

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

**LUXNET CORPORATION
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)**

Address: No. 6, Hejiang Road, Zhongli, Taoyuan
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The 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 auditors' report and consolidated financial statements, the Chinese version shall prevail.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Representation Letter	3
4. Independent Auditors' Report	4
5. Consolidated Balance Sheets	5
6. Consolidated Statements of Comprehensive Income	6
7. Consolidated Statements of Changes in Equity	7
8. Consolidated Statements of Cash Flows	8
9. Notes to the Consolidated Financial Statements	
(1) Company history	9
(2) Approval date and procedures of the consolidated financial statements	9
(3) New standards, amendments and interpretations adopted	9~14
(4) Summary of significant accounting policies	14~28
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	28~29
(6) Explanation of significant accounts	30~54
(7) Related-party transactions	54~56
(8) Pledged assets	56
(9) Commitments and contingencies	56
(10) Losses Due to Major Disasters	56
(11) Subsequent Events	57
(12) Other	57
(13) Other disclosures	
(a) Information on significant transactions	58~59
(b) Information on investees	60
(c) Information on investment in mainland China	60
(14) Segment information	61~62

Representation Letter

The entities that are required to be included in the combined financial statements of LuxNet Corporation as of and for the year ended December 31, 2017 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, LuxNet Corporation and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: LuxNet Corporation
Chairman: Hsing-Hsien Kung
Date: March 15, 2018



安侯建業聯合會計師事務所
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Independent Auditors' Report

To the Board of Directors of LuxNet Corporation:

Opinion

We have audited the consolidated financial statements of LuxNet Corporation and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2017 and 2016 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

In our professional judgments, the key audit matters to be communicated in the independent auditors' report are listed below:

1. Evaluation of inventories

Please refer to note 4(h) for accounting policy, note 5 for assumptions and estimation uncertainty, and note 6(c) for details on inventories.

Description of key audit matter:

The Group's inventories are measured at the lower of cost and net realizable value. Since economic environment changes rapidly, new products and techniques may have an influence on market demands, which could result in the cost of inventories to be higher than the net realizable value. Therefore, evaluation of inventories is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the policies of evaluating the inventories and assessing whether existing inventory policies are applied; understanding the difference in allowance provided on inventory valuation between estimated amounts and real amounts; understanding the sales price which the management adopted, and sampling the inventories sold in the subsequent period to assess whether the allowance for inventories are reasonable.

2. Impairment assessment of non-financial assets

Please refer to note 4(l) for accounting policy, note 5 for assumptions and estimation uncertainty, and note 6(d) for details on non-financial assets.

Description of key audit matter:

The Group is involved in a high capital expenditure industry, wherein, purchasing a certain volume of facilities is required. In this period, the price of products constantly drops due to decline in market demands. Therefore, the assessment of impairment for non-financial assets is important. The assessment for impairment included identifying the Cash Generating Unit (CGU), deciding the model for evaluating, establishing significant assumption, and calculating the recoverable amount; all of which depend on the management's subjective judgment. Therefore, impairment assessment on non-financial assets is one of the key audit matters for our audit.

How the matter was addressed in our audit.

Our principal audit procedures included: evaluating the CGU, and external and internal impairment indications identified by the management, and ensuring all assets which needed annual impairment test are covered in the assessment made by the management; acquiring the valuation report from external expert engaged by the management; and understanding whether any significant matters occurred after the reporting date that may have an impact on the impairment test.

Other Matter

LuxNet Corporation has prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Mei-Pin Wu and Yung-Hua Huang.

KPMG

Taipei, Taiwan (Republic of China)
March 15, 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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

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(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2017		December 31, 2016			December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets									
Current assets:									
1100 Cash and cash equivalents (note 6(a))	\$ 301,625	10	539,171	16	2100 Short-term borrowings (note 6(f))	\$ 620,000	21	356,000	11
1170 Notes and accounts receivable, net (note 6(b))	380,643	13	340,594	10	2170 Notes and accounts payable	277,451	9	252,391	7
1180 Accounts receivable from related parties, net (notes 6(b) and 7)	-	-	66,603	2	2180 Accounts payable to related parties (note 7)	-	-	157	-
130X Inventories, net (note 6(c))	745,375	25	783,877	23	2200 Accrued expenses and other payables	82,500	3	96,155	3
1410 Prepaid expenses	6,757	-	6,106	-	2321 Bonds payable, current portion (note 6(h))	2,555	-	772,119	23
1470 Other current assets (note 6(b))	35,576	1	37,580	1	2322 Long-term borrowings, current portion (notes 6(g) and 8)	291,332	10	-	-
	1,469,976	49	1,773,931	52	2300 Other current liabilities (notes 6(e) & (h))	3,439	-	22,992	1
						1,277,277	43	1,499,814	45
Non-current assets:									
1600 Property, plant and equipment (notes 6(d) and 8)	1,442,474	49	1,500,694	44	Non-Current liabilities:				
1780 Intangible assets	6,384	-	15,960	1	2540 Long-term borrowings (notes 6(g) and 8)	198,668	7	250,000	7
1900 Other non-current assets (notes 6(k) and 8)	48,961	2	93,103	3	2600 Other non-current liabilities (notes 6(j) & (k))	5,100	-	10,858	-
	1,497,819	51	1,609,757	48		203,768	7	260,858	7
						1,481,045	50	1,760,672	52
					Total liabilities				
					Equity attributable to owners of parent:				
					3100 Ordinary shares (notes 6(l) & (m))	909,716	31	738,577	22
					3200 Capital surplus (notes 6(h) & (l))	801,515	27	460,559	13
					3310 Legal reserve (note 6(l))	120,889	4	120,889	4
					3350 Total unappropriated retained earnings (accumulated deficit) (note 6(l))	(341,377)	(12)	314,405	9
					3400 Other equity interest (note 6(l))	(3,993)	-	(11,414)	-
					Total equity	1,486,750	50	1,623,016	48
Total assets	\$ 2,967,795	100	3,383,688	100	Total liabilities and equity	\$ 2,967,795	100	3,383,688	100

See accompanying notes to consolidated financial statements.

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

LUXNET CORPORATION AND ITS SUBSIDIARIES**Consolidated Statements of Comprehensive Income****For the years ended December 31, 2017 and 2016****(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)**

		2017		2016	
		Amount	%	Amount	%
4000	Operating revenues (notes 6(o) and 7)	\$ 1,666,793	100	2,518,184	100
5000	Operating costs (notes 6(c), (i), (j) & (m), 7 and 12)	<u>1,894,555</u>	<u>114</u>	<u>2,233,848</u>	<u>89</u>
	Gross profit (loss)	<u>(227,762)</u>	<u>(14)</u>	<u>284,336</u>	<u>11</u>
	Operating expenses (notes 6(b), (i), (j) & (m), 7 and 12):				
6100	Selling expenses	88,390	5	40,473	1
6200	Administrative expenses	136,419	8	146,801	6
6300	Research and development expenses	<u>132,027</u>	<u>8</u>	<u>165,173</u>	<u>7</u>
		<u>356,836</u>	<u>21</u>	<u>352,447</u>	<u>14</u>
	Net operating income (loss)	<u>(584,598)</u>	<u>(35)</u>	<u>(68,111)</u>	<u>(3)</u>
	Non-operating income and expenses:				
7020	Other gains and losses, net (notes 6(e), (h), (q) & (r))	(40,920)	(3)	(23,425)	(1)
7050	Finance costs (note 6(h))	(22,461)	(1)	(17,154)	(1)
7100	Interest revenue	<u>1,721</u>	<u>-</u>	<u>654</u>	<u>-</u>
		<u>(61,660)</u>	<u>(4)</u>	<u>(39,925)</u>	<u>(2)</u>
7900	Loss before income tax	(646,258)	(39)	(108,036)	(5)
7950	Less: income tax expenses (note 6(k))	<u>12,568</u>	<u>1</u>	<u>6,748</u>	<u>-</u>
	Loss	<u>(658,826)</u>	<u>(40)</u>	<u>(114,784)</u>	<u>(5)</u>
8300	Other comprehensive income (loss):				
8310	Items that may not be reclassified subsequently to profit or loss:				
8311	Actuarial losses on defined benefit plans (note 6(j))	2,905	-	(1,248)	-
8349	Income tax expense related to items that may not be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>2,905</u>	<u>-</u>	<u>(1,248)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign operations' financial statements	(1,025)	-	(3,997)	-
8399	Income tax expense related to items that may be reclassified subsequently to profit or loss	<u>174</u>	<u>-</u>	<u>679</u>	<u>-</u>
		<u>(851)</u>	<u>-</u>	<u>(3,318)</u>	<u>-</u>
8300	Other comprehensive loss, net (after tax)	<u>2,054</u>	<u>-</u>	<u>(4,566)</u>	<u>-</u>
	Comprehensive income (loss)	<u>\$ (656,772)</u>	<u>(40)</u>	<u>(119,350)</u>	<u>(5)</u>
	Earnings per share (note 6(n))				
9750	Basic earnings per share (NT dollars)	<u>\$ (8.05)</u>		<u>(1.56)</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated and Report Originally Issued in Chinese)
LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings					Other equity interest		
	Ordinary shares	Capital surplus	Legal reserve	Unappropriated retained (Accumulated deficit)	Total retained earnings	Exchange differences on translation of foreign financial statements	Unearned employee compensation	Treasury shares
Balance at January 1, 2016	\$ 743,719	457,209	66,655	736,494	803,149	2,584	(17,291)	-
Loss for the year ended December 31, 2016	-	-	-	(114,784)	(114,784)	-	-	-
Other comprehensive loss for the year ended December 31, 2016	-	-	-	(1,248)	(1,248)	(3,318)	-	-
Comprehensive income for the year ended December 31, 2016	-	-	-	(116,032)	(116,032)	(3,318)	-	-
Appropriation and distribution of retained earnings:								
Legal reserve	-	-	54,234	(54,234)	-	-	-	-
Cash dividends of ordinary share	-	-	-	(223,076)	(223,076)	-	-	-
Issuance of restricted stock	3,690	10,184	-	-	-	-	(6,494)	-
Amortization of restricted stock	-	-	-	-	-	-	11,445	-
Retirement of restricted stock	(232)	(2,080)	-	103	103	-	1,660	-
Acquisition of treasury shares	-	-	-	-	-	-	-	(42,204)
Retirement of treasury share	(8,600)	(4,754)	-	(28,850)	(28,850)	-	-	42,204
Balance at December 31, 2016	738,577	460,559	120,889	314,405	435,294	(734)	(10,680)	-
Loss for the year ended December 31, 2017	-	-	-	(658,826)	(658,826)	-	-	-
Other comprehensive loss for the year ended December 31, 2017	-	-	-	2,905	2,905	(851)	-	-
Comprehensive income for the year ended December 31, 2017	-	-	-	(655,921)	(655,921)	(851)	-	-
Issuance of ordinary shares	170,000	340,000	-	-	-	-	-	-
Issuance of restricted stock	2,080	4,378	-	-	-	-	(2,298)	-
Amortization of restricted stock	-	-	-	-	-	-	7,873	-
Retirement of restricted stock	(941)	(3,422)	-	139	139	-	2,697	-
Balance at December 31, 2017	\$ 909,716	801,515	120,889	(341,377)	(220,488)	(1,585)	(2,408)	-
				</				

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated and Report Originally Issued in Chinese)
LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) operating activities:		
Loss before tax	\$ (646,258)	(108,036)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization expense	234,849	220,176
Provisions for bad debt expense	62,298	4,489
Losses on inventory valuation and obsolete inventories	8,674	44,404
Losses on disposal of inventories	96,122	40,818
Losses on redemption of bonds	4,273	-
Compensation cost of share based payment	7,873	11,445
Losses on financial liabilities at fair value through profit or loss	3,684	11,600
Losses on disposal of property, plant and equipment	21	106
Interest expense	22,461	17,154
Interest revenue	(1,721)	(654)
Total adjustments to reconcile profit (loss)	438,534	349,538
Changes in operating assets and liabilities:		
Notes and accounts receivable	(35,763)	907,961
Inventories	(66,720)	(249,832)
Prepaid expenses and other current assets	3,027	30,799
Total changes in operating assets	(99,456)	688,928
Notes and accounts payable	24,903	(516,800)
Accrued expenses and other payables	(10,770)	(203,255)
Others	(6,593)	(14,325)
Total changes in operating liabilities	7,540	(734,380)
Total changes in operating assets and liabilities	(91,916)	(45,452)
Total adjustments	346,618	304,086
Cash inflow generated from (used in) operations	(299,640)	196,050
Interest received	1,722	653
Interest paid	(8,160)	(2,951)
Income taxes paid	(1)	(126,819)
Net cash flows from (used in) operating activities	(306,079)	66,933
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(95,543)	(288,188)
Proceeds from disposal of property, plant and equipment	72	60
Increase in prepayments for equipments	(19,356)	(158,963)
Acquisition of other non-current assets	(13,686)	(19,941)
Net cash flows from used in investing activities	(128,513)	(467,032)
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	264,000	334,000
Increase in long-term borrowings	240,000	250,000
Issuance of restricted stock	4,160	7,380
Cash dividends paid	-	(223,076)
Proceeds from issuing ordinary shares	510,000	-
Cost of acquisition of treasury shares	-	(42,204)
Cost of redemption of bonds	(805,394)	-
Other	(15,527)	(549)
Net cash flows from financing activities	197,239	325,551
Effect of exchange rate changes on cash and cash equivalents	(193)	818
Net decrease in cash and cash equivalents	(237,546)	(73,730)
Cash and cash equivalents at beginning of year	539,171	612,901
Cash and cash equivalents at end of year	\$ 301,625	539,171

See accompanying notes to consolidated financial statements.

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

LuxNet Corporation("the Company") was incorporated on November 15, 2001, and registered under the Ministry of Economic Affairs, ROC. The address of the Company's registered office is No. 6, Hejiang Road, Zhongli, Taoyuan.

The major business activities of the Company and its subsidiaries (together referred to as "the Group") were the manufacturing, processing and sale of electronic components and active components for optical communication and the retail sale of electronic materials. Please refer to note 14 for further information.

The Company's common shares were listed on the Taipei Exchange ("TPEX") on December 12, 2011.

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

These consolidated financial statements were authorized for issuance by the board of directors on March 15, 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, 2017:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Presentation of Financial Statements-Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Group believes that the adoption of the above IFRSs would not have any material impact on 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, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017. In addition, based on the announcement issued by the FSC on December 12, 2017, the Group can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation":

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	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:

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) 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.

1) Classification–Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. 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 standard eliminates the existing 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 assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliably. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group does not believe that the new classification requirements, if applied at December 31, 2017, would have had a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

2) Impairment–Financial assets and contract assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group chooses to apply the above policy for trade receivables and contract assets with significant financing component.

Based on its assessment, the Group does not believe that the adoption of IFRS 9 would have a material impact.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist 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.

(ii) 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 existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Sales of goods

For the sale of products, revenue is currently 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. The Group has performed an initial assessment, indicating the timing of the related risks and rewards transferred is similar to the timing of control transferred. Therefore, the Group believes that there would not be any material impact on its consolidated financial statements.

2) Transition

The Group plans to adopt IFRS 15 in its consolidated financial statements using the cumulative effect approach. As a result, there is no need to reproduce the comparative information in previous periods. The cumulative effect of the first application of the principle will adjust the retained earnings of January 1, 2018.

The Group plans to use the practical expedients for completed contracts. This means that when a contract is deemed as a completed contracts at the date of adoption (January 1, 2018), it will not be restated.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(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 not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Those which may be relevant to The Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(a) Statement of compliance

These consolidated annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC ("the IFRSs endorsed by the FSC").

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 1) Financial instruments at fair value through profit or loss (including derivative financial instruments) are measured at fair value; and
- 2) The net defined benefit liabilities (or assets) are recognized as plan assets, less, the present value of the defined benefit obligation and the effect of asset ceiling described in note 4(o).

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Profit or loss applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Accounting policies of its subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change and any consideration received or paid are adjusted to equity attributable to stockholders of the Company.

(ii) List of subsidiaries in the consolidated financial statements

The details of the subsidiaries included in the consolidated financial statements are as follows:

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding	
			December 31, 2017	December 31, 2016
The Company	Toplight Corporation (Toplight)	Holding company	100 %	100 %
Toplight	Toptrans Corporation Limited (Toptrans)	Holding company	100 %	100 %
Toptrans	Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou)	Electronic components manufacturing	100 %	100 %

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising from retranslation are recognized in profit or loss except for the following differences, which are recognized in other comprehensive income that arise from the retranslation:

- 1) available-for-sale equity investment;
- 2) financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) qualifying cash flow hedge to the extent the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Group's functional currency at the average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to be realized in the foreseeable future, foreign currency gains and losses, arising thereon, form part of the net investment in the foreign operation and are recognized in other comprehensive income, and presented in the exchange differences on translation of foreign financial statement in equity.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It expects to realize the asset or intends to sell or consume it in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period, or there are other restrictions.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand and savings accounts. Cash equivalents consist of highly liquid investments that are readily convertible to known amounts of cash and will mature within a short period so that interest rate fluctuations have little effect on their values. Time deposits meet the aforementioned definition and are used for the purpose of meeting short-term commitments are included in cash equivalents.

(g) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

(i) Financial assets

The Group classifies financial assets into the following categories: financial assets measured at cost, and loans and receivables.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

1) Available-for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest revenue calculated by the effective interest method, dividend income, and foreign currency gain or loss on monetary items, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at amortized cost, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss 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. Such dividend income is included in other income under non-operating income and expenses.

2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

3) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of a receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

Impairment losses and recoveries of accounts receivable are recognized in operating expense; impairment losses and recoveries of other financial assets are recognized in non-operating income and expense.

4) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

On derecognition of a financial asset in its entirety, the difference between the 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 available-for-sale financial assets is recognized in profit or loss, and it is included in non-operating income and expenses.

The Group separates the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss, and is included in other gains and losses under 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 derecognized, based on the relative fair values of those parts.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder when the number of shares to be issued is fixed. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss, and is included in non-operating income and expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. The Group designates all other financial liabilities as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or liabilities or recognizing the gains and losses on them on a different basis;
- b) Performance of the financial liabilities is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in non-operating income and expenses.

3) Other financial liabilities

Financial liabilities not classified or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in finance costs under non-operating income and expense.

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in other gains and losses under non-operating income and expenses.

5) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value, and attributable transaction costs 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 other gains and losses under non-operating income and expenses. When the fair value of a derivative instrument is positive, it is classified as a financial asset; when the fair value is negative, it is classified as a financial liability.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately unless its useful life and depreciation method are the same as those of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds and the carrying amount of the item, and it shall be recognized in profit or loss at a net amount under non-operating income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and the depreciable amount shall be allocated on a systematic basis over the asset's useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

- 1) Buildings: 10~50 years
- 2) Machinery: 3 ~10 years
- 3) Leasehold improvements: 10 years
- 4) Other equipment: 3 ~ 5 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

(j) Lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating leases are not recognized in the Group's balance sheet.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Revenue from lease incentives received are recognized as reductions of lease expenses on a straight-line basis.

(k) Intangible assets

(i) Research & development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

- 1) The technical feasibility of the intangible asset is accomplished so that it will be available for use or sale.
- 2) The intention to complete the intangible asset and use or sell it.
- 3) The ability to use or sell the intangible asset.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 4) The intangible asset will generate probable future economic benefits.
- 5) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.
- 6) The ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

The capitalized expenditures arising from the development phase are measured at cost, less accumulated amortization and any accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost, less accumulated amortization and any accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization

The amortizable amount is the cost of an asset, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets as follows:

- | | |
|----------------------|-----------|
| 1) Patents | 3 years |
| 2) Computer software | 3~5 years |

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as a change in accounting estimate.

(l) Impairment – non-financial assets

Non financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash generating unit.

The recoverable amount for an individual asset or a cash generating unit is the higher of its fair value, less costs to sell and its value in use. When evaluating value in use, the discount rate is used to estimate the future cash flows. The discount rate should reflect the evaluation of specific risk resulting from the impact of the current market on the time value of money and on the asset or cash generating unit. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is accounted for as an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an individual asset or a cash-generating unit shall be reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount but should not exceed the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(m) Treasury shares

The Group's repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs). Gains on disposal of treasury shares should be recognized under "capital reserve — treasury share transactions". Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be recognized as retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

During the cancellation of treasury shares, "capital reserve — share premiums and share capital" should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; losses on cancellation of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be recognized as retained earnings.

(n) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that a discount will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. Shipping terms of export sales are mainly FOB shipping point, and transfer occurs upon loading the goods onto the carrier at the port; for domestic sales, transfer usually occurs when the product is received at the customer's warehouse.

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest), and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income and recognized in retained earnings in a subsequent period.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(p) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between the expected and the actual outcomes.

The grant-date of the Group is the record date of capital injection approved in the board meeting.

(q) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the following exceptions:

- (i) Assets and liabilities that are initially recognized but are not related to a business combination and have no effect on net income or taxable gains (losses) at the time of the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
 - 1) Levied by the same taxing authority; or
 - 2) Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

A deferred tax asset should be recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and they shall be adjusted based on the probability that future taxable profit that will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(r) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary stockholders of the Company. The basic earnings per share are calculated as the profit attributable to the ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding. The diluted earnings per share are calculated as the profit attributable to ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee restricted stock and convertible bonds.

(s) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

(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 the IFRSs 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 management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments made in applying accounting policies that have significant effect on amounts recognized in the consolidated financial statements.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Please refer to note 6(c) for further description of the valuation of inventories.

(b) Impairment of property, plant and equipment

In the process of evaluating the potential impairment of tangible assets, the Group makes subjective judgments on the recoverable amount of cash-generating unit based on the opinion of external experts. Any changes in these estimates caused by the changes in economic conditions or model for evaluating could result in significant impairment charges or reversal in future years.

The accounting policies and disclosures of the Group include measuring the financial and nonfinancial assets and liabilities at fair value. The Group has established an internal control frame work with respect to the measurement of fair value, which includes organizing the Company's financial instrument valuation group (the valuation group) to review all material measurement by using the fair value (such as level 3 fair value) and to submit the report to the Chief Financial Officer (CFO). The valuation group regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure the fair value, then the valuation group shall assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date.

please refer to note 6 (r) for assumptions used in measuring fair value.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	\$ 474	376
Demand deposits	301,151	523,696
Time deposits	-	15,099
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 301,625</u>	<u>539,171</u>

Please refer to note 6(r) for the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

(b) Notes and accounts receivable, and other receivables (including the amounts from related parties)

	December 31, 2017	December 31, 2016
Notes receivable	\$ 14	-
Accounts receivable	449,378	413,648
Other receivables	71	128
Less: allowance for doubtful accounts	<u>(68,749)</u>	<u>(6,451)</u>
	<u>\$ 380,714</u>	<u>407,325</u>

The Group did not provide any of the aforementioned notes and accounts receivable, and other receivables as collateral. The aforementioned notes and accounts receivable, and other receivables were not discounted because the due date was less than a year. The book value is assumed to approximate the fair value.

Evaluation using the collective assessment method. The movements in the allowance for notes and accounts receivable and other receivables were as follows:

	2017	2016
Balance on January 1	\$ 6,451	1,964
Recognition of impairment loss	62,298	4,489
Exchange differences on translation of foreign currency	-	(2)
Balance on December 31	<u>\$ 68,749</u>	<u>6,451</u>

For the impairment loss recognized in 2017, \$64,004 was due to the Group's evaluation of the recoverability of the account receivable of one of its clients who happened to be in financial difficulty.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Inventories

	December 31, 2017	December 31, 2016
Raw materials	\$ 194,019	295,856
Work in process	171,677	260,837
Finished goods	<u>379,679</u>	<u>227,184</u>
	<u>\$ 745,375</u>	<u>783,877</u>

As of December 31, 2017 and 2016, the Group recognized the following items as cost of goods sold:

	2017	2016
Losses on inventory valuation and obsolete inventories	\$ 8,674	44,404
Loss on disposal of inventories	96,122	40,818
Gain on sales of scrap	(10,626)	(4,878)
Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity	<u>65,462</u>	<u>21,896</u>
	<u>\$ 159,632</u>	<u>102,240</u>

For the years ended December 31, 2017 and 2016, the Group did not provide any of the aforementioned inventory as collateral.

(d) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the years ended December 31, 2017 and 2016 were as follows:

	Land	Buildings and construction	Machinery and equipment	Office and other equipment	Total
Cost or deemed cost:					
Balance on January 1, 2017	\$ 247,696	359,540	1,398,315	31,255	2,036,806
Additions	-	2,239	88,065	151	90,455
Reclassifications	-	-	56,145	-	56,145
Disposals	-	-	(8,212)	(662)	(8,874)
Effect of movements in exchange rates	-	-	(407)	(311)	(718)
Balance on December 31, 2017	<u>\$ 247,696</u>	<u>361,779</u>	<u>1,533,906</u>	<u>30,433</u>	<u>2,173,814</u>
Balance on January 1, 2016	\$ 247,696	353,346	1,004,875	31,954	1,637,871
Additions	-	6,194	279,993	2,001	288,188
Reclassifications	-	-	156,700	-	156,700
Disposals	-	-	(40,487)	(537)	(41,024)
Effect of movements in exchange rates	-	-	(2,766)	(2,163)	(4,929)
Balance on December 31, 2016	<u>\$ 247,696</u>	<u>359,540</u>	<u>1,398,315</u>	<u>31,255</u>	<u>2,036,806</u>

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Total</u>
Depreciation:					
Balance on January 1, 2017	\$ -	45,394	469,598	21,120	536,112
Depreciation	-	14,050	186,918	3,407	204,375
Disposals	-	-	(8,161)	(620)	(8,781)
Effect of movements in exchange rates	-	-	(177)	(189)	(366)
Balance on December 31, 2017	<u>\$ -</u>	<u>59,444</u>	<u>648,178</u>	<u>23,718</u>	<u>731,340</u>
Balance on January 1, 2016	\$ -	32,420	356,594	17,293	406,307
Depreciation	-	12,974	154,947	5,774	173,695
Disposals	-	-	(40,357)	(504)	(40,861)
Effect of movements in exchange rates	-	-	(1,586)	(1,443)	(3,029)
Balance on December 31, 2016	<u>\$ -</u>	<u>45,394</u>	<u>469,598</u>	<u>21,120</u>	<u>536,112</u>
Carrying amounts:					
Balance on December 31, 2017	<u>\$ 247,696</u>	<u>302,335</u>	<u>885,728</u>	<u>6,715</u>	<u>1,442,474</u>
Balance on December 31, 2016	<u>\$ 247,696</u>	<u>314,146</u>	<u>928,717</u>	<u>10,135</u>	<u>1,500,694</u>
Balance on January 1, 2016	<u>\$ 247,696</u>	<u>320,926</u>	<u>648,281</u>	<u>14,661</u>	<u>1,231,564</u>

As of December 31, 2017 and 2016, property, plant and equipment of the Group had been pledged as collateral for long-term borrowings and credit lines; please refer to note 8.

(e) Financial liabilities reported at fair value through profit or loss

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Redemption of bonds payable at the option of the Company and the bondholders (recognized as other non-current liabilities) (note 6(h))	<u>\$ -</u>	<u>14,400</u>

For the years ended December 31, 2017 and 2016, gain or loss on valuation of financial liabilities due to change in fair value was loss of \$3,684 and \$11,600, respectively, and was recognized in other gains and losses for the period. Please refer to note 6(r).

(f) Short-term borrowings

The details were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unsecured bank loans	<u>\$ 620,000</u>	<u>356,000</u>
Unused credit lines	<u>\$ 60,839</u>	<u>1,108,132</u>
Annual interest rates	<u>0.9%~1.4%</u>	<u>0.9%~1.373%</u>

The group did not provide any asset pledged as collateral for short-term borrowings.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Long-term borrowings

The details were as follows:

<u>Creditors</u>	<u>Nature</u>	<u>Loan period</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
CTBC Bank	Secured loans	2016.12.15~2018.12.14	\$ 30,000	30,000
CTBC Bank	Secured loans	2016.12.19~2018.12.19	120,000	120,000
CTBC Bank	Secured loans	2017.09.15~2019.09.13	40,000	-
CTBC Bank	Secured loans	2017.09.19~2019.09.19	60,000	-
CTBC Bank	Secured loans	2017.12.13~2019.12.13	70,000	-
Fubon Bank	Unsecured loans	2016.11.21~2018.06.14	100,000	100,000
Chailease Finance Co., Ltd.	Secured loans	2017.11.30~2019.11.30	70,000	-
Less: current portion			(291,332)	-
Total			<u>\$ 198,668</u>	<u>250,000</u>
Unused credit lines			<u>\$ -</u>	<u>220,000</u>
Interest rates for the years ended			<u>1.25%~1.62%</u>	<u>1.20%~1.36%</u>

- (i) The Company signed a long-term loan contract with Fubon Bank in June 2016, with the credit line of \$100,000. The contract period expires two years after the contract date. The principal is to be repaid on the expiration date. The Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 100%; (2) a debt ratio not exceeding 125% (3) an interest coverage ratio of not less than 1000%; and (4) tangible stockholders' equity of not less than \$1,000,000. If the Company violates the financial covenants, the bank has the right to add 0.25% to the interest rate from the next interest calculation date. If the Company violates the financial covenants twice, the bank has the right to adjust the credit line. According to the contract, the Company should transfer its business transaction cash flow from specific customers to its Fubon Bank account quarterly, and the cash flow must be at least USD\$3,000.
- (ii) The Company signed a long-term loan contract with CTBC Bank in June 2016, with the credit line of \$320,000. The contract period of the loan expires two years after its first application. The principal is to be repaid on the expiration date. The Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 110%; (2) stockholders' equity of not less than \$1,200,000; and (3) a self-owned capital ratio of not less than 45%. If the Company violates the financial covenants and made no progress in the financial ratios within the period of improvement, the bank has the right to cease or decrease the credit line, or shorten the contract period, or the principal and interest are deemed to be due. According to the contract, the Company should transfer its business transaction cash flow to the CTBC Bank account every half-year, and the cash flow is at least \$350,000.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) The Company signed a long-term loan contract with Chailease Finance Co., Ltd. (Chailease) in November 2017 amounted to \$70,000. It provided notes, which are due monthly, to Chailease in December 2017 based on the contract.

(iv) Please refer to note 8 for further information on assets pledged as collateral.

(h) Convertible bonds payable

	December 31, 2017	December 31, 2016
Aggregate principal amount	\$ 800,000	800,000
Accumulated redeemed amount	(797,400)	-
Accumulated converted amount	-	-
Unamortized discount	(45)	(27,881)
Ending balance of bonds payable	2,555	772,119
Less: Bonds payable – current	(2,555)	(772,119)
Ending balance of bonds payable – non-current	\$ -	-
Embedded derivative component – the value of redemption at the option of the Company/bondholders (recorded as other non-current liabilities)	\$ -	(14,400)
Equity component (recorded as capital surplus – stock option)	\$ 113	34,656
	2017	2016
Embedded derivative component – revaluation loss on redemption at the option of the Company/bond holders (recorded as other gains and losses)	\$ 3,382	11,600
Interest expense (recorded as finance cost)	\$ 13,775	13,995
Loss on redemption of bonds (recorded as other gains and losses)	\$ 4,273	-

The offering information on the unsecured convertible bonds was as follows:

	1st domestic unsecured convertible bonds
Offering amount	NT\$800,000 thousand
Issue date	December 22, 2015
Issuance price	At par value
Face interest rate	0%
Issue period	December 22, 2015, to December 22, 2018

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>1st domestic unsecured convertible bonds</u>
Redemption at the option of the Company	The Group may redeem the bonds within 5 trading days after the bonds' recovery reference date with cash at a 1.5% yield rate at any time from January 22, 2016, to November 12, 2018, if the closing price of the common shares on the TPEx on each trading day during a period of 30 consecutive trading days exceeds 30% of the conversion price or if the amount of unconvertible bonds is less than 10% of the offering amount.
Redemption at the option of the Holder	Each Holder has the right to require the Group to redeem the Holder's bonds on December 22, 2017, at a redemption price equal to the principal amount of the bonds with a yield-to-maturity of 0.5% per annum. (note 2)
Conversion period	Each Holder of the bonds has the right at any time during the period from January 22, 2017, to the maturity date of the bond, to convert their bonds.
Conversion price on December 31, 2017 (note 1)	NT74.7
note 1: The conversion price will be subject to adjustment in accordance with the conversion formula when the Group increases its capital or upon the occurrence of certain events involving the convertible bonds payable.	
note 2: Due to the conditions listed above, the Group reclassified its long-term bonds to current portion. The bond holders have the optional rights to require the Group to redeem the bonds.	

(i) Operating lease

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2017	December 31, 2016
Less than one year	\$ 6,936	6,497
Between two and five years	16,387	19,593
	\$ 23,323	26,090

The Group leases factories, equipments, offices, transportation equipments, and employees' dorm under operating leases. The lease terms are between 1 and 5 years.

For the years ended December 31, 2017 and 2016, the Group recognized operating lease expenses of \$8,060 and \$20,364, respectively, as expenses. There is no contingent rent in any of the operating lease contracts.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Employee benefits

(i) Defined benefit plans

The present value of the defined benefit obligations and the fair value adjustments of the plan assets of the Group were as follows:

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	\$ 9,437	12,194
Fair value of plan assets	4,337	3,581
Net defined benefit liability	<u><u>\$ 5,100</u></u>	<u><u>8,613</u></u>

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive payments based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Group contributes pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$4,337 at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations for the Group for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Defined benefit obligation at January 1	\$ 12,194	10,770
Current service costs and interest	165	201
Remeasurement of net defined liability	(2,922)	1,223
Defined benefit obligation at December 31	<u><u>\$ 9,437</u></u>	<u><u>12,194</u></u>

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Movements in the fair value of defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the Group for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets at January 1	\$ 3,581	2,161
Contributions paid by the employer	720	1,400
Interest income	53	45
Remeasurement of net defined liability	<u>(17)</u>	<u>(25)</u>
Fair value of plan assets at December 31	<u>\$ 4,337</u>	<u>3,581</u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Net interest of net liabilities for defined benefit	\$ <u>112</u>	<u>156</u>
Administrative expenses	<u>\$ 112</u>	<u>156</u>

5) Re-measurement of the net defined benefit liabilities (asset) recognized in other comprehensive income

As of December 31, 2017 and 2016, the Group's re-measurement of the net defined benefit liabilities (asset) recognized in other comprehensive income were as follows:

	<u>2017</u>	<u>2016</u>
Accumulated amount at January 1	\$ (1,336)	(88)
Recognized during the year	<u>2,905</u>	<u>(1,248)</u>
Accumulated amount at December 31	<u>\$ 1,569</u>	<u>(1,336)</u>

6) Actuarial assumptions

The following are the Group's principal actuarial assumptions:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate	1.625 %	1.375 %
Future salary increase rate	3.00 %	4.00 %

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date was \$600. The weighted-average lifetime of the defined benefit plans is 20.42 years.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligations would have been as follows:

	Influence of defined benefit obligations	
	Increased 0.25%	Decreased 0.25%
December 31, 2017:		
Discount rate	(296)	311
Future salary increase rate	303	(290)
	Influence of defined benefit obligations	
	Increased 0.25%	Decreased 0.25%
December 31, 2016:		
Discount rate	(388)	410
Future salary increase rate	389	(377)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. Many assumption changes may affect each other in practice. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There was no change in the method and assumptions used in the preparation of the sensitivity analysis for 2017 and 2016.

(ii) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The Company's foreign subsidiaries have defined contribution plans. These plans are funded in accordance with the regulations of their respective countries. Contributions to these plans are expensed as incurred without additional legal or constructive obligation.

The Group recognized pension costs under the defined contribution method amounted to \$18,185 and \$18,904 for the years ended December 31, 2017 and 2016, respectively.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(k) Income taxes

- (i) The amounts of income tax expenses for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Current tax expense	\$ -	13,779
Adjustment for prior periods	(799)	2,216
	(799)	15,995
Deferred tax expense (benefit)	13,367	(9,247)
Income tax expense	<u>\$ 12,568</u>	<u>6,748</u>

- (ii) For the years ended December 31, 2017 and 2016, there was no income tax recognized in equity.
- (iii) The amounts of income tax expense (benefit) recognized in other comprehensive income were as follows:

	<u>2017</u>	<u>2016</u>
Exchange differences on translation of foreign operations' financial statements	\$ (174)	(679)

- (iv) Reconciliation of income tax and profit (loss) before tax for the years ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Loss excluding income tax	\$ (646,258)	(108,036)
Income tax using the Company's domestic tax rate	(131,682)	(27,643)
Effect of tax rates in foreign jurisdictions	4,064	1,728
Non-deductible expenses	9,369	7,352
Recognition of previously unrecognized tax losses	-	2,619
Change in unrecognized temporary differences	127,865	6,830
Adjustment for prior year's tax expense	(799)	2,216
Undistributed earnings additional tax at 10%	-	13,779
Others	3,751	(133)
	<u>\$ 12,568</u>	<u>6,748</u>

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

The Group's unrecognized deferred tax assets were deductible temporary differences, listed as follows:

	December 31, 2017	December 31, 2016
Tax losses	\$ 103,079	10,977
Deductible temporary differences	<u>54,095</u>	<u>18,332</u>
	<u>\$ 157,174</u>	<u>29,309</u>

After evaluating the amount of its future income tax, the Group deemed its deductible items may not be realized. Therefore, they were not recognized as deferred tax assets.

As of December 31, 2017, the Company recongnized the tax losses of deferred tax assets, and the expiry date is as following:

Year of loss	Expiry date	Unused balance	Unused tax losses carry forward
2016 (filed)	2116	\$ 9,933	1,689
2017 (estimated)	2117	<u>490,048</u>	<u>83,308</u>
		<u>\$ 499,981</u>	<u>84,997</u>

The amount of unused balance of the foreign subsidiary included in consolidated financial statements was \$72,327, and the estimated amount of deduction from tax was \$18,082 using the local effective tax rate.

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2017 and 2016 were as follows:

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Unrealized foreign exchange gains and losses	Excess allowance for doubtful account	Share of other comprehensiv e income of subsidiaries accounted for using equity method	Total	
Deferred tax liabilities:					
Balance on January 1, 2017	\$ 1,562	-	153	1,715	
Recognized in profit or loss	(1,562)	-	-	(1,562)	
Recognized in other comprehensive income	-	-	(153)	(153)	
Balance on December 31, 2017	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Balance on January 1, 2016	\$ 1,735	36	832	2,603	
Recognized in profit or loss	(173)	(36)	-	(209)	
Recognized in other comprehensive income	-	-	(679)	(679)	
Balance on December 31, 2016	<u>\$ 1,562</u>	<u>-</u>	<u>153</u>	<u>1,715</u>	
	Loss on inventory valuation and obsolete inventories	Excess allowance for doubtful account	The carryforward of unused tax losses	Others	Total
Deferred tax assets:					
Balance on January 1, 2017	\$ (10,967)	(374)	(3,378)	(210)	(14,929)
Recognized in profit or loss	10,967	374	3,378	210	14,929
Recognized in other comprehensive income	-	-	-	(21)	(21)
Balance on December 31, 2017	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>(21)</u>	<u>(21)</u>
Balance on January 1, 2016	\$ (5,305)	-	-	(586)	(5,891)
Recognized in profit or loss	(5,662)	(374)	(3,378)	376	(9,038)
Balance on December 31, 2016	<u>\$ (10,967)</u>	<u>(374)</u>	<u>(3,378)</u>	<u>(210)</u>	<u>(14,929)</u>

- (vi) The Company's income tax returns have been examined by the tax authority through the years up to 2015.
- (vii) Information related to the unappropriated earnings and tax deduction ratio is summarized below:

	December 31, 2017	December 31, 2016
Unappropriated earnings in 1998 and after	(Note)	<u>\$ 314,405</u>
Balance of imputation credit account	(Note)	<u>\$ 117,165</u>
	<u>2017(estimated)</u>	<u>2016(actual)</u>
Creditable ratio for earnings distribution to ROC residents stockholders	(Note)	<u>33.87 %</u>

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance, ROC, on October 17, 2013.

Note: 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, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(I) Capital and other equity

As of December 31, 2017 and 2016, the nominal common stock amounted to \$1,000,000 and \$800,000, respectively. Face value of each share is \$10 (dollars). The number of shares includes employee stock options for 8,000 thousand shares. The issued amounts were \$909,716 and \$738,577, respectively.

Reconciliation of shares outstanding for the years ended December 31, 2017 and 2016 was as follows:

(thousand shares)	<u>2017</u>	<u>2016</u>
Balance on January 1	73,858	74,372
Issuance of ordinary shares	17,000	-
Issued for restricted stock (note 6(m))	208	369
Retirement of restricted stock	(94)	(23)
Retirement of treasury shares	<u>-</u>	<u>(860)</u>
Balance on December 31	<u><u>90,972</u></u>	<u><u>73,858</u></u>

(i) Common stock

Based on the resolution approved in the stockholders' meeting held on May 26, 2017, the board of directors was authorized to undertake cash offering through private placement within one year, with less than 27,000 thousand stocks to be issued. On June 2, 2017, the board of directors resolved to issue 17,000 thousand new common stocks amounting to \$510,000 at \$30 per share, with a par value of \$10 per share, and June 26, 2017 was set as the date of capital increase. The relevant statutory registration procedures had been completed.

The aforementioned private placement of ordinary shares and the transfer of any subsequently obtained bonus shares would be subject to the requirements stated under section 43(8) of the Securities and Exchange Act. The Company can only apply for these shares, to be traded on the TPEx, after a three year period has elapsed from the delivery date of the private placement securities, and after applying for a public offering from the Financial Supervisory Commission.

Based on the resolutions approved in the board meetings held on May 10 and November 8, 2017, the number of shares was reduced by 44 and 50 thousand shares, respectively, from retirement of restricted stock, with June 21 and November 28, 2017, respectively, as the date of capital reduction. The relevant statutory registration procedures were completed.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Based on the resolution approved in the board meeting held on March 2 and May 11, 2016, the number of shares was reduced by 13 and 10 thousand shares, respectively, from retirement of restricted stock, with March 9 and May 16, 2016, respectively, as the date of capital reduction. The relevant statutory registration procedures were completed.

Based on the resolution approved in the board meeting held on September 2, 2016, the number of shares was reduced by 860 thousand shares from the retirement of treasury stock, with September 20, 2016 as the date of capital reduction, which was determined by the director of board. The relevant statutory registration procedures were completed.

(ii) Capital surplus

The balances of capital surplus as of December 31, 2017 and 2016, were as follows:

	December 31, 2017	December 31, 2016
Additional paid-in capital	\$ 756,360	403,478
Employee stock options	1,456	1,456
Conversion options of convertible bonds	113	34,656
Restricted employee stock options	9,043	20,969
Other	<u>34,543</u>	<u>-</u>
	<u>\$ 801,515</u>	<u>460,559</u>

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized surplus can be used to increase the ordinary shares or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total ordinary shares outstanding.

(iii) Retained earnings

According to the articles of the Company, 10 percent of its annual net income after settling all outstanding tax payables and accumulated deficit, if any, is to be set aside as legal reserve, until the accumulated legal capital reserve has equaled the total capital of the Company. Also, a special reserve should be retained or reversed under related regulations and the Company's operating demands. The remainder, if any, shall combined into an aggregate amount of undistributed earnings, which shall become the aggregate distributable earnings to be distributed by the directors' distribution proposals according to the resolution adopted at the stockholders' meeting.

The Company is at its growth stage and it considers its future cash demand and long-term financial plans. Dividends distributed each year shall range from 10 to 70 percent of undistributed earnings. To satisfy stockholders' demand for cash, when allocating the earnings for each year, the cash dividend shall not be less than 10 percent of the total dividends.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

1) Legal reserve

In accordance with the Company Act, 10 percent of the net income after tax should be set aside as legal reserve, until it is equal to share capital. If the Company experiences profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the stockholders' meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other stockholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other stockholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other stockholders' equity shall qualify for additional distributions.

3) Earnings distribution

Based on the resolution approved in the stockholders' meeting held on May 26, 2017, the Company would not distribute earnings because of the loss for the year ended December 31, 2016.

On May 25, 2016, the stockholders' meeting resolved the distribution of earnings for 2015. The distribution of earnings was as follows:

	<u>2015</u>	
	<u>Amount per share (dollars)</u>	<u>Earnings distributed</u>
Cash	3.0 \$	<u><u>223,076</u></u>

4) Treasury shares

In 2016, the Company repurchased 860 thousand shares, amounted to \$42,204, as treasury shares in order to protect the Company's integrity and stockholders' equity in accordance with the requirements under section 28(2) of the Securities and Exchange Act. As of December 31, 2016, a total of 860 thousand shares were retired. There were no such issues in 2017.

In accordance with the Securities and Exchange Act requirements as stated above, the number of shares repurchased should not exceed 10 percent of all shares outstanding. Also, the value of the repurchased shares should not exceed the sum of the Company's retained earnings, share premium, and realized capital reserves.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

In accordance with the requirements of Securities and Exchange Act, treasury shares held by the Company should not be pledged, and do not hold any shareholder rights before their transfer.

(m) Share-based payment

- (i) Based on the resolution approved in the meeting of stockholders held on May 25, 2016, the Company issued 613 thousand new shares of restricted stock. Only employees meeting specific conditions were granted the restricted stock. The Company has received approval from the Securities and Futures Bureau.
- (ii) Based on the resolution approved in the board of directors' meeting held on September 2, 2016, and May 10, 2017, the Company resolved to issue 413 and 244 thousand new shares of restricted stock, respectively. The actual numbers of shares issued were 369 and 208 thousand shares, respectively.
- (iii) As of December 31, 2017, the outstanding restricted stock of the Company was as follows:

	<u>Plan 4-2</u>	<u>Plan 4-1</u>
Grant date	June 11, 2017	September 21, 2016
Fair value on grant date (per share)	31.05	37.60
Exercise price	20	20
Granted units (thousand shares)	208	369
Vesting period	1~2 years (note)	1~2 years (note)

Note: If the employees continue to provide service to the Company, 50% of the restricted stock shall be vested in year 1 after the grant date, and the remaining 50% shall be vested in year 2 after the grant date.

The restricted stock is kept by a trust, which is appointed by the Company, before it is vested. These shares shall not be sold, pledged, transferred, gifted, or, by any other means, disposed of to third parties during the custody period except for inheritance. Holders of restricted stock are entitled to the same rights as the Company's existing common stockholders. The Company will purchase and write off all shares of an employee who fails to comply with the vesting conditions at the lower of issuance price or TPEx closing price, and the dividend distributed should be returned to the Company also.

The related information on restricted stock of the Company was as follows:

(thousand shares)	<u>2017</u>	<u>2016</u>
Outstanding at January 1	567	534
Granted during the year	208	369
Vested during the year	(326)	(294)
Expired during the year	(73)	(42)
Outstanding at December 31	<u>376</u>	<u>567</u>

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Compensation cost attributable to share-based payment for the years ended December 31, 2017 and 2016 was \$7,873 and \$11,445, respectively.

(n) Earnings per share

The calculation of basic earnings per share for the years ended December 31, 2017 and 2016, was based on the profit (loss) attributable to ordinary stockholders of the Company and the weighted-average number of common shares outstanding, calculated as follows:

	2017	2016
Profit (loss) attributable to common stockholders	<u>\$ (658,826)</u>	<u>(114,784)</u>
Weighted-average number of common shares		
(thousand shares)	2017	2016
Ordinary shares at January 1	73,271	73,838
Effect of issuance of ordinary shares	8,500	-
Effect of treasury shares	-	(481)
Effect of restricted stock	98	128
Ordinary shares at December 31	<u>81,869</u>	<u>73,485</u>

Since the potential common shares have no dilutive effect, the Company needs only disclose the calculation on basic earnings per share for the years ended December 31, 2017 and 2016.

(o) Operating revenue

The operating revenue in the years ended December 31, 2017 and 2016, was as follows:

	2017	2016
Goods sold	<u>\$ 1,666,793</u>	<u>2,518,184</u>

(p) Remuneration to employees, directors and supervisors

Based on the Company's articles of incorporation, 5% to 15% of annual profit should be appropriated as employee remuneration. The board of directors will adopt a resolution on whether the distribution is paid in cash or stock. Qualified employees, including the employees of subsidiaries of the Company meeting certain specific requirements, are entitled to receive their remuneration specified by the board of directors. The annual profit aforementioned may also be appropriated as directors' and supervisors' remuneration through the board's resolution, wherein the amount should not exceed 5% of annual profit after offsetting prior years' deficits.

The Company did not estimate any remuneration to employees, and directors and supervisors due to its loss in 2017 and 2016. The amounts, as stated in the consolidated financial statements, are identical with those of the actual distributions for 2017 and 2016. Related information would be available at the Market Observation Post System website.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Non-operating income and expenses

Other gains and losses were as follows:

	<u>2017</u>	<u>2016</u>
Foreign currency exchange losses	\$ (33,957)	(15,299)
Net losses on financial liabilities measured at fair value through profit or loss	(3,684)	(11,600)
Losses on redemption of bonds	(4,273)	-
Other	<u>994</u>	<u>3,474</u>
	<u><u>\$ (40,920)</u></u>	<u><u>(23,425)</u></u>

(r) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration of credit risk

Sales to individual customers constituting over 10% of total revenue for the years ended December 31, 2017 and 2016, totaled 68% and 69%, respectively. As of December 31, 2017 and 2016, 79% and 45%, respectively, of the ending balance of notes and accounts receivable were accounted for by those customers. The Group periodically evaluates these customers' financial position and the possibility of recovery of related accounts receivable to lower credit risk.

3) The aging analysis of notes, accounts, and other receivables that were past due but not impaired was as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Past due 1-120 days	\$ 29,793	3,299
Past due 121-365 days	<u>-</u>	<u>3,107</u>
	<u><u>\$ 29,793</u></u>	<u><u>6,406</u></u>

The Group assesses the uncollectible amount of notes, accounts, and other receivables based on the aging analysis, the collection history, and the customers' current financial status, and recognizes an allowance for doubtful debts accordingly. After the Group's assessment, there is no significant change in the customers' credit quality, and the related receivables are considered collectible.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including interest but excluding the effect of any netting agreement:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1~2 years</u>	<u>2~5 years</u>
December 31, 2017					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 620,000	620,754	620,754	-	-
Bonds payable	2,555	2,600	2,600	-	-
Notes and accounts payable	277,451	277,451	277,451	-	-
Accrued expenses and other payables	24,562	24,562	24,562	-	-
Long-term borrowings	<u>490,000</u>	<u>498,552</u>	<u>294,802</u>	<u>203,750</u>	<u>-</u>
	<u><u>\$ 1,414,568</u></u>	<u><u>1,423,919</u></u>	<u><u>1,220,169</u></u>	<u><u>203,750</u></u>	<u><u>-</u></u>
December 31, 2016					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 356,000	356,570	356,570	-	-
Bonds payable	772,119	800,000	800,000	-	-
Notes and accounts payable (including related parties)	252,548	252,548	252,548	-	-
Accrued expenses and other payables	29,570	29,570	29,570	-	-
Long-term borrowings	<u>250,000</u>	<u>252,359</u>	<u>-</u>	<u>252,359</u>	<u>-</u>
	<u><u>\$ 1,660,237</u></u>	<u><u>1,691,047</u></u>	<u><u>1,438,688</u></u>	<u><u>252,359</u></u>	<u><u>-</u></u>

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

	<u>December 31, 2017</u>			<u>December 31, 2016</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
Financial assets						
Monetary items						
USD:TWD	\$ 20,924	29.760	622,698	28,309	32.250	912,965
Financial liabilities						
Monetary items						
USD:TWD	7,767	29.760	231,146	6,448	32.250	207,948

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, loans and borrowings, and accounts payable that are denominated in foreign currency.

A strengthening (weakening) of 5% of the TWD against the USD as of December 31, 2017 and 2016, would have increased or decreased the net loss before tax by \$19,578 and \$35,251, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain or loss on monetary items

The information on the amount of the Group's foreign exchange gain or loss on monetary items (including realized and unrealized) translated to the functional currency, and on the exchange rate translated to the functional currency of the parent company (the presentation currency), TWD, was as follows:

	2017		2016	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
TWD	\$ (35,227)	1.000	(12,091)	1.000
CNY	1,270	4.507	(3,208)	4.849
	<u>\$ (33,957)</u>		<u>(15,299)</u>	

(iv) Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note on liquidity risk management.

The following sensitivity analysis is based on the exposure to interest rate risk of non-derivative financial instruments on the reporting date. For variable-rate liabilities, the sensitivity analysis assumes the variable-rate liabilities are outstanding for the whole year on the reporting date. An increase or decrease of 25 basis points is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rate had increased or decreased by 25 basis points, the net loss before tax would have increased or decreased by the amount of \$1,847 and \$206 for the years ended December 31, 2017 and 2016 respectively, which would have mainly resulted from bank savings and borrowings with variable interest rates.

Financial instruments with fixed interest rates held or issued by the Group are valued at amortized cost. Since the change in market interest rate at the end of each reporting period had no impact on profit and loss, disclosure of the sensitivity to changes in fair value is not necessary.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Fair value

1) Kinds of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

		December 31, 2017			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Loans and receivables					
Cash and cash equivalents	\$ 301,625				
Notes and accounts receivable	380,643				
Other receivables	71				
Total	<u>\$ 682,339</u>				
Financial liabilities at amortized cost through profit or loss					
Long-term and short-term borrowings	\$ 1,110,000				
Notes and accounts payable	277,451				
Convertible bonds	2,555	-	2,616	-	2,616
Other financial liabilities	82,500				
Total	<u>\$ 1,472,506</u>				
		December 31, 2016			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Loans and receivables					
Cash and cash equivalents	\$ 539,171				
Notes and accounts receivable (including related parties)	407,197				
Other receivables	128				
Total	<u>\$ 946,496</u>				
Financial liabilities at amortized cost through profit or loss					
Long-term and short-term borrowings	\$ 606,000				
Notes and accounts payable (including related parties)	252,548				
Convertible bonds	772,119	-	796,000	-	796,000
Other financial liabilities	96,155				
Total	<u>\$ 1,726,822</u>				
Financial liabilities at fair value through profit or loss – current	<u>\$ 14,400</u>	-	-	14,400	14,400

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 2) Valuation techniques to measure fair value of financial instruments not measured at fair value

Financial instruments of the Group not measured at fair value are financial assets and liabilities valued at amortized cost. Measurement of fair value of these financial instruments is based on recent transaction prices. When market price are unavailable, valuation is based on discounted cash flow.

- 3) Fair value valuation technique of financial instruments measured at fair value

Valuation of derivative financial instruments of the Group is based on a valuation model widely used by market participants, such as the discounted cash flow method and the Black-Scholes Option Pricing Model. Forward exchange agreements are usually valued at the current forward exchange rate.

- 4) Changes in Level 3

	<u>Forward contract</u>	<u>Convertible bonds</u>	<u>Total</u>
Balance on January 1, 2017	\$ -	(14,400)	(14,400)
Recognized in profit or loss	(302)	(3,382)	(3,684)
Disposal / pay-off	302	17,782	18,084
Balance on December 31, 2017	<u>\$ -</u>	<u>-</u>	<u>-</u>
Balance on January 1, 2016	\$ -	(2,800)	(2,800)
Recognized in profit or loss	-	(11,600)	(11,600)
Balance on December 31, 2016	<u>\$ -</u>	<u>(14,400)</u>	<u>(14,400)</u>

The aforementioned total gains and losses were recognized in "other gains and losses". The details of the liabilities which the Group still held as of December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Total gains and losses (recognized in "other gains and losses")	<u>\$ -</u>	<u>(11,600)</u>

- 5) Fair value measurements using significant unobservable inputs (Level 3)

The fair value measurements of the Group which are categorized into Level 3 are redemption rights of embedded convertible bonds which use the Binomial Tree Model to decide the fair value. After evaluation, these derivative financial instruments have no significant influence on the Group's financial report. Therefore, the quantify information and sensitivity analysis related to fair value measurements using significant unobservable inputs are not disclosed.

- 6) In the years ended December 31, 2017 and 2016, there were no transfers between levels.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Financial risk management

(i) Overview

The Group has exposure to the following risks arising from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

This note presents information on exposure to each of the above risks and on the objectives, policies, and processes for measuring and managing risk. For detailed information, please refer to the related notes on each risk.

(ii) Structure of risk management

The board of directors is responsible for the establishment and oversight of risk management and for developing and controlling the risk management policy of the Group.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect any changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee monitors the management to ensure compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The audit committee and the board of directors are assisted in their oversight role by internal auditor. Internal auditor undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee and board of directors.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, which arises principally from the Group's cash and cash equivalents; notes, accounts, and other receivables; and derivative instruments.

1) Cash and cash equivalents

The Group deposited cash in reputable and creditworthy financial institutions. The Group believes that the risk that these financial institutions may default is very low and anticipates no significant credit loss. The Group also deals with numerous financial institutions to disperse the risk, thus the Group will not suffer any significant loss if the abovementioned institutions default.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Notes, accounts and other receivables

The Group has established a credit policy. The Group uses external credit rating systems and previous transaction records to assess the credit quality and set the credit limits for the customer. The Group constantly supervises credit exposures and credit limits of transaction partners, and controls credit exposures through setting the credit limits.

3) Derivative instruments

The Group entered into derivative instrument contracts with reputable and creditworthy financial institutions. The Group believes that the risk that these financial institutions may default on these contracts is very low and anticipates no significant credit loss.

4) Guarantees

The Group has established a credit policy under that the Group can only provide guarantees to 100%-held subsidiaries. As of December 31, 2017 and 2016, the Group did not provide any guarantee.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group planned to issue common stocks and convertible bonds to increase its operating capital in order to cope with its operations and expected not having liquidity risk due to not being able to fulfill contract obligations. Please refer to note 11 for further information. The Group had unused bank facilities of \$60,839 and \$1,328,132 as of December 31, 2017 and 2016, respectively.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Group is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities. These transactions are denominated in USD.

The Group uses forward exchange contracts to hedge its currency risk. The Group makes performance reports and reviews operating strategy regularly, and believes that there is no significant risk because the gains or losses from exchange rate fluctuation will mostly be offset by the hedged item.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Interest rate risk

The Group's main assets and liabilities with a floating-interest-rate basis are deposits and borrowings. The Group believes that cash flow risk arising from interest rate fluctuation is insignificant.

(t) Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings.

The Group's debt-to-equity ratio as of December 31, 2017 and 2016, was 79% and 75%, respectively.

(u) Investing and financing activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow in the years ended December 31, 2017 and 2016, were as follows:

- (i) The increase in property, plant and equipment and other non-current assets from the transfer of prepayment for equipment was \$56,145 and \$156,862, respectively. Please refer to note 6(d).
- (ii) Please refer to note 6(m) for further information on retirement of restricted stock.

(7) Related-party transactions:

(a) Name and relationship with related parties

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

<u>Name of related party</u>	<u>Relationship with the Group</u>
InnoLight Technology (Suzhou) Ltd. (InnoLight)	The same chairman as the Company (Note)

Note: The chairman of the Company resigned as the chairman of InnoLight on July 3, 2017. Therefore, only those transactions made with InnoLight during January 1 to June 30, 2017 were included in note 7(b), all transactions made during July 1 to December 31, 2017, as well as the transaction balance on December 31, 2017 were not disclosed.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Significant transactions with related parties

(i) Sale of goods to related parties

The amounts of sales by the Group to related parties and the outstanding balances were as follows:

	<u>Sales</u>		<u>Notes and accounts receivable</u>	
	<u>2017</u>	<u>2016</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other related parties-InnoLight\$	<u>101,485</u>	<u>301,490</u>	<u>-</u>	<u>66,603</u>

There were no significant differences in the selling prices and trading terms between related parties and other customers. The transaction terms with related parties were about 90 days, whereas the terms with other customers were 30 to 105 days except for payments received in advance.

(ii) Purchases of goods from related parties

The amounts of purchase of goods by the Group from its related parties and the outstanding balances were as follows:

	<u>Purchase of goods</u>		<u>Notes and accounts payable</u>	
	<u>2017</u>	<u>2016</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other related parties	<u>\$ -</u>	<u>12,863</u>	<u>-</u>	<u>157</u>

There were no significant differences in the purchasing prices and trading terms between related parties and other suppliers. The transaction terms with related parties were about 90 days, whereas the terms with other suppliers were 30 to 120 days.

(iii) Property transactions and others

The amounts of purchase of indirect material for repair, and components from related parties were as follows:

	<u>Purchases</u>		<u>Accounts payable - related party</u>	
	<u>2017</u>	<u>2016</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other related parties	<u>\$ 145</u>	<u>407</u>	<u>-</u>	<u>-</u>

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Key management personnel compensation

	2017	2016
Short-term employee benefits	\$ 25,841	31,989
Post-employment benefits	864	855
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	693	2,642
	<u>\$ 27,398</u>	<u>35,486</u>

(8) Pledged assets:

As of December 31, 2017 and 2016, assets pledged as collateral were as follows:

		Book value of pledged assets	
		December 31, 2017	December 31, 2016
Pledged assets	Pledged to secure		
Fixed assets – land	Long-term borrowings and credit line	\$ 247,696	247,696
Fixed assets – buildings and construction	Long-term borrowings and credit line	302,335	314,146
Fixed assets–machinery and equipment	Long-term borrowings	113,705	-
Refundable deposits	Long-term borrowings	14,000	-
		<u>\$ 677,736</u>	<u>561,842</u>

(9) Commitments and contingencies:

(a) The Group's unused letters of credit for purchasing machinery and equipment were as follow:

	December 31, 2017	December 31, 2016
Unused letters of credit for purchasing machinery and equipment	\$ <u>14,161</u>	<u>32,992</u>

(b) The amounts of guarantee notes issued as collateral for bank loans were as follows:

		December 31, 2017	December 31, 2016
Guarantee notes issued	USD	\$ <u>13,500</u>	<u>24,500</u>
Guarantee notes issued	TWD	\$ <u>965,000</u>	<u>1,131,652</u>

(10) Losses Due to Major Disasters:None.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(11) Subsequent Events:.

- (a) Based on the resolution approved in the board of directors' meeting held on November 8, 2017, the Company resolved to issue the second unsecured convertible bonds amounting to NT\$300 million on March 14, 2018.
- (b) Based on the resolution approved in the board of directors' meeting held on December 14, 2017, the Company resolved to issue 10,000 thousand new common stocks amounting to \$275,000, at \$27.5 per share, with March 2, 2018 as the date of capital increase.
- (c) Based on the resolution approved in the board of directors' meeting held on January 19, 2018, the Company resolve to issue 1,950 thousand new common stocks under private placement with par value \$10 per share, amounting to \$58,500, with January 26, 2018 as the date of capital increase.
- (d) Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou), a subsidiary of the Group, resolved to issue new common stocks amounting to US\$8 million. Based on the resolution approved in the board of directors' meeting held on March 15, 2018, the Group did not subscribe for the above new common stocks as part of its business strategy; and its ownership percentages are expected to decrease from 100% to 25%. The resolution will be executed after the approval from TPEx.
- (e) 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 FY 2018. This increase does not affect the amounts of the current or deferred income taxes recognized in 2017. However, it will increase the Group's current tax charge accordingly in the future. If the new tax rate is applied in calculating the taxable temporary differences and tax losses recognized in 2017, the deferred tax assets would increase by \$4.

(12) Other:

The following is a summary statement of current-period employee benefit, depreciation, and amortization expenses by function:

By function By item	2017			2016		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	211,016	131,910	342,926	243,605	150,833	394,438
Labor and health insurance	22,840	10,400	33,240	23,234	9,819	33,053
Pension	11,739	6,558	18,297	12,378	6,682	19,060
Others	19,878	10,097	29,975	22,473	12,640	35,113
Depreciation	178,064	26,311	204,375	153,235	20,460	173,695
Amortization	15,890	14,584	30,474	20,324	26,157	46,481

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the Regulations for the Group:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

Number	Name of lender	Name of borrower	Account name	Highest balance of financing to other parties during the period	Ending balance	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	Toptrans Suzhou	Accounts receivable related party	9,584	18,156	9,584	2%	Required loans to other parties	-	Operating capital	-	-	-	(Note 1)	(Note 1)

Note 1: The amounts loaned to a company from the Company or subsidiaries shall not exceed 10% of the entity's net worth, \$148,675, in the latest financial statements. The total amounts loaned to all companies shall not exceed 40% of the Company's net worth, \$594,700.

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

(iii) Securities held as of December 31, 2017 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Share/Units (thousands)	Percentage of ownership (%)	
The Company	BANDWIDTH H10, INC.	Investee at cost	Financial assets at cost - noncurrent	220	-	4.43 %	(Note)	220	4.43 %	

Note: Unlisted Company.

(iv) Individual securities acquired or disposed of with an accumulated amount exceeding the lower of TWD\$300 million or 20% of the paid-in capital:None.

(v) Acquisition of individual real estate with an amount exceeding the lower of TWD\$300 million or 20% of the paid-in capital:None.

(vi) Disposal of individual real estate with an amount exceeding the lower of TWD\$300 million or 20% of the paid-in capital:None.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of TWD\$300 million or 20% of the paid-in capital:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	InnoLight Technology (Suzhou) Corporation Limited	Other related parties	(Sales)	(100,698)	(6.06)%	Open Account 90 Days	No significant differences	No significant differences	-	-%	(Note)

Note: InnoLight has become a nonrelated party to the Group since July 3, 2017. Therefore, only those transactions made during January 1 to December 31, 2017 were disclosed.

- (viii) Receivables from related parties with amounts exceeding the lower of TWD\$100 million or 20% of the paid-in capital: None.
- (ix) Trading in derivative instruments: None.
- (x) Business relationships and significant intercompany transactions:

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Toptrans (Suzhou) Corporation Limited	Transactions between parent company and subsidiary	Operating costs	68,559	Open account 30 days	4.11%
0	The Company	Toptrans (Suzhou) Corporation Limited	Transactions between parent company and subsidiary	Accounts receivable	14,499 (Note 2)	Open account 150 days, or be offset by Accounts payable and can be extended	0.49%

Note1: 1."0" represents the parent company.

Note2: These amounts derived from the sales of the Company. However, the Company did not recognize any sales since the risks and rewards of transactions were not transferred substantially. However, the accounts receivable were not reversed.

Note3: Only disclose transactions amounts exceeding \$10,000.

Note4: The inter-company transactions were eliminated in the preparation of the consolidated financial statements.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2017 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main and Businesses products	Original investment amount		Ending balance			Investee recognize as of December 31, 2017		Highest balance during the year		Note
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership (%)	Carrying value	Net income (losses)	Investment income (losses)	Shares (thousands)	Percentage of ownership	
The Company	Toplight Corporation Limited	Seychelles	Holding company	122,980	122,980	4,000	100 %	(1,675)	(42,782)	(42,782)	4,000	100 %	(Note)
Toplight Corporation Limited	Toptrans Corporation Limited	Hong Kong	Holding company	122,980	122,980	4,000	100 %	(1,675)	(42,782)	(42,782)	4,000	100 %	(Note)

Note: The long-term equity investments were eliminated in the preparation of the consolidated financial statements.

(c) Information on investment in mainland China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2017	Percentage of ownership	Net income (losses) of the Investment income (loss)	Book value	Accumulated remittance of earnings in current period	Highest balance during the year	
					Outflow	Inflow						investment	percentage of ownership
Toptrans (Suzhou) Corporation Limited	Electronic components manufacturing	122,980 (USD 4,000)	(note 1)	122,980 (USD 4,000)	-	-	122,980 (USD 4,000)	100 %	(42,782)	(1,675)	-	122,980	100 %

Note1: The company indirectly invested Toptrans (Suzhou) by Toplight Corporation and Toptrans Corporations Limited.

Note2: The long-term equity investments were eliminated in the preparation of the consolidated financial statements.

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
122,980 (USD4,000)	123,743 (USD4,000)	892,050

Note: The TWD amount was measured on December 31, 2017 with the spot exchange rate of 29.760, except for the investment income (which are measured by using the average exchange rate for the year 2017) and outflow of investment (which was measured by using the exchange rate on outflow date).

The above investment income (losses) were based on the financial statements audited by the Company's auditors.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China that were eliminated in the preparation of the consolidated financial statements are disclosed in the "Information on significant transactions" and "Business relationships and significant intercompany transactions".

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information:

(a) General information

The Group's revenues are mainly from active components for optical communication. The chief operating decision maker (CODM) of the Group used overall operating results as the basis for evaluating performance and considered the Group a single segment. The segment information for the years ended December 31, 2017 and 2016 were the same as the Group's consolidated financial statements.

(b) Entity-wide information

(i) Product and service information

The Group's product and service revenues from exterior clients were as follows:

<u>Product</u>	<u>2017</u>	<u>2016</u>
Active components for optical communication	\$ 1,056,333	2,222,765
Chips	122,542	89,941
Modules	467,039	189,334
Others	20,879	16,144
	<u>\$ 1,666,793</u>	<u>2,518,184</u>

(ii) Geographic information

In presenting information on the basis of geography, revenue is based on the geographical location of customers, and non-current assets are based on the geographical location of the assets. Details were as follows:

<u>Geographic Information</u>	<u>2017</u>	<u>2016</u>
Revenues from external customers:		
Taiwan	\$ 382,799	305,115
China	714,313	1,943,406
Americas	550,851	249,470
Other	18,830	20,193
	<u>\$ 1,666,793</u>	<u>2,518,184</u>
	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Non-current assets:		
Taiwan	\$ 1,478,576	1,567,807
China	19,223	27,022
	<u>\$ 1,497,799</u>	<u>1,594,829</u>

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Major customer information

The information on major customers that accounted for more than 10% of revenue in the consolidated statements of comprehensive income in 2017 and 2016 is as follows:

	2017		2016	
	Net sales	Percentage of net sales	Net sales	Percentage of net sales
Company CN-A082	\$ 452,599	27	46,292	2
Company CN-T176	278,600	17	170,960	7
Company CN-HK05	224,420	14	520,122	21
Company CN-C107	173,748	10	301,490	12
Company CN-HK02	52,090	3	580,376	23
Company CN-C052	19,306	1	343,722	13
	\$ 1,200,763	72	1,962,962	78