited ()	(2)	21.70	(10)	23.80 (Note)
Options exercised ()	(120)	23.80	-	-
Options exercised ()	(25)	21.70	(105)	23.80 (Note)
Options outstanding at December 31	<u>243</u>	21.70	<u>390</u>	23.80 (Note)
Options exercisable at December 31	<u>120</u>		<u>142</u>	

Note: Price was adjusted due to the ex-rights.

(d) Fifth employee stock options

	2017		2016	
	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	600	\$ 34.95	-	\$ -
Options granted	-	34.95	600	34.95
Options forfeited ()	(21)	34.95	-	-
Options forfeited ()	(6)	31.80	-	-
Options outstanding at December 31	<u>573</u>	31.80	<u>600</u>	34.95
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, 2017		December 31, 2016	
		No. of options (in thousands)	Exercise price	No. of options (in thousands)	Exercise price
Third (1) employee stock options	2017.3.20	-	\$ -	86	\$ 22.70
Third (2) employee stock options	2017.12.25	-	-	4	21.90
Fourth employee stock options	2019.11.12	243	21.70	390	23.80
Fifth employee stock options	2021.12.22	573	31.80	600	34.95

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

	Years ended December 31,	
	2017	2016
Equity-settled - employee stock options	\$ 1,973	\$ 1,734
(12) Provisions – non-current		

	Warranty provisions	
	2017	
At January 1	\$	1,565
Unused amounts reversed	(932)
Effects of foreign exchange	(8)
At December 31	\$	625
Analysis of total provisions:		

	December 31, 2017	December 31, 2016
Non-current	\$ 625	\$ 1,565

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

(13) Share capital

- As of December 31, 2017, the Company's authorized capital was \$500 million, consisting of 50,000 thousand shares of ordinary stock (including 5 million shares reserved for employee stock options). The paid-in capital was \$398,118 thousand with a par value of \$10 (in dollars) per share. Total share capital was \$398,665 thousand, including 537 thousand of advance receipts arising from exercised employee stock options, equivalent of 25 thousand shares.
- The stockholders at their annual stockholders' meeting on May 26, 2017 adopted a resolution to increase capital for 394 thousand shares with a par value of \$10 (in dollars), through capitalization of unappropriated retained earnings of \$3,942 thousand. The capital increase had been resolved by the Board of Directors and the effective date had been set on July 24, 2017. On August 4, 2017, the registration was completed.
- The stockholders at their annual stockholders' meeting on May 31, 2016 adopted a resolution to increase capital for 764 thousand shares with a par value of \$10 (in dollars), through capitalization of unappropriated retained earnings of \$7,644 thousand. The capital increase had been resolved by the Board of Directors and the effective date has been set on August 1, 2016. On August 16, 2016, the registration was completed.

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

(Unit: shares in Thousands)

	2017	2016
At January 1	39,207	38,138
Employee stock options exercised	235	305
Stock dividend	394	764
At December 31	39,836	39,207

(14) Capital surplus

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

(15) Retained earnings

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

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

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

- B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- C. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amount previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be the same as the amount reclassified from accumulated translation adjustment under shareholders' equity to retained earnings for the exemptions elected by the Group. The increase in special reserve as a result of retained earnings arising from the adoption of IFRS

was \$38,429 thousand.

D. (a) The appropriations of 2016 and 2015 earnings, respectively, resolved by the shareholders on May 26, 2017 and May 31, 2016 are as follows:

	Years ended December 31,			
	2016		2015	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 12,501		\$ 14,461	
Stock dividends	3,942	\$ 0.1	7,644	\$ 0.2
Cash dividends	102,486	2.6	107,010	2.8
	<u>\$ 118,929</u>		<u>\$ 129,115</u>	

(b) The details about the appropriation of 2017 earnings which was proposed at the Board of Directors' meeting on February 23, 2018 are as follows:

	Years ended December 31,	
	Amount	Dividend per share (dollar)
Legal reserve	\$ 12,108	
Cash dividends	91,758	\$ 2.3
	<u>\$ 103,866</u>	

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

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

(16) Other equity items

	2017		2016	
	Currency translation	Available-for-sale investment	Currency translation	Available-for-sale investment
At January 1	(\$ 23,355)	\$ 18,448	\$ 33,197	\$ 11,017
Currency translation differences: - Group	(12,710)	-	(56,552)	-
Revaluation	-	6,456	-	7,117
Revaluation - tax	-	1,109	-	314
At December 31	<u>(\$ 36,065)</u>	<u>\$ 26,013</u>	<u>(\$ 23,355)</u>	<u>\$ 18,448</u>

(17) Operating revenue

	Years ended December 31,	
	2017	2016
Sales revenue	<u>\$ 986,926</u>	<u>\$ 1,176,289</u>

(18) Other income

	Years ended December 31,	
	2017	2016
Interest income:		
Interest income from bank deposits	\$ 8,608	\$ 10,082
Other interest income	4,586	5,948
	<u>\$ 13,194</u>	<u>\$ 16,030</u>

(19) Other gains and losses

	Years ended December 31,	
	2017	2016
Net currency exchange gain (loss)	\$ 3,455	(\$ 2,085)
Net gain (loss) on financial assets at fair value through profit or loss	41,060	(2,427)
(Loss) gain on disposal of property, plant and equipment	(17)	4,274
Others	(1,172)	(278)
	<u>\$ 43,326</u>	<u>(\$ 516)</u>

(20) Expenses by nature

	Years ended December 31,	
	2017	2016
Employee benefit expense	\$ 267,615	\$ 287,031
Depreciation charges on property, plant and equipment	44,939	45,758
Amortisation expense	2,130	1,566

(21) Employee benefit expense

	Years ended December 31,	
	2017	2016
Wages and salaries	\$ 232,630	\$ 251,230
Employee stock options	1,973	1,734
Labour and health insurance fees	8,837	8,791
Pension costs	15,499	15,827
Other personnel expenses	8,676	9,449
	<u>\$ 267,615</u>	<u>\$ 287,031</u>

Note: For the years ended December 31, 2017 and 2016, the Group had 715 and 781 employees excluding 102 and 100 contract employees, respectively.

- A. A ratio of distributable profit of the current year, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be 8% to 12% for employees' compensation and shall not be higher than 2% for directors' and supervisors' remuneration. If a company has accumulated deficit, earnings should be retained to cover losses.
- B. For the years ended December 31, 2017 and 2016, the accrued employees' compensation and directors' and supervisors' remuneration is as follows:

	Years ended December 31,	
	2017	2016
Employees' compensation	\$ 12,906	\$ 13,548
Directors' and supervisors' remuneration	1,936	2,391
	<u>\$ 14,842</u>	<u>\$ 15,939</u>

The aforementioned amounts were recognised in salary expenses, and accrued based on 8 % and 1.5%, respectively, of the pretax income that has not been accrued for the above expenses of the current period. For the year ended December 31, 2016, employees' compensation and directors' and supervisors' remuneration was accrued based on 8.5 % and 1.5%, respectively, of the pretax income that has not been accrued for the above expenses of the current period.

Employees' compensation and directors' and supervisors' remuneration for 2017 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2016 financial statements. The employees' compensation will be distributed in the form of cash.

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

(22) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2017	2016
Current tax:		
Current tax on profits for the year	\$ 21,513	\$ 36,300
Tax on undistributed surplus earnings	556	1,463
Prior year income tax (overestimation) underestimation	(354)	1,668
Total current tax	21,715	39,431
Deferred tax:		
Origination and reversal of temporary differences	10,672	(1,707)
Income tax expense	<u>\$ 32,387</u>	<u>\$ 37,724</u>

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

	Years ended December 31,	
	2017	2016
Remeasurement of defined benefit obligations	\$ 125	(\$ 106)
Unrealised gain (loss) on available-for-sale financial assets	(1,109)	(314)
	<u>(\$ 984)</u>	<u>(\$ 420)</u>

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2017	2016
Tax calculated based on profit before tax and statutory tax rate	\$ 33,831	\$ 44,416
Expenses disallowed by tax regulation	(1,646)	(9,845)
Prior year income tax (overestimation) underestimation	(354)	1,668
Effect from Alternative Minimum Tax	-	22
Tax on undistributed surplus earnings	556	1,463
Income tax expense	<u>\$ 32,387</u>	<u>\$ 37,724</u>

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

	2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Allowance for inventory valuation and obsolescence losses	\$ 1,162	47	\$ -	1,209
Warranty liabilities	-	57	-	57
Unrealised sales returns and discounts	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	1,254	-	(125)	1,129
Unused compensated absences	258	(50)	-	208
	<u>\$ 5,221</u>	<u>(\$ 1,586)</u>	<u>(\$ 125)</u>	<u>\$ 3,510</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)
	<u>(\$ 1,555)</u>	<u>(\$ 9,086)</u>	<u>\$ 1,109</u>	<u>(\$ 9,532)</u>
	<u>\$ 3,666</u>	<u>(\$ 10,672)</u>	<u>\$ 984</u>	<u>(\$ 6,022)</u>

	2016			
	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	\$ 9 (9)	\$ -	\$ -
Warranty liabilities	1,521 (359)	-	1,162
Unrealised sales returns and discounts	80	120	-	200
Unallocated amount of accrued pension expense	1,081 (452)	-	629
Unrealised foreign exchange losses	-	1,718	-	1,718
Remeasurement of defined benefit	1,148	-	106	1,254
Unused compensated absences	191	67	-	258
	<u>\$ 4,030</u>	<u>\$ 1,085</u>	<u>\$ 106</u>	<u>\$ 5,221</u>
-Deferred tax liabilities:				
Unrealised gain on foreign exchange	(\$ 733)	\$ 733	\$ -	\$ -
Amount of allowance for bad debts that exceed the limit for tax purpose	-	(111)	-	(111)
Unrealised gain on valuation of available-for-sale financial assets	(1,758)	-	314	(1,444)
	<u>(\$ 2,491)</u>	<u>\$ 622</u>	<u>\$ 314</u>	<u>(\$ 1,555)</u>
	<u>\$ 1,539</u>	<u>\$ 1,707</u>	<u>\$ 420</u>	<u>\$ 3,666</u>

D. The Company has not recognised taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities. As of December 31, 2017 and 2016, the amounts of temporary difference unrecognised as deferred tax liabilities were \$36,890 and \$41,861 thousand, respectively.

E. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

F. Unappropriated retained earnings:

	December 31, 2017	December 31, 2016
Earnings generated in and after 1998	<u>\$ 189,770</u>	<u>\$ 187,006</u>

G. As of December 31, 2017 and 2016, the balance of the imputation tax credit account was \$19,609 and 17,724 thousand, respectively. The creditable tax rate was 15.16% for the year ended December 31, 2016 and is estimated to be 10.33% for the year ended December 31, 2017.

H. According to the Income Tax Act of the Republic of China, resident shareholders are entitled to

a tax credit calculated with the creditable tax rate on the date the dividend is received from the Company's distributable earnings accrued in and after 1998. The actual tax credit passed onto the resident shareholders is nevertheless based on the balance of the imputation credit account on the date the dividend is paid. The Company expected a difference between the estimated creditable tax rate and the actual rate for the year ended December 31, 2017. When calculating the creditable tax rate of the reporting year, in the accumulated unappropriated earnings the Company included the net increase or decrease of retained earnings resulting from the first-time adoption of IFRS pursuant to Rule No.10204562810 issued by the Ministry of Finance.

(23) Earnings per share

Earnings per share of ordinary shares

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

	Year ended December 31, 2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 125,011	39,406	\$ 3.17
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	125,011	39,406	
Assumed conversion of all dilutive potential ordinary shares			
- Employees' compensation	-	429	
- Employee stock options	-	343	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 125,011	40,178	\$ 3.11

The abovementioned weighted average number of outstanding shares was retrospectively adjusted proportionately to the capitalised amount of unappropriated earnings for the years ended December 31, 2017 and 2016.

(24) Operating leases

The Group leases real estate under non-cancellable operating lease agreements. The lease terms are between 2 and 3 years, and all these lease agreements are renewable at the end of the lease period. Rental is increased every year to reflect market rental rates. Partial leases are charged extra rents following the changes of local price indexes. The Group recognised rental expenses of \$17,904 and \$17,149 thousand, for these leases in profit or loss for the years ended December 31, 2017 and 2016, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2017	December 31, 2016
Not later than one year	\$ 13,320	\$ 13,928
Later than one year but not later than five years	5,316	10,632
	\$ 18,636	\$ 24,560

(25) Supplemental cash flow information

Investing activities with partial cash payments

	Years ended December 31,	
	2017	2016
Purchase of property, plant and equipment	\$ 105,274	\$ 16,378
Add: Opening balance of payable on equipment	497	2,151
Less: Ending balance of payable on equipment	(496)	(497)
Cash paid during the period	\$ 105,275	\$ 18,032

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Group
WeiSen Electronic Co., Ltd	Other related parties (Note)

Note: On June 20, 2017, the Group was elected as juristic person director of HEP TECH CO., LTD. (hereinafter "HEP"), and the Group became a related party of "HEP " and its subsidiaries starting from the same day. The sales transactions included the period from June 20, 2017 to December 31, 2017, and listed below are the accounts receivable, accounts payable and other payables based on the balances as of December 31, 2017.

(2) Significant related party transactions

A. Operating revenue

	Year ended December 31, 2017
Sales of goods:	
- Other related parties	\$ <u>18</u>

B. Accounts receivable

	December 31, 2017
Accounts receivable:	
- Other related parties	\$ <u>4</u>

C. Purchases

	Year ended December 31, 2017
Purchases of raw materials:	
- Other related parties	\$ <u>22,418</u>

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

D. Accounts payable

	December 31, 2017
Accounts payable:	
- Other related parties	\$ <u>12,144</u>

(3) Key management compensation

	Years ended December 31,	
	2017	2016
Short-term employee benefits	\$ 29,391	\$ 33,264
Post-employment benefits	702	632
Share-based payments	<u>1,098</u>	<u>1,086</u>
	<u>\$ 31,191</u>	<u>\$ 34,982</u>

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

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

(2) Commitments

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

Lessee	Leased object	Period	Monthly rent
TONS LIGHTOLOGY INC.	4F., No.236, Bo'ai St., New Taipei City, Taiwan	2017.1.1 ~ 2019.12.31	\$ 443
ZHONGSHAN TONS LIGHTING CO., LTD.	No. 6 HuaCheng Rd., ZhongShan, GuangDong Province, China	2018.1.1 ~ 2018.12.31	667

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

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

During the year ended December 31, 2017, the Group's strategy, which was unchanged from 2016, was to maintain the debt-to-asset ratio within 20% to 40%. The debt-to-asset ratios at December 31, 2017 and 2016 were as follows:

	December 31, 2017	December 31, 2016
Total liabilities	\$ 259,293	\$ 262,670
Total assets	\$ 1,440,907	\$ 1,442,805
Gearing ratio	18%	18%

(1) Financial instruments

A. Fair value information of financial instruments

(a) Except for those listed in the table below, the carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable and other payables) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

	December 31, 2017			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial assets:				
Financial assets at fair value through profit or loss	\$ 148,029	\$ 145,867	\$ 2,162	\$ -
Available-for-sale financial assets	127,576	114,209	-	13,367
	\$ 275,605	\$ 260,076	\$ 2,162	\$ 13,367

	December 31, 2016			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial assets:				
Financial assets at fair value through profit or loss	\$ 71,505	\$ 71,505	\$ -	\$ -
Available-for-sale financial assets	<u>121,120</u>	<u>101,229</u>	<u>-</u>	<u>19,891</u>
	<u>\$ 192,625</u>	<u>\$ 172,734</u>	<u>\$ -</u>	<u>\$ 19,891</u>

- (b) The methods and assumptions of fair value measurement are as follows:
- i. Financial assets at fair value through profit or loss: If there is a quoted price in an active market, the fair value is based on the market price; if there is no quoted market price available, the fair value is determined by using valuation techniques or counterparty quotes.
 - ii Available-for-sale financial assets: There is no quoted market price available, the fair value is determined by using valuation techniques or counterparty quotes.
- B. Financial risk management policies
- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.
 - (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.
- C. Significant financial risks and degrees of financial risks
- (a) Market risk
 - Foreign exchange risk
 - i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.
 - ii. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use natural hedge to decrease the risk exposure in the foreign currency, transacted with Group treasury.
 - iii. The Group treasury's risk management policy is to hedge anticipated cash flows (mainly from export sales and purchase of inventory) in each major foreign currency.

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

	December 31, 2017					
	Foreign currency amount (In thousands)	Exchange rate	Book value (In thousands of NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
					Sensitivity analysis	
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD : NTD	\$ 3,257	29.710	\$ 96,765	1%	\$ 968	\$ -
EUR : NTD	1,485	35.370	52,524	1%	525	-
RMB : NTD	24,808	4.540	112,628	1%	1,126	-
RMB : USD	16,387	0.153	74,397	1%	744	-
USD : RMB	4,932	6.519	146,530	-1%	(1,465)	-
EUR : RMB	130	7.792	4,598	1%	46	-
USD : RMB (Note)	1,800	6.550	2,162	-1%	539	-
<u>Non-monetary items</u>						
USD : NTD	\$ 337	29.710	\$ 10,012	1%	\$ -	\$ 100
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD : NTD	\$ 5,744	29.810	\$ 171,229	1%	(\$ 1,712)	\$ -
EUR : NTD	196	35.770	7,011	1%	(70)	-
RMB : NTD	10,916	4.590	50,104	1%	(501)	-
RMB : USD	9,186	0.154	42,164	1%	(422)	-

Note : The Group's subsidiaries have forward foreign exchange contracts. Foreign currency amount is the notional principal. Exchange rate is forward exchange rate that is estimated to be settled at the balance sheet date, and the book value is the amount recognised.

		December 31, 2016		Sensitivity analysis			
		Foreign currency amount (In thousands)	Exchange rate	Book value (In thousands of NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)							
<u>Financial assets</u>							
<u>Monetary items</u>							
USD : NTD	\$	4,565	32.200	\$ 146,993	1%	\$ 1,470	\$ -
EUR : NTD		1,197	33.700	40,339	1%	403	-
RMB : NTD		29,015	4.592	133,237	1%	1,332	-
RMB : USD		25,152	0.143	115,498	1%	1,155	-
USD : RMB		4,227	6.985	136,109	-1%	(1,361)	-
<u>Non-monetary items</u>							
USD : NTD	\$	337	32.200	\$ 10,851	1%	\$ -	\$ 109
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD : NTD	\$	5,570	32.300	\$ 179,911	1%	(\$ 1,799)	\$ -
RMB : NTD		8,232	4.642	38,213	1%	(382)	-
RMB : USD		7,748	0.144	35,966	1%	(360)	-
USD : RMB (Note)		1,800	6.973	2,067	-1%	580	-

Note : The Group's subsidiaries have forward foreign exchange contracts. Foreign currency amount is the notional principal. Exchange rate is forward exchange rate that is estimated to be settled at the balance sheet date, and the book value is the amount recognised.

- E. Total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2017 and 2016 amounted to \$3,455 and (\$2,085) thousand, respectively.

Interest rate risk

For the years ended December 31, 2017 and 2016, the Group has no items with impact on profit (loss) due to changes in interest rates.

Price risk

- i. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.
- ii. The Group's investments in equity securities comprise domestic listed and unlisted stocks. 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, other components of equity for the years ended December 31, 2017 and 2016 would have increased/decreased by \$1,276 and \$1,211, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients. 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 management. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.
- ii. For the years ended December 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The credit quality information of financial assets that are neither past due nor impaired is provided in Note 6(3) Accounts receivable.
- iv. The ageing analysis of financial assets that were past due but not impaired is provided in Note 6(3) Accounts receivable.
- v. The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial asset in Note 6.

(c) Liquidity risk

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

Non-derivative financial liabilities:

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

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, 2016					
Notes payable and accounts payable	\$ 108,319	\$ -	\$ -	\$ -	\$ -
Other payables	110,002	-	-	-	-

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					
Forward exchange contracts	\$ -	\$ -	\$ -	\$ -	\$ -

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, 2016					
Forward exchange contracts	\$ 2,067	\$ -	\$ -	\$ -	\$ -

(2) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A.

B. 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.

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 as of December 31, 2017 and 2016 is as follows:

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss	<u>\$ 145,867</u>	<u>\$ 2,162</u>	<u>\$ -</u>	<u>\$ 148,029</u>
Available-for-sale financial assets - Equity securities	<u>\$ 114,209</u>	<u>\$ -</u>	<u>\$ 13,367</u>	<u>\$ 127,576</u>
<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss	<u>\$ 71,505</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,505</u>
Available-for-sale financial assets - Equity securities	<u>\$ 101,229</u>	<u>\$ -</u>	<u>\$ 19,891</u>	<u>\$ 121,120</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss	<u>\$ -</u>	<u>\$ 2,067</u>	<u>\$ -</u>	<u>\$ 2,067</u>

D. The Group used market quoted prices as the fair values of the instruments in Level 1. Based on the characteristics, the closing prices are used for emerging shares.

E. For the years ended December 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.

F. The following chart is the movement of Level 3 for the years ended December 31, 2017 and 2016:

	2017			
	Non-derivative equity instrument	Derivative instruments	Investment property	Total
At January 1	\$ 19,891	\$ -	\$ -	\$ 19,891
Gains recognised in other comprehensive income (Note 1)	(6,524)	-	-	(6,524)
At December 31	<u>\$ 13,367</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,367</u>
	2016			
	Non-derivative equity instrument	Derivative instruments	Investment property	Total
At January 1	\$ 65,937	\$ -	\$ -	\$ 65,937
Gains recognised in other comprehensive income (Note 1)	4,225	-	-	4,225
Transfers out from level 3 (Note 2)	(50,271)	-	-	(50,271)
At December 31	<u>\$ 19,891</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,891</u>

Note 1: It is recorded as unrealised gains (losses) on valuation of available-for-sale financial assets.

Note 2: As the Group's private entity's shares of StrongLED Lighting Systems (Cayman) Co., Ltd. started to be traded in the Taipei Exchange from March 2016, the Group has transferred the fair value from Level 3 into Level 1 at the end of month when the event occurred.

- G. Experts and the Group's treasury department are in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- H. 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, 2017	Valuation technique	Significant unobservable input	Range	Relationship of inputs to fair value
Non-derivative equity					
Unlisted shares	\$ 13,367	Market comparable companies	Net equity ratio and price to earnings ratio	0.96~9.18	The higher the multiple, the higher the fair value
	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range	Relationship of inputs to fair value
Non-derivative equity					
Unlisted shares	\$ 19,891	Market comparable companies	Net equity ratio and price to earnings ratio	0.91~9.07	The higher the multiple, the higher the fair value

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

		December 31, 2017			
		<u>Recognised in other comprehensive income</u>			
	Input	Change	Favourable change	Unfavourable change	
Financial assets					
Equity securities	Net equity ratio and price to earnings ratio	±5%	\$ 683	(\$ 683)	
		December 31, 2016			
		<u>Recognised in other comprehensive income</u>			
	Input	Change	Favourable change	Unfavourable change	
Financial assets					
Equity securities	Net equity ratio and price to earnings ratio	±5%	\$ 996	(\$ 996)	

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: Titan Lighting Co., Ltd. entered into forward foreign exchange contracts for the year ended December 31, 2017. As of December 31, 2017, financial assets at fair value through profit or loss of \$2,162 thousand was recognised.
- 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, 2017 is provided in Note 13(1) J.

14. SEGMENT INFORMATION

(1) General information

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

(2) Measurement of segment information

The Group evaluates the performance of the operating segments based on pre-tax profit or loss. This measurement basis excludes the effects of non-recurring expenditure from the operating segments. The measurement also excludes the effects of equity-settled share-based payment and unrealised gains/losses on financial instruments.

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

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

	Year ended December 31, 2017			
	TONS LIGHTOLOGY INC.	TITAN LIGHTING CO., LTD.	ZHONGSHAN TONS LIGHTING CO., LTD.	Total
Revenue from external customers	\$ 903,494	\$ 3,997	\$ 79,435	\$ 986,926
Revenue from internal customers	29,663	730,921	12,891	773,475
Segment revenue	<u>\$ 933,157</u>	<u>\$ 734,918</u>	<u>\$ 92,326</u>	<u>\$ 1,760,401</u>
Segment profit (loss) before tax	<u>\$ 92,986</u>	<u>\$ 29,970</u>	<u>(\$ 100)</u>	<u>\$ 122,856</u>
Segment income (loss), including depreciation and amortisation	\$ 4,787	\$ 38,405	\$ 2,044	\$ 45,236
Expense of income tax	25,389	6,796	116	32,301
Recognised investment profit or loss which is adopting equity method	53,486	-	-	53,486
	Year ended December 31, 2016			
	TONS LIGHTOLOGY INC.	TITAN LIGHTING CO., LTD.	ZHONGSHAN TONS LIGHTING CO., LTD.	Total
Revenue from external customers	\$ 1,072,510	\$ 6,421	\$ 97,358	\$ 1,176,289
Revenue from internal customers	33,192	864,879	6,704	904,775
Segment revenue	<u>\$ 1,105,702</u>	<u>\$ 871,300</u>	<u>\$ 104,062</u>	<u>\$ 2,081,064</u>
Segment profit (loss) before tax	<u>\$ 96,012</u>	<u>\$ 76,820</u>	<u>\$ 3,050</u>	<u>\$ 175,882</u>
Segment income (loss), including depreciation and amortisation	(\$ 3,234)	(\$ 43,312)	(\$ 778)	(\$ 47,324)
Expense of income tax	(18,442)	(18,491)	(447)	(37,380)
Recognised investment profit or loss which is adopting equity method	47,441	-	-	47,441

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

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

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

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

(4) Reconciliation for segment income (loss)

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

	Years ended December 31,	
	2017	2016
Reportable operating segments revenue after adjustment	\$ 1,760,401	\$ 2,081,064
Other operating segments revenue after adjustment	733,106	877,119
Total operating segments revenue	2,493,507	2,958,183
Elimination of intersegment revenue	(1,506,581)	(1,781,894)
Total consolidated operating revenue	<u>\$ 986,926</u>	<u>\$ 1,176,289</u>

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

	Years ended December 31,	
	2017	2016
Reportable operating segments income before tax after adjustment	\$ 122,856	\$ 175,882
Other operating segments income (loss) before tax after adjustment	30,286	(13,911)
Total operating segments revenue	153,142	161,971
Elimination of intersegment (loss) revenue	328	764
Income before tax from continuing operations	<u>\$ 153,470</u>	<u>\$ 162,735</u>

(5) Information on products and services

Revenue from external customers is mainly from manufacturing and trading of lighting equipment and lamps. Details of revenue is provided in Note 6(17).

(6) Geographical information

The revenue is comprised of subsets based on geographic areas. The non-current assets, including property, plant and equipment as well as intangible assets, are shown by where they are located. Geographical information for the years ended December 31, 2017 and 2016 is as follows:

	Years ended December 31,			
	2017		2016	
	Revenue	Non-current assets	Revenue	Non-current assets
Europe	\$ 681,451	\$ -	\$ 800,920	\$ -
Asia	229,248	336,995	286,481	263,255
Americas	8,816	-	23,898	-
Others	67,411	-	64,990	-
	<u>\$ 986,926</u>	<u>\$ 336,995</u>	<u>\$ 1,176,289</u>	<u>\$ 263,255</u>

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2017 and 2016 is as follows:

	Years ended December 31,			
	2017		2016	
	Revenue	Segment	Revenue	Segment
A	\$ 198,697	Tons Lightology Inc. and Titan Lighting Co., Ltd.	\$ 218,566	Tons Lightology Inc. and Titan Lighting Co., Ltd.
B	92,044	Tons Lightology Inc. and Titan Lighting Co., Ltd.	136,789	Tons Lightology Inc. and Titan Lighting Co., Ltd.
	<u>\$ 290,741</u>		<u>\$ 355,355</u>	

TONS LIGHTTOLOGY INC. AND SUBSIDIARIES

Loans to others

Years ended December 31, 2017

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2017	Balance at December 31, 2017	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Ceiling on total loans granted	Footnote
													Item	Value		
0	TONS LIGHTTOLOGY INC.	GREATSUPER TECHNOLOGY LIMITED	Other receivables	Yes	\$ 62,590	\$ -	-	1.65	Financing	\$ -	Operation requirements	\$ -	None	\$ -	472,646	472,646
1	ZHONGSHAN TONS LIGHTING CO., LTD.	SHANGHAI TONS LIGHTHOLOGY CO., LTD.	Other receivables	Yes	15,757	-	-	1.50	Financing	-	Operation requirements	-	None	-	32,756	32,756

Note 1: The numbers filled in for the loans 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: For companies with short-term financing needs, ceiling on loans is 40% of the lending company's net assets. As all the borrowing companies are wholly-owned companies held by Tons Lightology Inc., they are not limited to the 40% restriction.

Note 3: Ceiling on total loans granted to others is 40% of the lending company's net assets.

TONS LIGHTLOGY INC. AND SUBSIDIARIES

Provision of endorsements and guarantees to others

Years ended December 31, 2017

Expressed in thousands of NTID
(Except as otherwise indicated)

Table 2

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, 2017 (Note 4)	Outstanding endorsement/ guarantee amount at December 31, 2017 (Note 5)	Amount of endorsements/ guarantees secured with collateral (Note 5)	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Provision of endorsements/ endorsements/ endorsements/		Footnote
									endorsed by parent company to subsidiary (Note 6)	guarantees to the party in Mainland China (Note 6)	
0	TONS LIGHTLOGY INC.	GREATSUPER TECHNOLOGY LIMITED	(3)	\$ 236,323	\$ 45,975	\$ 44,640	\$ -	3.78	Y	N	-
							\$ 472,646				

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

- (1) The Company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.
- Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following six categories:
 - (1) Having business relationship.
 - (2) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
 - (3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.
 - (4) The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.
 - (5) Mutual guarantee of the trade as required by the construction contract.
 - (6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

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

Note 4: Maximum outstanding endorsement/guarantee amount of USD \$1.5 million as of December 31, 2017 was the balance as approved by the Board of Directors. As of December 31, 2017, the actual amount drawn down by Greatsuper Technology Limited was USD \$0 thousand, which was translated at the average buying and selling spot rate on December 31, 2017.

Note 6: Fill in 'Y' for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

TONS LIGHTOLOGY INC. AND SUBSIDIARIES

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

Years ended December 31, 2017

Table 3
Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer	General ledger account	As of December 31, 2017			Footnote	
				Number of shares	Book value	Ownership (%)		Fair value
TONS LIGHTOLOGY INC.	Share ownership / TITAN AURORA INC.	None	Available-for-sale financial assets – non-current	1,900	\$ 9,306	19.00	9,306	-
TONS LIGHTOLOGY INC.	Share ownership / GRIFFIN LIGHTING CO., LTD.	None	Available-for-sale financial assets – non-current	66,500	3,136	19.00	3,136	-
TONS LIGHTOLOGY INC.	Share ownership / ANDERSEN LIGHTING CO., LTD.	None	Available-for-sale financial assets – non-current	-	925	19.00	925	Note 2
TONS LIGHTOLOGY INC.	Share ownership / Strong LED Lighting System (Cayman) Co., Ltd.	None	Available-for-sale financial assets – non-current	1,700,000	62,475	4.59	62,475	-
TONS LIGHTOLOGY INC.	Stock / HEP TECH CO., LTD.	None	Available-for-sale financial assets – non-current	3,860,760	51,734	12.73	51,734	-
HONG BO INVESTMENT CO., LTD.	Stock / HEP TECH CO., LTD.	None	Financial assets at fair value through profit or loss – current	2,093,000	28,046	6.90	28,046	-
HONG BO INVESTMENT CO., LTD.	Stock / Strong LED Lighting System (Cayman) Co., Ltd.	None	Financial assets at fair value through profit or loss – current	3,206,000	117,821	8.66	117,821	-
		Total		273,443	Total		273,443	

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

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

TONS LIGHTOLOGY INC. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more
 Years ended December 31, 2017

Expressed in thousands of NTD
 (Except as otherwise indicated)

Table 4

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)	Percentage of total notes/accounts receivable (payable)	Footnote (Note 2)
						Unit price	Credit term	Balance			
TONS LIGHTOLOGY INC.	TONS LIGHTING CO., LTD.	Subsidiary of the Company	Purchases	\$ 735,155	98	30-60 days after purchases of goods	Note 1	Note 2	(\$ 201,876)	(96)	Note 4
TONS LIGHTING CO., LTD.	TITAN LIGHTING CO., LTD.	Same ultimate parent	Purchases	713,202	100	30-60 days after purchases of goods	Note 3	Note 2	(177,525)	(100)	Note 4

Note 1: Transaction amount is based on the transfer pricing policy of Tons Lightology Inc. The credit term is 30-60 days after the purchases and payment is made timely according to the capital needs of subsidiaries.
 Note 2: There are no purchases (sales) of the same products, thus, no third party transaction can be compared with.
 Note 3: Transaction amount is based on the transfer pricing policy of Tons Lightology Inc. The credit term is 30-60 days after the shipment of goods.
 Note 4: The transactions were eliminated when preparing the consolidated financial statements.

TONS LIGHTOLOGY INC. AND SUBSIDIARIES

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
 Years ended December 31, 2017

Expressed in thousands of NTD
 (Except as otherwise indicated)

Table 5

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2017 (Note 2)	Overdue receivables		Amount collected subsequent to the balance sheet date (Note 1)	Allowance for doubtful accounts
				Turnover rate	Action taken		
TONS LIGHTING CO., LTD.	TONS LIGHTOLOGY INC.	Parent company	Accounts receivable \$201,876	3.63	\$ -	\$ 100,720	\$ -
TITAN LIGHTING CO., LTD.	TONS LIGHTING CO., LTD.	Same ultimate parent	Accounts receivable \$177,525	4.26	-	105,176	-

Note 1: Subsequent collection is the amount of receivables collected from related parties as of February 23, 2018.
 Note 2: The transactions were eliminated when preparing the consolidated financial statements.

TONS LIGHTOLOGY INC. AND SUBSIDIARIES

Significant inter-company transactions during the reporting period
Years ended December 31, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 6

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount (Note 4)	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	TONS LIGHTOLOGY INC.	TONS LIGHTING CO., LTD.	(1)	(Purchases)	735,155	30-60 days after purchases of goods	74.49
0	TONS LIGHTOLOGY INC.	TONS LIGHTING CO., LTD.	(1)	(Accounts payable)	201,876	30-60 days after purchases of goods	14.01
1	TONS LIGHTING CO., LTD.	TITAN LIGHTING CO., LTD.	(3)	(Purchases)	713,202	30-60 days after purchases of goods	72.26
1	TONS LIGHTING CO., LTD.	TITAN LIGHTING CO., LTD.	(3)	(Accounts payable)	177,525	30-60 days after purchases of goods	12.32

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. AND SUBSIDIARIES

Information on investees
Years ended December 31, 2017

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the years ended December 31, 2017	Investment income (loss) recognised by the Company for the years ended December 31, 2017	Footnote
				Balance at December 31, 2017	Balance at December 31, 2016	Number of shares	Ownership (%)	Book value			
TONS LIGHTOLOGY INC.	WORLD EXTEND HOLDING INC.	Samoa	Reinvestment company	\$ 545,972	\$ 503,130	18,333,402	100	\$ 845,641	\$ 15,830	\$ 16,158	Subsidiary (Note 1, 3)
TONS LIGHTOLOGY INC.	HONG BO INVESTMENT CO., LTD.	Taiwan	Reinvestment company	125,000	90,000	12,500,000	100	161,044	37,328	37,328	Subsidiary (Note 3)
WORLD EXTEND HOLDING INC.	TONS LIGHTING CO., LTD.	Belize	Sales of various lighting products and accessories	1,625	1,625	500,000	100	6,065	(7,273)	-	Indirect subsidiary (Note 2, 3)
WORLD EXTEND HOLDING INC.	LUMINOUS HOLDING INCORPORATED	Samoa	Reinvestment company	100,590	30,357	3,250,000	100	99,004	(3,084)	-	Indirect subsidiary (Note 2, 3)
WORLD EXTEND HOLDING INC.	GREATSUPER TECHNOLOGY LIMITED	British Virgin Islands	Reinvestment company	500,917	500,917	27,666	100	725,514	26,249	-	Indirect subsidiary (Note 2, 3)

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

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

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

TONS LIGHTLOGY INC. AND SUBSIDIARIES
Information on investments in Mainland China
Years ended December 31, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 8

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, 2017	Amount remitted from Taiwan to		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised for the years ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
					Mainland China/ Amount remitted back to Taiwan for the years ended December 31, 2017	Remitted back to Taiwan							
TITAN LIGHTING CO., LTD.	Design of products, manufacturing of hardware parts, and production and trading of lamps and accessories	\$ 364,634	(2)	\$ 368,845	\$ -	\$ 368,845	\$ 23,174	100.00	\$ 23,174	\$ 615,824	\$ 20,066	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	107,136	(2)	110,585	-	110,585	(215)	100.00	(215)	81,889	-	Note 1,2,4,5	
SHANGHAI TONS LIGHTLOGY CO, LTD.	Design of products, manufacturing of hardware parts, and production and trading of lamps and accessories	95,232	(2)	-	42,842	42,842	(3,045)	100.00	(3,045)	97,551	-	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	-	13.25	-	-	-	Note 1,7	
Grand Canyon Opto Tech (Su Zhou) Co., Ltd.	Research, development, production and sales of LED semiconductor application and other products	319,276	(2)	43,299	-	43,299	-	13.25	-	-	510	Note 1,7	

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

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

Note 2: Investment income (loss) recognised by the Company for the years ended December 31, 2017 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, 2017, including \$34,945 thousand for the share ownership in Hong Bo Investment Co., Ltd., an investee company that has conducted a short-form merger.

Note 4: Paid-in capital of Titan Lighting Co., Ltd., Zhongshan Tons Lighting Co., Ltd. and SHANGHAI TONS LIGHTLOGY CO., LTD. of USD \$12,253 thousand, USD \$3,600 thousand and USD \$3,200 thousand, respectively, was translated at the average buying and selling spot rate on December 31, 2017.

Note 5: Accumulated investment amount in Titan Lighting Co., Ltd., Zhongshan Tons Lighting Co., Ltd. and SHANGHAI TONS LIGHTLOGY CO., LTD. of USD \$11,816 thousand, USD \$3,577 thousand and USD \$1,400 thousand, respectively, was translated at the exchange rate at the initial investment.

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

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

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 (Note 1)	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 2)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 3)
TONS LIGHTLOGY INC.	\$ 566,472	\$ 597,518	\$ 708,968

Note 1: Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 was USD \$16,793 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 \$18,593 thousand and NTD \$44,200 thousand, and has been translated at the average buying and selling spot rate on December 31, 2017.

Note 3: The approved USD \$18,593 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.