

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**EVERLIGHT ELECTRONICS CO., LTD. AND  
SUBSIDIARIES**

**Consolidated Financial Statements**

**With Independent Auditors' Review Report  
For the Nine Months Ended September 30, 2018 and 2017**

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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## Independent Auditors' Review Report

To the Board of Directors Everlight Electronics Co., Ltd.:

### Introduction

We have reviewed the accompanying consolidated balance sheets of the Everlight Electronics Co., Ltd. and its subsidiaries ("the Group") as of September 30, 2018 and 2017, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2018 and 2017, as well as the changes in equity and cash flows for the nine months ended September 30, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

### Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Basis for Qualified Conclusion

As stated in Note 4(b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$6,707,796 thousand and \$7,224,523 thousand, constituting 21% and 19% of consolidated total assets as of September 30, 2018 and 2017, respectively, total liabilities amounting to \$1,646,885 thousand and \$1,961,419 thousand, constituting 11% and 10% of consolidated total liabilities as of September 30, 2018 and 2017, respectively, and the absolute value of total comprehensive income (loss) amounting to \$(150,021) thousand, \$(82,565) thousand, \$(349,525) thousand and \$(422,197) thousand, constituting 837%, 13%, 98% and 36% of consolidated total comprehensive income (loss) for the three months and nine months ended September 30, 2018 and 2017, respectively.

Furthermore, as stated in Note 6(j), the other equity accounted investments of the Everlight Electronics Co., Ltd. and its subsidiaries in its investee companies of \$116,711 thousand and \$90,151 thousand as of September 30, 2018 and 2017, respectively, and its equity in net earnings on these investee companies of \$(3,024) thousand, \$186 thousand, \$(3,283) thousand and \$(6,770) thousand for the three months and nine months ended September 30, 2018 and 2017, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

**Qualified Conclusion**

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Everlight Electronics Co., Ltd. and its subsidiaries as of September 30, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the three months and nine months ended September 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Yiu-Kwan Au and Jui-Lan Lo.

KPMG

Taipei, Taiwan (Republic of China)  
November 7, 2018

**Notes to Readers**

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**Reviewed only, not audited in accordance with the generally accepted auditing standards as of September 30, 2018 and 2017**

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**September 30, 2018, December 31, 2017, and September 30, 2017**

(Expressed in Thousands of New Taiwan Dollars)

		September 30, 2018		December 31, 2017		September 30, 2017		September 30, 2017		December 31, 2017		September 30, 2017	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Current assets:													
1100	Cash and cash equivalents (note 6(a))	\$ 3,565,942	11	4,769,006	13	4,921,672	13	2100	Short-term borrowings (note 6(o))			2,272,712	6
1110	Current financial assets at fair value through profit or loss (note 6(b))	1,691,037	5	638,276	2	411,239	1	2130	Current contract liabilities (note 6(y))	8,703	-	-	-
1140	Current contract assets (note 6(y))	3,590	-	-	-	-	-	2170	Notes and accounts payable	3,871,450	12	3,914,346	11
1170	Notes and accounts receivable, net (note 6(f))	7,621,200	23	8,424,725	23	8,932,531	24	2180	Accounts payable to related parties (note 7)	1,228,596	4	1,670,285	4
1180	Accounts receivable due from related parties, net (notes 6(f) and 7)							2213	Payable on machinery and equipment	470,996	2	774,072	2
								2230	Current tax liabilities	120,831	-	129,541	-
1310	Inventories (note 6(i))	112,490	-	120,553	-	109,544	-	2300	Other current liabilities (notes 6(b), 6(p) and 6(q))	1,860,848	6	2,370,856	6
1470	Other current assets	2,131,356	7	2,489,652	7	2,552,926	7	2410	Bonds payable, current option (note 6(q))	3,038,472	9	7,453,249	20
1476	Other current financial assets (notes 6(f), 6(g), 6(n) and 8)	4,821,762	15	7,149,683	19	5,983,885	16	2322	Long-term borrowings, current portion (note 6(r))	-	-	-	493
		<u>20,458,590</u>	<u>63</u>	<u>24,068,351</u>	<u>65</u>	<u>23,399,041</u>	<u>63</u>		Non-Current liabilities:	<u>13,472,922</u>	<u>42</u>	<u>18,349,977</u>	<u>49</u>
	Non-current assets:								Bonds payable (note 6(q))	1,098,259	3	-	2,928,525
1510	Non-current financial assets at fair value through profit or loss (note 6(b))							2530	Deferred tax liabilities	234,192	1	232,329	1
								2570	Non-current provisions for employee benefits	144,565	-	162,022	-
1517	Non-current financial assets at fair value through other comprehensive income (note 6(o))	32,660	-	-	-	-	-	2640	Other non-current liabilities	222,628	1	257,872	1
								2600		1,699,644	5	652,223	2
1523	Non-current available-for-sale financial assets (note 6(d))	419,006	1	-	-	-	-		Total liabilities	<u>15,172,566</u>	<u>47</u>	<u>19,002,200</u>	<u>51</u>
									Equity:				
1543	Non-current financial assets at cost (note 6(e))	-	-	529,707	1	861,026	2		Equity attributable to owners of parent (note 6(v)):				
1550	Investments accounted for using equity method (note 6(i))	-	-	40,049	-	372,604	1		Ordinary share	4,428,711	14	4,404,486	12
								3110	Capital surplus (note 6(q))	<u>9,156,785</u>	<u>28</u>	<u>9,139,711</u>	<u>24</u>
1600	Property, plant and equipment (note 6(m))	116,711	-	89,994	-	90,151	-	3200	Retained earnings:				
1780	Intangible assets	10,468,294	33	11,427,695	31	11,524,647	31		Legal reserve	2,510,447	8	2,390,096	6
1840	Deferred tax assets	134,093	-	186,440	1	193,005	1	3310	Special reserve	830,794	3	1,419,253	4
1900	Other non-current assets (notes 6(f) and 8)	331,148	1	324,828	1	282,385	1	3320	Unappropriated retained earnings	<u>1,136,295</u>	<u>3</u>	<u>1,326,186</u>	<u>4</u>
		<u>441,510</u>	<u>2</u>	<u>507,784</u>	<u>1</u>	<u>447,667</u>	<u>1</u>	3350	Other equity interests	<u>4,477,536</u>	<u>14</u>	<u>5,135,535</u>	<u>14</u>
		<u>11,943,422</u>	<u>37</u>	<u>13,106,497</u>	<u>35</u>	<u>13,771,485</u>	<u>37</u>	3400		<u>(1,182,546)</u>	<u>(4)</u>	<u>(830,794)</u>	<u>(2)</u>
								3610	Non-controlling interests	<u>16,880,486</u>	<u>52</u>	<u>17,848,938</u>	<u>48</u>
									Total equity	<u>348,960</u>	<u>1</u>	<u>323,710</u>	<u>1</u>
									Total liabilities and equity	<u>17,229,446</u>	<u>53</u>	<u>18,172,648</u>	<u>49</u>
									</				

See accompanying notes to consolidated financial statements.

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**REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS**

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the nine months ended September 30, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars Except for Earnings Per Share, which is expressed in New Taiwan Dollars)

		For the three months ended September 30				For the nine months ended September 30			
		2018		2017		2018		2017	
		Amount	%	Amount	%	Amount	%	Amount	%
4000	Operating revenue (notes 6(h), 6(y), 6(z) and 7)	\$ 6,281,673	100	6,902,951	100	18,491,598	100	20,612,655	100
5110	Total cost of sales (notes 6(h), 6(i), 6(t), 7 and 12)	4,789,449	76	5,356,032	78	14,162,219	77	15,860,631	77
5900	Gross profit	1,492,224	24	1,546,919	22	4,329,379	23	4,752,024	23
	Operating expenses (notes 6(t) and 12):								
6100	Selling expenses	365,396	6	457,019	7	1,216,134	7	1,190,926	6
6200	Administrative expenses	557,611	9	499,165	7	1,677,925	9	1,525,421	7
6300	Research and development expenses	211,952	4	206,003	3	664,993	3	593,973	3
6450	Impairment loss (gain on reversal of impairment loss) determined in accordance with IFRS 9 (note 6(f))	18,179	-	-	-	14,277	-	-	-
		1,153,138	19	1,162,187	17	3,573,329	19	3,310,320	16
6900	Net operating income	339,086	5	384,732	5	756,050	4	1,441,704	7
	Non-operating income and expenses:								
7100	Interest income (note 6(ab))	15,512	-	27,035	-	58,726	-	80,636	-
7190	Other income	47,596	1	39,523	1	124,483	1	80,520	-
7225	Gains (losses) on disposals of investments, net (note 6(l))	-	-	(2,563)	-	3,808	-	(3,073)	-
7235	Gains (losses) on financial assets (liabilities) at fair value through profit or loss, net (note 6(q))	(9,091)	-	(28,730)	-	22,466	-	(33,834)	-
7050	Finance costs (notes 6(q) and 6(ab))	(25,501)	-	(33,015)	(1)	(95,724)	(1)	(96,400)	-
7590	Other expenses and losses (note 6(q))	(3,609)	-	(6,364)	-	(80,681)	-	(24,721)	-
7630	Foreign exchange gains (losses), net (note 6(ad))	68,992	1	3,649	-	135,933	1	(143,905)	(1)
7670	Impairment loss (notes 6(c), 6(d) and 6(k))	-	-	(7,619)	-	-	-	(7,619)	-
7770	Share of profit (loss) of associates accounted for using equity method (note 6(j))	(3,024)	-	186	-	(3,283)	-	(6,770)	-
		90,875	2	(7,898)	-	165,728	1	(155,166)	(1)
7900	Profit before tax	429,961	7	376,834	5	921,778	5	1,286,538	6
7950	Tax expense (note 6(u))	97,059	2	85,437	1	213,769	1	283,167	1
	Profit (loss)	332,902	5	291,397	4	708,009	4	1,003,371	5
8300	Other comprehensive income:								
8310	Components of other comprehensive income that will not be reclassified to profit or loss								
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(ac))	(27,923)	-	-	-	(106,819)	(1)	-	-
8349	Less: income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note 6(u))	-	-	-	-	(3,569)	-	-	-
		(27,923)	-	-	-	(103,250)	(1)	-	-
8360	Components of other comprehensive income that will be reclassified to profit or loss								
8361	Exchange differences on translation	(286,029)	(5)	127,287	2	(252,789)	(1)	(145,753)	(1)
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets (note 6(ac))	-	-	213,631	3	-	-	306,252	2
8370	Share of other comprehensive income (loss) of associates accounted for using equity method (note 6(j))	-	-	-	-	-	-	(1,918)	-
8399	Less: income tax related to components of other comprehensive income that may be reclassified subsequently to profit or loss (note 6(u))	1,027	-	1,425	-	(3,297)	-	1,178	-
	Components of other comprehensive income that will be reclassified to profit or loss	(287,056)	(5)	339,493	5	(249,492)	(1)	157,403	1
8300	Other comprehensive income, net	(314,979)	(5)	339,493	5	(352,742)	(2)	157,403	1
	Total comprehensive income	\$ 17,923	-	630,890	9	355,267	2	1,160,774	6
	Profit, attributable to:								
	Owners of parent	\$ 305,153	5	280,416	4	651,387	4	968,281	5
	Non-controlling interests	27,749	-	10,981	-	56,622	-	35,090	-
		\$ 332,902	5	291,397	4	708,009	4	1,003,371	5
	Total comprehensive income attributable to:								
	Owners of parent	\$ 1,037	-	613,145	9	307,087	2	1,127,492	6
	Non-controlling interests	16,886	-	17,745	-	48,180	-	33,282	-
		\$ 17,923	-	630,890	9	355,267	2	1,160,774	6
	Earnings per share (note 6(x))								
9750	Basic earnings per share	\$ 0.69		0.64		1.48		2.20	
9850	Diluted earnings per share	\$ 0.61		0.54		1.34		1.88	

See accompanying notes to consolidated financial statements.

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**Reviewed only, not audited in accordance with generally accepted auditing standards**

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the nine months ended September 30, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										Non-controlling interests	Total equity
	Retained earnings					Other equity interest						
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total	Total equity attributable to owners of parent		
\$	4,390,357	9,108,900	2,209,534	609,032	2,433,051	(342,475)	(1,076,778)	-	(1,419,253)	17,331,621	339,722	17,671,343
Balance at January 1, 2017												
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	180,562	-	(180,562)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	810,221	(810,221)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(1,322,385)	-	-	-	-	(1,322,385)	-	(1,322,385)
Profit for the period	-	-	180,562	810,221	(2,313,168)	-	-	-	-	(1,322,385)	-	(1,322,385)
Other comprehensive income for the period	-	-	-	-	968,281	-	-	-	-	968,281	35,090	1,003,371
Total comprehensive income for the period	-	-	-	-	-	(147,041)	306,252	-	159,211	159,211	(1,808)	157,403
The convertible bonds of the parent company have been sold by the subsidiary	-	-	-	-	968,281	(147,041)	306,252	-	159,211	1,127,492	33,282	1,160,774
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	721	-	-	-	-	-	-	-	721	-	721
Share-based payments transactions	-	8,483	-	-	-	-	-	-	-	8,483	-	8,483
Changes in non-controlling interests	13,000	22,439	-	-	-	-	-	-	-	35,439	-	35,439
Balance at September 30, 2017	\$ 4,403,357	9,140,543	2,390,096	1,419,253	1,088,164	(489,516)	(770,526)	-	(1,260,042)	17,181,371	331,093	17,512,464
Balance at January 1, 2018												
Effects of retrospective application	4,404,486	9,139,711	2,390,096	1,419,253	1,326,186	(437,489)	(393,305)	-	(830,794)	17,848,938	323,710	18,172,648
Adjusted balance at January 1, 2018	-	-	-	-	-	-	393,305	(389,010)	4,295	4,295	-	4,295
Appropriation and distribution of retained earnings:	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve appropriated	-	-	120,351	-	(120,351)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	(588,459)	588,459	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(1,321,133)	-	-	-	-	(1,321,133)	-	(1,321,133)
Profit for the period	-	-	120,351	(588,459)	(853,025)	-	-	-	-	(1,321,133)	-	(1,321,133)
Other comprehensive income for the period	-	-	-	-	651,387	-	-	-	-	651,387	56,622	708,009
Total comprehensive income for the period	-	-	-	-	3,569	(241,050)	-	(106,819)	(347,869)	(344,300)	(8,442)	(352,742)
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	-	654,956	(241,050)	-	(106,819)	(347,869)	307,087	48,180	355,267
Share-based payments transactions	-	(3,656)	-	-	-	-	-	-	-	(3,656)	-	(3,656)
Changes in non-controlling interests	24,225	20,730	-	-	-	-	-	-	-	44,955	-	44,955
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	(22,930)	(22,930)
Balance at September 30, 2018	\$ 4,428,711	9,156,785	2,510,447	830,794	1,136,295	(678,539)	-	(8,178)	(1,182,546)	16,880,486	348,960	17,229,446

See accompanying notes to consolidated financial statements.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the nine months ended September 30, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2018	2017
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 921,778	1,286,538
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization expense	1,579,673	1,553,787
Expected credit loss (gain) / Provision (reversal of provision) for bad debt expense	14,277	1,059
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(49,078)	(1,260)
Interest expense	95,724	96,400
Interest income	(58,726)	(80,636)
Share-based payments	(2,291)	(1,770)
Share of loss (profit) of associates and joint ventures accounted for using equity method	3,283	6,770
Loss (gain) on disposal of investments	(3,808)	3,073
Impairment loss of assets	-	7,619
Loss (gain) on bonds redemption	42,668	-
Others	18,777	18,073
<b>Total adjustments to reconcile profit (loss)</b>	<b>1,640,499</b>	<b>1,603,115</b>
<b>Changes in operating assets and liabilities:</b>		
Increase in financial assets held for trading	-	10,493
Increase in financial assets at fair value through profit or loss, mandatorily measured at fair value	(456,666)	-
Decrease (increase) in contract assets	(3,590)	-
Decrease in notes and accounts receivable (including related parties)	797,902	236,644
Decrease (increase) in inventories	358,296	(71,792)
Increase in other current assets	(23,890)	(3,354)
Decrease in notes and accounts payable (including related parties)	(484,585)	(1,197,938)
Decrease in provisions	(16,393)	(6,213)
Decrease in other current liabilities	(468,730)	303,057
Decrease in non-current provisions for employee benefits	(17,457)	(9,251)
Increase in current contract liability	634	-
Others	(37,275)	(28,221)
<b>Total changes in operating assets and liabilities</b>	<b>(351,754)</b>	<b>(766,575)</b>
Cash inflow generated from operations	2,210,523	2,123,078
Interest received	74,014	80,778
Interest paid	(33,279)	(19,694)
Income taxes paid	(218,993)	(467,492)
<b>Net cash flows from operating activities</b>	<b>2,032,265</b>	<b>1,716,670</b>
<b>Cash flows from (used in) investing activities:</b>		
Proceeds from disposal of financial assets at fair value through other comprehensive income	18,227	-
Acquisition of investments accounted for using equity method	(30,000)	-
Acquisition of property, plant and equipment	(1,014,692)	(2,110,643)
Proceeds from disposal of property, plant and equipment	245,175	173,493
Increase in refundable deposits	(25,564)	(12,892)
Acquisition of intangible assets	(29,478)	(46,315)
Decrease (increase) in other financial assets	1,902,033	(1,314,274)
Increase in restricted deposit	(90,558)	-
Decrease (increase) in prepayments for business facilities	18,339	(27,692)
Others	1,190	(461)
<b>Net cash flows from (used in) investing activities</b>	<b>994,672</b>	<b>(3,338,784)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	691,615	959,667
Proceeds from issuing bonds	-	72,943
Repayment of bonds	(3,480,500)	-
Proceeds from long-term debt	-	(4,546)
Decrease (increase) in guarantee deposits received	8,778	6,834
Cash dividends paid	(1,321,133)	(1,322,385)
Exercise of employee share options	47,245	37,209
Change in non-controlling interests	(22,930)	(204,832)
Other financing activities	-	(34,069)
<b>Net cash flows from (used in) financing activities</b>	<b>(4,076,925)</b>	<b>(489,179)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(153,076)</b>	<b>(63,463)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,203,064)</b>	<b>(2,174,756)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4,769,006</b>	<b>7,096,428</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,565,942</b>	<b>4,921,672</b>

See accompanying notes to consolidated financial statements.



(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**September 30, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars unless otherwise specified)

**(1) Company history**

Everlight Electronics Co., Ltd. (the "Company") was incorporated in May 1983 as a company limited by shares under the Company Act of the Republic of China (ROC). The major business activities of the Company are the manufacture and sale of LEDs. The Company's common shares were listed on the Taiwan Stock Exchange (TWSE) in November 1999.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). Please refer to note 4(c) for related information of the Group entities main business activities.

**(2) Approval date and procedures of the consolidated financial statements**

These consolidated financial statements were authorized for issuance by the board of directors on November 7, 2018.

**(3) New standards, amendments and interpretations adopted:**

- (a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendment to IFRS 2 " <i>Classification and Measurement of Share-based Payment Transactions</i> "	January 1, 2018
Amendments to IFRS 4 " <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> "	January 1, 2018
IFRS 9 " <i>Financial Instruments</i> "	January 1, 2018
IFRS 15 " <i>Revenue from Contracts with Customers</i> "	January 1, 2018
Amendment to IAS 7 " <i>Statement of Cash Flows -Disclosure Initiative</i> "	January 1, 2017
Amendment to IAS 12 " <i>Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses</i> "	January 1, 2017
Amendments to IAS 40 " <i>Transfers of Investment Property</i> "	January 1, 2018

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
<b>Annual Improvements to IFRS Standards 2014–2016 Cycle:</b>	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 " <i>Foreign Currency Transactions and Advance Consideration</i> "	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 "*Revenue from Contracts with Customers*"

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 "*Revenue*" and IAS 11 "*Construction Contracts*". The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 18, IAS 11 and the related Interpretations for comparative reporting period. The Group's recognizes the cumulative effect upon the initial Application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of products, revenue was recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) Construction contracts

Contract revenue currently includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When a claim or variation is recognized, the measure of contract progress or contract price is revised and the cumulative contract position is reassessed at each reporting date. Under IFRS 15, claims and variations will be included in the contract accounting when they are approved.

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

3) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS15 on the Group's consolidated financial statements:

Impacted line items on the consolidated balance sheet	September 30, 2018			January 1, 2018		
	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15
Contract assets-current	\$ -	3,590	3,590	-	-	-
Notes and accounts receivable	7,599,907	21,293	7,621,200	8,424,725	32,151	8,456,876
<b>Impact on assets</b>		<b>\$ 24,883</b>			<b>32,151</b>	
Contract liabilities-current	\$ -	(8,703)	(8,703)	-	(8,069)	(8,069)
Other current liabilities	(1,844,668)	(16,180)	(1,860,848)	(2,370,856)	(24,082)	(2,394,938)
<b>Impact on liabilities</b>		<b>\$ (24,883)</b>			<b>(32,151)</b>	

Impacted line items on the consolidated statement of cash flows	For the nine months ended September 30, 2018		
	Before adjustments	Impact of changes in accounting policies	After adjustments
Cash flows from (used in) operating activities:			
Adjustments:			
Decrease (increase) in contract assets	\$ -	(3,590)	(3,590)
Decrease (increase) in notes and accounts receivable	787,044	10,858	797,902
Increase (decrease) in contract liabilities	-	634	634
Increase (decrease) in other current liabilities	(460,828)	(7,902)	(468,730)
<b>Impact on cash inflow (outflow) generated from operations</b>		<b>\$ -</b>	

(ii) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(c).

The adoption of IFRS 9 did not have any significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018.

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
<b>Financial Assets</b>				
Cash and cash equivalents	Loans and receivables (note 2)	4,769,006	Amortized cost	4,769,006
Derivative instruments	Held-for-trading	23,461	Mandatorily at FVTPL	23,461
Debt securities	Designated as at FVTPL	224,079	Mandatorily at FVTPL	224,079
Equity instruments	Available-for-sale (note 1)	569,756	FVOCI	574,051
	Held-for-trading (note 3)	390,736	FVTPL	390,736
Account receivables	Loans and receivables (note 2)	8,545,278	Amortized cost	8,545,278
Other financial assets (Structured deposits )	Loans and receivables (note 2)	568,862	Mandatorily at FVTPL	568,862
Other current financial assets	Loans and receivables (note 2)	6,580,821	Amortized cost	6,580,821
Other non-current financial assets	Loans and receivables(note 2)	81,959	Amortized cost	81,959
Guarantee deposits paid	Loans and receivables (note 2)	165,224	Amortized cost	165,224
Restricted deposits	Loans and receivables (note 2)	6,900	Amortized cost	6,900

Note1: These equity securities (including financial assets measured at cost) represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Accordingly, an increase of \$4,295 thousand in those assets recognized, and an increase of \$4,295 thousand in the reserves were recognized on January 1, 2018.

Note2: Trade, lease and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. There's no increasing in the allowance for impairment was recognized in opening retained earnings upon transition to IFRS 9 on January 1, 2018.

Note3: Under IAS 39, these equity securities were designated as at hold-to-trading because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 638,276	-	-		-	-
Additions – debt instruments:						
From loans and receivables (structured deposits) – required reclassification based on classification criteria	-	568,862	-		-	-
Total	<u>\$ 638,276</u>	<u>568,862</u>	<u>-</u>	<u>1,207,138</u>	<u>-</u>	<u>-</u>
Fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 569,756	(569,756)	-		-	-
Available for sale to FVOCI	-	569,756	4,295		-	4,295
Total	<u>\$ 569,756</u>	<u>-</u>	<u>4,295</u>	<u>574,051</u>	<u>-</u>	<u>4,295</u>
Amortized cost						
Beginning balance of cash and cash equivalents, bond investment without an active market, accounts and other receivables, and other financial assets)	\$ 20,718,050	-	-		-	-
Subtractions:						
To FVTPL – required reclassification based on classification criteria	-	(568,862)	-		-	-
Total	<u>\$ 20,718,050</u>	<u>(568,862)</u>	<u>-</u>	<u>20,149,188</u>	<u>-</u>	<u>-</u>

There is no material impact on the Group's basic or diluted earnings per share for the three months and nine months ended September 30, 2018 and 2017.

(iii) Amendments to IAS 7 "*Disclosure Initiative*"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(ag).

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
IFRS 16 " <i>Leases</i> "	January 1, 2019
IFRIC 23 " <i>Uncertainty over Income Tax Treatments</i> "	January 1, 2019
Amendments to IFRS 9 " <i>Prepayment features with negative compensation</i> "	January 1, 2019
Amendments to IAS 19 " <i>Plan Amendment, Curtailment or Settlement</i> "	January 1, 2019
Amendments to IAS 28 " <i>Long-term interests in associates and joint ventures</i> "	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 "*Leases*"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, wherein the detailed assessment has yet to be completed. The actual impact of applying IFRS 16 on its financial statements in the period of initial application will depend on future economic conditions, including the Group's discounting rate, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options, and the extent to which the Group chooses to use practical expedients and recognition exemptions.

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for its operating leases of offices, warehouses, and factory facilities.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.



**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the most significant impact identified is that the Group will have to recognize the new income tax liabilities and income tax expense for its uncertainty over income tax treatments.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the IASB, but have yet to be endorsed by the FSC:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021

The Group assessed that the above IFRSs may not be relevant to the Group.

**(4) Summary of significant accounting policies**

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 "*Interim Financial Reporting*" which are endorsed and issued into effect by the FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2017. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2017.

(b) Basis of consolidation

Principles of preparation of the consolidated interim financial statements are the same as those of the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to note 4(c) of the consolidated financial statements for the year ended December 31, 2017.

List of subsidiaries in the consolidated interim financial statements:

Investor	Name of subsidiary	Nature of business	Percentage of ownership			Description
			September 30, 2018	December 31, 2017	September 30, 2017	
The Company	Pai-yee Investment Co., Ltd. (Pai-yee)	Investment	100 %	100 %	100 %	
The Company and Pai-yee	Everlight (BVI) Co., Ltd. (Everlight BVI)	Investment	100 %	100 %	100 %	
The Company	Everlight Electronics (Europe) GmbH (Everlight Europe)	Sale of LEDs	75 %	75 %	75 %	Note 5
The Company	Zenaro Lighting GmbH (Zenaro GmbH)	Research, manufacture and sale of LED lighting products	- %	100 %	100 %	Notes 3 and 5
The Company	Everlight Americas, Inc. (ELA)	Sale of LEDs	99 %	99 %	99 %	Note 5
The Company	Everlight Optoelectronics Korea Co., Ltd. (ELK)	Sale of LEDs	100 %	100 %	100 %	Note 5
The Company	Ever Power Investment Co., Ltd. (Ever Power)	Investment	- %	100 %	100 %	Notes 4 and 5
The Company	Forever Investment Co., Ltd. (Forever)	Investment	100 %	100 %	100 %	Note 5
The Company	Everlight Intelligence Technology Co., Ltd. (ELIT, former name: Everlight Lighting Co., Ltd.)	Sale of LED lighting products	100 %	100 %	100 %	Note 5
The Company	Zenaro Lighting Co., Ltd. (Zenaro TW)	Sale of LED lighting products and investment	100 %	100 %	100 %	Note 5
The Company	WOFI Leuchten GmbH (WOFI Holding)	Sale of lighting products, pendants and accessories	100 %	100 %	100 %	Note 5
The Company and Pai-yee	Everlight Electronic India Private Limited (ELI)	Sale of LEDs	100 %	100 %	100 %	Note 5
The Company	Evlite Electronics Co., Ltd. (Evlite)	Sale of LEDs	100 %	100 %	100 %	Note 5
The Company	Everlight Electronics Singapore Pte. Ltd. (ELS)	Sale of LEDs	100 %	100 %	100 %	Note 5
The Company	Everlight Japan Corporation (ELJ)	Sale of LEDs	100 %	100 %	100 %	Note 5

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Investor	Name of subsidiary	Nature of business	Percentage of ownership			Description
			September 30, 2018	December 31, 2017	September 30, 2017	
The Company 、 Pai- yee and Forever	Evervision Electronics Co., Ltd. (Evervision TW)	Manufacture and sales of liquid crystal displays and LED processing	65.50 %	65.50 %	65.50 %	Notes 1 and 5
Pai-yee	Everlight Optoelectronics (M) SDN. BHD. (Everlight Malaysia)	Business development and customer services	100 %	100 %	100 %	Note 5
Everlight BVI	Everlight Electronics (China) Co., Ltd. (Everlight China)	Manufacture of LEDs	100 %	100 %	100 %	
Everlight BVI and Everlight China	Everlight Lighting (China) Co., Ltd. (Everlight Lighting China)	Sale of LEDs	100 %	100 %	100 %	Note 5
Everlight BVI and Everlight China	Everlight Electronic (Guangzhou) Co., Ltd. (Everlight Electronic (Guangzhou), former name: Guangzhou Yi-Liang Trading Co., Ltd.)	Business development and customer services	100 %	100 %	100 %	Note 5
Everlight BVI	Everlight Electronics (Zhongshan) Co., Ltd. (Everlight Zhongshan)	Manufacture of LED- related components	100 %	100 %	100 %	
Everlight BVI	Everlight Electronic (Fujian) Co., Ltd. (Everlight Fujian, former name: Evertop Optoelectronics (Fujian Co., Ltd.))	Manufacture and sale of LED backlights and related components	90 %	90 %	90 %	Note 5
Everlight BVI	Eralite Optoelectronics (Jiangsu) Co., Ltd. (Eralite)	Manufacture and sale of LED backlights and related components	100 %	100 %	100 %	Note 5
The Company and Everlight Electronic (Guangzhou)	Everlight Lighting Management Consulting (Shanghai) Co., Ltd. (ELMS)	Research and sale of LED lighting products	100 %	100 %	100 %	Notes 5
Everlight Lighting China	Zhongshan Everlight Lighting Co., Ltd. (Zhongshan Everlight Lighting)	Research and sale of LED lighting products	100 %	100 %	100 %	Note 5
The Company and ELIT	Everlight Yi-Yao Technology (Shanghai) Ltd. (Yi-Yao)	Research of electronic components	100 %	100 %	100 %	Note 5
Zenaro TW	Zenaro Lighting Inc. (USA) (Zenaro USA)	Research, manufacture and sale of LED lighting products	100 %	100 %	100 %	Note 5
WOFI Holding	WOFI Wortmann & Fliz GmbH (WOFI W&F GmbH)	Sale of lighting products, pendants and accessories	100 %	100 %	100 %	Note 5
WOFI Holding	Euro Technics Trade GmbH (ETT)	Sale of lighting products, pendants and accessories	100 %	100 %	100 %	Note 5

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Investor	Name of subsidiary	Nature of business	Percentage of ownership			Description
			September 30, 2018	December 31, 2017	September 30, 2017	
WOFI Holding	WOFI Technics Trade Limited (WTT)	Sale of lighting products, pendants and accessories	100 %	100 %	100 %	Note 5
WOFI Holding	Action GmbH (Action)	Sale of lighting products, pendants and accessories	100 %	100 %	100 %	Note 5
WOFI Holding	WOFI Verkaufsgesellschaft mbH (WOFI VG)	Sale of lighting products, pendants and accessories	100 %	100 %	-	% Notes 2 and 5
Evervision TW	Evervision Electronics (B.V.I.) Limited (Evervision BVI)	Investment	100 %	100 %	100 %	Note 5
Evervision TW	VBest GmbH (VBest)	Sale of LCDs	75 %	75 %	75 %	Note 5
Evervision	VBest Electronics (Kunshan) Ltd. (VBest Kunshan)	Manufacture of LCDs	100 %	100 %	100 %	Note 5
Evervision	Evervision Electronics (H.K.) Limited (Evervision HK)	Sale of LCDs	100 %	100 %	100 %	Note 5
Evervision	Topbest Holding (Samoa) Limited (Topbest)	Sale of LCDs	100 %	100 %	100 %	Note 5
Evervision	Blaze International Limited (Blaze)	Sale of LCDs	100 %	100 %	100 %	Note 5

Note 1: The group has purchased 2.02% equity of Evervision TW from a third party in August 2017. As a result, its shareholding in Evervision TW increased from 63.48% to 65.50%.

Note 2: The Subsidiary was incorporated in October 2017.

Note 3: The subsidiary completed liquidation procedure in January 2018.

Note 4: The subsidiary completed liquidation procedure in April 2018.

Note 5: Non-significant subsidiary, its financial statements, have not been reviewed.

(c) Financial instruments (applicable from January 1, 2018)

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features)

5) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivable, leases receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI and contract assets.

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable, other receivable and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 365 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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## EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES

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At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 365 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

#### 6) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the Group recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(ii) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the non-financial asset's host contract are not closely related to the embedded derivatives and the host contract is not measured at FVTPL.

(d) Revenue from contracts with customers (applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(i) Sale of goods—electronic components

The Group manufactures and sells of LEDs, LCDs and pendants. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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The Group often offers volume discounts to its customers based on aggregate sales of goods. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales of goods are made with a credit term, which is consistent with the market practice.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Construction contracts

The Group enters into contracts to illuminating construction. Because its customer controls the asset as it is constructed, the Group recognizes revenue over time on the basis of completion of a physical proportion of the contract work. The consideration promised in the contract includes fixed and variable amounts. The customer pays the fixed amount based on a payment schedule. For some variable considerations (for example, a penalty payment calculated based on delay days), accumulated experience is used to estimate the amount of variable consideration, using the expected value method. For other variable considerations (for example, completion bonus if a construction is completed by a specified date), the Group estimates the amount of variable consideration using the most likely amount. The Group recognizes revenue only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. If the Group has recognized revenue, but not issued a bill, then the entitlement to consideration is recognized as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.

If the Group cannot reasonably measure its progress towards complete satisfaction of the performance obligation of a construction contract, the Group shall recognize revenue only to the extent of the costs expected to be recovered.

A provision for onerous contracts is recognized when the Group expects the unavoidable costs of performing the obligations under a construction contract exceed the economic benefits expected to be received under the contract.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

For illuminating construction, the Group offers a standard warranty to provide assurance that it complies with agreed-upon specifications, and has recognized warranty provisions for this obligation.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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(iii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(e) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of International Financial Reporting Standards 34, Interim Reporting.

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(f) Employee benefits

The pension cost under defined benefit plans in the interim period was calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year, the significant market fluctuation, significant curtailment, settlement and others, subsequent to the reporting date and was adjusted together with.

**(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty**

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 "*Interim Financial Reporting*" and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2017.

**(6) Explanation of significant accounts**

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2017. Please refer to Note 6 of the 2017 annual consolidated financial statements.

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(a) Cash and cash equivalents

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Cash, checking accounts and demand deposits	\$ 2,832,433	3,276,550	3,173,775
Time deposits	564,415	1,200,787	1,747,897
Bonds purchased under resale agreements	169,094	291,669	-
	<b><u>\$ 3,565,942</u></b>	<b><u>4,769,006</u></b>	<b><u>4,921,672</u></b>

(i) The time deposits with maturities within three months or less from the acquisition date that are readily convertible to a known amount of cash are subject to an insignificant risk of changes in their fair value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Therefore, the time deposits are classified as cash and cash equivalents. Please refer to note 6(n) for the time deposits with maturities over three months from the acquisition date are recorded as other current financial assets.

(ii) Please refer to note 6(ad) for the fair value sensitivity analysis of the financial assets and liabilities of the Group.

(b) Financial assets and liabilities at fair value through profit or loss

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Financial assets designated as at fair value through profit or loss:			
Listed convertible bonds	\$ -	33,814	35,886
Credit-Linked Note (CLN)	-	59,651	30,514
Foreign unlisted common shares	-	387,680	-
Mandatorily measured at fair value through profit or loss:			
Derivative instruments not used for hedging	58,581		
Listed convertible bonds	72,331		
Credit-Linked Note (CLN)	21,587		
Structured deposits	1,122,147		
Beneficiary certificate-Funds	30,548		
Stocks listed on domestic markets	9,927		
Unlisted common shares	408,576		
Financial assets held-for-trading			
Derivative instruments not used for hedging	-	23,461	8,403
Non-derivative financial assets	-	133,670	336,436
	<b><u>\$ 1,723,697</u></b>	<b><u>638,276</u></b>	<b><u>411,239</u></b>

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Current	\$ 1,691,037	638,276	411,239
Non-current	32,660	-	-
	<u>\$ 1,723,697</u>	<u>638,276</u>	<u>411,239</u>
	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Current financial liabilities held-for-trading:			
Derivative instruments not used for hedging	\$ 3,814	23,883	27,236
Debt components of convertible bonds payable	-	46,988	47,481
	<u>\$ 3,814</u>	<u>70,871</u>	<u>74,717</u>

- (i) Capital guarantee financial products (Structured deposits) held by the Group, which were originally recorded as other current financial assets on December 31 and September 30, 2017, were reclassified as financial assets mandatorily measured at fair value through profit or loss on January 1, 2018, because the interest was not based on the time value on principal amount outstanding.
- (ii) The Group uses derivative financial instruments to hedge certain foreign exchange and interest risk the Group is exposed to, arising from its operating and financing activities. The following derivative instruments, without the application of hedge accounting, were classified as mandatorily measured at fair value through profit or loss on September 30, 2018 and financial assets held-for-trading on December 31, 2017 and September 30, 2017:

1) Forward exchange contracts

<u>September 30, 2018</u>				
	<u>Contract amount (in thousands)</u>		<u>Currency</u>	<u>Maturity date</u>
<b>Financial assets:</b>				
Forward exchange sold	USD	24,000	USD to TWD	2018.10.09~2018.12.11
Forward exchange sold	USD	2,000	USD to RMB	2018.10.30~2018.11.27
Forward exchange sold	EUR	5,622	EUR to USD	2018.10.04~2018.12.13
<b>Financial liabilities:</b>				
Forward exchange sold	USD	13,000	USD to TWD	2018.10.04~2018.10.30
Forward exchange sold	USD	12,000	USD to RMB	2018.10.09~2018.12.13

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December 31, 2017				
	Contract amount (in thousands)		Currency	Maturity date
Financial assets:				
Forward exchange sold	USD	31,500	USD to TWD	2018.01.04~2018.03.15
Forward exchange sold	USD	29,000	USD to RMB	2018.01.04~2018.03.15
Forward exchange sold	EUR	689	EUR to USD	2018.02.27~2018.03.09
Financial liabilities:				
Forward exchange sold	EUR	4,238	EUR to USD	2018.01.05~2018.03.20

September 30, 2017				
	Contract amount (in thousands)		Currency	Maturity date
Financial assets:				
Forward exchange sold	EUR	2,858	EUR to USD	2017.10.12~2018.03.16
Forward exchange sold	USD	3,000	USD to RMB	2017.10.07~2017.12.07
Forward exchange sold	USD	10,000	USD to TWD	2017.10.12~2017.12.28
Financial liabilities:				
Forward exchange sold	EUR	3,403	EUR to USD	2017.10.06~2018.01.19
Forward exchange sold	USD	26,000	USD to RMB	2017.10.12~2017.12.28
Forward exchange sold	USD	29,500	USD to TWD	2017.10.12~2017.12.21

2) Swap contracts

December 31, 2017				
Contract amount (in thousands)			Currency	Maturity date
Financial liabilities:				
Currency Swap	EUR	541	EUR to USD	2018.01.05~2018.01.19
September 30, 2017				
Contract amount (in thousands)			Currency	Maturity date
Financial assets:				
Currency Swap	EUR	4,125	EUR to USD	2017.10.06~2017.12.29
Financial liabilities:				
Currency Swap	EUR	332	EUR to USD	2017.10.06~2017.10.13

(Continued)

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3) Cross currency swap

September 30, 2018					
Contract amount (in thousands)		Contract Period	Interest rate payable	Interest rate receivable	Swap period
Financial assets:					
USD	15,000	2018.01.04~2019.01.15	0.23%	0.50%+1LIBOR	2018.01.04~2019.01.15
USD	5,000	2018.03.09~2019.03.08	0.23%	0.70%+1LIBOR	2018.03.09~2019.03.08
USD	5,000	2018.03.09~2019.03.11	0.18%	0.50%+1LIBOR	2018.03.09~2019.03.11
USD	5,000	2018.03.23~2019.03.25	0.23%	0.70%+1LIBOR	2018.03.23~2019.03.25
USD	5,000	2018.03.28~2019.03.27	0.18%	0.52%+1LIBOR	2018.03.28~2019.03.27
USD	5,000	2018.05.23~2019.05.23	0.18%	0.56%+1LIBOR	2018.05.23~2019.05.23
USD	7,000	2018.05.25~2019.05.27	0.15%	0.55%+1LIBOR	2018.05.25~2019.05.27
USD	3,000	2018.05.25~2019.05.27	0.15%	0.55%+1LIBOR	2018.05.25~2019.05.27
December 31, 2017					
Contract amount (in thousands)		Contract Period	Interest rate payable	Interest rate receivable	Swap period
Financial assets:					
USD	10,000	2017.03.09~2018.03.09	0.36%	0.50%+1LIBOR	2017.03.09~2018.03.09
USD	5,000	2017.03.23~2018.03.23	0.35%	0.60%+1LIBOR	2017.03.23~2018.03.23
USD	5,000	2017.03.30~2018.03.28	0.30%	0.50%+1LIBOR	2017.03.30~2018.03.28
USD	10,000	2017.05.25~2018.05.25	0.26%	0.50%+1LIBOR	2017.05.25~2018.05.25
USD	5,000	2017.05.25~2018.05.23	0.26%	0.55%+1LIBOR	2017.05.25~2018.05.23
September 30, 2017					
Contract amount (in thousands)		Contract Period	Interest rate payable	Interest rate receivable	Swap period
Financial assets:					
USD	5,000	2017.03.30~2018.03.28	0.30%	0.50%+1LIBOR	2017.03.30~2018.03.28
USD	10,000	2017.05.25~2018.05.25	0.26%	0.50%+1LIBOR	2017.05.25~2018.05.25
USD	5,000	2017.05.25~2018.05.23	0.26%	0.55%+1LIBOR	2017.05.25~2018.05.23
Financial liabilities:					
USD	10,000	2017.03.09~2018.03.09	0.36%	0.50%+1LIBOR	2017.03.09~2018.03.09
USD	5,000	2017.03.21~2018.03.23	0.35%	0.60%+1LIBOR	2017.03.21~2018.03.23

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

4) Other derivative financial instrument contracts

<b>September 30, 2018</b>			
<b>Contract amount (in thousands)</b>		<b>Rate</b>	<b>Maturity Period</b>
Financial assets:			
TWD	21,500	2.5%	2019.05.03
RMB	105,600	3.92%~4.30%	2018.10.23~2018.12.18
<b>December 31, 2017</b>			
<b>Contract amount (in thousands)</b>		<b>Rate</b>	<b>Maturity Period</b>
Financial assets:			
TWD	59,300	2.50%~3.75%	2018.03.05~2018.08.18
RMB	124,000	3.30%~4.25%	2018.01.15~2018.02.13
<b>September 30, 2017</b>			
<b>Contract amount (in thousands)</b>		<b>Rate</b>	<b>Maturity Period</b>
Financial assets:			
TWD	30,400	2.50%~2.75%	2018.03.05~2018.08.18
RMB	73,000	3.45%~4.10%	2017.10.10~2017.12.20

(iii) Please refer to note 6(q) for asset and debt components of convertible bonds payable.

(iv) As of September 30, 2018, December 31 and September 30, 2017, the Group did not provide any aforementioned financial assets as collateral for its loans.

(c) Non-current financial assets at fair value through other comprehensive income

	<b>September 30, 2018</b>
Equity investments at fair value through other comprehensive income	
Stocks listed on domestic markets	\$ 347,006
Stocks unlisted on domestic markets	<u>72,000</u>
	<b><u>\$ 419,006</u></b>

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(i) Equity investments at fair value through other comprehensive income

On January 1, 2018, the Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets and financial assets measured at cost on December 31, 2017 and September 30, 2017.

For the nine months ended September 30, 2018, the Group disposed parts of its financial assets at fair value through other comprehensive income, with the fair value of \$18,227, and recognized a gain of \$8,178, which was accounted for as other comprehensive income. The gain had been transferred to retained earnings.

(ii) The Group's information of market risk, please refer to note 6(ad).

(iii) As of September 30, 2018, the Group did not provide any aforementioned financial assets as collateral for its loans.

(d) Non-current available-for-sale financial assets

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Investments in listed securities:		
Stocks listed on domestic markets	\$ 451,507	770,226
Investments in unlisted securities:		
Stocks unlisted on domestic markets	<u>78,200</u>	<u>90,800</u>
	<u><u>\$ 529,707</u></u>	<u><u>861,026</u></u>

(i) There were no significant changes in the available-for-sale financial assets of the Group for the nine months ended September 30, 2017. For related information, please refer to note 6(c) of the 2017 annual consolidated financial statements.

(ii) The aforementioned investments were classified as financial assets at fair value through other comprehensive income on September 30, 2018; please refer to note 6(c).

(iii) The changes in fair value are recognized in other comprehensive income, please refer to note 6(ac) for details.

(iv) As of December 31 and September 30, 2017, the Group did not provide any aforementioned financial assets as collateral for its loans.

(v) The Group's information of market risk, please refer to note 6(ad).

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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(e) Non-current financial assets at cost

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Domestic unlisted common shares	\$ 30,000	30,000
Foreign unlisted common shares	<u>10,049</u>	<u>342,604</u>
	<b><u>\$ 40,049</u></b>	<b><u>372,604</u></b>

- (i) The aforementioned investments held by the Group were measured at cost value, less, accumulated impairment losses as of December 31 and September 30, 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably. These investments were classified as non-current financial assets at fair value through other comprehensive income on September 30, 2018.
- (ii) Since the value of some financial assets at cost had declined materially and permanently, the Group recognized impairment losses amounting to \$7,619 for each of three months and nine months ended September 30, 2017, and recorded it as impairment losses on financial assets.
- (iii) As of December 31 and September 30, 2017, the Group did not provide any aforementioned financial assets as collaterals for its loans.
- (iv) The Group's information of market risk, please refer to note 6(ad).

(f) Notes and accounts receivable

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Notes receivable	\$ 36,260	28,368	39,319
Accounts receivable	<u>7,860,530</u>	<u>8,681,112</u>	<u>9,157,683</u>
	7,896,790	8,709,480	9,197,002
Less: allowance for uncollectible accounts	(131,540)	(132,051)	(129,250)
allowance for sales discounts	<u>-</u>	<u>(32,151)</u>	<u>(25,677)</u>
	<b><u>\$ 7,765,250</u></b>	<b><u>8,545,278</u></b>	<b><u>9,042,075</u></b>
Notes and accounts receivable, net	\$ 7,621,200	8,424,725	8,932,531
Accounts receivable due from related parties, net	112,490	120,553	109,544
Long-term receivables (recorded as other non-current assets)	<u>31,560</u>	<u>-</u>	<u>-</u>
	<b><u>\$ 7,765,250</u></b>	<b><u>8,545,278</u></b>	<b><u>9,042,075</u></b>

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) Impairment loss on notes and accounts receivables

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on September 30, 2018. To measure the expected credit losses, notes and accounts receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including the reasonable prediction of historical credit loss experience and future economic situation.

The loss allowance provision in Taiwan region as of September 30, 2018 was determined as follows:

	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Not overdue	\$ 6,093,255	0.128%	7,816
Overdue 0-90 days	83,868	0.764%	641
Overdue 91-180 days	40,669	5.749%	2,338
Overdue 181-270 days	48,159	8.719%	4,199
Overdue 271-365 days	60,349	17.145%	10,347
Overdue over one year	<u>80,433</u>	100%	<u>80,433</u>
	<u><b>\$ 6,406,733</b></u>		<u><b>105,774</b></u>

The loss allowance provision in non-Taiwan region as of September 30, 2018 was determined as follows:

<b>Credit Rating</b>	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Rating A	\$ 1,472,219	0.628%	9,245
Rating B	<u>17,838</u>	92.62%	<u>16,521</u>
	<u><b>\$ 1,490,057</b></u>		<u><b>25,766</b></u>

	<b>Gross carrying amount</b>
Not overdue	\$ 1,379,591
Overdue 0-90 days	80,455
Overdue 91-180 days	10,907
Overdue 181-270 days	1,266
Overdue 271-365 days	732
Overdue over one year	<u>17,106</u>
	<u><b>\$ 1,490,057</b></u>

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

As of December 31 and September 30, 2017, the Group applies the incurred loss model to consider the loss allowance provision of notes and accounts receivable, and the aging analysis of notes and accounts receivable, which were past due but not impaired, were as follows:

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Not overdue	\$ 7,843,735	8,597,524
Overdue 0-90 days	519,757	393,367
Overdue 91-180 days	175,788	8,967
Overdue 181-270 days	499	21,326
Overdue 271-365 days	1,930	11,583
Overdue over one year	<u>3,569</u>	<u>9,308</u>
	<b><u>\$ 8,545,278</u></b>	<b><u>9,042,075</u></b>

- (ii) For the nine months ended September 30, 2018 and 2017, the movements in the allowance for impairment loss with respect to notes and accounts receivable were as follow:

	<b>Nine months ended September 30, 2018</b>	<b>Nine months ended September 30, 2017</b>
Balance on January 1	\$ 132,051	137,349
Impairment loss recognized (reversed impairment loss)	14,277	(2,683)
Amounts written off	(14,604)	(5,280)
Foreign exchange (gains) losses	<u>(184)</u>	<u>(136)</u>
Balance on September 30	<b><u>\$ 131,540</u></b>	<b><u>129,250</u></b>

- (iii) The Group entered into accounts receivable factoring agreement with banks. Based on the term of agreement, the Group is not responsible for any inability of repayment by accounts receivable during the debt transfer and repayment period. From the factoring of AR, the Group will receive prepayment and pledged deposit amounts in accordance with the factoring agreement. The Group will pay interest to the bank, calculated based on the agreed interest rate for the repayment period made by the customer. Furthermore, the pledged deposit amount cannot be withdrawn prior to the repayment made by the customer, the remaining amount and pledged deposit will be received from banks upon the actual payment from customer and will be recorded under bank accounts. In addition, the Group has to pay the transaction fee with a certain percentage. As of September 30, 2018 and December 31, 2017, the pledged deposit amounted to \$124,170 and \$33,686, respectively, were recorded under other current financial assets.

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

As of September 30, 2018 and December 31, 2017, the details of the factored accounts receivable was as follows:

<b>September 30, 2018</b>				
<b>Amount of sold A/R</b>	<b>Limitation amount</b>	<b>Advance amount</b>	<b>Amount Derecognized</b>	<b>Interest rate</b>
<b>\$ 326,115</b>	<b>602,829</b>	<b>201,945</b>	<b>326,115</b>	<b>2.2%</b>
<b>December 31, 2017</b>				
<b>Amount of sold A/R</b>	<b>Limitation amount</b>	<b>Advance amount</b>	<b>Amount Derecognized</b>	<b>Interest rate</b>
<b>\$ 336,656</b>	<b>554,988</b>	<b>302,970</b>	<b>336,656</b>	<b>1.5%</b>

- (iv) As of September 30, 2018, December 31 and September 30, 2017, the Group did not provide any notes and accounts receivable as collateral for its loans. Furthermore, the Group provided part of its bank deposits (recorded as other financial assets) as collateral for the factoring of accounts receivable. Please refer to note 8 for details.
- (g) Other receivables (Record as other current financial assets)

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Other accounts receivable	\$ 144,964	79,510	136,005
Less: Loss allowance	(4,978)	(4,978)	(8,720)
	<b>\$ 139,986</b>	<b>74,532</b>	<b>127,285</b>

The following table presents whether other receivables held by the Group measured at an amount equal to lifetime ECL, and in the latter case, whether they were credit-impaired on September 30, 2018:

	<b>September 30, 2018</b>	
	<b>Lifetime ECL- not credit- impaired</b>	<b>Lifetime ECL- credit-impaired</b>
Not overdue	\$ 139,986	-
Overdue	-	4,978
Gross carrying amount	139,986	4,978
Impairment losses	-	(4,978)
Carrying amount	<b>\$ 139,986</b>	<b>-</b>

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

For the nine months ended September 30, 2018, the movement in the allowance for financial assets of other receivables were as follows:

	<b>Lifetime ECL- not credit- impaired</b>	<b>Lifetime ECL- credit-impaired</b>	<b>Total</b>
Balance on September 30, 2018 (Same as balance on January 1, 2018)	\$ <u>-</u>	<u>4,978</u>	<u>4,978</u>

As of December 31 and September 30, 2017, the aging analysis of other receivables, which were past due but not impaired, were as follows:

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Not overdue	\$ <u>74,532</u>	<u>127,285</u>

For the nine months ended September 30, 2017, the movement in the allowance for other receivables were as follows:

	<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>	<b>Total</b>
Balance on September 30, 2017 (Same as balance on January 1, 2017)	\$ <u>8,720</u>	<u>-</u>	<u>8,720</u>

As of September 30, 2018, December 31 and September 30, 2017, the Group did not provide any other receivables as collateral for its loans.

(h) Construction contracts

Construction revenue recognized in profit or loss during the nine months ended September 30, 2017 was as follows:

	<b>For the three months ended September 30, 2017</b>	<b>For the nine months ended September 30, 2017</b>
Construction revenue recognized in current profit	\$ <u>72,711</u>	<u>133,838</u>

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Accumulated costs incurred	\$ 672,628	631,126
Add: Accumulated profit and losses recognized arising from the construction	<u>236,075</u>	<u>237,035</u>
Accumulated costs and profit recognized (less losses recognized)	908,703	868,161
Less: progress billings	<u>908,703</u>	<u>868,161</u>
Amount due from (to) customers for contract work – presented as an asset (liability)	\$ <u><u>-</u></u>	<u><u>-</u></u>

(i) Inventories

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Raw materials	\$ 354,715	426,023	582,180
Work in progress	360,985	418,989	471,314
Finished goods	<u>1,415,656</u>	<u>1,644,640</u>	<u>1,499,432</u>
	<u><u>\$ 2,131,356</u></u>	<u><u>2,489,652</u></u>	<u><u>2,552,926</u></u>

The Group reversed its allowance for inventory valuation and obsolescence loss amounting to \$16,572 and \$9,237 in the three month ended September 30, 2018 and 2017, respectively, and recorded them as reduction of cost of sales because the net realizable value was no longer lower than the cost after the disposal of obsolete inventories.

The write-down of the inventories to net realizable value amounted to \$10,316 and \$28,035 which was recorded as cost of sales in the nine months ended September 30, 2018 and 2017, respectively.

As of September 30, 2018, December 31 and September 30, 2017, the Group did not provide any inventories as collateral for its loans.

(j) Investments accounted for using equity method

- (i) A summary of the Group's financial information for equity-accounted investees at the reporting date were as follows:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Associates	<u><u>\$ 116,711</u></u>	<u><u>89,994</u></u>	<u><u>90,151</u></u>

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (ii) The Group's financial information for investments accounted for using equity method that are individually insignificant were as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
The carrying amount of individually insignificant associates equity	\$ <u>116,711</u>	<u>89,994</u>	<u>90,151</u>
	<u>For the three months ended September 30, 2018</u>	<u>For the nine months ended September 30, 2018</u>	<u>For the nine months ended September 30, 2017</u>
Attributable to the Group:	<u>2017</u>	<u>2017</u>	<u>2017</u>
Profit (loss) from continuing operations	\$ (3,024)	186	(3,283)
Other comprehensive income	-	-	(1,918)
	\$ (3,024)	186	(3,283)
	(8,688)		

- (iii) Except as described below, there were no significant changes in the investments accounted for using equity method of the Group for the nine months ended September 30, 2018 and 2017. For related information, please refer to note 6(h) of the 2017 annual consolidated financial statements.
- (iv) The Group had acquired 31.58% ownership of Eleocom from third parties with the cash considerations of \$30,000 in May, 2018. Since the Group is able to exercise significant influence over Eleocom's operations and financial policies, the long-term investment in Eleocom is accounted for using equity method.
- (v) Pledges

As of September 30, 2018, December 31 and September 30, 2017, the Group did not provide any investment accounted for using the equity method as collaterals for its loans.

- (k) Changes in subsidiaries' equity

There were no significant changes in the acquisitions of subsidiaries' equity of the Group for the nine months ended September 30, 2018. For related information, please refer to note 6(i) of the 2017 annual consolidated financial statements.

- (l) Loss control of subsidiaries

- (i) For loss control of subsidiaries of the Group in 2017, please refer to note 6(j) of the 2017 annual consolidated financial statements.

(Continued)



## EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- (ii) Zenaro GmbH had completed its liquidation process in January 2018. It is no longer included in the consolidation since the liquidation date. The Group derecognized the assets, liabilities and the related equity components of Zenaro GmbH and recognized a gain on disposal of \$1,081, and recorded it as gains (losses) on disposals of investments, net.

The carrying amount of assets and liabilities of Zenaro GmbH on the date of liquidation is as follows:

Other current assets	\$ 3,864
Other current liabilities	-
Carrying amount of net assets	<u>\$ 3,864</u>
Other equity	<u>\$ (4,945)</u>

- (iii) Ever Power had completed its liquidation process in April, 2018, and the Group received the liquidating dividend of \$326,773. The Group reversed capital surplus of \$3,656 which was not recognized at the shareholding percentage. It is no longer included in the consolidated since the liquidation date. The Group derecognized the assets, liabilities and the related equity components of Ever Power, and recognized a gain on disposal of \$2,727, and recorded it as gains (losses) on disposals of investments, net.

The carrying amount of assets and liabilities of Ever Power on the date of liquidation is as follows:

Other current assets	\$ 327,702
Other current liabilities	-
Carrying amount of net assets	<u>\$ 327,702</u>
Other equity	<u>\$ (3,656)</u>

- (m) Property, plant and equipment

The movements in the property, plant and equipment of the Group were as follows:

	Land	Buildings and construction	Machinery and equipment	Modeling equipment	Office and other equipment	Prepaid Property, plant and equipment	Total
<b>Cost or deemed cost:</b>							
Balance on January 1, 2018	\$ 651,235	8,016,840	14,063,604	1,564,202	1,181,827	294,190	25,771,898
Add: additions	-	52,334	484,650	139,445	77,670	101,300	855,399
Add: reclassification	-	46,254	69,245	117	(39,761)	(48,412)	27,443
Less: sales	(5,311)	(46,037)	(694,021)	(14,909)	(58,041)	(7,573)	(825,892)
Less: retirement	-	(67)	(115,225)	(22,757)	(19,292)	-	(157,341)
Effect of movements in exchange rates	(446)	(90,193)	(147,248)	(17,206)	(17,883)	-	(272,976)
Balance on September 30, 2018	<u>\$ 645,478</u>	<u>7,979,131</u>	<u>13,661,005</u>	<u>1,648,892</u>	<u>1,124,520</u>	<u>339,505</u>	<u>25,398,531</u>

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Modeling equipment</u>	<u>Office and other equipment</u>	<u>Prepaid Property, plant and equipment</u>	<u>Total</u>
Balance on January 1, 2017	\$ 648,882	7,735,911	14,676,783	1,520,663	1,072,384	290,038	25,944,661
Add: additions	-	116,851	720,231	171,120	100,853	572,078	1,681,133
Add: reclassification	-	154,876	654,313	613	30,590	(601,100)	239,292
Less: sales and retirement	-	(51,738)	(492,133)	(43,213)	(28,656)	(8,691)	(624,431)
Effect of movements in exchange rates	2,381	(44,000)	(104,844)	(9,927)	(12,263)	(502)	(169,155)
Balance on September 30, 2017	<u>\$ 651,263</u>	<u>7,911,900</u>	<u>15,454,350</u>	<u>1,639,256</u>	<u>1,162,908</u>	<u>251,823</u>	<u>27,071,500</u>
<b>Depreciation and impairments loss:</b>							
Balance on January 1, 2018	\$ -	3,012,162	9,691,147	1,050,195	590,699	-	14,344,203
Add: depreciation for the year	-	332,446	955,515	142,501	71,180	-	1,501,642
Less: sales	-	(7,589)	(541,625)	(9,596)	(21,603)	-	(580,413)
Less: retirement	-	(67)	(108,566)	(22,749)	(16,056)	-	(147,438)
Effect of movements in exchange rates	-	(51,965)	(121,522)	(9,021)	(5,249)	-	(187,757)
Balance on September 30, 2018	<u>\$ -</u>	<u>3,284,987</u>	<u>9,874,949</u>	<u>1,151,330</u>	<u>618,971</u>	<u>-</u>	<u>14,930,237</u>
Balance on January 1, 2017	\$ -	2,620,339	10,400,942	1,059,448	535,813	-	14,616,542
Add: depreciation for the year	-	314,771	966,171	137,228	63,154	-	1,481,324
Add: reclassification	-	-	(450)	-	450	-	-
Less: sales and retirement	-	(36,121)	(347,703)	(32,344)	(21,407)	-	(437,575)
Effect of movements in exchange rates	-	(13,885)	(89,466)	(6,056)	(4,031)	-	(113,438)
Balance on September 30, 2017	<u>\$ -</u>	<u>2,885,104</u>	<u>10,929,494</u>	<u>1,158,276</u>	<u>573,979</u>	<u>-</u>	<u>15,546,853</u>
<b>Carrying amounts:</b>							
Balance on January 1, 2018	<u>\$ 651,235</u>	<u>5,004,678</u>	<u>4,372,457</u>	<u>514,007</u>	<u>591,128</u>	<u>294,190</u>	<u>11,427,695</u>
Balance on September 30, 2018	<u>\$ 645,478</u>	<u>4,694,144</u>	<u>3,786,056</u>	<u>497,562</u>	<u>505,549</u>	<u>339,505</u>	<u>10,468,294</u>
Balance on January 1, 2017	<u>\$ 648,882</u>	<u>5,115,572</u>	<u>4,275,841</u>	<u>461,215</u>	<u>536,571</u>	<u>290,038</u>	<u>11,328,119</u>
Balance on September 30, 2017	<u>\$ 651,263</u>	<u>5,026,796</u>	<u>4,524,856</u>	<u>480,980</u>	<u>588,929</u>	<u>251,823</u>	<u>11,524,647</u>

As of September 30, 2018, December 31 and September 30, 2017, the aforesaid property, plant and equipment were not pledged as collateral.

(n) Other current financial assets

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Time deposits with maturities over three months	\$ 4,557,606	6,472,603	5,242,586
Capital guarantee financial products	-	568,862	614,014
Restricted cash in bank	124,170	33,686	-
Other receivables	139,986	74,532	127,285
	<u>\$ 4,821,762</u>	<u>7,149,683</u>	<u>5,983,885</u>

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (i) The Group purchased rate-related principal guarantee financial products and floating income principal guarantee financial products to optimize the use of its working Capital. These investments were classified as financial assets at fair value through profit or loss on September 30, 2018; please refer to note 6(b). The Group's capital guarantee financial products which have yet to mature on December 31 and September 30, 2017, were as follows:

<b>December 31, 2017</b>			
<b>Contract amount (in thousands)</b>	<b>Rate</b>	<b>Maturity period</b>	<b>Amount</b>
RMB 124,000	3.30%~4.25%	2018.01~2018.02	\$ <u><u>568,862</u></u>

  

<b>September 30, 2017</b>			
<b>Contract amount (in thousands)</b>	<b>Rate</b>	<b>Maturity period</b>	<b>Amount</b>
RMB 134,800	3.40%~4.10%	2017.10~2017.12	\$ <u><u>614,014</u></u>

The Group recognized the interest income of principal guarantee financial products for the nine months ended September 30, 2017, please refer to note 6(ab).

- (ii) As of September 30, 2018 and December 31, 2017, the Group had provided parts of financial assets as collateral for the factoring of accounts receivable and guarantee for contract grant; please refer to note 8. As of September 30, 2017, the Group did not provide any financial assets as collateral for its loans.
- (o) Short-term borrowings

The short-term loans were summarized as follows:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Unsecured bank loans	\$ <u><u>2,873,026</u></u>	<u><u>2,181,411</u></u>	<u><u>2,272,712</u></u>
Unused short-term credit lines	\$ <u><u>13,054,367</u></u>	<u><u>14,433,426</u></u>	<u><u>14,848,902</u></u>
Annual interest rates	<u><u>0.43%~2.8%</u></u>	<u><u>0.43%~2.75%</u></u>	<u><u>0.47%~2.75%</u></u>

- (i) For information on the Group's interest risk, foreign currency risk, and liquidity risk, please refer to note 6(ad) for details.
- (ii) The Group did not provide any assets as collateral for its loans.

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(p) Other current liabilities

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Refund liabilities	\$ 24,883	-	-
Derivative instruments not used for hedging	3,814	23,883	27,236
Embedded derivative – put option	-	46,988	47,481
Wages and salaries payable	260,497	253,954	248,402
Other payables	1,159,845	1,529,986	1,634,552
Others	<u>411,809</u>	<u>516,045</u>	<u>475,514</u>
	<b><u>\$ 1,860,848</u></b>	<b><u>2,370,856</u></b>	<b><u>2,433,185</u></b>

For sales contracts, the Group reduces its revenue by the amount of expected returns and records it as refund liabilities.

(q) Convertible bonds payable

The Company issued the fifth and the sixth domestic unsecured convertible bonds with the face values of \$4,000,000 and \$5,000,000 on December 20, 2013, and May 18, 2015, respectively. The details were as follows:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Total convertible bonds issued	\$ 9,000,000	9,000,000	9,000,000
Unamortized discounted bonds payable	(35,822)	(198,304)	(223,220)
Cumulated converted amount	(184,600)	(184,600)	(184,600)
Cumulated repurchased and redeemed amount	<u>(4,641,000)</u>	<u>(1,160,500)</u>	<u>(1,228,300)</u>
	4,138,578	7,456,596	7,363,880
Unamortized amount of the cost of issuing convertible bonds	(1,847)	(3,347)	(3,847)
Bonds payable, current portion	<u>(3,038,472)</u>	<u>(7,453,249)</u>	<u>(4,431,508)</u>
Non-current	<b><u>\$ 1,098,259</u></b>	<b><u>-</u></b>	<b><u>2,928,525</u></b>
Embedded derivative – put option (recognized as financial liabilities at fair value through profit or loss, and recorded as other current liabilities)	<u>\$ -</u>	<u>46,988</u>	<u>47,481</u>
Equity components – conversion options (recognized as capital surplus – redemption rights)	<b><u>\$ 343,930</u></b>	<b><u>601,110</u></b>	<b><u>601,110</u></b>

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Embedded derivative – gains or losses resulting from remeasuring call and put options at fair value (recorded as gains (losses) on financial assets (liabilities) at fair value through profit or loss)	\$ <u>-</u>	<u>2,302</u>	<u>(12,078)</u>	<u>(9,675)</u>
Interest expense	\$ <u>(14,823)</u>	<u>(24,274)</u>	<u>(60,748)</u>	<u>(76,419)</u>

For the nine months ended September 30, 2017, the Group sold its sixth domestic convertible bonds which have been bought back in the previous years from the public market, with a face value of \$73,200, amounting to \$72,943, and reversed its unamortized discount on bonds payable, other non-current assets (embedded derivative instrument – call option), as well as other non-current liabilities (embedded derivative instrument – put option). Therefore, the Group recognized a loss on the sale of the convertible bonds amounting to \$978, which was recorded under other expenses. In addition, the Group reversed its addition paid in capital – treasury stock of \$721 resulting from the sale of the convertible bonds.

For the nine months ended September 30, 2018, the Company made a cash payment of \$3,480,500 to redeem its bonds payable at the carrying amount of \$3,480,500 upon the bondholder's request, and reversed the unamortized discount on bonds payable and other current liabilities (embedded derivative instrument - put option). Therefore, the Group recognized the loss on redemption of convertible bonds amounting to \$42,668, which was recorded under other expenses and losses. In addition, due to the said bond redemption, the Company reclassified its capital surplus - stock option to capital surplus -treasury stock amounting to \$257,180. The aforesaid amount had been paid.

(r) Long-term loans

The details of long-term borrowings were as follows:

<b>Banks</b>	<b>Expiration</b>	<b>Currency</b>	<b>Range of interest rates</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Bank SinoPac	2017.10.7	TWD	1.465%~1.675%	\$ -	-	493
Less: current portion				-	-	(493)
				<u>\$ -</u>	<u>-</u>	<u>-</u>
Unused long-term credit lines				<u>\$ -</u>	<u>-</u>	<u>-</u>

- (i) For information on the Group's interest risk and liquidity risk, please refer to 6(ad) for details.
- (ii) The Group did not provide any assets as collateral for its loans.
- (iii) There were no significant issues, repurchases and repayments of long-term borrowings for the nine months ended September 30, 2018 and 2017. Information on interest expense for the period is discussed in Note 6(ab). Please refer to Note 6(o) of the 2017 annual consolidated financial statements for other related information.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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(s) Operating lease

There were no significant differences between the new lease contracts and the long-term prepaid rents of the Group for the nine months ended September 30, 2018 and 2017. For related information, please refer to note 6(p) of the 2017 annual consolidated financial statements.

(t) Employee benefits

(i) Defined benefit plans

Given there was no significant volatility of the market or any significant reimbursement, settlement or other one-time event in the prior fiscal year, the pension cost of the Company and Evervision TW in the interim consolidated financial statements shall be measured and disclosed in accordance with the actuarial report measured on December 31, 2017 and 2016.

The pension costs of the defined benefit plans were as follow:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Cost of sales and operating expenses	\$ <u>1,041</u>	<u>876</u>	<u>3,142</u>	<u>3,142</u>

(ii) Defined contribution plans

The Group recognized its pension costs under the defined contribution plans were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Cost of sales and operating expenses	\$ <u>42,385</u>	<u>40,033</u>	<u>121,876</u>	<u>110,695</u>

(u) Income taxes

The Group entities are subject to income tax rates, according to the profit before tax of the interim reporting period, multiply by the best estimated measurement of the expected effective tax rate by the managers in all the year.

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing 2018. The group spreads the effect of the change in the tax rate by an adjustment to the estimated annual effective income tax rate.

(i) The amount of income tax was as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Current tax expense	\$ <u>97,059</u>	<u>85,437</u>	<u>213,769</u>	<u>283,167</u>

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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- (ii) The amount of income tax (profit) recognized in other comprehensive income was as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Exchange differences on translating				
foreign operations	\$ 1,027	1,425	(3,297)	1,178
Actuarial gains (losses) on defined				
benefit plans	-	-	(3,569)	-
	<u>\$ 1,027</u>	<u>1,425</u>	<u>(6,866)</u>	<u>1,178</u>

- (iii) The tax authorities have examined the Company's income tax returns through 2015. The income tax returns of the subsidiaries in the ROC have been assessed by the tax authorities through 2016.

- (v) Capital and other equities

Except as described below, there were no significant change in the capital and other equity for the nine months ended September 30, 2018 and 2017. For related information, please refer to note 6(s) of the consolidated financial statements for the year ended December 31, 2017.

As of September 30, 2018 and 2017, the authorized common stocks amounted to \$10,000,000 (of which \$400,000 were reserved for the exercising of employee share options); face value of each share is \$10, which means there were 1,000,000 thousand ordinary shares, in total of which 442,871 and 440,336 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

Reconciliation of shares outstanding for the nine months ended September 30, 2018 and 2017 were as follows:

(in thousands of shares)	<b>For the nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>
Balance on January 1	440,449	439,036
Employee stock options exercised	2,422	1,300
Balance on September 30	<u>442,871</u>	<u>440,336</u>

- (i) Ordinary shares

Based on a resolution at the annual shareholders' meeting held on June 12, 2015, the Company increased the authorized common stock to \$10,000,000. As of November 7, 2018, the registration procedures related to the authorized common stock had not been completed.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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The employee stock options exercised amounting to \$24,225 in nine months ended September 30, 2018 which resulted in a capital surplus of \$113,725 (including the stock options converted into addition paid-in capital arising from the ordinary shares of \$90,704). The registration procedures of the employee stock options amounting to \$23,285 had not been completed.

The employee stock options exercised amounting to \$13,000 in nine months ended September 30, 2017 which resulted in capital surplus of \$50,784 (including the stock options converted into addition paid-in capital arising from the ordinary shares of \$26,575). The registration procedures of the employee stock options had been completed.

(ii) Capital surplus

The balances of capital surplus of the Company were as follows:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Additional paid-in capital	\$ 7,792,694	7,678,969	7,675,014
Difference between consideration and carrying amount of subsidiaries disposed	147,087	150,743	150,743
Changes in equity of associates accounted for using equity method	6,489	6,489	6,489
Redemption rights resulting from issuance of convertible bonds	343,930	601,110	601,110
Treasury stock resulting from the redemption of convertible bonds	727,702	470,522	469,902
Share-based payment – employee stock options	138,839	231,834	237,241
Others	<u>44</u>	<u>44</u>	<u>44</u>
	<b><u>\$ 9,156,785</u></b>	<b><u>9,139,711</u></b>	<b><u>9,140,543</u></b>

(iii) Retained earnings

In accordance with the Company's articles net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes, of the remaining balance, 10% is to be appropriated as legal reserve, and the Company should appropriate the same amount as special reserve from retained earnings in accordance with legal authorities and legislations. The remainder, accumulated with the unappropriated earnings of prior years, is distributed as additional dividends to shareholders, which cannot be lower than 50% of the total accumulated unappropriated earnings. The distribution rate is based on the proposal of the Company's board of directors and should be approved in the shareholders' meeting.

Cash dividends cannot be lower than 10% of the total cash and stock dividends. However, stock dividends instead of cash dividends are declared if the cash dividends per share are less than NT\$0.2 (dollars).

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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1) Earnings distribution

Based on a resolution of the annual shareholder's meeting held on June 15, 2018 and June 16, 2017, the appropriations of dividends from the earnings distribution for 2017 and 2016 were as follows:

	2017		2016	
	Amount per share (dollars)	Total amount	Amount per share (dollars)	Total amount
Dividends distributed to common shareholders:				
Cash	\$ <u>3.00</u>	<u>1,321,133</u>	<u>3.00</u>	<u>1,322,385</u>

(iv) Other equity (net of tax)

	Foreign exchange differences arising from foreign operation	Available- for-sale financial assets	Unrealized gain (loss) from financial assets at fair value through other comprehensive income	Total
<b>Balance of January 1, 2018</b>	\$ (437,489)	(393,305)	-	(830,794)
Effect of retrospective application	-	393,305	(389,010)	4,295
Balance at January 1, 2018 after adjustments	(437,489)	-	(389,010)	(826,499)
Foreign exchange differences (net of taxes):				
The Group	(241,050)	-	-	(241,050)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income				
The Group	-	-	(106,819)	(106,819)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	(8,178)	(8,178)
<b>Balance on September 30, 2018</b>	<u>\$ (678,539)</u>	<u>-</u>	<u>(504,007)</u>	<u>(1,182,546)</u>

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	Foreign exchange differences arising from foreign operation	Available- for-sale financial assets	Unrealized gain (loss) from financial assets at fair value through other comprehensive income	Total
<b>Balance of January 1, 2017</b>	\$ (342,475)	(1,076,778)	-	(1,419,253)
Foreign exchange differences (net of taxes):				
The Group	(145,123)	-	-	(145,123)
Associates	(1,918)	-	-	(1,918)
Unrealized gains and losses from available-for-sale financial assets (net of taxes):				
The Group	-	306,252	-	306,252
<b>Balance on September 30, 2017</b>	<u>\$ (489,516)</u>	<u>(770,526)</u>	<u>-</u>	<u>(1,260,042)</u>

(w) Share-based payment

Except as described below, there were no significant changes in the share-based payment of the Group for the nine months ended September 30, 2018 and 2017. For related information, please refer to note 6(t) of the 2017 annual consolidated financial statements.

(i) The information on the total options issued is summarized as follows:

	Nine months ended September 30, 2018							
	2018.1.1 Outstanding units	Current units granted	Current units exercised	Current units abandoned	Current units expired	2018.9.30 Outstanding units	2018.9.30 Exercisable units	Remaining duration
<b>Date of issuance</b>								
August 6, 2015	60,000	-	42,500	-	-	17,500	11,500	1.8 years
April 2, 2015	3,194,000	-	2,161,650	-	-	1,032,350	712,950	1.6 years
July 18, 2013	489,600	-	218,350	51,900	219,350	-	-	- years
	<u>3,743,600</u>	<u>-</u>	<u>2,422,500</u>	<u>51,900</u>	<u>219,350</u>	<u>1,049,850</u>	<u>724,450</u>	
Weighted-average exercise price (dollars)	<u>\$ 19.67</u>	<u>-</u>	<u>19.50</u>	<u>18.60</u>	<u>18.60</u>	<u>18.32</u>	<u>18.32</u>	

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Date of issuance	Nine months ended September 30, 2017							Remaining duration
	2017.1.1 Outstanding units	Current units granted	Current units exercised	Current units abandoned	Current units expired	2017.9.30 Outstanding units	2017.9.30 Exercisable units	
August 6, 2015	70,000	-	-	10,000	-	60,000	39,000	2.8 years
April 2, 2015	4,192,000	-	-	835,000	-	3,357,000	2,182,050	2.6 years
July 18, 2013	1,440,300	-	720,400	85,800	-	634,100	634,100	0.8 years
June 4, 2012	972,650	-	532,150	440,500	-	-	-	- years
January 2, 2012	1,092,500	-	47,500	1,045,000	-	-	-	- year
	<u>7,767,450</u>	<u>-</u>	<u>1,300,050</u>	<u>2,416,300</u>	<u>-</u>	<u>4,051,100</u>	<u>2,855,150</u>	
Weighted-average exercise price (dollars)	<u>\$ 26.00</u>	<u>-</u>	<u>28.62</u>	<u>32.43</u>	<u>-</u>	<u>19.63</u>	<u>19.55</u>	

The compensation cost of the stock options, which were overestimated, have been reversed in the previous years due to the abandonment of resigned employees amounted to \$18,848, \$2,291 and \$1,770 for the three months ended September 30, 2017, and the nine months ended September 30, 2018 and 2017, respectively. The compensation cost of the stock options amounted to \$765 for the three months ended September 30, 2018.

(x) Earnings per share

The Group's basic and diluted earnings per share are calculated as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Basic earnings per share:				
Profit attributable to ordinary shareholders of the Company	<u>\$ 305,153</u>	<u>280,416</u>	<u>651,387</u>	<u>968,281</u>
Weighted-average number of outstanding ordinary shares (thousands)	<u>442,727</u>	<u>440,171</u>	<u>441,397</u>	<u>439,802</u>
Diluted earnings per share:				
Profit attributable to ordinary shareholders of the Company	\$ 305,153	280,416	651,387	968,281
Dilutive effect of potential ordinary shares:				
Convertible bonds (note)	<u>14,823</u>	<u>21,972</u>	<u>72,826</u>	<u>86,094</u>
Profit attributable to ordinary shareholders of the Company (after adjustment of potential diluted ordinary shares)	<u>\$ 319,976</u>	<u>302,388</u>	<u>724,213</u>	<u>1,054,375</u>

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Weighted-average number of outstanding ordinary shares (thousands)	442,727	440,171	441,397	439,802
Dilutive effect of potential ordinary shares:				
Employee stock bonus	1,353	393	1,503	1,887
Convertible bonds	75,765	120,888	96,466	117,550
Employee stock options	<u>405</u>	<u>2,330</u>	<u>1,280</u>	<u>2,784</u>
Weighted-average number of outstanding ordinary shares (thousands) (after adjustment of potential diluted ordinary shares)	<u><b>520,250</b></u>	<u><b>563,782</b></u>	<u><b>540,646</b></u>	<u><b>562,023</b></u>

The average market value of the Company's shares for purpose of calculating the dilutive effect of stock options was based on the quoted market price for the period during which the options were outstanding.

(y) Revenue from contracts with customers

(i) Disaggregation of revenue

	<b>For the three months ended September 30, 2018</b>				
	<b>LED</b>	<b>LCD</b>	<b>Illumination</b>	<b>Others</b>	<b>Total</b>
Primary geographical markets:					
Asia	\$ 4,862,632	82,549	166,102	24,143	5,135,426
Europe	423,359	65,488	376,463	-	865,310
Others	<u>212,651</u>	<u>67,918</u>	<u>368</u>	<u>-</u>	<u>280,937</u>
Total	<u><b>\$ 5,498,642</b></u>	<u><b>215,955</b></u>	<u><b>542,933</b></u>	<u><b>24,143</b></u>	<u><b>6,281,673</b></u>
Major products					
Construction revenue	\$ -	-	34,304	-	34,304
Sales revenue	<u>5,498,642</u>	<u>215,955</u>	<u>508,629</u>	<u>24,143</u>	<u>6,247,369</u>
	<u><b>\$ 5,498,642</b></u>	<u><b>215,955</b></u>	<u><b>542,933</b></u>	<u><b>24,143</b></u>	<u><b>6,281,673</b></u>
	<b>For the nine months ended September 30, 2018</b>				
	<b>LED</b>	<b>LCD</b>	<b>Illumination</b>	<b>Others</b>	<b>Total</b>
Primary geographical markets:					
Asia	\$ 14,112,412	269,593	493,221	71,425	14,946,651
Europe	1,412,476	151,244	1,199,637	-	2,763,357
Others	<u>599,065</u>	<u>164,237</u>	<u>18,288</u>	<u>-</u>	<u>781,590</u>
Total	<u><b>\$ 16,123,953</b></u>	<u><b>585,074</b></u>	<u><b>1,711,146</b></u>	<u><b>71,425</b></u>	<u><b>18,491,598</b></u>

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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	For the nine months ended September 30, 2018				
	LED	LCD	Illumination	Others	Total
Major products					
Construction revenue	\$ -	-	82,179	-	82,179
Sales revenue	<u>16,123,953</u>	<u>585,074</u>	<u>1,628,967</u>	<u>71,425</u>	<u>18,409,419</u>
	<u><b>\$ 16,123,953</b></u>	<u><b>585,074</b></u>	<u><b>1,711,146</b></u>	<u><b>71,425</b></u>	<u><b>18,491,598</b></u>

(ii) Contract balance

	September 30, 2018	January 1, 2018
Notes receivable	\$ 36,260	28,368
Accounts receivables	7,860,530	8,681,112
Less: allowance for impairment	<u>(131,540)</u>	<u>(132,051)</u>
	<u><b>\$ 7,765,250</b></u>	<u><b>8,577,429</b></u>
Contract assets-illumination	<u><b>\$ 3,590</b></u>	<u>-</u>
Contract liabilities	<u><b>\$ 8,703</b></u>	<u><b>8,069</b></u>

For details on accounts receivable and allowance for impairment, please refer to note (6)(j).

For details on construction contracts as of September 30, 2017, please refer to note (6)(h).

The major change in the balance of contract assets and contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

(z) Net sales revenue

The details of sales revenue for the three months and nine months ended September 30, 2017 were as follows:

Items	Net sales	
	For the three months ended September 30, 2017	For the nine months ended September 30, 2017
Sales revenue:		
Luminous and sensing element	\$ 6,027,193	18,335,960
Illumination	546,377	1,435,784
Other	<u>256,670</u>	<u>707,073</u>
	6,830,240	20,478,817
Construction revenue	<u>72,711</u>	<u>133,838</u>
Net sales revenue	<u><b>\$ 6,902,951</b></u>	<u><b>20,612,655</b></u>

For details on sales revenue for the three months and nine months ended September 30, 2018, please refer to note (6)(y).

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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(aa) Remuneration of employees, directors and supervisors

In accordance with the Company's articles, if there is annual net income, the Company should appropriate 6%~12% as remuneration to employee and remuneration to directors and supervisors not exceeding 1%. However, if the Company has accumulated deficits, the after-tax earnings shall first be offset against any deficit. The employees include those in the subsidiaries who meet specific conditions.

The remuneration to employees amounted to \$23,298, \$20,104, \$48,911 and \$71,774, and the remuneration to directors and supervisors amounted to \$2,718, \$2,346, \$5,706 and \$8,374 for the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017, respectively. These amounts are calculated using the Company's profit before tax without the remuneration to employees, directors and supervisors for the period, and are determined using the earnings allocation method which was stated under the Company's article. These remuneration are expensed under operating expenses for the period. The differences between the actual amounts and the estimation of employee compensation will be treated as changes in accounting estimates and adjusted in profit or loss in the following year. If the board of directors decides to pay the employees compensation in stock, the basis for calculating the number of shares will be the closing price one day before the shareholders' meeting.

The remuneration to employees amounted to \$84,213 and \$130,006, and the remuneration to directors and supervisors amounted to \$7,677 and \$15,314, in 2017 and 2016, respectively. The related information can be accessed from the Market Observation Post System website. There had no differences between the actual amounts and the estimation of employee compensation in 2017 and 2016.

(ab) Non-operating income and expenses

The interest income and finance costs were as follows:

(i) Interest income

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Cash in banks	\$ 14,003	16,978	52,249	52,987
Structured notes and deposits	-	9,066	-	25,406
Other	1,509	991	6,477	2,243
	<u><b>\$ 15,512</b></u>	<u><b>27,035</b></u>	<u><b>58,726</b></u>	<u><b>80,636</b></u>

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Finance costs – interest expenses

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Loans	\$ 10,678	8,685	34,976	19,903
Convertible Bonds	14,823	24,274	60,748	76,419
Other	-	56	-	78
	<u><b>\$ 25,501</b></u>	<u><b>33,015</b></u>	<u><b>95,724</b></u>	<u><b>96,400</b></u>

(ac) Reclassification adjustments of the components of other comprehensive income

The reclassification adjustments of the components of other comprehensive income were as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Available-for-sale financial assets:				
Net change in fair value	\$ -	213,631	-	306,252
Equity instruments at fair value through other comprehensive income:				
Net change in fair value	<u>(27,923)</u>	<u>-</u>	<u>(106,819)</u>	<u>-</u>
Net change in fair value recognized in other comprehensive income	<u><b>\$ (27,923)</b></u>	<u><b>213,631</b></u>	<u><b>(106,819)</b></u>	<u><b>306,252</b></u>

(ad) Financial Instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(z) of the 2017 annual consolidated financial statement.

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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2) Credit risk of receivables

For credit risk and credit impairment of note and accounts receivable, please refer to note 6(f).

For credit impairment of other receivable, please refer to note 6(g).

(ii) Liquidity Risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payments.

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1 ~ 2 years</u>	<u>Over 2 years</u>
<b>September 30, 2018</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 2,873,026	(2,873,026)	(2,873,026)	-	-
Notes and accounts payable (including related parties)	5,100,046	(5,100,046)	(5,100,046)	-	-
Payable on construction and equipment	470,996	(470,996)	(470,996)	-	-
Other payables	1,159,845	(1,159,845)	(1,159,845)	-	-
Unsecured convertible bonds	4,138,578	(4,174,400)	(3,048,300)	(1,126,100)	-
Guaranteed deposits received	140,800	(140,800)	-	-	(140,800)
Derivative financial liabilities:					
Forward exchange contracts not used for hedging:	3,814				
Outflow	-	(763,775)	(763,775)	-	-
Inflow	-	760,787	760,787	-	-
	<u>\$ 13,887,105</u>	<u>(13,922,101)</u>	<u>(12,655,201)</u>	<u>(1,126,100)</u>	<u>(140,800)</u>

(Continued)



**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1 ~ 2 years</u>	<u>Over 2 years</u>
<b>December 31, 2017</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 2,181,411	(2,181,411)	(2,181,411)	-	-
Notes and accounts payable (including related parties)	5,584,631	(5,584,631)	(5,584,631)	-	-
Payable on construction and equipment	630,289	(630,289)	(630,289)	-	-
Other payables	1,529,986	(1,529,986)	(1,529,986)	-	-
Unsecured convertible bonds	7,456,596	(7,654,900)	(7,654,900)	-	-
Guaranteed deposits received	132,022	(132,022)	-	-	(132,022)
Derivative financial liabilities:					
Forward exchange contracts not used for hedging:	3,242				
Outflow	-	(151,737)	(151,737)	-	-
Inflow	-	148,414	148,414	-	-
Cross currency swap:	20,418				
Outflow	-	(1,063,350)	(1,063,350)	-	-
Inflow	-	1,044,680	1,044,680	-	-
Swap contracts:	223				
Outflow	-	(19,380)	(19,380)	-	-
Inflow	-	19,189	19,189	-	-
Debt components of convertible bonds payable	46,988	-	-	-	-
	<u>\$ 17,585,806</u>	<u>(17,735,423)</u>	<u>(17,603,401)</u>	<u>-</u>	<u>(132,022)</u>

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1 ~ 2 years</u>	<u>Over 2 years</u>
<b>September 30, 2017</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 2,272,712	(2,272,712)	(2,272,712)	-	-
Notes and accounts payable (including related parties)	5,960,318	(5,960,318)	(5,960,318)	-	-
Payable on construction and equipment	774,072	(774,072)	(774,072)	-	-
Other payables	1,634,552	(1,634,552)	(1,634,552)	-	-
Unsecured convertible bonds	7,363,880	(7,587,100)	(4,538,800)	(3,048,300)	-
Long-term loans (including current portion)	493	(493)	(493)	-	-
Guaranteed deposits received	125,463	(125,463)	-	-	(125,463)
Derivative financial liabilities:					
Forward exchange contracts not used for hedging:	19,894				
Outflow	-	(1,803,850)	(1,803,850)	-	-
Inflow	-	1,783,770	1,783,770	-	-
Swap contracts:	30				
Outflow	-	(11,882)	(11,882)	-	-
Inflow	-	11,852	11,852	-	-
Cross currency swap:	7,312				
Outflow	-	(461,600)	(461,600)	-	-
Inflow	-	454,575	454,575	-	-
Debt components of convertible bonds payable	47,481	-	-	-	-
	<u>\$ 18,206,207</u>	<u>(18,381,845)</u>	<u>(15,208,082)</u>	<u>(3,048,300)</u>	<u>(125,463)</u>

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) Currency risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follow:

September 30, 2018					December 31, 2017			September 30, 2017		
Foreign currency (in thousands)					Foreign currency (in thousands)			Foreign currency (in thousands)		
Exchange rate					Exchange rate			Exchange rate		
TWD					TWD			TWD		
Financial assets										
Monetary items										
USD	\$	179,881	USD/TWD =30.551	5,495,544	187,502	USD/TWD =29.848	5,596,560	193,090	USD/TWD =30.305	5,851,592
USD		50,924	USD/RMB =6.8679	1,555,779	77	USD/RMB =6.5062	2,298	2,185	USD/RMB =6.6531	66,261
RMB		360,291	RMB/TWD =4.4484	1,602,718	406,740	RMB/TWD =4.5876	1,865,960	488,560	RMB/TWD =4.555	2,225,391
Financial liabilities										
Monetary items										
USD		145,295	USD/TWD =30.551	4,438,908	107,063	USD/TWD =29.848	3,195,616	97,628	USD/TWD =30.305	2,958,617
USD		55,500	USD/RMB =6.8679	1,695,581	59,615	USD/RMB =6.506	1,779,389	63,411	USD/RMB =6.6531	1,921,670
RMB		712,675	RMB/TWD =4.4480	3,170,263	1,128,819	RMB/TWD =4.5876	5,178,570	1,129,942	RMB/TWD =4.555	5,146,886

2) Sensitivity analysis

The Group's exposure to foreign currency risk of monetary items arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and accounts receivable, other receivables, financial assets at fair value through other comprehensive income (available-for-sale financial assets), loans and borrowings, notes and accounts payables and other payables that are denominated in foreign currency. A 5% of appreciation (depreciation) of each major foreign currency against the Group's functional currency as of September 30, 2018 would have decreased (increased) the net profit before tax by \$55,018 for the nine months ended September 30, 2018, and increased (decreased) the net profit before tax by \$12,208 for the nine months ended September 30, 2017. The analysis is performed on the same basis for both periods.

3) Exchange gains and losses of monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017, the foreign exchange gains or losses, including both realized and unrealized, amounted to gains \$68,992, gains \$3,649, gains \$135,933 and losses \$143,905, respectively.

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

4) Interest rate analysis

The details of financial assets and liabilities exposed to interest rate risk were as follows:

	<b>Carrying amount</b>		
	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Variable rate instruments:			
Financial assets	\$ 4,084,970	4,077,763	4,280,543
Financial liabilities	<u>(2,401,523)</u>	<u>(2,181,411)</u>	<u>(2,273,205)</u>
	<b><u>\$ 1,683,447</u></b>	<b><u>1,896,352</u></b>	<b><u>2,007,338</u></b>

The following sensitivity analysis is based on the risk exposure to interest rate on the derivative and non-derivative financial instruments on the reporting date. Regarding the assets and liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of assets and liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.25% when reporting to management internally, which also represents management of the Group's assessment on the reasonably possible interval of interest rate change.

If the interest rate had increased or decreased by 0.25%, the effects of the net profit before tax for the nine months ended September 30, 2018 and 2017, were as following, which would be mainly resulted from bank borrowings and cash in banks with variable interest rates.

	<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Increase by 0.25%	\$ 3,156	3,764
Decrease by 0.25%	(3,156)	(3,764)

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

5) Fair value

a) The kinds of financial instruments and fair value

The fair value of the Group's financial assets and liabilities at fair value through profit or loss, derivative financial instruments used for hedging, and financial assets at fair value through other comprehensive income (Available-for-sale financial assets) are measured on a recurring basis. The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. They shall not include fair value information of the financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

	September 30, 2018				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss:</b>					
Derivative financial assets	\$ 58,581	-	58,581	-	58,581
Non derivative financial assets mandatorily measured at fair value through profit or loss	<u>1,665,116</u>	112,806	1,552,310	-	1,665,116
	<u>1,723,697</u>				
<b>Financial assets at fair value through other comprehensive income:</b>					
Stocks listed on domestic markets	347,006	347,006	-	-	347,006
Unquoted equity instruments	<u>72,000</u>	-	-	72,000	72,000
	<u>419,006</u>				
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	3,565,942	-	-	-	-
Notes and accounts receivable (including related parties)	7,733,690	-	-	-	-
Other current financial assets	4,821,762	-	-	-	-
Refundable deposits (recorded as other non-current assets)	190,788	-	-	-	-
Long-term accounts receivable (recorded as other non-current assets)	31,560	-	-	-	-
Restricted cash in bank (recorded as other non-current assets)	<u>6,974</u>	-	-	-	-
	<u>16,350,716</u>				
	<u><b>\$ 18,493,419</b></u>				
<b>Financial liabilities at fair value through profit or loss:</b>					
Derivative financial liabilities	\$ <u>3,814</u>	-	3,814	-	3,814
	<u>3,814</u>				

(Continued)

**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

		September 30, 2018				
		Fair Value				
	Book value	Level 1	Level 2	Level 3	Total	
<b>Financial liabilities measured at amortized cost:</b>						
Short-term borrowings	2,873,026	-	-	-	-	
Notes and accounts payable (including related parties)	5,100,046	-	-	-	-	
Payable on construction and equipment	470,996	-	-	-	-	
Other current payables (recorded as other non-current liabilities)	1,159,845	-	-	-	-	
Bonds payable loans (including current portion)	4,138,578	-	-	-	-	
Guaranteed deposits received	140,800	-	-	-	-	
	<u>13,883,291</u>					
	<u><b>\$ 13,887,105</b></u>					
		December 31, 2017				
		Fair Value				
	Book value	Level 1	Level 2	Level 3	Total	
<b>Financial assets at fair value through profit or loss:</b>						
Derivative financial assets	\$ 23,461	-	23,461	-	23,461	
Non-derivative financial assets held-for-trading	133,670	133,670	-	-	133,670	
Designated at initial recognition	93,465	33,814	59,651	-	93,465	
Stock unlisted on foreign markets	387,680	-	387,680	-	387,680	
	<u>638,276</u>					
<b>Available-for-sale financial assets:</b>						
Stocks listed on domestic markets	451,507	451,507	-	-	451,507	
Unquoted equity instruments	78,200	-	-	78,200	78,200	
	<u>529,707</u>					
<b>Financial assets at cost</b>	<u>40,049</u>	-	-	-	-	
<b>Loans and receivables:</b>						
Cash and cash equivalents	4,769,006	-	-	-	-	
Notes and accounts receivable (including related parties)	8,545,278	-	-	-	-	
Other current financial assets	7,149,683	-	-	-	-	
Other non-current financial assets (recorded as other non-current assets)	81,959	-	-	-	-	
Refundable deposits (recorded as other non-current assets)	165,224	-	-	-	-	
Restricted cash in bank (recorded as other non-current assets)	6,900	-	-	-	-	
	<u>20,718,050</u>					
	<u><b>\$ 21,926,082</b></u>					

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

December 31, 2017					
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial liabilities at fair value through profit or loss:</b>					
Derivative financial liabilities	\$ 23,883	-	23,883	-	23,883
Debt components of convertible bonds payable	46,988	-	-	46,988	46,988
	<u>70,871</u>				
<b>Financial liabilities at amortized cost through profit or loss:</b>					
Short-term borrowings	2,181,411	-	-	-	-
Notes and accounts payable (including related parties)	5,584,631	-	-	-	-
Payable on construction and equipment	630,289	-	-	-	-
Other current payables (recorded as other current liabilities)	1,529,986	-	-	-	-
Bonds payable (including current portion)	7,453,249	-	-	-	-
Guaranteed deposits received	132,022	-	-	-	-
	<u>17,511,588</u>				
	<u><b>\$ 17,582,459</b></u>				
September 30, 2017					
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss:</b>					
Derivative financial assets	\$ 8,403	-	8,403	-	8,403
Non-derivative financial assets held-for-trading	336,436	336,436	-	-	336,436
Designated at initial recognition	66,400	35,886	30,514	-	66,400
	<u>411,239</u>				
<b>Available-for-sale financial assets:</b>					
Stocks listed on domestic markets	770,226	770,226	-	-	770,226
Unquoted equity instruments	90,800	-	-	90,800	90,800
	<u>861,026</u>				
<b>Financial assets at cost</b>	<u>372,604</u>	-	-	-	-
<b>Loans and receivables:</b>					
Cash and cash equivalents	4,921,672	-	-	-	-
Notes and accounts receivable (including related parties)	9,042,075	-	-	-	-
Other current financial assets	5,983,885	-	-	-	-
Refundable deposits (recorded as other non-current assets)	181,158	-	-	-	-
Restricted cash in bank (recorded as other non-current assets)	9,800	-	-	-	-
	<u>20,138,590</u>				
	<u><b>\$ 21,783,459</b></u>				

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	September 30, 2017				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial liabilities at fair value through profit or loss:</b>					
Derivative financial liabilities	\$ 27,236	-	27,236	-	27,236
Debt components of convertible bonds payable	<u>47,481</u>	-	-	47,481	47,481
	<u>74,717</u>				
<b>Financial liabilities at amortized cost through profit or loss:</b>					
Short-term borrowings	2,272,712	-	-	-	-
Notes and accounts payable (including related parties)	5,960,318	-	-	-	-
Payable on construction and equipment	774,072	-	-	-	-
Other current payables (recorded as other current liabilities)	1,634,552	-	-	-	-
Long-term loans (including current portion)	493	-	-	-	-
Bonds payable (including current portion)	7,363,880	-	-	-	-
Guaranteed deposits received	<u>125,463</u>	-	-	-	-
	<u>18,131,490</u>				
	<u><b>\$ 18,206,207</b></u>				

- b) Fair value valuation technique of financial instruments measured at fair value
- i) The fair value of financial assets and liabilities traded in active markets, including listed stocks, fund beneficiary certificates, emerging stocks and listed convertible bonds, etc., is based on quoted market prices.
  - ii) The fair value of unlisted shares without an active market is assessed by using the net asset value per share approach, P/E ratio approach, and P/B ratio approach.
  - iii) The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value is estimated by adapting a valuation technique using the estimates and hypothesis referred from those used by financial instruments, or the binomial options pricing model which is generally accepted by the market participants.
  - iv) For all other financial assets and financial liabilities, the fair value is determined using a discounted cash flow analysis based on expected future cash flows.
- c) There was no transfers from one level to another of the Group for the for the nine months ended September 30, 2018 and 2017.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- d) The following table shows the reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy of the Group for the nine months ended September 30, 2018 and 2017:

	<b>Current financial assets at fair value through other comprehensive income (Available-for- sale financial assets) – unquoted equity instruments</b>	<b>Financial assets at fair value through profit or loss – asset components of convertible bonds payable</b>	<b>Financial liabilities at fair value through profit or loss – debt components of convertible bonds payable</b>	<b>Total</b>
Balance on January 1, 2018	\$ 122,544	-	(46,988)	75,556
Repurchased	-	-	59,066	59,066
Total gains and losses recognized:				
In profit (loss)	-	-	(12,078)	(12,078)
In other comprehensive income	(50,544)	-	-	(50,544)
Balance on September 30, 2018	<u>\$ 72,000</u>	<u>-</u>	<u>-</u>	<u>72,000</u>
Balance on January 1, 2017	\$ 96,400	405	(38,211)	58,594
Total gains and losses recognized:				
In profit (loss)	-	(405)	(9,270)	(9,675)
In other comprehensive income	(5,600)	-	-	(5,600)
Balance on September 30, 2017	<u>\$ 90,800</u>	<u>-</u>	<u>(47,481)</u>	<u>43,319</u>

The above total gains and losses are included in "other gains and losses" and "unrealized gain (loss) on available-for-sale financial assets" and "Unrealized gain (loss) from financial assets at fair value through other comprehensive income". The amount of total gains or losses for the years in above that were attributable to gains or losses relating to those assets and liabilities held at September 30, 2018 and 2017 were as follows:

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Total gains and losses recognized:				
In other comprehensive income (recorded as unrealized gains (losses) from financial assets at fair value through other comprehensive income)	\$ (11,649)	(1,200)	(50,544)	(5,600)
In profit or loss (recorded as gains (losses) from financial assets (liabilities) at fair value through profit or loss)	-	2,302	(12,078)	(9,675)

- e) The quantified information for significant unobservable inputs (Level 3) used in fair value measurement

The Group's financial instruments that use level 3 inputs to measure the fair values include current financial assets at fair value through other comprehensive income—equity securities, derivative financial instrument and available-for-sale financial assets—equity securities.

Most of fair value measurements of the Group which are categorized as equity investment instruments into level 3 have several significant unobservable inputs. Significant unobservable inputs of equity instrument without quoted price are independent of each other.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The quantitative information about significant unobservable inputs was as follows:

<b>Item</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationships between significant unobservable inputs and fair value</b>
Current financial assets at fair value through other comprehensive income (Available-for-sale financial assets- equity instrument without quoted price)	Guideline Public Company method - Price-Book Method	Price-to-Book ratio (P/B Ratio) (0.63, 0.67 and 0.65 on September 30, 2018, December 31, 2017 and September 30, 2017, respectively) Lack of marketability discount rate (20% on September 30, 2018, December 31, 2017 and September 30, 2017)	The higher the P/B Ratio, the higher the fair value. The higher the lack of marketability discount, the lower the fair value.
Financial liabilities at fair value through profit or loss- call and put options of convertible bonds	Binomial options pricing model for convertible bond	Volatility (22.71%, 18.82% and 16.72% on September 30, 2018, December 31, 2017 and September 30, 2017, respectively)	The higher the volatility, the higher the fair value.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

f) Sensitivity analysis for fair value of financial instruments using level 3 inputs

The Group's fair value measurement on financial instruments is reasonable. However, the measurement would be different if different valuation models or valuation parameters are used. For financial instruments using level 3 inputs, if the valuation parameters changed, the impact on other comprehensive income or loss were as follows:

	Input	Variation	Impacts of fair value change on other comprehensive income		Impacts of fair value change on net income or loss	
			Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
September 30, 2018						
Current financial assets at fair value through other comprehensive income	P/B ratio	5%				
			\$ 3,600	3,600	-	-
	Lack of marketability discount	5%				
			\$ 3,600	3,600	-	-
Financial assets and liabilities at fair value through profit or loss	Volatility	5%	\$ -	-	-	-
September 30, 2017						
Available-for-sale financial assets	P/B ratio	5%	\$ 4,540	4,540	-	-
	Lack of marketability discount	5%	\$ 4,540	4,540	-	-
Financial assets and liabilities at fair value through profit or loss	Volatility	5%	\$ -	-	20,878	31,772

The favorable and unfavorable impacts reflect the movement of the fair value, in which the fair value is calculated by using the significant unobservable inputs in the valuation technique. The table above shows the effects of one unobservable input, without considering the inter-relationships with another unobservable input for financial instrument, if there are one or more unobservable inputs.

(ae) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in note 6(aa) of the 2017 annual consolidated financial statements.

(af) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in note 6(ab) of the 2017 annual consolidated financial statements. Also, management believes that there were no significant changes in the Group's capital management information as disclosed in the 2017 annual financial statements.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ag) Investing and financial activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow in the nine months ended September 30, 2018 and 2017, were as follow:

	<b>January 1, 2018</b>	<b>Cash flow</b>	<b>September 30, 2018</b>
Short-term borrowings	\$ 2,181,411	691,615	2,873,026
Guarantee deposits received	132,022	8,778	140,800
Total liabilities from financing activities	<u><u>\$ 2,313,433</u></u>	<u><u>700,393</u></u>	<u><u>3,013,826</u></u>

**(7) Related-party transactions**

(a) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<b>Name of related party</b>	<b>Relationship with the Group</b>
Epistar Corporation(Epistar)	The Company is the corporate director of this company
Luxlite (Shenzhen) Corporation LED.	A subsidiary of Epistar
Tekcore Co. Ltd (Tekcore)	Equity-accounted investee by the Company

(b) Significant related party transactions

(i) Sales

The amounts of significant sales by the Group to related parties were as follows:

	<b>For the three months ended September 30, 2018</b>	<b>2017</b>	<b>For the nine months ended September 30, 2018</b>	<b>2017</b>
Associates	\$ 17,499	21,277	61,118	67,477
Other related parties	30,971	33,082	88,470	84,744
	<u><u>\$ 48,470</u></u>	<u><u>54,359</u></u>	<u><u>149,588</u></u>	<u><u>152,221</u></u>

There were no significant differences in the collection periods and sales prices between the related parties and other customers, and payment term was 90 to 165 days.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Purchase

The amounts of significant purchase by the Group from related parties were as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Associates	\$ 117,309	132,574	338,999	337,755
Other related parties-Epistar	435,015	716,368	1,457,792	2,083,621
	<u>\$ 552,324</u>	<u>848,942</u>	<u>1,796,791</u>	<u>2,421,376</u>

Purchase prices from Tekcore and Epistar have no significant differences between other related party and third-party suppliers. The payment term was 90 to 150 days for other related parties and third-party suppliers.

(iii) Receivables from related parties

The receivables due from related parties were as follows:

<b>Related party categories</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Associates	\$ 41,675	49,383	51,350
Other related parties	70,815	71,170	58,194
	<u>\$ 112,490</u>	<u>120,553</u>	<u>109,544</u>

(iv) Payables to related parties

The payables to related parties were as follows:

<b>Related party categories</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Associates	\$ 185,127	226,528	196,489
Other related parties-Epistar	1,043,469	1,443,757	1,565,223
	<u>\$ 1,228,596</u>	<u>1,670,285</u>	<u>1,761,712</u>

(c) Key management personnel compensation

Key management personnel compensation comprised:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Short-term employee benefits	\$ 8,601	9,404	24,224	41,376
Other	1,196	2,359	3,619	7,248
	<u>\$ 9,797</u>	<u>11,763</u>	<u>27,843</u>	<u>48,624</u>

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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There are no termination benefits and other long-term benefits. Please refer to note 6(w) for the explanation of share-based payment.

**(8) Pledged assets**

The carrying amounts of the pledged assets are as follows:

<u>Assets</u>	<u>Objectives</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Time deposits and restricted cash in bank (recorded as other financial assets – non-current)	Guarantee for contract grant	\$ 6,974	6,900	9,800
Restricted cash in bank (recorded as other financial assets-current)	Contract of accounts receivable factoring	124,170	33,686	-
		<u>\$ 131,144</u>	<u>40,586</u>	<u>9,800</u>

**(9) Commitments and contingencies**

(a) Except as described below, there were no significant differences between the commitments and the contingencies of the Group. For related information, please refer to note 9 of the 2017 annual consolidated financial statements.

(b) The lawsuits between Nichia Corporation

In March 2012, the Company filed a lawsuit against Nichia Corporation (Nichia) in German Federal Patent Court (FPC) alleging that Nichia's patent DE69702929 is invalid. The patent is related to specific white LED products. In September 2014, GFPC ruled DE69702929 being invalid, which was in favor of the Company and against Nichia. Afterwards, Nichia appealed to the Federal Court of Justice in October, 2014. In August, 2016, the Federal Court of Justice ruled the patent is valid. In December 2016, the Group filed another patent invalidation lawsuit with new evidences of patent invalidation. GFPC ruled patent being valid in September 2018. The decision of FPC is not final resect and is subject to appeal, if any. The Company decided to withdraw its appeal because that patent had been expired since July 29, 2017; therefore, there was no risk of injunction. In April 2016, the Group filed opposition proceedings against Nichia to the European Patent Office alleging that Nichia's patents EP2197053 and EP2276080 are invalid.

In October 2017, the European Patent Office issued a decision that the two patents with scope modified by Nichia was valid. Both Nichia and the Company continued to appeal for the scope of petents. Currently, the case is still in progress in the second instance. DE69702929, EP2197053 and EP2276080 mentioned above had been all expired since July 29, 2017. Therefore, there is no impact to the sales of the current products of The Company.

The Group has evaluated the future final decision of above cases and the potential demand for payment. The Group believes that it will not have any material effects on the operations of the Group and its subsidiaries, and there is no unrecorded contingent liability.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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(c) Significant commitments unrecognized:

- (i) As of September 30, 2018, December 31 and September 30, 2017, the Group's signed significant commitments to purchase machinery and equipment not yet due amounted to \$529,939, \$423,308 and \$696,440, respectively.
- (ii) As of September 30, 2018, December 31 and September 30, 2017, the unused balance of the Group's outstanding standby letters of credit amounted to \$38,277, \$49,009 and \$97,213, respectively.

**(10) Losses Due to Major Disasters: none**

**(11) Subsequent Events: none**

**(12) Other**

- (a) The followings are the summary statement of current period employee benefits, depreciation and amortization expenses by function:

By function By item	Three months ended September 30, 2018			Three months ended September 30, 2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	456,379	437,433	893,812	477,646	429,004	906,650
Labor and health insurance	23,592	36,571	60,163	21,999	38,640	60,639
Pension	27,628	15,798	43,426	22,247	18,662	40,909
Others	34,092	20,289	54,381	34,735	23,400	58,135
Depreciation	338,543	151,457	490,000	353,797	145,293	499,090
Amortization	15,116	10,064	25,180	13,835	10,971	24,806

By function By item	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	1,355,340	1,254,853	2,610,193	1,365,606	1,287,341	2,652,947
Labor and health insurance	70,376	115,094	185,470	66,012	113,528	179,540
Pension	78,645	46,373	125,018	62,379	51,458	113,837
Others	100,300	60,259	160,559	102,371	64,073	166,444
Depreciation	1,045,032	456,610	1,501,642	1,055,424	425,900	1,481,324
Amortization	46,526	31,505	78,031	38,607	33,856	72,463

- (b) Seasonality of interim operation

The operation of the Group is not subject to seasonal fluctuations.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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**(13) Other disclosures**

**(a) Information on significant transactions**

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers "for the Group for the nine months ended September 30, 2018:

**(i) Loans to other parties:**

Unit: foreign currency in thousand dollars

No	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period (Note 5)	Ending balance (Note 5)	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
0	The Company	WOFI Holding	Other current financial assets	Yes	354,605 (EUR10,000)	354,605 (EUR10,000)	354,605	1.00%	Short-term financing	-	Business turnover	-	-	-	1,688,044	6,752,194
1	Everlight Zhongshan	Zhongshan Everlight Lighting	"	Yes	53,381 (RMB12,000)	46,575 (RMB10,470)	46,575 (RMB10,470)	2.50%	Short-term financing	-	"	-	-	-	368,663	368,663
2	Everlight BVI	WOFI Holding	Other receivables	Yes	35,461 (EUR1,000)	35,461 (EUR1,000)	28,368 (EUR800)	-%	Short-term financing	-	"	-	-	-	2,880,961	2,880,961
3	Everlight Europe	WOFI Holding	"	Yes	42,553 (EUR1,200)	42,553 (EUR1,200)	42,553 (EUR1,200)	2.20%	Short-term financing	-	"	-	-	-	46,340	46,340

Note 1: According to the Company's "Procedures of Lending Funds to Other Parties", the total amount of loans to others cannot exceed 40% of the net worth of the Company; and to borrowers having business relationship with the Company, the total amount for lending the borrower cannot exceed the transaction amount of business dealings between the two parties in the last fiscal year. For those companies with short-term financing needs, the amount of each fund financing cannot exceed 10% of the Company's net worth.

Note 2: According to Everlight Zhongshan "Procedures of Lending Funds to Other Parties", the total amount of loans to others cannot exceed 40% of the net worth of Everlight Zhongshan; and to borrowers having business relationship with Everlight Zhongshan, the total amount for lending the borrower cannot exceed the transaction amount of business dealings between the two parties in the last fiscal year. For those companies with short-term financing needs, the amount of cash fund financing cannot exceed 40% of Everlight Zhongshan's net worth.

Note 3: According to Everlight BVI's "Procedures of Lending Funds to Other Parties", the total amount of loans to others cannot exceed 40% of the net worth of Everlight BVI; and to borrowers having business relationship with Everlight BVI, the total amount for lending the borrower cannot exceed the transaction amount of business dealings between the two parties in the last fiscal year. For those companies with short-term financing needs, the amount of each fund financing cannot exceed 40% of Everlight BVI's net worth.

Note 4: According to Everlight Europe "Procedures of Lending Funds to Other Parties", the total amount of loans to others cannot exceed 40% of the net worth of Everlight Europe; and to borrowers having business relationship with Everlight Europe, the total amount for lending the borrower cannot exceed the transaction amount of business dealings between the two parties in the last fiscal year. For those companies with short-term financing needs, the amount of cash fund financing cannot exceed 40% of Everlight Europe's net worth.

Note 5: The amounts were translated into New Taiwan dollars at the exchange rates at the ending date of the reporting period.

Note 6: The aforementioned transactions had been eliminated in the consolidated financial statements.

**(ii) Guarantees and endorsements for other parties: None**

**(iii) Securities held as of September 30, 2018 (excluding investment in subsidiaries, associates and joint ventures):**

Unit: foreign currency in thousand dollars/thousand shares

Name of holder	Category and name of security	Relationship with security issuer	Account name	Ending balance				Note
				Shares/Units (thousands)	Carrying value (Note 1)	Percentage of ownership (%)	Fair value	
The Company	MasterLink Securities Corporation Stocks	None	Current financial assets at fair value through profit or loss	351	\$ 3,847	-%	3,847	
"	Cathay Financial Holding Co., Ltd. Preferred Stock B	"	"	100	6,080	-%	6,080	
"	Taiwan Mobile Co., Ltd. convertible bonds	"	"	170	17,799	-%	17,799	
"	Gigasolar Materials Corporation convertible bonds	"	"	200	16,800	-%	16,800	
"	China Airlines Ltd. convertible bonds	"	"	220	22,000	-%	22,000	
"	Global PMX Co., Ltd. convertible bonds	"	"	15	1,500	-%	1,500	
"	ShunSun Technology Holdings Limited convertible bonds	"	"	100	10,050	-%	10,050	
"	Taiwan Chinsan Electronic Industrial Co., Ltd. convertible bonds	"	"	41	4,182	-%	4,182	
"	Yuanta Fulgent Sun Third KY CLN	"	"	-	21,587	-%	21,587	
					<u>\$ 103,845</u>			

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Name of holder	Category and name of security	Relationship with security issuer	Account name	Ending balance				Note
				Shares/Units (thousands)	Carrying value (Note 1)	Percentage of ownership (%)	Fair value	
The Company	Hua-chuang Automobile Information Technical Center Co., Ltd., Stocks	The Company is the corporate director of this company	Non-current financial assets at fair value through other comprehensive income	20,000	72,000	4.00%	72,000	
"	Epistar Co., Ltd (Epistar) Stocks	The Company is the corporate director of this company	"	10,000	347,006	0.92%	347,006	
					<u>\$ 419,006</u>			
Pai-ye	Taishin Ta-Chong Money Market Fund	None	Current financial assets at fair value through profit or loss	2,156	30,548	-%	30,548	
"	Taipei Tech innofund Stocks	Pai-ye is the corporate director of this company	Non-current financial assets at fair value through profit or loss	3,000	32,660	10%	32,660	
Everlight Fujian	Kaistar Lighting (Xiamen) Co.,Ltd	None	Current financial assets at fair value through profit or loss	(Note 2)	355,872 (RMB80,000)	3.97%	355,872	
"	Country Lighting (B.V.I.) Ltd.	None	"	(Note 2)	20,044 (RMB4,506)	8.21%	20,044	
"	Financial products	None	"	-	238,772 (RMB53,676)	-%	238,772	
					<u>\$ 677,896</u>			
Eralite	Structured deposits	None	Current financial assets at fair value through profit or loss	-	134,602 (RMB30,259)	-%	286,595	
"	Financial products	None	"	-	151,993 (RMB34,168)	-%	-	
Everlight Zhongshan	Structured deposits	None	Current financial assets at fair value through profit or loss	-	89,383 (RMB20,093)	-%	349,104	
"	Financial products	None	"	-	259,721 (RMB58,385)	-%	-	
Everlight China	Structured deposits	None	Current financial assets at fair value through profit or loss	-	247,676 (RMB55,678)	-%	247,676	

Note 1 : The amounts were translated into New Taiwan dollars at the exchange rates at the ending date of the reporting period.  
Note 2 : Company Limited.

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Unit: foreign currency in thousand dollars

Name of Company	Name of Counter-party	Relationship	Transaction Details				Abnormal Transaction		Notes/ Account (Payable) or Receivable		Note
			Purchase/ (Sale)	Amount (Note 1)	Percentage of total purchases/ sales	Payment Terms	Unit Price	Payment Terms	Ending Balance (Note 3)	Percentage of total notes/accounts receivable (payable)	
The Company	Evilite	100% owned subsidiary	(Sales)	\$ (1,084,814)	(7)%	OA 120	No significant difference to the general customers	General export receivables in 30-120 days	502,898	7 %	Note 2
"	Everlight Europe	75% owned subsidiary	(Sales)	(945,166)	(6)%	OA 120	"	"	306,938	4 %	"
"	Everlight Lighting China	100% owned sub-subsiary	(Sales)	(455,774)	(3)%	Depending on the credit conditions of the ultimate customers	"	"	583,814	8 %	"
"	ELA	99% owned subsidiary	(Sales)	(354,709)	(2)%	OA 140	"	"	198,033	2 %	"
"	Everlight China	100% owned sub-subsiary	Purchases	7,452,160	70%	Depending on the demand for funding. OA 120	Terms not comparable to other general trading price	General purchases payments in 90-120 days	(4,136,785)	(68)%	"
"	Everlight Zhongshan	100% owned sub-subsiary	Purchases	440,012	4%	Depending on the demand for funding. OA 120	"	"	(201,370)	(3)%	"
"	Epistar	The Company is the corporate director of this company	Purchases	748,661	7%	OA 150	"	"	(517,373)	(8)%	-

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Name of Company	Name of Counter-party	Relationship	Transaction Details				Abnormal Transaction		Notes/ Account (Payable) or Receivable		Note
			Purchase/ (Sale)	Amount (Note 1)	Percentage of total purchases/ sales	Payment Terms	Unit Price	Payment Terms	Ending Balance (Note 3)	Percentage of total notes/accounts receivable (payable)	
Everlight Zhongshan	The Company	Ultimate holding company	(Sales)	(509,150) (RMB(110,822))	(100)%	Depending on the demand for funding, OA 95	-	Depending on the funding demand of both sides	203,211 (RMB45,682)	100 %	Note 2
Everlight China	"	"	(Sales)	(7,726,878) (RMB(1,681,840))	(98)%	Depending on the demand for funding, OA 120	-	"	4,137,675 (RMB930,149)	99 %	"
"	Everlight Lighting China	With the same parent company	(Outsourced manufacturing revenue)	(130,046) (RMB(28,306))	(2)%	OA 90	Terms not comparable to other general trading price	General purchases payments in 90 days	43,201 (RMB9,712))	1 %	-
"	Epistar	The Company is the corporate director of this company	Purchases	704,701 (RMB153,386)	14%	OA 150	Terms not comparable to other general trading price	General purchases payments in 90 days	(521,705) (RMB(117,279))	(20)%	-
"	Tekcore	Equity-accounted investee by the Company	Purchases	262,913 (RMB57,226)	5%	OA 120	"	"	(153,293) (RMB(34,460))	(6)%	-
Everlight Lighting China	The Company	Ultimate holding company	Purchases	500,232 (RMB108,881)	40%	Depending on the terms of the ultimate customer	-	Depending on the funding demand of both sides	(580,571) (RMB(130,512))	(66)%	Note 2
"	Everlight China	With the same parent company	Outsourced manufacturing fee	129,950 (RMB28,285)	14%	OA 90	Terms not comparable to other general trading price	General purchases payments in 90 days	(42,277) (RMB(10,628))	(5)%	Note 2
ELA	The Company	Parent company	Purchases	363,523 (USD12,150)	100%	OA 140	-	-	(198,149) (USD(6,486))	(100)%	"
Everlight Europe	The Company	Parent company	Purchases	958,274 (EUR26,806)	100%	OA 120	-	-	(306,925) (EUR(8,655))	(100)%	"
Ev-lite	The Company	Parent company	Purchases	1,095,587 (HKD287,081)	100%	OA 90	-	Depending on the funding demand of both sides	(502,805) (HKD(128,835))	(100)%	"
Evervision TW	Vbest Kunshan	Equity-accounted sub-subsidiary by Evervision TW	Purchases	391,347	77%	OA 150	No significant difference to the general customers	General purchases payments in 90-120 days	(302,633)	(81)%	"
"	"	"	(Sales)	(131,975)	(17)%	OA 60	"	-	47,947	13 %	"
"	Vbest GmbH	Equity-accounted investee by Evervision TW	(Sales)	(107,877)	(14)%	OA 90	No significant difference to the general customers	-	19,765	5 %	"
Vbest Kunshan	Evervision TW	65.5% owned subsidiary	(Sale)	(391,199) (USD(13,075))	(99)%	OA 150	No significant difference to the general customers	General sales receivable in 90-120 days	302,883 (USD9,914)	99 %	"
"	"	"	Purchases	131,945 (USD4,410)	36%	OA 60	"	-	(47,996) (USD(1,571))	(33)%	"
VBEST GmbH	Evervision TW	65.5% owned subsidiary	Purchases	107,830 (USD3,604)	100%	OA 90	"	-	(19,797) (USD(648))	(100)%	"

Note 1: The amounts were translated into New Taiwan dollars at the nine months ended September 30, 2018 average exchange rates.

Note 2: All transactions between companies mentioned in note 2 had been eliminated in the interim consolidated financial statements.

Note 3: The accounts were translated into New Taiwan dollars at the exchange rate at the ended date of the reporting period.

(viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Unit: foreign currency in thousand dollars

Name of company	Counter-party	Nature of relationship	Ending balance (Note 2)	Turnover rate	Overdue		Amounts received in subsequent period (Note 1)	Allowance for bad debts
					Amount	Action taken		
The Company	Everlight Europe	75% owned subsidiary	306,938	4.20	-		108,586 (USD1,819、EUR1,495)	-
"	ELA	99% owned subsidiary	198,033	2.70	-		43,138 (USD1,412)	-
"	Ev-lite	100% owned subsidiary	502,898	2.66	-		136,188 (USD169、HKD33,573)	-
"	Everlight Lighting China	100% owned sub-subsidiary	583,814	0.98	-		101,784 (RMB22,881)	-
"	Ev-lite	100% owned subsidiary	102,908	-	-		-	-
"	WOFI Holding	100% owned subsidiary	355,256 (Note 3)	-	-		-	-

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
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Name of company	Counter-party	Nature of relationship	Ending balance (Note 2)	Turnover rate	Overdue		Amounts received in subsequent period (Note 1)	Allowance for bad debts
					Amount	Action taken		
The Company	Everlight China	100% owned sub-subsidiary	303,567 (Note 4)	-	-		56,321 (RMB12,661)	-
Everlight China	The Company	Ultimate holding company	4,137,675	2.42	-		842,180 (RMB189,322)	-
Everlight Zhongshan	The Company	Ultimate holding company	203,211	3.00	-		-	-
Vbest Kunshan	Evervision TW	65.5% owned subsidiary	302,883 (USD9,914)	1.75	-		52,945 (USD1,733)	-

Note 1 : Information as of November 5, 2018.

Note 2 : The amounts were translated into New Taiwan dollars at the exchange rates at the reporting date.

Note 3 : Lending funds (including interest)

Note 4 : Sales and reimbursement for purchase of fixed assets.

Note 5 : The aforementioned transactions had been eliminated in the consolidated financial statements

(ix) Information derivative financial instruments transaction: Please refer to note 6(b).

(x) Business relationships and significant intercompany transactions:

No. (Note 1)	Name of company	Counter-party	Relationship (Note 2)	Intercompany transactions			Percentage of consolidated net revenue or total assets
				Financial statements accounts	Amount	Terms	
0	The Company	Everlight Europe	1	Sales revenue	945,166	There is no significant difference on the price offered to general customers; and the credit period is OA 120 days.	5 %
0	The Company	ELA	1	Accounts receivable	306,938	"	1 %
0	The Company	Evlight	1	Sales revenue	354,709	There is no significant difference on the price offered to general customers; and the credit period is OA 140 days.	2 %
0	The Company	Evlight	1	Accounts receivable	198,033	"	1 %
0	The Company	Everlight Lighting China	1	Sales revenue	1,084,814	There is no significant difference on the price offered to general customers; and the credit period is OA 120 days.	6 %
0	The Company	Everlight	1	Accounts receivable	502,898	"	2 %
0	The Company	China	1	Sales revenue	455,774	There is no significant difference on the price offered to general customers; and the receivables depend on the terms of the ultimate customer.	2 %
0	The Company	WOFI Holding	1	Accounts receivable	583,814	"	2 %
0	The Company	Evlight	1	Other receivable due from related parties (Note 3)	303,567	Depending on the funding demand.	1 %
0	The Company	Evlight	1	Other receivable due from related parties (Note 4)	355,256	Rate 1.0%	1 %
0	The Company	Evlight	1	Other receivable due from related parties	102,908		- %
1	Everlight China	The Company	2	Sales revenue	7,726,878	There is no general price for comparison. Depending on the funding demand, and the credit period is OA 120 days.	42 %
2	Everlight Zhongshan	The Company	2	Accounts receivable	4,137,675	"	13 %
2	Everlight Zhongshan	The Company	2	Sales revenue	509,150	There is no general price for comparison. Depending on the funding demand, and the credit period is OA 95 days.	3 %
3	Vbest Kunshan	Evervision TW	2	Accounts receivable	203,211	"	1 %
3	Vbest Kunshan	Evervision TW	3	Sales revenue	391,199	There is no significant difference on the price offered to general customers; and the credit period is OA 150 days.	2 %
3	Vbest Kunshan	Evervision TW	3	Accounts receivable	302,883	"	1 %

Note 1: The numbers filled in as follows:

1.0 represents the parent company.

2. Subsidiaries are sorted in a numerical order starting from 1.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Note 2: Relationship with the transactions labeled as follows:

- 1.represents the transactions from the parent company to the subsidiaries
- 2.represents the transactions from the subsidiaries to the parent company
- 3.represents the transactions between the subsidiaries

Note 3: Sales and reimbursement for purchase of fixed assets.

Note 4: lending funds (including interest)

(b) Information on investees:

The following is the information on investees for the nine months ended September 30, 2018 (excluding information on investees in Mainland China):

Unit: foreign currency in thousand dollars

Investor company	Investee company	Location	Main businesses and products	Original investment amount		Ending balance			Net income (Losses) of the Investee (Note 4)	Share of profits/losses of investee	Note
				September 30, 2018	December 31, 2017	Shares (In thousands)	Percentage of ownership	Carrying value			
The Company	Everlight BVI	Registered in British Virgin Islands	Investment	4,947,563	4,947,563	1,603	98%	\$ 7,053,773	6,493	6,363	Subsidiaries (Note 5)
"	Pai-ye	New Taipei City	Investment	580,253	580,253	23,940	100%	458,445	18,485	18,485	Subsidiaries (Note 5)
"	ELA and its subsidiaries	Registered in the USA	Sale of LEDs	373,396	373,396	11,375	98.91%	(22,914)	(51,901)	(51,335)	Subsidiaries (Note 5)
"	Evervision TW and its subsidiaries	Zhonghe Dist., New Taipei City	Manufacture and sales of LCDs and LED processing	35,455	35,455	4,477	24.27%	197,988	93,111	22,598	Subsidiaries (Note 5)
"	Everlight Europe	Registered in Germany	Sale of LEDs	2,203	2,203	75	75%	92,963	100,848	75,636	Subsidiaries (Note 5)
"	ELK	Korea	Sale of LEDs	6,485	6,485	38	100%	102,211	(8,680)	(8,680)	Subsidiaries (Note 5)
"	Forever	New Taipei City	Investment	400,000	400,000	42,488	100%	469,991	23,636	23,636	Subsidiaries (Note 5)
"	Ever Power	New Taipei City	Investment	-	400,000	(Note 3)	-%	(Note 3)	-	-	-
"	Zenaro TW	New Taipei City	Sale of LED lighting products	380,100	380,100	20,062	100%	47,651	109	109	Subsidiaries (Note 5)
"	ELJT	New Taipei City	Sale of LED lighting products	500,000	500,000	20,000	100%	202,956	45,773	45,773	Subsidiaries (Note 5)
"	Tekcore	Nantou County	Manufacture and sale of EPI wafers and chips of LED	480,793	480,793	9,291	9.66%	55,184	(1,305)	(126)	(Note 1)
"	Ev-lite	Kwun Tong, Kowloon, Hong Kong	Sale of LEDs	71,324	71,324	7,000	100%	90,837	10,715	10,715	Subsidiaries (Note 5)
"	Zenaro GmbH	Registered in Germany	Research, manufacture and sale of LED lighting products	-	181,884	(Note 2)	-%	(Note 2)	-	-	-
"	ELI	Registered in India	Sale of LEDs	1,984	1,984	353	80%	13,542	2,164 (INR4,862)	1,731	Subsidiaries (Note 5)
"	ELS	Singapore	Sale of LEDs	5,989	5,989	200	100%	17,749	69	69	Subsidiaries (Note 5)
"	WOFI Holding and its subsidiaries	Germany	Sale of lighting products, pendants and accessories	475,374	475,374	5,775	100%	115,332	(121,505)	(121,505)	Subsidiaries (Note 5)
"	ELJ	Japan	Sale of LEDs	14,911	14,911	5	100%	15,871	(6,175)	(6,175)	Subsidiaries (Note 5)
Pai-ye	Everlight BVI	Registered in British Virgin Islands	Investment	124,508	124,508	38	2%	148,630	6,493	130	Subsidiaries (Note 5)
"	Evervision TW and its subsidiaries	New Taipei City	Manufacture and sales of LCDs and LED processing	50,242	50,242	2,485	13.47%	98,443	93,111	12,542	Subsidiaries (Note 5)
"	Everlight Malaysia	Registered in Malaysia	Business development and customer services	2,240	2,240	254	100%	(443)	-	-	Subsidiaries (Note 5)
"	ELI	India	Sale of LEDs	493	493	88	20%	3,842	2,164 (INR4,862)	433	Subsidiaries (Note 5)
Zenaro TW	Zenaro USA	Registered in the USA	Research, manufacture and sale of LED lighting products	299,007	299,007	7,100	100%	6,073	-	Recognized by Shareholding Percentage by Zenaro TW	Sub-subsidiaries (Note 5)
Forever	Evervision TW and its subsidiaries	New Taipei City	Manufacture and sales of LCDs and LED processing	30,978	30,978	5,120	27.76%	170,889	93,111	25,847	Subsidiaries (Note 5)
"	Eleocom Inc.	New Taipei City	Manufacture and sales of electronic components and communication equipment	30,000	-	3,000	31.58%	26,843	(18,648)	(3,157)	-

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# **EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES** **Notes to the Consolidated Financial Statements**

Note 1: The market price is \$74,331 thousand dollars.

Note 2: The liquidation process had been completed in January, 2018.

Note 3: The liquidation process had been completed in April, 2018.

Note 4: The amounts were translated into New Taiwan dollars at the nine months ended September 30, 2018 average exchange rates.

Note 5: The transactions between companies mentioned in note 5 had been eliminated in the consolidated financial statements.

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

Unit: foreign currency in thousand dollars

Name of investee	Main businesses and products	Total amount of paid-in capital (Note 6)	Method of investment (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2018	Net income (losses) of the investee	Percentage of ownership owned directly or indirectly by the company	Investment Income (losses) (Note 4)	Carrying amount as of September 30, 2018 (Note 6)	Accumulated remittance of earnings as of September 30, 2018
					Outflow	Inflow						
<u>The Company and</u>												
<u>Pai-tee:</u>												
Everlight China	Manufacture of LEDs	3,757,258 (US\$113,500、 RMB65,129) (Note 7)	(Note 1)	3,501,444 (US\$110,360)	-	-	3,501,444 (US\$110,360)	90,407	100%	90,407	5,375,924	(Note 8)
Everlight Lighting China	Sale of LEDs	244,408 (US\$8,000) (Note 11)	(Note 1)	168,714 (US\$5,200)	-	-	168,714 (US\$5,200)	(34,101)	100%	(34,101) (Note 12)	211,195 (Note 12)	-
Everlight Electronic (Guangzhou)	Business development and customer services	204,089 (US\$128、 RMB45,000) (Note 20)	(Note 1)	4,142 (US\$128)	-	-	4,142 (US\$128)	89	100%	89 (Note 21)	200,133 (Note 21)	-
Everlight Zhongshan	Manufacture of LED related components	916,530 (US\$30,000)	(Note 1)	930,868 (US\$30,000)	-	-	930,868 (US\$30,000)	(5,748)	100%	(5,748)	921,659	-
Everlight Fujian	Manufacture and sale of LED backlights and related	763,775 (US\$25,000)	(Note 1)	670,771 (US\$16,250、 RMB36,868)	-	-	670,771 (US\$16,250、 RMB36,868)	(21,234)	90%	(19,111)	591,378	-
Eralite	Manufacture and sale of LED backlights and related components	611,020 (US\$20,000)	(Note 1)	377,642 (US\$12,000)	-	-	377,642 (US\$12,000)	3,155	100%	3,155	295,305	-
Shanghai Yaming Lighting Co., Ltd.(Yaming)	Assemble LED lighting products	88,968 (RMB20,000)	(Note 1)	49,462 (US\$1,464)	-	-	49,462 (US\$1,464)	-	50%	-	34,684	-
ELMS	Research and sale of LED lighting products	422,598 (RMB95,000) (Note 23)	Direct investment	115,962 (US\$1,294、 RMB15,562)	-	-	115,962 (US\$1,294、 RMB15,562)	(1,888)	100%	(1,888) (Note 22)	8,729 (Note 22)	-
Yi-Yao	Research of electronic components	51,023 (RMB11,470)	(Note 1)	33,054 (RMB6,462)	-	-	33,054 (RMB6,462)	-	100%	-	-	-
<u>Evervision TW:</u>												
Vbest Kunshan	Post-assemble STN display and assemble module	549,918 (US\$18,000)	(Note 2)	605,784 (US\$18,000)	-	-	605,784 (US\$18,000)	28,992	65.50%	18,990	425,832	-
<u>Everlight Lighting China:</u>												
Zhongshan	Research and sale of LED lighting products	88,968 (RMB20,000)	(Note 3)	-	-	-	-	(15,557)	100%	(15,557)	(44,429)	-

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Limitation on investment in Mainland China:

<b>Company Name</b>	<b>Accumulated Investment in Mainland China as of September 30, 2018 (Note 6)</b>	<b>Investment Amounts Authorized by Investment Commission of Ministry of Economic Affairs (Note 6)</b>	<b>Limitation on investment in Mainland China by Investment Commission of Ministry of Economic Affairs</b>
The Company and Pai-ye (Note 5)	5,791,798 (US\$181,003 thousand 、 RMB58,892 thousand) (Notes 9 、 10 、 16 and 17)	6,128,830 (US\$191,841 thousand 、 RMB60,223 thousand)	10,128,291
ELIT	144,992 (US\$2,723 thousand 、 RMB13,893 thousand) (Notes 18 and 19)	144,992 (US\$2,723 thousand 、 RMB13,893 thousand)	121,773 (Note 13)
Evervision TW (Note 15)	645,726 (Note 15 and 24) (US\$21,136 thousand)	645,726 (US\$21,136 thousand)	431,775 (Note 14)

Note 1: Indirect investment in Mainland China through companies registered in a third region.

Note 2: Indirect investment in Mainland China through an existing company registered in a third region.

Note 3: Investment in Mainland China through an existing company in Mainland China.

Note 4: Except for Everlight China and Everlight Zhongshan, which recognized their gains and losses on investment in accordance with interim financial statements of investees, the gains and losses on investment of the remaining companies were recognized according to the investees' self-reported financial statements and the amounts were translated into New Taiwan dollars at the nine months ended September 30 average exchange rates in 2018.

Note 5: Including the investment amount of US\$ 3,851 thousand approved by Pai-ye.

Note 6: The amounts were translated into New Taiwan dollars at the exchange rates at the end of the reporting period.

Note 7: The difference from the Company's outflow of investment was due to the retained earnings transferred to the capital of Everlight China amounting to US\$ 3,140 thousand and RMB 65,129 thousand in 2007 and 2015, respectively.

Note 8: Including the remittance amounting to US\$ 10,140 thousand from Guangzhou Everlight to Everlight BVI to be invested in Everlight China by Everlight BVI in 2007.

Note 9: In January 2011, the Company sold its subsidiary (Yi-Yao) in Mainland China, through Evlite, to its domestic subsidiary, ELIT, at US\$ 245 thousand, and the Company had applied to eliminate its sales price. In addition, the aforesaid investment amount included its accumulated remittance for investment amounting to US\$ 48 thousand.

Note 10: The liquidation of Everlight Electronics (Guangzhou) Co., Ltd. was completed in 2011; and the aforesaid investment amounting to US\$ 3,750 thousand was included in the Company's accumulated outflow of investment from Taiwan.

Note 11: The difference from the Company's outflow of investment was due to the amount of US\$ 2,800 thousand invested in Everlight Lighting China from Everlight China's owned fund.

Note 12: Including the gains or losses on investment and ending balance of the carrying value of investment in Everlight Lighting China by Everlight China.

Note 13: After the investment of ELIT in Mainland China, its net equity decreased due to its operating losses. Therefore, the amount in the approval letter from the Investment Commission of Ministry of Economic Affairs is higher than the limitation required for the investment in accordance with the legal authorities.

Note 14: After the investment of Evervision TW in Mainland China, its net equity decreased due to its capital reduction in 2012. Therefore, the amount in the approval letter from the Investment Commission of Ministry of Economic Affairs is higher than required for the limitation on investment in accordance with the legal authorities.

Note 15: Including the investment amount of the factory in Mainland China written off in 2012 amounting to US\$ 2,750 thousand.

Note 16: Including the investments amounting to US\$ 216 thousand in Inferpoint Touch Solutions (ShenZhen) Limited and Inferpoint Systems (Shenzhen) Limited through Inferpoint Systems Limited, an investee at cost, in Mainland China. The Company sold its equities in December 2013, but had not applied to eliminate the investment amounting to US\$ 9,475 thousand.

Note 17: Everlight Yi-Guang Technology (Shanghai) Ltd. had completed its liquidation in April 2014. The aforesaid investment amount included the accumulated outward remittance from the Company for investment amounting to US\$ 293 thousand.

Note 18: ELIT sold 100% equity of ELMS to the Company in January 2014. The aforesaid investment amounting to US\$ 2,000 thousand and RMB 13,893 thousand were included in ELIT's accumulated outflow of investment from Taiwan.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- Note 19: Including ELIT's accumulated outflow of investment from Taiwan amounting to US\$ 723 thousand. In January 2015, adjustments were made to coordinate with the organizational structure of the Group, and the Company acquired control over Yi-Yao through Everlight SSL(HK) invested Yi-Yao amounting RMB\$6,462 thousand.
- Note 20: The difference from the Company's outflow of investment was due to the amount of RMB 45,000 thousand invested in Guangzhou Yi-Liang from Everlight China's owned fund.
- Note 21: Including the gains or losses on investment and ending balance of carrying value of investment in Everlight Electronic (Guangzhou) by Everlight China.
- Note 22: Including the gains or losses on investment and ending balance of the carrying value of investment in Everlight Electronic (Guangzhou) by ELMS.
- Note 23: The difference from the Company's outflow of investment was due to the amount of RMB45,000 thousand invested in ELMS from Everlight Electronic (Guangzhou).
- Note 24: The liquidation of Debao was completed in June, 2017; and the aforesaid investment amounting to US\$386 thousand was included in the Evervision company's accumulated outflow of investment from Taiwan.
- Note 25: Except for Yaming, the aforementioned transactions had been eliminated in the preparation of the consolidated financial statements.

(iii) Significant transactions:

Please refer to "Information on significant transactions" and "Business relationships and significant intercompany transactions" for the information on significant direct or indirect transactions between the Group and the investee companies in Mainland China for the nine months ended September 30, 2018.

**(14) Segment information:**

(a) General Information

The segmentation of the Group is based on different products and services. The Group's reportable segments are the LED segment, LCD segment and illumination segment. The LED segment engages in the manufacture and sale of LEDs. The LCD segment engages in the manufacture and sale of LCDs and LCD modules. The illumination segment engages in the manufacture and sale of lighting products.

Other operating segments mainly engage in the sale of raw materials for electronic products, masks, and electrophoretic displays. The above operating segments did not meet the quantitative thresholds in 2018 and 2017.

The Group does not allocate tax expense or non-operating gains and losses to reportable segments. The amounts in the operating segment information are the same as those in the reports used by the chief operating decision maker.

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**EVERLIGHT ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (b) Information about reported segment profit or loss, segment assets, and the basis of segment measurement for reportable segments

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies as stated in note 4. The Group evaluates performance on the basis of net operating income or loss. There were no intersegment revenues.

For the three months ended September 30, 2018						
	LED segment	LCD segment	Illumination segment	Others	Adjustments & eliminations	Total
Revenues						
Revenues from external customers	\$ 5,498,642	215,955	542,933	24,143	-	6,281,673
Intersegment revenues	-	-	-	-	-	-
Total revenues	<u>\$ 5,498,642</u>	<u>215,955</u>	<u>542,933</u>	<u>24,143</u>	<u>-</u>	<u>6,281,673</u>
Reportable segment profit (loss)	<u>\$ 409,611</u>	<u>23,019</u>	<u>(100,156)</u>	<u>6,612</u>	<u>-</u>	<u>339,086</u>
For the three months ended September 30, 2017						
	LED segment	LCD segment	Illumination segment	Others	Adjustments & eliminations	Total
Revenues						
Revenues from external customers	\$ 6,027,193	225,654	619,088	31,016	-	6,902,951
Intersegment revenues	-	-	-	-	-	-
Total revenues	<u>\$ 6,027,193</u>	<u>225,654</u>	<u>619,088</u>	<u>31,016</u>	<u>-</u>	<u>6,902,951</u>
Reportable segment profit (loss)	<u>\$ 472,723</u>	<u>3,362</u>	<u>(102,092)</u>	<u>10,739</u>	<u>-</u>	<u>384,732</u>
For the nine months ended September 30, 2018						
	LED segment	LCD segment	Illumination segment	Others	Adjustments & eliminations	Total
Revenues						
Revenues from external customers	\$16,123,953	585,074	1,711,146	71,425	-	18,491,598
Intersegment revenues	-	-	-	-	-	-
Total revenues	<u>\$16,123,953</u>	<u>585,074</u>	<u>1,711,146</u>	<u>71,425</u>	<u>-</u>	<u>18,491,598</u>
Reportable segment profit (loss)	<u>\$ 968,028</u>	<u>37,010</u>	<u>(270,203)</u>	<u>21,215</u>	<u>-</u>	<u>756,050</u>

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For the nine months ended September 30, 2017						
	<u>LED segment</u>	<u>LCD segment</u>	<u>Illumination segment</u>	<u>Others</u>	<u>Adjustments &amp; eliminations</u>	<u>Total</u>
Revenues						
Revenues from external customers	\$18,335,960	627,132	1,569,622	79,941	-	20,612,655
Intersegment revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u><b>\$18,335,960</b></u>	<u><b>627,132</b></u>	<u><b>1,569,622</b></u>	<u><b>79,941</b></u>	<u><b>-</b></u>	<u><b>20,612,655</b></u>
Reportable segment profit (loss)	<u><b>\$ 1,650,671</b></u>	<u><b>25,126</b></u>	<u><b>(260,278)</b></u>	<u><b>26,185</b></u>	<u><b>-</b></u>	<u><b>1,441,704</b></u>