

Independent Auditors' Report

LuxNet Corporation Board of Directors

We have audited the accompanying balance sheets of LuxNet Corporation and subsidiaries as of December 31, 2013, and December 31 and January 1, 2012 and the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows of 2013 and January 1, 2012 to December 31, 2012. The preparation of the above consolidated financial statements was the responsibility of management; our duties as auditors were to express an opinion based on our audit.

We conducted our audits in accordance with accepted auditing standards in the Republic of China and Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements. Our audit includes examining, on a random basis, evidence supporting the amounts and disclosures made by management, and the accounting principles and estimates used in preparation of the consolidated financial statements, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

According to the opinion of this accountant, the comprehensive financial statement in the first section has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, and the Standing Interpretations Committee as recognized by Financial Supervisory Commission. This adequately reflects the consolidated financial situation of LuxNet Corporation and its subsidiaries as of December 31, 2013, December 31 and January 1, 2012. It also reflects the consolidated financial performance and consolidated cash flow of 2013, January 1 to December 31, 2012.

LuxNet Corporation Ltd. has already prepared individual financial statements for 2013 and 2012 and has issued audit reports with this accountant's unqualified opinion for future reference.

KPMG (Taipei, Taiwan, the Republic of China)

Accountant: Mei-ping Wu

Cheng-chien Chen

Securities Authorities Approval Number :

Taiwan-Finance-Securities-VI-0930103866

Financial-Supervisory-Securities-Review-0940129108

March 26, 2014

LuxNet Corporation and its Subsidiaries
Consolidated Balance Sheets
For the years ended December 31, 2013 and 2012

Unit: NTS1,000

Assets		2013.12.31		2012.12.31		2012.1.1		Liabilities and equity		2013.12.31		2012.12.31		2012.1.1		
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%	
1100	Cash and cash equivalent (Note 6 (1))	\$ 130,484	6	99,775	5	207,066	16									
1170	Notes and Account Receivable (Note 6 (3) and 7)	646,556	28	656,110	31	385,236	30	2100	Short-term loans (Note 6 (7))	\$ 633,254	27	342,639	16	106,524	8	
130X	Inventory (Note 6 (4))	446,914	19	449,136	21	230,212	18	2170	Notes and Account Payable (Note 7)	332,473	14	430,517	20	237,920	19	
1410	Prepayments	12,288	1	42,639	2	18,086	2	2200	Accrued expenses and other payables	94,564	4	159,086	8	84,653	7	
1470	Other current assets (Note 6 (3))	<u>72,290</u>	<u>3</u>	<u>98,304</u>	<u>5</u>	<u>35,987</u>	<u>3</u>	2320	Long-term loans to expire within one year (Note 6 (8))	4,750	-	39,076	2	12,319	1	
	Current assets total	<u>1,308,532</u>	<u>57</u>	<u>1,345,964</u>	<u>64</u>	<u>876,587</u>	<u>69</u>	2300	Other current liabilities (Note 6 (6))	<u>3,531</u>	<u>-</u>	<u>2,829</u>	<u>-</u>	<u>2,084</u>	<u>-</u>	
1600	Properties, factories, and equipment (Note 6 (5) and 8)	1,012,600	43	758,767	36	386,041	30		Current liabilities total	<u>1,068,572</u>	<u>45</u>	<u>974,147</u>	<u>46</u>	<u>443,500</u>	<u>35</u>	
1780	Intangible assets	2,031	-	1,926	-	2,155	-		Non-current liabilities:							
1900	Other noncurrent assets (Note 6 (2) and (11))	<u>16,598</u>	<u>-</u>	<u>12,097</u>	<u>-</u>	<u>8,246</u>	<u>1</u>	2540	Long-term loans (Note 6 (8))	-	-	4,750	-	202,826	16	
	Noncurrent assets total	<u>1,031,229</u>	<u>43</u>	<u>772,790</u>	<u>36</u>	<u>396,442</u>	<u>31</u>	2600	Other noncurrent liabilities (Note 6 (10) and (11))	<u>11,131</u>	<u>-</u>	<u>8,341</u>	<u>-</u>	<u>8,787</u>	<u>-</u>	
									Noncurrent liabilities total	<u>11,131</u>	<u>-</u>	<u>13,091</u>	<u>-</u>	<u>211,613</u>	<u>16</u>	
									Total liabilities	<u>1,079,703</u>	<u>45</u>	<u>987,238</u>	<u>46</u>	<u>655,113</u>	<u>51</u>	
									Equities:							
								3100	Capital stock (Note 6 (12))	608,009	26	499,761	24	415,734	33	
								3200	Capital reserves (Note 6 (12))	386,465	17	361,019	17	80,294	6	
								3300	Retained earnings (Note 6 (12))	269,634	12	271,845	13	121,888	10	
								3400	Other equities (Note 6 (13))	<u>(4,050)</u>	<u>-</u>	<u>(1,109)</u>	<u>-</u>	<u>-</u>	<u>-</u>	
									Total equity	<u>1,260,058</u>	<u>55</u>	<u>1,131,516</u>	<u>54</u>	<u>617,916</u>	<u>49</u>	
									Total liabilities and equity	<u>\$ 2,339,761</u>	<u>100</u>	<u>2,118,754</u>	<u>100</u>	<u>1,273,029</u>	<u>100</u>	
	Total assets	<u>\$ 2,339,761</u>	<u>100</u>	<u>2,118,754</u>	<u>100</u>	<u>1,273,029</u>	<u>100</u>									

Chairman: Hsing Kung

President: Yu-Chung Chang

Head of Accounting: Jim Hsu

LuxNet Corporation and its Subsidiaries
Consolidated Statement of Comprehensive Income
For the years ended December 31, 2013 and 2012

Unit: NT\$1,000

		<u>2013</u>		<u>2012</u>	
		Amount	%	Amount	%
4000	Operating revenue (Note 6 (15) and 7)	\$ 2,150,962	100	2,153,676	100
5000	Operating costs (Note 6 (4), (9), (10), (12), 7 and 12)	<u>1,801,311</u>	<u>84</u>	<u>1,721,645</u>	<u>80</u>
5910	Gross profit	<u>349,651</u>	<u>16</u>	<u>432,031</u>	<u>20</u>
Operating expenses (Note 6 (9), (10), (12), (13), 7 and 12):					
6100	Selling expenses	32,005	2	29,012	1
6200	Management expenses	110,915	5	141,326	7
6300	R&D Expenses	<u>65,983</u>	<u>3</u>	<u>51,087</u>	<u>2</u>
	Total operating expenses	<u>208,903</u>	<u>10</u>	<u>221,425</u>	<u>10</u>
	Operating income	<u>140,748</u>	<u>6</u>	<u>210,606</u>	<u>10</u>
Non-operating income and expense:					
7010	Interest income	3,832	-	1,229	-
7020	Other profits and losses (Note 6 (2) and (16))	17,971	1	5,060	-
7050	Financial costs	<u>(7,278)</u>	<u>-</u>	<u>(2,637)</u>	<u>-</u>
7900	Pre-tax profit	155,273	7	214,258	10
7950	Less: Income tax expense (Note 6 (11))	<u>32,544</u>	<u>1</u>	<u>39,357</u>	<u>2</u>
8200	Current period net income	<u>122,729</u>	<u>6</u>	<u>174,901</u>	<u>8</u>
8300	Other comprehensive profits and losses:				
8310	Share of other comprehensive income/losses from subsidiaries recognized by the equity method	3,772	-	(1,336)	-
8399	Minus: Income tax related to other comprehensive income and losses (Note 6 (11))	<u>641</u>	<u>-</u>	<u>(227)</u>	<u>-</u>
8300	Other comprehensive income/losses (net, after-tax)	<u>3,131</u>	<u>-</u>	<u>(1,109)</u>	<u>-</u>
8500	Total comprehensive income - current	<u>\$ 125,860</u>	<u>6</u>	<u>173,792</u>	<u>8</u>
Earnings per share (Note 6 (14))					
9750	Basic EPS (NT\$)	<u>\$ 2.04</u>		<u>3.31</u>	
9850	Diluted EPS (NT\$)	<u>\$ 2.02</u>		<u>3.28</u>	

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LuxNet Corporation and its Subsidiaries
Consolidated Cash Flow Statement
For the years ended December 31, 2013 and 2012

	2013	Unit: NT\$1,000 2012
Cash flow from operating activities:		
Pre-tax profit	\$ 155,273	214,258
Adjustments:		
Income and expense items that do not effect cash flow		
Depreciation and amortization	92,111	62,810
Impairment losses	-	2,951
Provisions for losses of bad debt, depreciation of inventory, and obsolescence	19,988	8,123
Compensation costs of recognized employee stock options	-	5,880
Cost of share-based payment	941	-
Interest expense	7,278	2,637
Interest income	(3,832)	(1,229)
Other	-	(420)
Total gains and losses without cash flow effects	<u>116,486</u>	<u>80,752</u>
Number of changes in assets and debts related to operating activities:		
Net changes of assets related to operating activities:		
Notes and accounts receivable	9,934	(269,773)
Inventory	(18,169)	(228,148)
Prepayments and other current assets	<u>32,882</u>	<u>(69,571)</u>
Total of net changes of assets related to operating activities	<u>24,647</u>	<u>(567,492)</u>
Net changes of debts related to operating activities:		
Notes and accounts payable	(98,044)	192,597
Accrued expenses and other payables	(31,123)	34,484
Other	<u>2,198</u>	<u>1,874</u>
Total of net changes of debts related to operating activities	<u>(126,969)</u>	<u>228,955</u>
Total of net changes of assets and debts related to operating activities	<u>(102,322)</u>	<u>(338,537)</u>
Adjustments	<u>14,164</u>	<u>(257,785)</u>
Cash inflow (outflow) from operating activities	169,437	(43,527)
Interest received	3,838	1,223
Interest paid	(6,944)	(2,655)
Income tax paid	<u>(56,793)</u>	<u>(11,395)</u>
Net cash inflow (outflow) from operating activities	<u>109,538</u>	<u>(56,354)</u>
Cash flow from investing activities:		
Acquire financial assets carried at cost	-	(2,951)
Acquire property, factories, and equipment	(256,849)	(397,700)
Disposition of property, factories, and equipment	-	827
Prepayments for additional equipment	(39,482)	(26,802)
Acquire other noncurrent assets	<u>(16,239)</u>	<u>(16,768)</u>
Net cash outflow from investing activities	<u>(312,570)</u>	<u>(443,394)</u>
Cash flow from financing activities:		
Take out short-term loans	290,615	236,115
Pay back long-term loans	(39,076)	(171,319)
Cash capital increase	-	339,500
Issuing restricted stocks for employees	6,600	-
Distribution of cash dividends	<u>(24,988)</u>	<u>(12,472)</u>
Net cash inflow from financing activities	<u>233,151</u>	<u>391,824</u>
Exchange rate effects on cash and cash equivalents	590	633
Increase (decrease) in cash and cash equivalents for the current period	30,709	(107,291)
Cash and cash equivalents, Beginning of year	<u>99,775</u>	<u>207,066</u>
Cash and cash equivalents, Ending of year	<u>\$ 130,484</u>	<u>99,775</u>

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LuxNet Corporation and its Subsidiaries
Consolidated statement of changes in equity
For the years ended December 31, 2013 and 2012

Unit: NT\$1,000

	Retained earnings				Other equity items			Total equity
	Paid-in capital	Capital reserves	Legal reserve	Undistributed earnings	Total	other comprehensive profits/losses of Subsidiaries	Compensation not earned by employees	
Balance as of January 1, 2012	\$ 415,734	80,294	8,082	113,806	121,888	-	-	617,916
Current period net income	-	-	-	174,901	174,901	-	-	174,901
Other comprehensive income - current	-	-	-	-	-	(1,109)	-	(1,109)
Total comprehensive income - current	-	-	-	174,901	174,901	(1,109)	-	173,792
Cash capital increase	70,000	269,500	-	-	-	-	-	339,500
Cash capital increase of employee stock options with the fair value method	-	5,880	-	-	-	-	-	5,880
Appropriation and distribution: (Note 1)								
Statutory reserves	-	-	6,479	(6,479)	-	-	-	-
Stock and cash dividends	12,472	-	-	(24,944)	(24,944)	-	-	(12,472)
Employee stock bonuses	1,555	5,345	-	-	-	-	-	6,900
Balance as of December 31, 2012	499,761	361,019	14,561	257,284	271,845	(1,109)	-	1,131,516
Current period net income	-	-	-	122,729	122,729	-	-	122,729
Other comprehensive income - current	-	-	-	-	-	3,131	-	3,131
Total comprehensive income - current	-	-	-	122,729	122,729	3,131	-	125,860
Appropriation and distribution: (Note 2)								
Statutory reserves	-	-	18,134	(18,134)	-	-	-	-
Stock and cash dividends	99,952	-	-	(124,940)	(124,940)	-	-	(24,988)
Employee stock bonuses	4,996	15,133	-	-	-	-	-	20,129
Restricted stock	3,300	10,313	-	-	-	-	(6,072)	7,541
Balance as of December 31, 2013	\$ 608,009	386,465	32,695	236,939	269,634	2,022	(6,072)	1,260,058

Note 1: Compensation of directors and supervisors NT\$2,700,000 and employee bonuses NT\$6,900,000 have already been deducted from the consolidated statement of comprehensive income.

Note 2: Compensation of directors and supervisors NT \$5,032,000 and employee bonuses NT\$20,129,000 have already been deducted from the consolidated statement of comprehensive income.

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