

2015 LuxNet Annual Report

CONTENTS

1.Letter to Shareholders	2 ~ 3
2.Company Profile	
— Organization	4 ~ 5
— Board of Directors	6 ~ 9
— Management Team	10 ~14
3.Capital and Shares	15 ~ 18
4.Operating Highlights	
— Business activities	19 ~ 20
— Employee	21
5.Financial Statements	22 ~ 83

Letter to Shareholders

Dear Shareholders ,

In 2015, LuxNet achieved record revenue and net profit again. Besides employee efforts, I would like to thank all shareholders for long standing support and encouragement to LuxNet.

2015 Financial Performance :

Consolidated revenue totaled NT\$4.181 billion, a 39 percent increase over NT\$3.015 billion in 2014. Net income was NT\$542 million and diluted earnings per share was NT\$7.36. Both increased over 149 percent from the 2014 level of NT\$217 million net income and NT\$2.96 diluted EPS. The 2015 summary report of operation results is as below:

Unit: NT\$ M

Item Year	2015	2014	Difference (%)
Net sales	4,181	3,015	39
Gross profit	1,025	527	95
Operating income	618	249	148
Current pre-tax profit	659	269	145
Current period net income	542	217	150
Diluted EPS (NT\$)	7.36	2.96	149

Source: 2014–2015 consolidated financial reports after audit.

2016 Business Plan Summary :

1. Business Plan :

LuxNet achieve continuous growth through the company principles of "innovation, teamwork, customers, and integrity." We also continuous enhance RD development and product quality improvement and the growth of profit.

2. Business Forecast :

To meet high growth market demand, the company has expanded production capacity of wafer and chip since 2015. Our key products are EPON、GPON for FTTH applications、10G ROSA/TOSA、and AOC(Active Optical Cable) for cloud computing applications in this your.

LuxNet will continue to invest in R&D for high-end optical components, in production technology and efficiency, and to minimize manufacturing costs, to be more competitive in the market place.

3.Plans for Research and Development :

In 2016, we still aim to expand our range of products to 10G、40G and 100G component, add product lines, and enhance product value and quantities. We want customers to affirm the LuxNet value and to achieve long term competitiveness of the company.

Impact from external competition, regulatory environment, and overall economic environment :

Due to the big rise of GPON market demand、China broadband policy implementation、FTTH installation in china secondary cities, and the high growth of 4G LTE and data centers, LuxNet will benefit from these ongoing market trends in the next few years.

LuxNet has always set its goals what to become one of leading global suppliers for optics communication components. We hope you continue to give us your support and suggestions. Here, on behalf, of the management team and the entire company, we offer our deepest thanks to all shareholders.

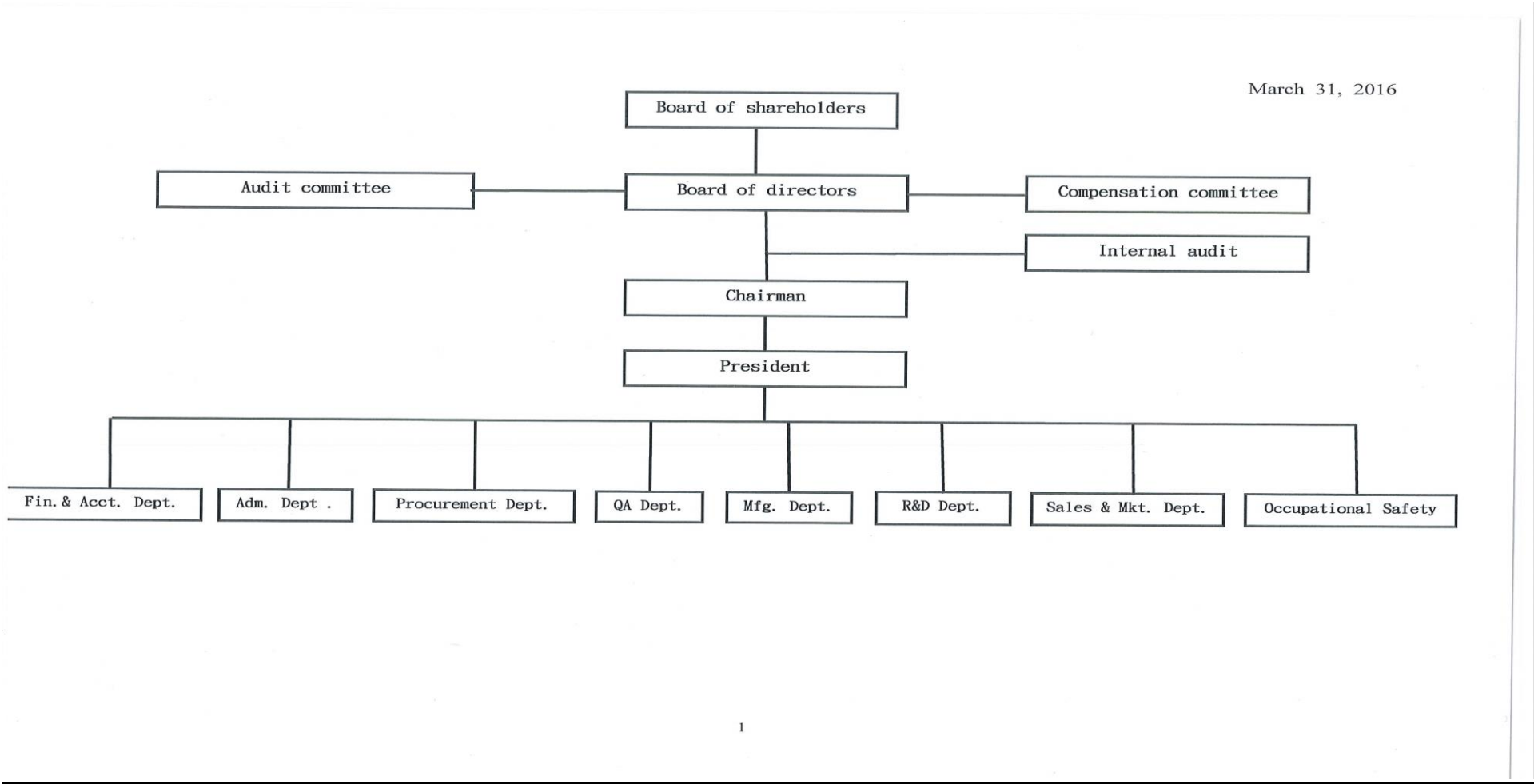
May you have a prosperous year and good health!



Hsing Kung
Chairman

Company Profile :

Organization Chart



Major Corporation Functions :

Internal Audit :

Inspection and review of LuxNet' s(including its subsidiaries) internal control system, its adequacy in adequacy in design and effectiveness in operation with risk assessment to ensure compliance with LuxNet' s policies and procedures as well as with external regulations.

Finance and spokesperson :

Corporate Finance and Accounting, also serves as company spokesperson.

Administrative Dept. :

Human resources management and organizational development, as well ad general and administrative affairs coordination.

Research and Development :

Advanced and specialty technology development and exploratory.

Sales & MKT Dept. :

Sales, market development, field technical support and services for all customers, as well as customer relation management.

Quality Assurance Dept. :

Ensuring and managing the quality and reliability of the company' s products.

Procurement Dept. :

Procurement 、 warehousing 、 import and export.

Board Members :

Title	Nationality or place of Registration	Name	Date Elected	Term of office of directors	Date First Elected	Shareholding when Elected		Current shareholding		Spouse & Minor shareholding		Selected Education,Past positions	Selected current positions at Luxnet and other Companies
						shares	%	shares	%	shares	%		
Chairman	R.O.C.	HSING KUNG	104/5/27	3	91/6/12	1,862,073	2.77	1,697,212	2.28	-	-	Ph.D.in Electrical Engineering,UC Berkeley. Co-founder SDL Inc.,VP manufacturing. Pine photonics founder & CEO.	Luxnet Chairman. Suzhou Innolight Chairman. Innolight Tecnology HK Linlimited Chairman. Eureka Therapeutics,Inc.Director.
Director	R.O.C.	Gains Investment Corporation	104/5/27	3	92/7/16	3,381,895	4.55	-	-	-	-	-	-
Director	R.O.C.	Representative : BILL HUANG				-	-	-	-	-	-	MBA,University of Washington.	VP,Gains Investment Corporation.
Director	R.O.C.	WUFU CHAN	104/5/27	3	95/7/16	-	-	-	-	-	-	Ph.d.in computer science,UC Berkeley. Cisco CTO.	Dragon Investment Fund CO.Ltd,Director. Luxnet Director. Atoptech Inc.,Chairman.
Director	R.O.C.	CHIH PIN G KUO	104/5/27	3	101/6/22	434,826	0.65	435,890	0.59	230,123	0.34	Ph.D.in Electrical Engineering,University of Utah. HP manager III-V.	Luxnet , CTO.

												Optoelectronics material.	
Director	R.O.C.	JIM HSU	104/5/27	3	102/6/25	545,800	0.81	567,359	0.76			Bachelor Degree in Accounting, Fu Jen Cathdic University. Destiny Technology CO.,CFO.	Luxnet , CFO.
Director	R.O.C.	JAMES NI	104/5/27	3	104/5/27	39,000	0	42,898	0.06			Ph.D.in Materinls Science and Engineering, Northwestern University. Truelight , President.	Luxnet , President.
Independent Director	R.O.C.	YUNGS LIU	104/5/27	3	99/12/16							VP,Industrial Technology Research Institute. General Director,OES. Professor,NTHU.	Chairman of Audit Committee & Compensation committee member,Luxnet. Emeritus Professor,NTHU. Member of Intellectual property committee,CNFI.
Independent Director	R.O.C.	DONNY KAO	104/5/27	3	101/6/22							Bachelor Degree in Accounting National Cheng Kung university. Taiwan cement group,CFO.	Continental Holdings Corp, Independent Director.
Independent Director	R.O.C.	TH HSU	104/5/27	3	103/6/24							Ph.D.in Eloctrical Engineering,UC Berkeley. VP,Microelectronics Technology Inc.	Mitac Holdings Corp, Director.

Remuneration paid to Directors

Remuneration Paid to Directors

Title	Name	Director's Remuneration								Total Remuneration(A~D) as a % of 2015 Net Income		Compensation Earned by a Director who is an employee of Luxnet										Total Compensation(A~G) as a % of 2015 Net Income		Compensation Paid to Directors from Non-consolidated Affiliates			
		Base Compensation		Severance pay and Pensions		Compensation to Directors		Allowances				Base Compensation, Bonuses, and Allowances		Severance pay and Pensions		Employees' profit sharing Bonus		Exercisable Employee stock Options		Granted Employee Restricted stock							
		From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities				
Chairman	HSING KUNG																										
Director	Gains Investment Corporation Representative : BILL HUANG																										
Director	WUFU CHAN																										
Director	CHHPING KUO																										
Director	JIM HSU																										
Director	CHEN H. WU (July 15, 2015, dismissal)	3,600	3,600	-	-	20,397	20,397	855	855	4.58	4.58	34,785	34,785	324	324	4,256	-	4,256	-	-	-	-	-	-	11.86	11.86	-
Director	JAMES NI (May 27, 2015, elected)																										
Independent Director	YUNGS LIU																										
Independent Director	DONNY KAO																										
Independent Director	TH HSU																										

Remuneration Paid to Directors

Range	2015			
	Total Remuneration(A~D)		Total Compensation(A~G)	
	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities
NT\$0~NT\$1,999,999	CHEN H. WU/JAMES NI	CHEN H. WU/JAMES NI	CHEN H. WU	CHEN H. WU
NT\$2,000,000~NT\$4,999,999	Gains Investment Corporation Representative : BILL HUANG WUFU CHAN CHIHPIPING KUO JIM HSU YUNGS LIU DONNY KAO TH HSU	Gains Investment Corporation Representative : BILL HUANG WUFU CHAN CHIHPIPING KUO JIM HSU YUNGS LIU DONNY KAO TH HSU	Gains Investment Corporation Representative : BILL HUANG WUFU CHAN YUNGS LIU DONNY KAO TH HSU	Gains Investment Corporation Representative : BILL HUANG WUFU CHAN YUNGS LIU DONNY KAO TH HSU
NT\$5,000,000~NT\$9,000,000	HSING KUNG	HSING KUNG	HSING KUNG	HSING KUNG
NT\$10,000,000~NT\$14,999,999	-	-	JAMES NI / CHIHPIPING KUO / JIM HSU	JAMES NI / CHIHPIPING KUO / JIM HSU
NT\$15,000,000~NT\$29,999,999	-	-	-	-
NT\$30,000,000~NT\$49,999,999	-	-	-	-
NT\$50,000,000~NT\$99,999,999	-	-	-	-
NT\$100,000,000~	-	-	-	-
Total	Nine people	Nine people	Nine people	Nine people

Management Team :

Title	Nationaluty	Name	Date Elected	Current shareholding		Spouse & Minor shareholding		Selected Education,Past positions	Selected current positions at other Companies
				shares	%	shares	%		
President	R.O.C.	James Ni	103/12/1	42,898	0.06	-	-	Ph.D.in Materinls Science and Engineering, Northwestern University. Truelight , President.	-
CTO	R.O.C.	Chihping Kuo	92/7/1	435,890	0.59	230,123	0.31	Ph.D.in Electrical Engineering, University of Utah. HP manager III-V. Optoelectronics material.	-
CFO	R.O.C.	Jim Hsu	93/8/2	567,359	0.76	-	-	Bachelor Degree in Accounting ,Fu Jen Cathdic University. Destiny Technology CO.,CFO.	-
Sales & Mkt. Dept. Vice President	R.O.C.	Leslie Huang	94/7/21	999	0	-	-	MBA, National Central University Sales Senior Manager, Lite-On Technology Corp.,	-
Component sales Dept. Vice President	R.O.C.	Austin Chen (April 8,2016 dismissal)	103/8/6	43,296	0.06	-	-	Master, National Tsing Hua University GM, Space Shuttle Hi-Tech Co. Ltd	-
DCI Dept. Director	R.O.C.	William Tsai	100/10/17	860	-	-	-	MBA, Central Queensland University Sales Manager, Gemtek Technology Co., Ltd.	-
Chip RD Vice President	R.O.C.	Tony Hsu	90/9/10	15,619	0.02	-	-	Electronic Engineering, I-SHOU University Senior Engineer, LEOTEK Electronics Corporation	-
Product Eng.Dept. AVP	R.O.C.	Y. H. Wang	89/9/10	23,000	0.03	-	-	Master Applied Physics, Chung Yung Christian University Liteon-on Technology Corp. , Manager, Device Development Dept.	-
Pkg R&D Dept.	R.O.C.	Patrick Suh	98/4/30	5,331	0.01	-	-	National Chiao Tung University , Master degree of	

AVP								Environmental Engineering Kaylu technology , Director of package R&D	
Date Center R&D Dept. Director	R.O.C.	Poy Liao	103/10/1	7,000	0.01	-	-	Master EE, Yuan Ze University Assistant RD Manager, Delta electronics inc	
MFG Dept. Director	R.O.C.	Wen Huang Lo	99/1/15	-	-	-	-	BD of Science and Technology, Minghsin University	
Q.A. Dept. S. Director	R.O.C.	Roger Yang	104/4/7	-	-	-	-	Master of Science, Feng Chia University. QA Director, Tera Xtal Technology Corporation.	
SCM Dept. Director	R.O.C.	Stephen Pan	104/5/4	-	-	-	-	MBA, University of North Alabama Sales Asst-Manager , Lite-On Technology Corp.	
Adm Dept.	R.O.C.	Chance Kuo	96/1/23	8,571	0.01	-	-	BE, National Taiwan University of Science and Technology, Material Manager, ProLight Opto Technology Corporation.	
Internal audit Director	R.O.C.	Grace Lin	100/10/11	524-	-	-	-	Master of Accounting, Florida State International University Internal Auditor, Taiwan Mobile Company	-
Suzhou Toptrans CO.,Ltd. President	R.O.C.	Cliff Wang	104/6/15	-	-	-	-	BS, Yuan Ze University VP, Wavecyber Co., Ltd.	-

Compensation paid to president and VP

Title	Name	Salary		Severance pay and pensions		Bonuses and Allowances		Employ' profit sharing Bonus				Total compensation as a % of 2015 Net Income(A~D)		Exercisable employ restricted stock		Exercisable employ restricted stock		Exercisable received from non-consolidated affiliates
		From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet		From all consolidated Entities		From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	From Luxnet	From all consolidated Entities	
								Cash	stock	Cash	stock							
President	James Ni	21,118	21,118	621	621	33,543	33,543	6,538	-	6,538	-	11.40	11.40	-	-	78,000	78,000	-
CTO	Chihping Kuo																	
CFP	Jim Hsu																	
VP	Leslie Huang																	
VP	Austin Chen (April 8,2016 dismissal)																	
VP	Tony Hsu																	

Remuneration Paid to president and VP

Range	Name	
	From Luxnet	From all consolidated Entities
NT\$0~NT\$1,999,999	-	-
NT\$2,000,000~NT\$4,999,999	Austin Chen (April 8,2016 dismissal)	Austin Chen (April 8,2016 dismissal)
NT\$5,000,000~NT\$9,000,000	Tony Hsu	Tony Hsu
NT\$10,000,000~NT\$14,999,999	James Ni/ Chihping Kuo/ Jim Hsu/ Leslie Huang	James Ni/ Chihping Kuo/ Jim Hsu/ Leslie Huang
NT\$15,000,000~NT\$29,999,999	-	-
NT\$30,000,000~NT\$49,999,999	-	-
NT\$50,000,000~NT\$99,999,999	-	-
NT\$100,000,000~	-	-
Total	Six people	Six people

Unit : NT\$000

	2015 estimated amounts	Board Resolution	Differences
Employee's Profit sharing Bonus(Cash)	61,470	61,470	0
Directors' Compensation-Cash	20,397	20,397	0
Total	81,867	81,867	0

Unit : NT\$000

Distribution	2014		
	Actual Result	Board Resolution	Differences
Employees' profit sharing Bonus-stock	19,800	19,800	0
Directors' compensation-Cash	5,940	5,940	0

Capital and shares

1、Capitalization

Unit : K shares/NT\$ 000

as of 03/31/2016

Month / year	Issue price (Per share)	Authorized share capital		Capital Stock		Remark	
		Share	Amount	Share	Amount	Sources of Capital	Capital increase by assets other than cash
March / 2015	10	80,000	80,000	67,247	672,469	Retirement of restricted stocks 240	none
July / 2015	10	80,000	80,000	67,274	673,742	(1)Issuance of restricted stock 890 (2)Retirement of restricted stock617	none
September / 2015	10	80,000	80,000	74,372	743,719	(1)Issuance of restricted stock 3,730 (2)Stock dividend 67,247	none
March / 2016	10	80,000	80,000	74,359	743,588	Retirement of restricted stocks 131	none

2、Capital and Shares

Unit : share

Type of stock	Authorized Share Capital				Total
	Issued Shares			Unissued Shares	
	Listed	Non-listed	Total		
Common Stock	74,358,826	-	74,358,826	5,641,174	80,000,000

Composition of Shareholders

1、Common Shares

as of 03/25/2016

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions and Natural person	Domestic Natural Person	Total
Number of Shareholders	5	35	44	54	13,105	13,243
Shareholding	3,746,062	3,564,765	7,921,644	11,118,227	48,021,153	74,371,853
Holding Percentage (%)	5.04	4.79	10.65	14.95	64.57	100

2、Distribution Profits of Share Ownership

Common Stock

as of 03/25/2016

Shareholder Ownership (unit : share)	Number of Shareholders	Ownership	Ownership (%)
1-999	5,135	642,815	0.86
1,000-5,000	6,500	12,788,713	17.20
5001-10,000	817	6,428,219	8.64
10,001-15,000	282	3,562,592	4.79
15,001-20,000	147	2,704,411	3.64
20,001-30,000	128	3,246,970	4.37
30,001-50,000	85	3,395,724	4.57
50,001-100,000	66	4,731,101	6.36
100,001-200,000	36	4,934,987	6.64
200,001-400,000	26	7,478,393	10.06
400,001-600,000	4	1,883,876	2.53
600,001-800,000	3	1,920,880	2.58
800,001-1,000,000	3	2,650,049	3.56
Over 1,000,000	11	18,003,121	24.21
Total	13,243	74,371,851	100.00

3 · Market Price, Net Worth, Earnings, and Dividends Per Common Share

Unit : NT\$

Item	2014	2015
Market price per share		
Highest Market Price	61.90	97.40
Lowest Market Price	37.15	54.00
Average Market Price	50.81	75.26
Net Worth per share		
Before Distribution	21.76	26.75
After Distribution	17.97	(Note 1)
Earning Per Share		
Weighted Average Shares(thousand shares)	66,623	73,705
Diluted Earning Per Share	2.96	(Note 1)
Dividend Per Share		
Cash Dividends	1.0	(Note 1)
Accumulated Undistributed Dividend	-	(Note 1)
Return on Investment		
Price/Earnings Ratio	15.59	10.23
Price/Dividend Ratio	50.81	(Note 1)
Cash Dividend yield	1.97%	(Note 1)

Note 1 : Pending for Shareholders' approval.

Operating Highlights

1、Major Product

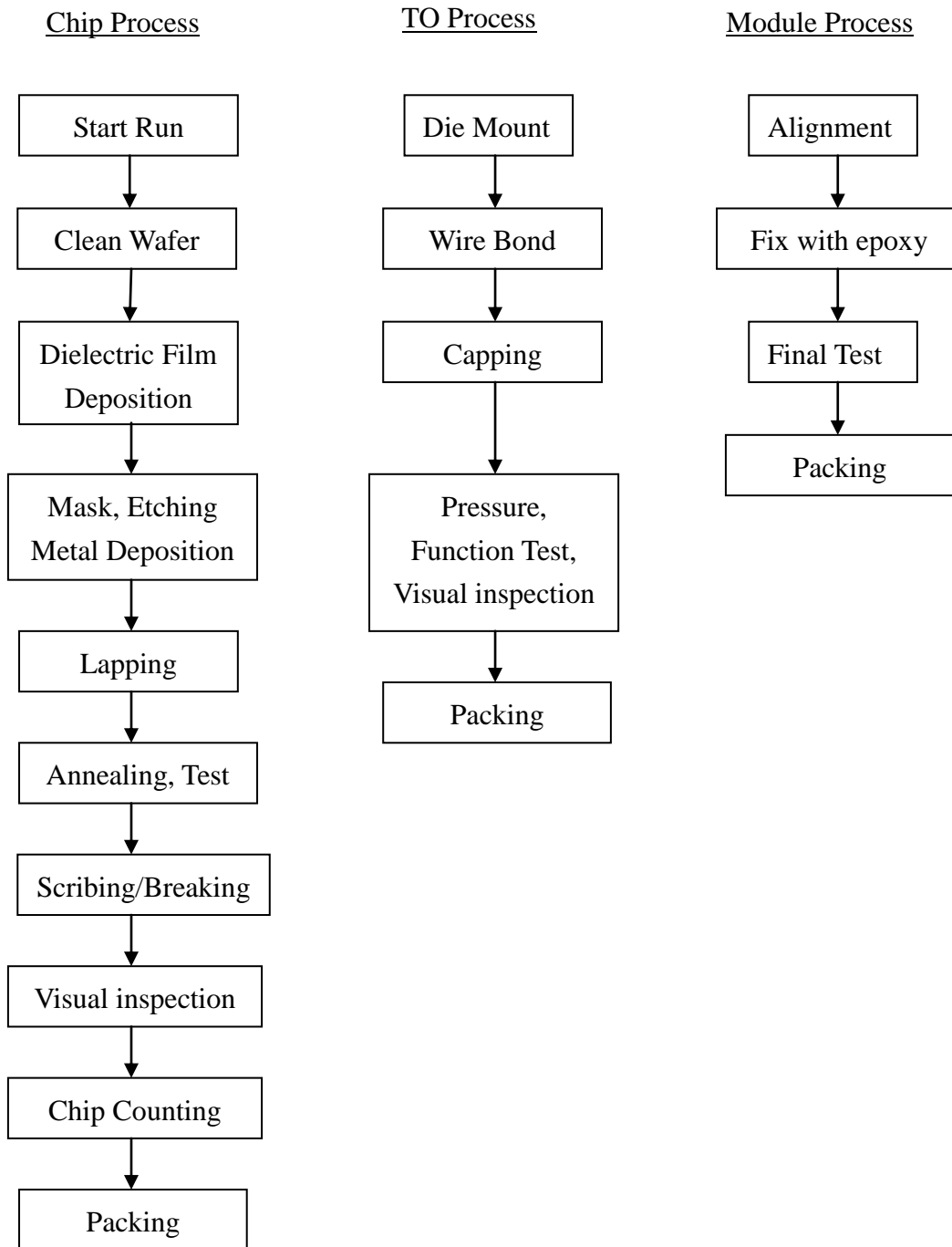
Product item	Application
FP & DFB - TO、OSA、Optical Engine	Datacom、Telecom、Security Monitor、Active Optical Cable、HDMI and Cloud-Computing
VCSEL - TO、OSA、Optical Engine	Datacom、Telecom、Security Monitor、Active Optical Cable、HDMI and Cloud-Computing、IT-USB
APD - TO、OSA、Optical Engine	Datacom、Telecom、Security Monitor、Active Optical Cable、HDMI and Cloud-Computing、IT-USB
Transceiver ODM/OEM	Datacom、Telecom、LTE Base Station、Security Monitor、Active Optical Cable、Cloud-Computing

2、Product revenue percentage

Unit : NT\$ 000

Major product item	2015	
	Operating Revenue (amount)	Operating Revenue (%)
TO、OSA	3,608,599	86.30
FP、DFB、PD、APD	90,330	2.16
Transceiver ODM/OEM	451,274	10.79
Others	31,104	0.75
Total	4,181,307	100.00

3 、 Product Process



Employee :

Workforce structure for Luxnet and its subsidiaries

Year		2014	2015	As of March 3,2016
Employee number	Direct employee	308	400	423
	Indirect employee	227	252	272
	Total	535	652	695
Average Age		33.86	34.04	34.86
Average Years of Service(years)		3.07	3.14	3.14
Education	Ph.D.	0.45%	0.9%	0.7%
	Master's	8.22%	8.0%	8.2%
	Bachelor's	41.77%	36.5%	37.5%
	High School	44.89%	48%	45%
	Under High School	4.67%	6.6%	8.6%

**LUXNET CORPORATION
AND SUBSIDIARIES**

Consolidated Financial Statements

**December 31, 2015 and 2014
(With Independent Auditors' Report Thereon)**



安侯建業聯合會計師事務所

KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F, TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei, 11049, Taiwan, R.O.C.

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Report

The Board of Directors
LuxNet Corporation:

We have audited the accompanying consolidated balance sheets of LuxNet Corporation and its subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of LuxNet Corporation and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years ended December 31, 2015 and 2014, in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission in the Republic of China.



LuxNet Corporation has prepared annual individual financial reports as of and for the years ended December 31, 2015 and 2014, on which we have issued an unqualified opinion.

KPMG

March 2, 2016

The accompanying consolidated financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with the International Financial Reporting Standards and interpretations endorsed by the Financial Supervisory Commission in the Republic of China. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

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 financial statements, the Chinese version shall prevail.

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars)

Assets	December 31, 2015		December 31, 2014		Liabilities and equity	December 31, 2015		December 31, 2014	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (note 6(a))	\$ 612,901	16	96,074	3	Short-term borrowings (notes 6(f) and 8)	\$ 22,000	1	382,240	14
Notes and accounts receivable, net (note 6(b))	1,224,716	31	777,239	28	Notes and accounts payable	767,042	19	555,681	20
Accounts receivable – related parties, net (notes 6(b) and 7)	95,503	2	93,202	3	Accounts payable – related parties (note 7)	2,306	-	7,292	-
Inventories, net (note 6(c))	621,430	16	634,184	23	Accrued expenses and other payables	377,438	10	180,658	7
Prepaid expenses	4,973	-	3,815	-	Other current liabilities (note 6(e))	<u>22,205</u>	<u>1</u>	<u>12,609</u>	<u>-</u>
Other current assets (note 6(b))	<u>36,926</u>	<u>1</u>	<u>49,423</u>	<u>2</u>		<u>1,190,991</u>	<u>31</u>	<u>1,138,480</u>	<u>41</u>
	<u>2,596,449</u>	<u>66</u>	<u>1,653,937</u>	<u>59</u>	Non-current liabilities:				
Non-current assets:					Bonds payable (note 6(h))	758,124	19	-	-
Property, plant and equipment (notes 6(d) & (u) and 8)	1,231,564	31	1,035,614	37	Long-term borrowings (notes 6(g) and 8)	-	-	180,000	7
Intangible assets	25,034	1	34,874	1	Other non-current liabilities (notes 6(e), (h), (j) & (k))	<u>14,010</u>	<u>-</u>	<u>11,341</u>	<u>-</u>
Other non-current assets (notes 6(k) & (u))	<u>99,448</u>	<u>2</u>	<u>69,385</u>	<u>3</u>		<u>772,134</u>	<u>19</u>	<u>191,341</u>	<u>7</u>
	<u>1,356,046</u>	<u>34</u>	<u>1,139,873</u>	<u>41</u>	Total liabilities	<u>1,963,125</u>	<u>50</u>	<u>1,329,821</u>	<u>48</u>
Total assets	<u>\$ 3,952,495</u>	<u>100</u>	<u>2,793,810</u>	<u>100</u>	Equity attributable to stockholders of parent:				
					Common stock (note 6(l))	743,719	19	672,709	24
					Capital surplus (notes 6(h) & (l))	457,209	11	399,789	14
					Retained earnings (note 6(l))	803,149	20	395,324	14
					Other equity (note 6(m))	<u>(14,707)</u>	<u>-</u>	<u>(3,833)</u>	<u>-</u>
					Total equity	<u>1,989,370</u>	<u>50</u>	<u>1,463,989</u>	<u>52</u>
					Total liabilities and equity	<u>\$ 3,952,495</u>	<u>100</u>	<u>2,793,810</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

LUXNET CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014
(expressed in thousands of New Taiwan dollars, except earnings per share)

	2015		2014	
	Amount	%	Amount	%
Operating revenue (notes 6(o) and 7)	\$ 4,181,307	100	3,015,222	100
Operating cost (notes 6(c), (i), (j), (l), (m) & (p), 7 and 12)	<u>3,156,749</u>	<u>75</u>	<u>2,488,055</u>	<u>83</u>
Gross profit	<u>1,024,558</u>	<u>25</u>	<u>527,167</u>	<u>17</u>
Operating expenses (notes 6(i), (j), (l), (m) & (p), 7 and 12):				
Selling expenses	55,774	2	48,555	1
Administrative expenses	218,199	5	141,344	5
Research and development expenses	<u>132,352</u>	<u>3</u>	<u>88,387</u>	<u>3</u>
	<u>406,325</u>	<u>10</u>	<u>278,286</u>	<u>9</u>
Net operating income	<u>618,233</u>	<u>15</u>	<u>248,881</u>	<u>8</u>
Non-operating income and expenses (notes 6 (h) & (q)):				
Other gains and losses	49,916	1	25,494	1
Finance costs	(9,905)	-	(7,525)	-
Interest revenue	<u>338</u>	<u>-</u>	<u>1,713</u>	<u>-</u>
Income before income taxes	<u>658,582</u>	<u>16</u>	<u>268,563</u>	<u>9</u>
Income tax expense (note 6(k))	<u>116,241</u>	<u>3</u>	<u>51,687</u>	<u>2</u>
Net income	<u>542,341</u>	<u>13</u>	<u>216,876</u>	<u>7</u>
Other comprehensive income (loss):				
Items that may not be reclassified subsequently to profit or loss:				
Actuarial gains on defined benefit plans, before tax (note 6(j))	(88)	-	-	-
Less: income tax relating to components of other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(88)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operation's financial statements	(472)	-	1,150	-
Less: income tax relating to components of other comprehensive income (note 6(k))	<u>80</u>	<u>-</u>	<u>(196)</u>	<u>-</u>
	<u>(392)</u>	<u>-</u>	<u>954</u>	<u>-</u>
Other comprehensive income (after tax)	<u>(480)</u>	<u>-</u>	<u>954</u>	<u>-</u>
Comprehensive income	<u>\$ 541,861</u>	<u>13</u>	<u>217,830</u>	<u>7</u>
Earnings per share (note 6(n)):				
Basic earnings per share (NT dollars)	<u>\$ 7.36</u>		<u>2.96</u>	
Diluted earnings per share (NT dollars)	<u>\$ 7.24</u>		<u>2.93</u>	

See accompanying notes to consolidated financial statements.

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity For the years ended December 31, 2015 and 2014 (expressed in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Legal reserve	Retained earnings		Exchange differences on translation of foreign operation's financial statements	Unearned employee compensation	Total equity
				Unappropriated retained earnings	Total			
Balance on January 1, 2014	\$ 608,009	386,465	32,695	236,939	269,634	2,022	(6,072)	1,260,058
Net income in 2014	-	-	-	216,876	216,876	-	-	216,876
Other comprehensive income in 2014	-	-	-	-	-	954	-	954
Comprehensive income in 2014	-	-	-	216,876	216,876	954	-	217,830
Appropriation and distribution of retained earnings:								
Legal reserve	-	-	12,273	(12,273)	-	-	-	-
Stock and cash dividends	60,791	-	-	(91,186)	(91,186)	-	-	(30,395)
Employee stock bonuses	2,199	6,966	-	-	-	-	-	9,165
Issuance of restricted stock	1,810	6,671	-	-	-	-	(950)	7,531
Retirement of restricted stock	(100)	(313)	-	-	-	-	213	(200)
Balance on December 31, 2014	<u>672,709</u>	<u>399,789</u>	<u>44,968</u>	<u>350,356</u>	<u>395,324</u>	<u>2,976</u>	<u>(6,809)</u>	<u>1,463,989</u>
Net income in 2015	-	-	-	542,341	542,341	-	-	542,341
Other comprehensive income in 2015	-	-	-	(88)	(88)	(392)	-	(480)
Comprehensive income in 2015	-	-	-	542,253	542,253	(392)	-	541,861
Appropriation and distribution of retained earnings:								
Legal reserve	-	-	21,687	(21,687)	-	-	-	-
Stock and cash dividends	67,247	-	-	(134,494)	(134,494)	-	-	(67,247)
Issuance of restricted stock	4,620	25,021	-	-	-	-	(11,927)	17,714
Retirement of restricted stock	(857)	(2,257)	-	66	66	-	1,445	(1,603)
Issuance of convertible bonds	-	34,656	-	-	-	-	-	34,656
Balance on December 31, 2015	<u>\$ 743,719</u>	<u>457,209</u>	<u>66,655</u>	<u>736,494</u>	<u>803,149</u>	<u>2,584</u>	<u>(17,291)</u>	<u>1,989,370</u>

See accompanying notes to consolidated financial statements.

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars)

	2015	2014
Cash flows from operating activities:		
Income before income taxes	\$ 658,582	268,563
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	163,201	120,724
Provision for bad debt allowance and losses related to inventories	64,173	34,296
Compensation cost of share-based payment	8,474	3,911
Net loss (profit) on financial liabilities at fair value through profit or loss	(1,408)	4,159
Interest expenses	9,905	7,525
Interest revenue	(338)	(1,713)
Other	(15)	-
Total adjustments to reconcile profit	243,992	168,902
Changes in operating assets and liabilities:		
Increase in notes and accounts receivable	(451,323)	(223,675)
Increase in inventories	(49,870)	(221,782)
Decrease (increase) in prepaid expenses and other current assets	11,339	(17,220)
Changes in operating assets	(489,854)	(462,677)
Increase in notes and accounts payable	206,375	230,500
Increase in accrued expenses and other payables	141,780	65,944
Other	11,700	3,428
Changes in operating liabilities	359,855	299,872
Changes in operating assets and liabilities	(129,999)	(162,805)
Adjustments	113,993	6,097
Cash flows from operations	772,575	274,660
Interest received	338	1,713
Interest paid	(9,731)	(7,761)
Income taxes paid	(68,994)	(22,210)
Net cash flows provided by operating activities	694,188	246,402
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(273,376)	(109,269)
Increase in prepayment for equipment	(55,290)	(50,201)
Acquisition of other non-current assets	(49,236)	(18,880)
Other	294	-
Net cash flows used in investing activities	(377,608)	(178,350)
Cash flows from financing activities:		
Decrease in short-term borrowings	(360,240)	(251,014)
Increase (decrease) in long-term borrowings	(180,000)	175,250
Issuance of restricted stock	9,240	3,620
Cash dividends	(67,247)	(30,395)
Issuance of convertible bonds	800,000	-
Other	(1,602)	(200)
Net cash flows provided by (used in) financing activities	200,151	(102,739)
Effect of foreign currency exchange rate changes	96	277
Net increase (decrease) in cash and cash equivalents	516,827	(34,410)
Cash and cash equivalents at beginning of year	96,074	130,484
Cash and cash equivalents at end of year	\$ 612,901	96,074

See accompanying notes to consolidated financial statements.

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars unless otherwise specified)

(1) Organization

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 13 for further information.

The Company’s common shares were listed on the Taipei Exchange (“TPEX”) on December 12, 2011.

(2) Financial Statements Authorization Date and Authorization Process

The consolidated financial statements were authorized for issuance by the board of directors on March 2, 2016.

(3) New Standards and Interpretations Not Yet Adopted

- (a) Impact of the 2013 version of the International Financial Reporting Standards (“2013 Version of IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”)

The Group has adopted the 2013 Version of IFRSs (excluding IFRS 9 “Financial Instruments”) endorsed by the FSC in preparing the consolidated financial statements. The new standards, amendments and interpretations issued by the International Accounting Standards Board (“IASB”) are as follows:

<u>New standards, amendments and interpretations</u>	<u>Effective date per IASB</u>
Amended IFRS 1 “Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters”	July 1, 2010
Amended IFRS 1 “Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters”	July 1, 2011
Amended IFRS 1 “Government Loans”	January 1, 2013
Amended IFRS 7 “Disclosure – Transfers of Financial Assets”	July 1, 2011

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

<u>New standards, amendments and interpretations</u>	<u>Effective date per IASB</u>
Amended IFRS 7 “Disclosure – Offsetting Financial Assets and Financial Liabilities”	January 1, 2013
IFRS 10 “Consolidated Financial Statements”	January 1, 2013 (with January 1, 2014, as the effective date for investment entities)
IFRS 11 “Joint Arrangements”	January 1, 2013
IFRS 12 “Disclosure of Interests in Other Entities”	January 1, 2013
IFRS 13 “Fair Value Measurement”	January 1, 2013
Amended IAS 1 “Presentation of Items of Other Comprehensive Income”	July 1, 2012
Amended IAS 12 “Deferred Tax: Recovery of Underlying Assets”	January 1, 2012
Amended IAS 19 “Employee Benefits”	January 1, 2013
Amended IAS 27 “Separate Financial Statements”	January 1, 2013
Amended IAS 32 “Offsetting Financial Assets and Financial Liabilities”	January 1, 2014
IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”	January 1, 2013

The Group assessed that the 2013 Version of the IFRSs may not have any significant impact on the consolidated financial statements except for the following:

1. IAS 19 “Employee Benefits”

The amendments to IAS 19 require the Group to calculate a “net interest” amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on plan assets used in the current IAS 19. In addition, the amendments eliminate the accounting treatment of either the corridor approach or the immediate recognition of actuarial gains and losses in profit or loss when they occur, and instead require companies to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it is incurred and no longer be amortized over the average period before meeting vesting conditions on a straight-line basis.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

An entity is required to recognize termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognizes any related restructuring costs, rather than at the date when the termination of employment happens. This standard also increases the requirement for disclosures of defined benefit plans.

The Group assessed that the standard may not have any significant impact on the financial position and operating results.

The Group will include the required disclosures of benefit plans in accordance with this standard.

2. IAS 1 “Presentation of Financial Statements”

The amendment requires entities to separate the items presented in other comprehensive income into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. If the items are presented before tax, then the tax related to each of the two groups of other comprehensive income items (those that might be reclassified and those that will not be reclassified) must be shown separately. Accordingly, the Group will adjust its presentation of the statement of comprehensive income.

3. IFRS 12 “Disclosure of Interests in Other Entities”

The Group will disclose any additional information about its interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities accordingly.

4. IFRS 13 “Fair Value Measurement”

The standard changes the definition of fair value, provides a framework for measuring fair value, and requires disclosures on fair value measurement. The Group increases the disclosures relating to fair value measurement in accordance with the standard. According to the transitional provisions of the standard, the Group has applied the fair value measurement of the new standard since 2015. The Group has not increased the disclosures for 2014. Although the Group has applied the fair value measurement of the new standard since 2015, the Group assessed that the adoption of IFRS 13 did not have significant impact on its financial position and results of operation.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) New standards, amendments and interpretations not yet endorsed by the FSC

A summary of the 2013 Version of IFRSs issued by the IASB but not yet endorsed by the FSC is as follows:

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
•IFRS 9 “ Financial Instruments”	January 1, 2018
•Amended IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture”	Not yet approved by the IASB
•Amended IFRS 10, IFRS 12 and IFRS 28 “Application of the consolidation exception”	January 1, 2016
•Amended IFRS 11 “Accounting for acquisitions of interests in joint operations”	January 1, 2016
•IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
•IFRS 15 “Revenue from contracts with customers”	January 1, 2018
•IFRS 16 “Leases”	January 1, 2019
•Amended IAS 1 “Disclosure Initiative”	January 1, 2016
•Amended IAS 7 “Disclosure Initiative”	January 1, 2017
•Amended IAS 12 “Deferred Tax Assets for Unrealized Losses”	January 1, 2017
•Amended IAS 16 and IAS 38 “Clarification of acceptable methods of depreciation and amortization”	January 1, 2016
•Amended IAS 16 and IAS 41 “Agriculture: bearer plants”	January 1, 2016
•Amended IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
•Amended IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
•Amended IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”	January 1, 2014
•Amended IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
•Annual Improvements: 2010-2012 and 2011-2013 cycles	July 1, 2014
•Annual Improvements to IFRS: 2012-2014 cycles	January 1, 2016
•Amended IFRIC 21 “Levies”	January 1, 2014

The Group is in the process of assessing the impact on the financial position and the operating results. The related impact will be disclosed following the completion of its assessments.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(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**1. Basis of measurement**

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

- (i) Financial instruments at fair value through profit or loss (including derivative financial instruments) are measured at fair value; and
- (ii) The net defined benefit liabilities (or assets) are recognized as plan assets less the present value of the defined benefit obligation.

2. 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**1. 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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Losses 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.

2. List of subsidiaries in the consolidated financial statements

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

<u>Name of investor</u>	<u>Name of subsidiary</u>	<u>Principal activities</u>	<u>Percentage of shareholding</u>	
			<u>December 31, 2015</u>	<u>December 31, 2014</u>
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%

(d) Foreign currencies

1. 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

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:

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

2. 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.

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

An entity shall classify an asset as current when:

- 1. It expects to realize the asset or intends to sell or consume it in its normal operating cycle;
- 2. It holds the asset primarily for the purpose of trading;
- 3. It expects to realize the asset within twelve months after the reporting period; or

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

4. 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.

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

1. It expects to settle the liability in its normal operating cycle;
2. It holds the liability primarily for the purpose of trading;
3. The liability is due to be settled within twelve months after the reporting period; or
4. 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.

An entity shall classify all other liabilities as non-current.

(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.

1. Financial assets

The Group classifies financial assets into the following categories: available-for-sale financial assets, and loans and receivables.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(i) 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.

(ii) 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.

(iii) Impairment of financial assets

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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

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.

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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

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 profit or loss; impairment losses and recoveries of other financial assets are recognized in non-operating income and expense.

(iv) 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.

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 in profit or loss 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.

2. Financial liabilities and equity instruments

(i) 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

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.

(ii) 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(iii) 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 non-operating income and expense.

(iv) 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 non-operating income and expenses.

(v) 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.

3. 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

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

1. 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, if any, 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.

2. 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.

3. 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

If there is reasonable certainty that the Group will obtain ownership by the end of the lease term, the depreciable period is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

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:

- (i) Buildings: 10~50 years
- (ii) Machinery: 3 ~10 years
- (iii) Leasehold improvements: 10 years
- (iv) 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

1. 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.

- (i) The technical feasibility of the intangible asset is accomplished so that it will be available for use or sale.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

and the recoverable amounts for any impaired assets are estimated at the end of each reporting period. If it is not possible to determine the recoverable amount for an 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, or its value in use. If the recoverable amount of an individual asset or a cash-generating unit is less than its carrying amount, the carrying amount of the individual asset or cash-generating unit shall be reduced to its recoverable amount; and that reduction is accounted for as an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

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) 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(n) Employee benefits

1. 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.

2. 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements****3. 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.

(o) 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.

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.

(p) 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:

1. 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

2. Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

3. 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:

1. The entity has the legal right to settle tax assets and liabilities on a net basis; and
2. The taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
 - (i) Levied by the same taxing authority; or
 - (ii) 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.

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.

(q) 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, convertible bonds, and employee bonuses not yet resolved by the stockholders.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(r) 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 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.

Management continues to monitor the accounting estimates and assumptions. 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 in applying accounting policies that have significant effect on amounts recognized in the consolidated financial statements.

There is no information about assumptions and estimation uncertainties that have any significant risk of resulting in a material adjustment within the next financial year.

The accounting policies and disclosures of the Group include measuring the financial and nonfinancial assets and liabilities at fair value. The accounting department of the Group is responsible for independent verification of the fair value. The accounting department uses information from independent resources to make the evaluation result consistent with market conditions. It is also responsible for ensuring that the data resources are independent, reliable, and consistent with the other resources. The accounting department of the Group regularly revises the evaluation models and the input parameters, makes retrospective reviews, and makes essential adjustments to ensure that the evaluation results are reasonable.

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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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).

If there is any movement of financial instruments measured at fair value between Level 1, Level 2, and Level 3, the Group recognizes the movement at the reporting date.

(6) Explanation of Significant Accounts

(a) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	\$ 813	314
Demand deposits	<u>612,088</u>	<u>95,760</u>
Cash and cash equivalents in consolidated statement of cash flows	<u>\$ 612,901</u>	<u>96,074</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

	December 31, 2015	December 31, 2014
Notes receivable	\$ 147	157
Accounts receivable	1,322,036	870,703
Other receivables	29	720
Less: allowance for doubtful accounts	<u>(1,964)</u>	<u>(419)</u>
	<u>\$ 1,320,248</u>	<u>871,161</u>

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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Group recognized impairment loss on notes and accounts receivable using collective assessment methods. The movement in the allowance for notes and accounts receivable and other receivables was as follows:

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Balance on January 1	\$ 419	629
Recognition (reversal) of impairment loss	1,545	(211)
Foreign exchange loss	<u>-</u>	<u>1</u>
Balance on December 31	<u>\$ 1,964</u>	<u>419</u>

(c) Inventories

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Raw materials	\$ 200,921	254,581
Work in process	270,931	214,391
Finished goods	<u>149,578</u>	<u>165,212</u>
	<u>\$ 621,430</u>	<u>634,184</u>

For the years ended December 31, 2015 and 2014, the Group recognized the following items as cost of goods sold:

	<u>2015</u>	<u>2014</u>
Losses on inventory valuation and obsolete inventories	\$ 62,628	34,507
Revenue from sale of scrap	<u>(5,811)</u>	<u>(3,704)</u>
	<u>\$ 56,817</u>	<u>30,803</u>

For the years ended December 31, 2015 and 2014, the Group did not provide any of the aforementioned inventory as collateral.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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, 2015 and 2014, were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2015	\$ 247,696	353,646	693,636	25,521	-	1,320,199
Additions	-	-	266,493	6,883	-	273,376
Reclassifications	-	-	50,285	-	-	50,285
Disposals	-	-	(4,903)	-	-	(4,903)
Effect of movements in exchange rates	-	-	(636)	(450)	-	(1,086)
Balance on December 31, 2015	<u>\$ 247,696</u>	<u>353,346</u>	<u>1,004,875</u>	<u>31,954</u>	<u>-</u>	<u>1,637,871</u>
Balance on January 1, 2014	\$ 247,696	350,745	582,810	24,675	-	1,205,926
Additions	-	2,601	104,895	665	-	108,161
Reclassifications	-	-	7,080	-	-	7,080
Disposals	-	-	(2,255)	(541)	-	(2,796)
Effect of movements in exchange rates	-	-	1,106	722	-	1,828
Balance on December 31, 2014	<u>\$ 247,696</u>	<u>353,346</u>	<u>693,636</u>	<u>25,521</u>	<u>-</u>	<u>1,320,199</u>
Depreciation:						
Balance on January 1, 2015	\$ -	20,597	251,494	12,494	-	284,585
Depreciation	-	11,823	110,042	5,051	-	126,916
Disposals	-	-	(4,638)	-	-	(4,638)
Effect of movements in exchange rates	-	-	(304)	(252)	-	(556)
Balance on December 31, 2015	<u>\$ -</u>	<u>32,420</u>	<u>356,594</u>	<u>17,293</u>	<u>-</u>	<u>406,307</u>
Balance on January 1, 2014	\$ -	9,250	175,765	8,311	-	193,326
Depreciation	-	11,347	77,495	4,329	-	93,171
Disposals	-	-	(2,255)	(541)	-	(2,796)
Effect of movements in exchange rates	-	-	489	395	-	884
Balance on December 31, 2014	<u>\$ -</u>	<u>20,597</u>	<u>251,494</u>	<u>12,494</u>	<u>-</u>	<u>284,585</u>
Carrying amounts:						
Balance on December 31, 2015	<u>\$ 247,696</u>	<u>320,926</u>	<u>648,281</u>	<u>14,661</u>	<u>-</u>	<u>1,231,564</u>
Balance on January 1, 2014	<u>\$ 247,696</u>	<u>341,495</u>	<u>407,045</u>	<u>16,364</u>	<u>-</u>	<u>1,012,600</u>
Balance on December 31, 2014	<u>\$ 247,696</u>	<u>332,749</u>	<u>442,142</u>	<u>13,027</u>	<u>-</u>	<u>1,035,614</u>

As of December 31, 2015 and 2014, property, plant and equipment of the Group had been pledged as collateral for short-term and long-term borrowings and credit lines; please refer to note 8.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	<u>2015.12.31</u>	<u>2014.12.31</u>
Derivatives not designated as hedging instruments (recorded as other current liabilities)	\$ -	2,981
Redemption of bonds payable at the option of the Company and the bondholders (recorded as other non-current liabilities) (note 6(h))	2,800	-
	<u>\$ 2,800</u>	<u>2,981</u>

The Group entered into derivative contracts to hedge exchange risk the Group is exposed to from its operating activities. The Group held the following derivative financial instruments not designated as hedging instruments:

	<u>2015.12.31</u>		
	<u>Amount (in thousands)</u>	<u>Currency</u>	<u>Maturity Date</u>
Forward exchange contracts sold	USD <u>-</u>	-	-
	<u>2014.12.31</u>		
	<u>Amount (in thousands)</u>	<u>Currency</u>	<u>Maturity Date</u>
Forward exchange contracts sold	USD <u>2,700</u>	USD to TWD	2015.1.15~2015.2.13

For the years ended December 31, 2015 and 2014, gain or loss on valuation of financial liabilities due to change in fair value was \$1,408 and \$(4,159), respectively, and was recognized in other gains and losses for the period. Please refer to note 6(q).

(f) Short-term borrowings

The details were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Unsecured bank loans	\$ <u>22,000</u>	<u>382,240</u>
Unused credit lines	\$ <u>931,727</u>	<u>566,157</u>
Annual interest rates	<u>1.08%~1.61%</u>	<u>1.15%~1.80%</u>

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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(g) Long-term borrowings

The details were as follows:

	December 31, 2015			
	<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Unsecured bank loans	-	-	-	\$ -
Secured bank loans	-	-	-	-
Less: current portion				-
Total				\$ -
Unused credit lines				\$ <u><u>470,000</u></u>
"				
	December 31, 2014			
	<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Unsecured bank loans	TWD	1.60%~1.63%	2016~2017	\$ 100,000
Secured bank loans	"	1.62%	2016	80,000
Less: current portion				-
Total				\$ <u><u>180,000</u></u>
Unused credit lines				\$ <u><u>290,000</u></u>

1. Please refer to note 8 for further information on assets pledged as collateral.
2. The Company signed a long-term loan contract with Fubon Bank in September 2014. The credit line is \$100,000. The contract period expires three years after the first use. The principal is amortized in eight installments from two years before 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 financial debt ratio of not greater than 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 banks have 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 banks have the right to rearrange the credit line. According to the contract, the Company should transfer business transaction cash flow from specific customers to the Fubon Bank account every quarter. The Company prepaid the loan in June 2015.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. The Company signed a long-term loan contract with Fubon Bank in June 2015. The credit line is \$100,000. The contract period expires two years after the first use. 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 of not greater than 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 banks have 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 banks have the right to rearrange the credit line. According to the contract, the Company should transfer business transaction cash flow from specific customers to the Fubon Bank account every quarter. The Company prepaid the loan in December 2015.
4. The Company signed a long-term loan contract with CTBC Bank in July 2015. The credit line is \$320,000. The contract period of the loan expires two years after the first use. 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, the banks have the right to increase the interest rate from the next interest calculation date. According to the contract, the Company should transfer business transaction cash flow from specific customers to the CTBC Bank account every half-year. The Company prepaid the loan in December, 2015.

(h) Convertible bonds payable

	December 31, 2015
Aggregate principal amount	\$ 800,000
Unamortized discount	(41,876)
Accumulated converted amount	-
Ending balance of bonds payable	758,124
Less: Bonds payable – current	-
Ending balance of bonds payable – non-current	\$ 758,124
Embedded derivative component – the value of redemption at the option of the Company/bondholders (recorded as other non-current liabilities)	\$ (2,800)
Equity component (recorded as capital surplus – stock option)	\$ 34,656

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	<u>2015</u>
Embedded derivative component – revaluation loss on redemption at the option of the Company/bondholders (recorded as other gains and losses)	\$ <u>320</u>
Interest expense (recorded as financial cost)	\$ <u>379</u>

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

	<u>1st domestic unsecured convertible bonds</u>
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
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.
Conversion period	Each Holder of the bonds has the right at any time during the period from January 22, 2016, to the maturity date of the bond, to convert their bonds.
Conversion price on December 31, 2015 (note)	NT\$79.0

Note: 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Operating lease

Non-cancellable operating lease rentals are payable as follows:

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Less than one year	\$ 13,044	7,394
Between one and five years	<u>1,267</u>	<u>5,983</u>
	\$ <u>14,311</u>	<u>13,377</u>

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

In 2015 and 2014, the Group recognized operating lease expenses of \$7,061 and \$6,259, respectively, as income and expenses. There is no contingent rent in any of the operating lease contracts.

(j) Employee benefits

1. 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:

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Present value of defined benefit obligations	\$ 10,770	10,461
Fair value of plan assets	<u>2,161</u>	<u>1,753</u>
Net defined benefit liability	\$ <u>8,609</u>	<u>8,708</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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) 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 \$2,161 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.

(ii) 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, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Defined benefit obligation at January 1	\$ 10,461	11,230
Current service costs and interest	208	225
Benefits paid by the plan	-	(1,280)
Remeasurement of net defined liability	<u>101</u>	<u>286</u>
Defined benefit obligation at December 31	<u>\$ 10,770</u>	<u>10,461</u>

(iii) 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, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets at January 1	\$ 1,753	1,596
Contributions made	360	120
Expected return on plan assets	35	33
Remeasurement of net defined liability	<u>13</u>	<u>4</u>
Fair value of plan assets at December 31	<u>\$ 2,161</u>	<u>1,753</u>

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iv) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group for the years ended December 31, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Interest cost	\$ 173	192
Remeasurement of net defined liability	<u>-</u>	<u>282</u>
	<u>\$ 173</u>	<u>474</u>
Administrative expenses	<u>\$ 173</u>	<u>474</u>

(v) Remeasurements of the net defined benefit liabilities (asset) recognized in other comprehensive income

As of December 31, 2015 and 2014, the Group's remeasurements of the net defined benefit liabilities (asset) recognized in other comprehensive income were as follows:

	<u>2015</u>	<u>2014</u>
Balance as of January 1	\$ -	-
Recognized during the period	<u>(88)</u>	<u>-</u>
Balance as of December 31	<u>\$ (88)</u>	<u>-</u>

(vi) Actuarial assumptions

The following are the Group's principal actuarial assumptions:

	<u>2015</u>	<u>2014</u>
Discount rate	1.875%	2.00%
Future salary increase rate	4.00%	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 duration of the defined benefit obligation is 19.09 years.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(vii) Sensitivity analysis

When computing the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions, including discount rates and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

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

	<u>Increased 0.25%</u>	<u>Decreased 0.25%</u>
Discount rate	\$ (356)	373
Future salary increase rate	369	(369)

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 2015 and 2014.

2. Defined contribution plans

The Company contributes 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 plan, the Company, contributes 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 amounting to \$17,270 and \$14,888 for the years ended December 31, 2015 and 2014, respectively.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(k) Income taxes

1. The amounts of income tax expenses for 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Current tax expense	\$ 118,942	53,026
Adjustment for prior year's tax expense	<u>123</u>	<u>(157)</u>
	<u>119,065</u>	<u>52,869</u>
Deferred tax benefit	<u>(2,824)</u>	<u>(1,182)</u>
Income tax expense	<u>\$ 116,241</u>	<u>51,687</u>

2. For the years ended December 31, 2015 and 2014, there was no income tax recognized in equity.

3. The amounts of income tax expenses (benefit) recognized in other comprehensive income were as follows:

	<u>2015</u>	<u>2014</u>
Exchange differences on translation of foreign operations' financial statements	\$ <u>(80)</u>	<u>196</u>

4. Reconciliation of income tax expenses and profit before tax for 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Income before tax	\$ <u>658,582</u>	<u>268,563</u>
Income tax using the Company's domestic tax rate	111,996	39,315
Effect of tax rates in foreign jurisdictions	17	(2,984)
Estimated changes in recognized and unrecognized deferred tax assets	821	16,171
Investment tax credits	(2,905)	(2,585)
Adjustment for prior year's tax expense	123	(157)
10% surtax on unappropriated earnings	6,069	1,927
Other	<u>120</u>	<u>-</u>
	<u>\$ 116,241</u>	<u>51,687</u>

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Deferred tax assets and liabilities

(i) Unrecognized deferred tax assets

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

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Aggregate amount of temporary differences related to investments in subsidiaries	\$ 10,826	10,790
Loss on inventory valuation and obsolete inventories	1,768	900
Impairment loss	502	502
Unfunded pension fund contribution	<u>467</u>	<u>497</u>
	<u>\$ 13,563</u>	<u>12,689</u>

Unused prior-year tax loss carryforwards of the Company's foreign subsidiary were \$35,662. According to the effective local tax rate, the maximum deductible tax amount was \$8,916.

(ii) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2015 and 2014 were as follows:

	<u>Unrealized</u> <u>foreign</u> <u>exchange gains</u> <u>and losses</u>	<u>Excess</u> <u>allowance for</u> <u>doubtful</u> <u>account</u>	<u>Share of other</u> <u>comprehensive</u> <u>income of</u> <u>subsidiaries</u> <u>accounted for</u> <u>using equity</u> <u>method</u>	<u>Total</u>
Deferred tax liabilities:				
Balance on January 1, 2015	\$ 2,251	36	912	3,199
Recognized in profit or loss	(516)	-	-	(516)
Recognized in other comprehensive income	-	-	(80)	(80)
Balance on December 31, 2015	<u>\$ 1,735</u>	<u>36</u>	<u>832</u>	<u>2,603</u>
Balance on January 1, 2014	\$ 745	36	716	1,497
Recognized in profit or loss	1,506	-	-	1,506
Recognized in other comprehensive income	-	-	196	196
Balance on December 31, 2014	<u>\$ 2,251</u>	<u>36</u>	<u>912</u>	<u>3,199</u>

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Loss on inventory valuation and obsolete inventories	Others	Total
	<u> </u>	<u> </u>	<u> </u>
Deferred tax assets:			
Balance on January 1, 2015	\$ (2,700)	(883)	(3,583)
Recognized in profit or loss	<u>(2,605)</u>	<u>297</u>	<u>(2,308)</u>
Balance on December 31, 2015	<u>\$ (5,305)</u>	<u>(586)</u>	<u>(5,891)</u>
Balance on January 1, 2014	\$ (711)	(184)	(895)
Recognized in profit or loss	<u>(1,989)</u>	<u>(699)</u>	<u>(2,688)</u>
Balance on December 31, 2014	<u>\$ (2,700)</u>	<u>(883)</u>	<u>(3,583)</u>

6. The Company's income tax returns have been examined by the tax authority through the years up to 2013.
7. Information related to the unappropriated earnings and tax deduction ratio is summarized below:

	December 31, 2015	December 31, 2014
	<u> </u>	<u> </u>
Unappropriated earnings in 1998 and after	\$ <u>736,494</u>	<u>350,356</u>
Balance of imputation credit account	\$ <u>73,796</u>	<u>44,480</u>
	<u>2015 (estimated)</u>	<u>2014 (actual)</u>
Creditable ratio for earnings distribution to ROC residents stockholders	\$ <u>22.51%</u>	<u>24.11%</u>

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

(1) Capital and other equity

As of December 31, 2015 and 2014, the nominal common stock amounted to \$800,000. Face value of each share is \$10 (dollars). The number of shares includes employee stock options for 80,000 thousand shares. The issued amounts were \$743,719 and \$672,709, respectively.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Reconciliation of shares outstanding for 2015 and 2014 was as follows:

	<u>Ordinary shares</u>	
	<u>2015</u>	<u>2014</u>
(thousand shares)		
Balance on January 1	67,271	60,801
Stock dividends	6,725	6,079
Employee stock bonuses	-	220
Issued for restricted stock (note 6(m))	462	181
Retirement of restricted stock	<u>(86)</u>	<u>(10)</u>
Balance on December 31	<u><u>74,372</u></u>	<u><u>67,271</u></u>

1. Common stock

Based on the resolution approved in the meeting of stockholders held on June 24 2014, 6,079 thousand new shares were issued from undistributed earnings of \$60,791 and 220 thousand new shares from employee stock bonuses of \$9,165. On August 6, 2014, the board meeting resolved for this capital increase, with August 31, 2014, the date of capital increase. The relevant statutory registration procedures were completed.

Based on the resolution approved in the meeting of stockholders held on May 27, 2015, 6,725 thousand new shares were issued from undistributed earnings of \$67,247 as stock dividends, with August 26, 2015, the date of capital increase. The relevant statutory registration procedures were completed.

Based on the resolution approved in the board meeting held on August 6, 2014, 10 thousand shares were reduced from retirement of restricted stock, with August 30, 2014, the date of capital reduction. The relevant statutory registration procedures were completed.

Based on the resolution approved in the board meetings held on January 29 and June 10, 2015, 24 and 62 thousand shares, respectively, were reduced from retirement of restricted stock, with March 13 and June 16, 2015, respectively, the dates of capital reduction. The relevant statutory registration procedures were completed.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Capital surplus

The balances of capital surplus as of December 31, 2015 and 2014, were as follows:

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Additional paid-in capital	\$ 393,166	386,578
Employee stock options	1,456	1,456
Conversion options of convertible bonds	34,656	-
Restricted employee stock options	<u>27,931</u>	<u>11,755</u>
	<u>\$ 457,209</u>	<u>399,789</u>

In accordance with the ROC Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

3. Retained earnings

According to the articles of the Company, 10% of its annual net income after settling all outstanding tax payables and accumulated deficit, if any, is to be set aside as legal reserve. Also, a special reserve should be retained or reversed under related regulations. The remainder, if any, is to be distributed as follows:

- (i) Employee bonuses of 5% to 15%. Employee bonuses can be paid in stock. Employees qualifying for stock bonus may include the employees of subsidiaries of the Company who meet certain specific requirements.
- (ii) Directors' and supervisors' remuneration should not exceed 5%.
- (iii) For the remaining balance plus retained earnings of previous years, is to be distributed as dividends as determined by the board of directors and approved by the stockholders' meeting.

The Company is at the growth stage and considers its future cash demand, long-term financial plans, and benefits to stockholders. The cash dividend shall not be less than 10 percent of the total dividends.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

According to the Company Act as amended in May 2015, employee bonuses and directors' and supervisors' remuneration are no longer subject to earnings distribution, and the Company will make all the necessary changes to its articles of association before the deadline specified by the authorities.

(i) 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.

(ii) 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.

(iii) Earnings distribution

The actual distributions of employee bonuses and directors' and supervisor's remuneration for 2014 amounted to \$25,740. Differences between the actual distributions and the amounts estimated in the Company's financial statements in 2014, \$25,491, were \$249, and were recognized as expense in 2015.

The information about the employee bonuses and the directors' and supervisors' remuneration approved in the stockholders' meeting can be accessed in the Market Observation Post System.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Earnings distribution for 2014 and 2013 approved in the stockholders' meetings on May 27, 2015, and June 24, 2014, respectively, was as follows:

	2014		2013	
	Amount per share (dollars)	Total amount	Amount per share (dollars)	Total amount
Cash	1.0	\$ 67,247	0.5	30,395
Stock	1.0	<u>67,247</u>	1.0	<u>60,791</u>
Total		\$ <u>134,494</u>		<u>91,186</u>

(m) Share-based payment

1. Based on the resolution approved in the meeting of stockholders held on June 24, 2014, the Company issued 270 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.
2. Based on the resolution approved in the meeting of stockholders held on May 27, 2015, the Company issued 373 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.
3. Based on the resolution approved in the board meetings held on August 6, 2014, June 10, 2015, and July 22, 2015, the Company distributed 18,189 and 373 thousand shares, respectively, of restricted stock.
4. As of December 31, 2015, the outstanding restricted stock of the Company was as follows:

	Plan 3	Plan 2		Plan 1
	August 31, 2015	June 15, 2015	September 12, 2014	September 25, 2013
Fair value on grant date (per share)	59.90	82	50.2	41.25
Exercise price	20	20	20	20
Granted units (thousand shares)	373	89	181	330
Vesting period	1~2 years (note)		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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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:

	<u>2015</u>	<u>2014</u>
(thousand shares)		
Outstanding at January 1	318	330
Granted during the year	462	181
Vested during the year	(188)	(160)
Expired during the year	<u>(58)</u>	<u>(33)</u>
Outstanding at December 31	<u><u>534</u></u>	<u><u>318</u></u>

Compensation cost attributable to share-based payment for 2015 and 2014 was \$8,474 and \$3,911, respectively.

(n) Earnings per share

1. Basic earnings per share

The calculation of basic earnings per share at December 31, 2015 and 2014, was based on the profit attributable to ordinary stockholders of the Company and the weighted-average number of common shares outstanding, calculated as follows:

	<u>2015</u>	<u>2014</u>
Profit attributable to common stockholders	\$ <u>542,341</u>	<u>216,876</u>
Weighted-average number of common shares		
(thousand shares)		
Ordinary shares at January 1	66,930	66,518
Effect of stock dividends	6,724	6,687
Effect of employee stock bonuses	-	81
Effect of restricted stock	<u>50</u>	<u>-</u>
Ordinary shares at December 31	<u><u>73,704</u></u>	<u><u>73,286</u></u>

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Diluted earnings per share

The calculation of diluted earnings per share for the years ended December 31, 2015 and 2014, was based on the profit attributable to common stockholders of the Company and the weighted-average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares, calculated as follows:

	<u>2015</u>	<u>2014</u>
Profit attributable to ordinary stockholders (diluted)	\$ <u>542,341</u>	<u>216,876</u>
	<u>2015</u>	<u>2014</u>
(thousand shares)		
Weighted-average number of ordinary shares at		
December 31 (basic)	73,705	73,286
Effect of employee stock bonuses	911	482
Effect of restricted stock	<u>283</u>	<u>273</u>
Weighted-average number of ordinary shares at		
December 31 (diluted)	<u>74,899</u>	<u>74,041</u>

(o) Operating revenue

The operating revenue in the years ended December 31, 2015 and 2014, was as follows:

	<u>2015</u>	<u>2014</u>
Goods sold	\$ <u>4,181,307</u>	<u>3,015,222</u>

(p) Employee bonuses, and directors' and supervisors' remuneration

Based on the Company's articles of incorporation approved by the Company's board of directors, 5% to 15% of annual profit after offsetting prior years' deficits should be appropriated as employee bonuses. 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, entitled to receive a bonus may be specified by the board of directors. The annual profit aforementioned may also be appropriated as directors' and supervisors' remuneration through the board's resolution, and the amount should not exceed 5% of annual profit after offsetting prior years' deficits.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Employee bonuses and directors' and supervisors' remuneration amounted to \$61,470 and \$20,397, respectively, for 2015. These amounts were calculated based on the Company's income before income taxes excluding employee bonuses and directors' and supervisors' remuneration by using the earnings allocation method as stated under the Company's articles. These benefits were expensed under operating costs or operating expenses during 2015. The differences between the amounts approved in the stockholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in 2016.

(q) Non-operating income and expenses

Other gains and losses in the years ended December 31, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Foreign currency exchange gains	\$ 46,084	26,245
Net gains (losses) on financial assets/liabilities measured at fair value through profit or loss	1,408	(4,159)
Other	<u>2,424</u>	<u>3,408</u>
	<u>\$ 49,916</u>	<u>25,494</u>

(r) Financial instruments

1. Credit risk

(i) Exposure to credit risk

As of December 31, 2015 and 2014, the carrying amount of financial assets, which represents the maximum amount exposed to credit risk, was \$1,932,336 and \$967,235, respectively.

(ii) Concentration of credit risk

Sales to individual customers constituting over 10% of total revenue for the years ended December 31, 2015 and 2014, totaled 72% and 51%, respectively. As of December 31, 2015 and 2014, 76% and 50%, 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. According to prior years' records, these customers have good profitability and credit. The Group did not suffer loss from credit risk with respect to these customers in the reporting period.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Past due 1-120 days	\$ 95,234	146,581
Past due 121-365 days	<u>3,376</u>	<u>544</u>
	<u>\$ 98,610</u>	<u>147,125</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.

2. 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, 2015					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 22,000	22,019	22,019	-	-
Bonds payable	758,124	800,000	-	-	800,000
Notes and accounts payable (including related parties)	769,348	769,348	769,348	-	-
Accrued expenses and other payables	<u>34,922</u>	<u>34,922</u>	<u>34,922</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,584,394</u>	<u>1,626,289</u>	<u>826,289</u>	<u>-</u>	<u>800,000</u>
December 31, 2014					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 382,240	382,718	382,718	-	-
Notes and accounts payable (including related parties)	562,973	562,973	562,973	-	-
Accrued expenses and other payables	22,905	22,905	22,905	-	-
Long-term borrowings	180,000	186,289	-	186,289	-
Derivative financial liabilities:					
Outflow	<u>2,981</u>	<u>2,981</u>	<u>2,981</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,151,099</u>	<u>1,157,866</u>	<u>971,577</u>	<u>186,289</u>	<u>-</u>

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

3. Currency risk

(i) Exposure to foreign currency risk

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

	<u>December 31, 2015</u>			<u>December 31, 2014</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:TWD	52,849	32.825	1,734,768	26,614	31.650	842,333
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:TWD	17,025	32.825	558,846	18,104	31,650	572,992
JPY:TWD	6,231	0.273	1,701	476	0.265	126

(ii) 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, 2015 and 2014, would have decreased or increased the net profit after tax by \$48,730 and \$11,172, respectively. The analysis is performed on the same basis for both periods.

(iii) 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:

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2015		2014	
	<u>Foreign exchange gain or loss</u>	<u>Average exchange rate</u>	<u>Foreign exchange gain or loss</u>	<u>Average exchange rate</u>
TWD	51,552	32.789	18,578	30.306
CNY	<u>(5,468)</u>	5.028	<u>7,667</u>	4.92
	<u><u>46,084</u></u>		<u><u>26,245</u></u>	

4. 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 profit after tax would have increased or decreased by the amount of \$1,224 and decreased or increased by the amount of \$1,406 for the years ended December 31, 2015 and 2014, 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.

5. Fair value

(i) Kinds of financial instruments and fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information on financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value and investments in equity instruments which do not have any quoted price in an active market for which the fair value cannot be reasonably measured.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iii) 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.

(iv) Changes in Level 3

	<u>Forward contract</u>	<u>Convertible bonds</u>	<u>Total</u>
Balance on January 1, 2015	\$ (2,981)	-	(2,981)
Recognized in profit or loss	1,728	(320)	1,408
Acquisition / disposal / pay-off	<u>1,253</u>	<u>(2,480)</u>	<u>(1,227)</u>
Balance on December 31, 2015	\$ -	<u>(2,800)</u>	<u>(2,800)</u>
Balance on January 1, 2014	\$ (1,083)	-	(1,083)
Recognized in profit or loss	(4,159)	-	(4,159)
Acquisition / disposal / pay-off	<u>2,261</u>	<u>-</u>	<u>2,261</u>
Balance on December 31, 2014	\$ <u>(2,981)</u>	<u>-</u>	<u>(2,981)</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, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
In profit or loss (recognized in “other gains and losses”)	\$ <u>(320)</u>	<u>(2,981)</u>

(v) 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.

(vi) In the years ended December 31, 2015 and 2014, there were no transfers between levels.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(s) Financial risk management

1. Overview

The Group is exposed to the following risks arising from financial instruments:

(i) Credit risk

(ii) Liquidity risk

(iii) 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.

2. 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.

3. 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(i) 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.

(ii) Notes, accounts and other receivables

The Group's finance department has established a credit policy under which the Group only trades with companies with excellent credit ratings. 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.

(iii) 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.

(iv) Guarantees

The Group has established a credit policy under that the Group can only provide guarantees to 100%-held subsidiaries. As of December 31, 2015 and 2014, the Group did not provide any guarantee.

4. 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 manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group had unused bank facilities of \$1,401,727 and \$856,157 as of December 31, 2015 and 2014, respectively.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

5. 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.

(i) 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 and JPY.

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.

(ii) 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, 2015 and 2014, was 68% and 84%, 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, 2015 and 2014, were as follows:

1. The increase in property, plant and equipment and other non-current assets from the transfer of prepayment for equipment was \$51,472. Please refer to note 6(d).

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Please refer to note 6(m) for the retirement of restricted stock as of December 31, 2015 and 2014.

(7) Related-party Transactions

- (a) Parent company and ultimate controlling company

The Company is the ultimate controlling party of the Group and its subsidiaries.

- (b) Significant transactions with related parties

1. Sale of goods to related parties

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

	<u>Sales</u>		<u>Notes and accounts receivable</u>	
	<u>2015</u>	<u>2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Other related parties	\$ <u>276,751</u>	<u>335,917</u>	<u>95,503</u>	<u>93,202</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.

2. 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>2015</u>	<u>2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Other related parties	\$ <u>9,671</u>	<u>126,393</u>	<u>2,306</u>	<u>7,292</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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Property transactions and others

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

	<u>Purchases</u>		<u>Accounts payable - related party</u>	
	<u>2015</u>	<u>2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Other related parties	\$ <u>959</u>	<u>1,351</u>	<u>-</u>	<u>-</u>

(c) Key management personnel compensation

	<u>2015</u>	<u>2014</u>
Short-term employee benefits	\$ 102,154	32,969
Post-employment benefits	671	3,285
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	<u>2,207</u>	<u>623</u>
	\$ <u>105,032</u>	<u>36,877</u>

(8) Pledged Assets

As of December 31, 2015 and 2014, assets pledged as collateral were as follows:

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>Book value of pledged assets</u>	
		<u>December 31, 2015</u>	<u>December 31, 2014</u>
Fixed assets – land	Loan collateral	\$ 247,696	247,696
Fixed assets – buildings and construction	Loan collateral	<u>320,926</u>	<u>332,749</u>
		\$ <u>568,622</u>	<u>580,445</u>

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Commitments and Contingencies

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
\$	<u>106,698</u>	<u>52,278</u>

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

		<u>December 31, 2015</u>	<u>December 31, 2014</u>
Guarantee notes issued	USD	<u>543,910</u>	<u>560,205</u>
Guarantee notes issued	TWD	<u>931,652</u>	<u>865,684</u>

(10) Loss Due to Major Disasters: None

(11) Subsequent Events: None.

(12) Others

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

By item	2015			2014		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	295,511	251,109	546,620	218,849	155,599	374,448
Labor and health insurance	21,363	12,829	34,192	14,523	9,355	23,878
Pension	10,695	6,748	17,443	7,106	8,256	15,362
Others	20,954	10,871	31,825	20,172	7,970	28,142
Depreciation	113,473	13,443	126,916	84,215	8,956	93,171
Amortization	14,600	21,685	36,285	14,335	13,218	27,553

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) 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, 2015 and 2014 were the same as the Group's consolidated financial statements.

(b) Entity-wide information

1. Product and service information

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

Product	2015	2014
Active components for optical communication	\$ 3,608,599	2,294,441
Chips	90,330	54,224
Modules	451,274	612,776
Others	31,104	53,781
	<u>\$ 4,181,307</u>	<u>3,015,222</u>

2. 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:

Geographic Information	2015	2014
Revenues from external customers:		
Taiwan	\$ 155,255	489,621
China	3,604,655	2,011,202
Americas	390,439	475,308
Other	30,958	39,091
	<u>\$ 4,181,307</u>	<u>3,015,222</u>

(Continued)

PRIMAX ELECTRONICS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Non-current assets:		
Taiwan	\$ 1,317,809	1,106,691
China	<u>32,346</u>	<u>29,600</u>
	<u>\$ 1,350,155</u>	<u>1,136,291</u>

3. Major customer information

The information on major customers that accounted for more than 10% of revenue in the consolidated statements of comprehensive income in 2015 and 2014 is as follows:

		<u>2015</u>		<u>2014</u>	
		<u>Net sales</u>	<u>Percentage of net sales</u>	<u>Net sales</u>	<u>Percentage of net sales</u>
Company	CN-HK05	\$ 1,268,423	30	136,964	5
Company	CN-HK02	839,948	20	461,005	15
Company	CN-C052	498,112	12	134,233	4
Company	CN-C003	417,704	10	334,599	11
Company	CN-J022	324,455	8	395,729	13
Company	CN-C107	<u>276,993</u>	<u>7</u>	<u>335,918</u>	<u>11</u>
		<u>\$ 3,625,635</u>	<u>87</u>	<u>1,798,448</u>	<u>59</u>