Stock Code:4979

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)

Address: No. 6, Hejiang Road, Zhongli, Taoyuan
Telephone: (03)452-5188

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

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Representation Letter

The entities that are required to be included in the combined financial statements of LuxNet Corporation as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, LuxNet Corporation and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: LuxNet Corporation
Chairman: Hsing-Hsien Kung
Date: March 6, 2017

Independent Auditors' Report

To the Board of Directors of LuxNet Corporation:

Opinion

We have audited the consolidated financial statements of LuxNet Corporation and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

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

1. Impairment assessment of accounts receivable

   Please refer to note 4(g) for accounting policy, note 5 for accounting assumptions and estimation uncertainty, and notes 6(b) and (r) for details on accounts receivable.

Description of key audit matter:

Because the Group has transactions on a credit basis, accounts receivable may be exposed to credit risk from customers. As the economic situation changes, the default risk from customers may become higher, which could lead to impairment on accounts receivable. Besides, the impairment assessment of accounts receivable depends on the subjective judgment of the management. Therefore, it is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the provision policies for doubtful accounts receivable and assessing whether the policies are applied;

Assessing whether overdue accounts receivable or accounts receivable during litigation are set aside appropriately;

Assessing the reasonableness of the evaluation for accounts receivable based on sampling of Discuss subsequent cash collection.

2. Evaluation of inventories

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

3. Impairment assessment of non-financial assets

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

Description of key audit matter:

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

How the matter was addressed in our audit.

Our principal audit procedures included: evaluating the CGU, and external and internal impairment indications identified by the management, and ensuring all assets which needed annual impairment test are covered in the assessment made by the management; evaluating whether the method of measuring the recoverable amount of assets is reasonable, (including the realization on the financial forecast, the calculation of recoverable amount and the assumptions for the forecast of cash flow, as well as the sensitivity analysis for these important factors); and understanding whether any significant matters occured after the reporting date that may have an impact on the impairment test.

Other Matter

LuxNet Corporation has prepared its parent-company-only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unmodified opinion.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
March 6, 2017

Notes to Readers

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

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

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 539,171	16	612,901	16
1170	Notes and account receivable, net (note 6(b))	340,594	10	1,224,716	31
1180	Accounts receivable from related parties, net (notes 6(b) and 7)	66,603	2	95,503	2
130X	Inventories, net (note 6(c))	783,877	23	621,430	16
1410	Prepaid expenses	6,106	-	4,973	-
1470	Other current assets (note 6(b))	37,580	1	36,926	1
		1,773,931	52	2,596,449	66
	Non-current assets:				
1600	Property, plant and equipment (notes 6(d) & (u) and 8)	1,500,694	44	1,231,564	31
1780	Intangible assets	15,960	1	25,034	1
1900	Other non-current assets (notes 6(k) & (u))	93,103	3	99,448	2
		1,609,757	48	1,356,046	34
	Total assets	**$ 3,383,688**	**100**	**3,952,495**	**100**

	Liabilities and Equity	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current liabilities:				
2100	Short-term borrowings (notes 6(f))	$ 356,000	11	22,000	1
2170	Notes and accounts payable	252,391	7	767,042	19
2180	Accounts payable to related parties (note 7)	157	-	2,306	-
2200	Accrued expenses and other payables	96,155	3	377,438	10
2321	Bonds payable, current portion (note 6(h))	772,119	23	-	-
2300	Other current liabilities (note 6(h))	22,992	1	22,205	1
		1,499,814	45	1,190,991	31
	Non-Current liabilities:				
2530	Bonds payable (note 6(h))	-	-	758,124	19
2540	Long-term borrowings (notes 6(g) and 8)	250,000	7	-	-
2600	Other non-current liabilities (notes 6(e), (h), (j) & (k))	10,858	-	14,010	-
		260,858	7	772,134	19
	Total liabilities	1,760,672	52	1,963,125	50
	Equity attributable to owners of parent:				
3100	Ordinary shares (notes 6(l))	738,577	22	743,719	19
3200	Capital surplus (notes 6(h) & (l))	460,559	13	457,209	11
3300	Retained earnings (notes 6(l))	435,294	13	803,149	20
3400	Other equity interest (note 6(l))	(11,414)	-	(14,707)	-
	Total equity	1,623,016	48	1,989,370	50
	Total liabilities and equity	**$ 3,383,688**	**100**	**3,952,495**	**100**

See accompanying notes to consolidated financial statements.

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		2016		2015	
		Amount	%	Amount	%
4000	**Operating revenues (notes 6(o) and 7)**	$ 2,518,184	100	4,181,307	100
5000	**Operating costs (notes 6(c), (i), (j), (m) & (p), 7 and 12)**	2,233,848	89	3,156,749	75
	Gross profit	284,336	11	1,024,558	25
	Operating expenses (notes 6(b), (i), (j), (m) & (p), 7 and 12):				
6100	Selling expenses	40,473	1	55,774	2
6200	Administrative expenses	146,801	6	218,199	5
6300	Research and development expenses	165,173	7	132,352	3
		352,447	14	406,325	10
	Net operating income (loss)	(68,111)	(3)	618,233	15
	Non-operating income and expenses:				
7020	Other gains and losses, net (notes 6(e), (h) & (q), and (r))	(23,425)	(1)	49,916	1
7050	Finance costs (note 6(h))	(17,154)	(1)	(9,905)	-
7100	Interest revenue	654	-	338	-
		(39,925)	(2)	40,349	1
7900	**Profit (loss) before income tax**	(108,036)	(5)	658,582	16
7950	Less: income tax expenses (note 6(k))	6,748	-	116,241	3
	Profit (loss)	(114,784)	(5)	542,341	13
8300	**Other comprehensive income (loss):**				
8310	**Items that may not be reclassified subsequently to profit or loss:**				
8311	Acturial losses on defined benefit plans (note 6(j))	(1,248)	-	(88)	-
8349	Income tax expense related to items that may not be relassified subscquently to profit or loss	-	-	-	-
		(1,248)	-	(88)	-
8360	**Items that may be reclassified subsequently to profit or loss:**				
8361	Exchange differences on translation of foreign operations' financial statements	(3,997)	-	(472)	-
8399	Income tax expense related to items that may be reclassified subsequently to profit or loss (note 6(k))	679	-	80	-
		(3,318)	-	(392)	-
8300	**Other comprehensive loss, net (after tax)**	(4,566)	-	(480)	-
	Comprehensive income (loss)	**$ (119,350)**	**(5)**	**541,861**	**13**
	Earnings per share (note 6(n))				
9750	Basic earnings per share (NT dollars)	**$**	**(1.56)**		**7.36**
9850	Diluted earnings per share (NT dollars)	**$**	**(1.56)**		**7.24**

See accompanying notes to consolidated financial statements.

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Share capital		Retained earnings			Other equity interest			
	Ordinary shares	Capital surplus	Legal reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign operation's financial statements	Unearned employee compensation	Treasury shares	Total equity
Balance on January 1, 2015	$ 672,709	399,789	44,968	350,356	395,324	2,976	(6,809)	-	1,463,989
Profit for the year ended December 31, 2015	-	-	-	542,341	542,341	-	-	-	542,341
Other comprehensive loss for the year ended December 31, 2015	-	-	-	(88)	(88)	(392)	-	-	(480)
Comprehensive income for the year ended December 31, 2015	-	-	-	542,253	542,253	(392)	-	-	541,861
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	21,687	(21,687)	-	-	-	-	-
Cash and stock dividends on ordinary shares	67,247	-	-	(134,494)	(134,494)	-	-	-	(67,247)
Issuance and amortization of restricted stock	4,620	25,021	-	-	-	-	(11,927)	-	17,714
Retirement of restricted stock	(857)	(2,257)	-	66	66	-	1,445	-	(1,603)
Issurance of convertible bonds	-	34,656	-	-	-	-	-	-	34,656
Balance on December 31, 2015	743,719	457,209	66,655	736,494	803,149	2,584	(17,291)	-	1,989,370
Loss for the year ended December 31, 2016	-	-	-	(114,784)	(114,784)	-	-	-	(114,784)
Other comprehensive loss for the year ended December 31, 2016	-	-	-	(1,248)	(1,248)	(3,318)	-	-	(4,566)
Comprehensive loss for the year ended December 31, 2016	-	-	-	(116,032)	(116,032)	(3,318)	-	-	(119,350)
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	54,234	(54,234)	-	-	-	-	-
Cash dividends on ordinary share	-	-	-	(223,076)	(223,076)	-	-	-	(223,076)
Issuance and amortization of restricted stock	3,690	10,184	-	-	-	-	4,951	-	18,825
Retirement of restricted stocks	(232)	(2,080)	-	103	103	-	1,660	-	(549)
Acquisition of treasury shares	-	-	-	-	-	-	-	(42,204)	(42,204)
Retirement of treasury share	(8,600)	(4,754)	-	(28,850)	(28,850)	-	-	42,204	-
Balance on December 31, 2016	**$ 738,577**	**460,559**	**120,889**	**314,405**	**435,294**	**(734)**	**(10,680)**	**-**	**1,623,016**

See accompanying notes to consolidated financial statements.

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from (used in) operating activities:		
Profit (loss) before tax	$ (108,036)	658,582
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization expense	220,176	163,201
Provision for bad debt expense and losses related to inventories	89,711	64,173
Compensation cost of share-based payment	11,445	8,474
Net losses (profit) on financial liabilities at fair value through profit or loss	11,600	(1,408)
Losses on disposal of property, plan and equipment	106	-
Interest expense	17,154	9,905
Interest revenue	(654)	(338)
Other expenses	-	(15)
Total adjustments to reconcile profit	349,538	243,992
Changes in operating assets and liabilities:		
Decrease (increase) in notes and accounts receivable	907,961	(451,323)
Increase in inventories	(249,832)	(49,870)
Decrease in prepaid expenses and other current assets	30,799	11,339
Total changes in operating assets	688,928	(489,854)
Increase (decrease) in notes and accounts payable	(516,800)	206,375
Increase (decrease) in accrued expenses and other financial liabilities	(203,255)	141,780
Increase (decrease) in other operating liabilities	(14,325)	11,700
Total changes in operating liabilities	(734,380)	359,855
Total changes in operating assets and liabilities	(45,452)	(129,999)
Total adjustments	304,086	113,993
Cash inflow generated from operations	196,050	772,575
Interest received	653	338
Interest paid	(2,951)	(9,731)
Income taxes paid	(126,819)	(68,994)
Net cash flows from operating activities	66,933	694,188
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(288,188)	(273,376)
Proceeds from disposal of property, plant and equipment	60	-
Increase in prepayments for equipments	(158,963)	(55,290)
Acquisition of other non-current assets	(19,941)	(49,236)
Other investing activities	-	294
Net cash flows used in investing activities	(467,032)	(377,608)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	334,000	(360,240)
Increase (decrease) in long-term borrowings	250,000	(180,000)
Issurance of restricted stock	7,380	9,240
Cash dividends paid	(223,076)	(67,247)
Cost of acqusition of treasury shares	(42,204)	-
Issurance of convertible bonds	-	800,000
Other financing activities	(549)	(1,602)
Net cash flows from financing activities	325,551	200,151
Effect of exchange rate changes on cash and cash equivalents	818	96
Net increase (decrease) in cash and cash equivalents	(73,730)	516,827
Cash and cash equivalents at beginning of period	612,901	96,074
Cash and cash equivalents at end of period	**$ 539,171**	**612,901**

See accompanying notes to consolidated financial statements.

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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

(1) Company history

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

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

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

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

These consolidated financial statements were authorized for issuance by the board of directors on March 6, 2017.

(3) New standards, amendments and interpretations adopted:

(a) The Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016 by the FSC, public entities are required to conform to the IFRSs, which were issued by the International Accounting Standards Board (IASB) before January 1, 2016 and were endorsed by the FSC on January 1, 2017, in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Group assessed that the initial application of the above IFRSs would not have any material impact on its consolidated financial statements.

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. is listed below. As of the date the Group’s financial statements were issued, except for IFRS 9 and IFRS 15, which should be applied starting January 1, 2018, the FSC has yet to announce the effective dates of the other IFRSs.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts" (Applicable for IFRS 9 "Financial Instruments" and IFRS 4 "Insurance Contracts")	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 Investment Property	January 1, 2018

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The Group is still currently determining the potential impact of the standards listed below:

Issuance / Release Dates	**Standards or Interpretations**	**Content of amendment**
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The new standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.

(Continued)

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

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

1) Financial instruments at fair value through profit or loss (including derivative financial instruments) are measured at fair value; and

2) The net defined benefit liabilities (or assets) are recognized as plan assets, less, the present value of the defined benefit obligation and the effect of asset ceiling described in (note 4(o)).

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

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

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

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

(ii) List of subsidiaries in the consolidated financial statements

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

			Percentage of shareholding	
Name of investor	**Name of subsidiary**	**Principal activities**	**December 31, 2016**	**December 31, 2015**
The Company	Toplight Corporation (Toplight)	Holding company	100%	100%
Toplight	Toptrans Corporation Limited (Toptrans)	Holding company	100%	100%
Toptrans	Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou)	Electronic components manufacturing	100%	100%

(Continued)

(d) Foreign currencies

(i) Foreign currency transactions

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

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

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

1) available-for-sale equity investment;

2) financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

3) qualifying cash flow hedge to the extent the hedge is effective.

(ii) Foreign operations

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

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

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

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

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

(i) It expects to realize the asset or intends to sell or consume it in its normal operating cycle;

(ii) It holds the asset primarily for the purpose of trading;

(iii) It expects to realize the asset within twelve months after the reporting period; or

(iv) The asset is cash or a cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period, or there are other restrictions.

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

(i) It expects to settle the liability in its normal operating cycle;

(ii) It holds the liability primarily for the purpose of trading;

(iii) The liability is due to be settled within twelve months after the reporting period; or

(iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(f) Cash and cash equivalents

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

(g) Financial instruments

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

(Continued)

(i) Financial assets

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

1) Available-for sale financial assets

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

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

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in other income under non-operating income and expenses.

2) Loans and receivables

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

3) Impairment of financial assets

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

(Continued)

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.

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

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

(Continued)

4) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses on available-for-sale financial assets is recognized in profit or loss, and it is included in non-operating income and expenses.

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

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

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

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

(Continued)

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.

2) Financial liabilities at fair value through profit or loss

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

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or liabilities or recognizing the gains and losses on them on a different basis;

b) Performance of the financial liabilities is evaluated on a fair value basis;

c) A hybrid instrument contains one or more embedded derivatives.

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

3) Other financial liabilities

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

4) Derecognition of financial liabilities

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

5) Offsetting of financial assets and liabilities

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

(Continued)

(iii) Derivative financial instruments

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

(h) Inventories

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

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

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(Continued)

(iii) Depreciation

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

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:

1) Buildings: 10~50 years

2) Machinery: 3 ~10 years

3) Leasehold improvements: 10 years

4) Other equipment: 3 ~ 5 years

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

(j) Lease

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

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

(k) Intangible assets

(i) Research & development

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

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

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

2) The intention to complete the intangible asset and use or sell it.

3) The ability to use or sell the intangible asset.

4) The intangible asset will generate probable future economic benefits.

5) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.

6) The ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

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

1) Patents 3 years

2) Computer software 3~5 years

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

(l) Impairment – non-financial assets

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

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

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

(m) Treasury shares

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

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

(n) Revenue

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

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

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

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

(iii) Short-term employee benefits

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(p) Share-based payment

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

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

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

(q) Income taxes

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

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

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

(i) Assets and liabilities that are initially recognized but are not related to a business combination and have no effect on net income or taxable gains (losses) at the time of the transaction.

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

(iii) Initial recognition of goodwill.

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

(Continued)

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

(i) The entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) The taxing of deferred tax assets and liabilities fulfills one of the scenarios below:

1) Levied by the same taxing authority; or

2) Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

(r) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary stockholders of the Company. The basic earnings per share are calculated as the profit attributable to the ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding. The diluted earnings per share are calculated as the profit attributable to ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee restricted stock, convertible bonds, and employee bonuses not yet resolved by the stockholders.

(s) Operating segments

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

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

The preparation of the consolidated financial statements in conformity with the regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

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

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

(a) Impairment of accounts receivable

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment loss is determined based on the defult record in the past, current financial status and aging analysis, and is measured by the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.When the actual future cash flows are less than expected, it may reasult in a material impairment loss. Please refer to note 6(b) for further description of the impairment of accounts receivable.

(b) Valuation of inventories

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

(c) Impairment of property, plant and equipment

In the process of evaluating the potential impairment of tangible assets, the Group is required to make subjective judgments in determining the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups by considering the nature of the industry. Any changes in these estimates based on the changes in economic conditions or business strategies could result in significant impairment charges or reversal in future years.

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

(Continued)

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

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

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

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

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

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	$ 376	813
Demand deposits	523,696	612,088
Time deposits	15,099	-
Cash and cash equivalents in consolidated statements of cash flows	**$ 539,171**	**612,901**

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, 2016	December 31, 2015
Notes receivable	$ -	147
Accounts receivable	413,648	1,322,036
Other receivables	128	29
Less: allowance for doubtful accounts	(6,451)	(1,964)
	$ 407,325	**1,320,248**

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

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

	2016	2015
Balance on January 1	$ 1,964	419
Recognition of impairment loss	4,489	1,545
Exchange differences on translation of foreign currency	(2)	-
Balance on December 31	**$ 6,451**	**1,964**

(c) Inventories

	December 31, 2016	December 31, 2015
Raw materials	$ 295,856	200,921
Work in process	260,837	270,931
Finished goods	227,184	149,578
	$ 783,877	**621,430**

As of December 31, 2016 and 2015, the Group recognized the following items as cost of goods sold:

	2016	2015
Losses on inventory valuation and obsolete inventories	$ 85,222	62,628
Others	17,018	(5,811)
	$ 102,240	**56,817**

For the years ended December 31, 2016 and 2015, the Group did not provide any of the aforementioned inventory as collateral.

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(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, 2016 and 2015 were as follows:

	Land	Buildings and construction	Machinery and equipment	Office and other equipment	Total
Cost or deemed cost:					
Balance on January 1,2016	$ 247,696	353,346	1,004,875	31,954	1,637,871
Additions	-	6,194	279,993	2,001	288,188
Reclassifications	-	-	156,700	-	156,700
Disposals	-	-	(40,487)	(537)	(41,024)
Effect of movements in exchange rates	-	-	(2,766)	(2,163)	(4,929)
Balance on December 31, 2016	$ 247,696	359,540	1,398,315	31,255	2,036,806
Balance on January 1, 2015	$ 247,696	353,346	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	$ 247,696	353,346	1,004,875	31,954	1,637,871
Depreciation:					
Balance on January 1, 2016	$ -	32,420	356,594	17,293	406,307
Depreciation	-	12,974	154,947	5,774	173,695
Disposals	-	-	(40,357)	(504)	(40,861)
Effect of movements in exchange rates	-	-	(1,586)	(1,443)	(3,029)
Balance on December 31, 2016	$ -	45,394	469,598	21,120	536,112
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	$ -	32,420	356,594	17,293	406,307
Carrying amounts:					
Balance on December 31, 2016	$ 247,696	314,146	928,717	10,135	1,500,694
Balance on December 31, 2015	$ 247,696	320,926	648,281	14,661	1,231,564
Balance on January 1, 2015	$ 247,696	332,749	442,142	13,027	1,035,614

(Continued)

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As of December 31, 2016 and 2015, property, plant and equipment of the Group had been pledged as collateral for long-term borrowings and credit lines; please refer to note 8.

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

	December 31, 2016	December 31, 2015
Redemption of bonds payable at the option of the Company and the bondholders (recognized as other non-current liabilities) (note 6(h))	$ 14,400	2,800

For the years ended December 31, 2016 and 2015, gain or loss on valuation of financial liabilities due to change in fair value was loss of $11,600 and gain of $1,408, respectively, and was recognized in other gains and losses for the period. Please refer to note 6(r).

(f) Short-term borrowings

The details were as follows:

	December 31, 2016	December 31, 2015
Unsecured bank loans	$ 356,000	22,000
Unused credit lines	$ 1,108,132	931,727
Annual interest rates	0.9%~1.373%	1.08%~1.61%

The group didn't have asset pledged as collateral.

(g) Long-term borrowings

The details were as follows:

	December 31, 2016			
	Currency	Annual interest rate	Maturity year	Amount
Secured bank loans	TWD	1.2%	2018	$ 150,000
Unsecured bank loans	〃	1.36%	〃	100,000
Less: current portion				-
Total				$ 250,000
Unused credit lines				$ 220,000

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

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	December 31, 2015			
	Currency	**Annual interest rate**	**Maturity year**	**Amount**
Secured bank loans	–	-		$ -
Unsecured bank loans	–	-		-
Less: current portion				-
Total				$ -
Unused credit lines				$ 470,000

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

(ii) 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 its first application. 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.

(iii) 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 its first application. The principal is to be repaid on the expiration date. The Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 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.

(Continued)

(iv) The Company signed a long-term loan contract with Fubon Bank in June 2016, with the credit line of $100,000. The contract period expires two years after the contract date. The principal is to be repaid on the expiration date. The Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 100%; (2) a debt ratio not exceeding 125% (3) an interest coverage ratio of not less than 1000%; and (4) tangible stockholders' equity of not less than $1,000,000. If the Company violates the financial covenants, the bank has the right to add 0.25% to the interest rate from the next interest calculation date. If the Company violates the financial covenants twice, the bank has the right to adjust the credit line. According to the contract, the Company should transfer its business transaction cash flow from specific customers to its Fubon Bank account quarterly, and the cash flow must be at least USD$3,000.

(v) 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 its first application. The principal is to be repaid on the expiration date. The Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 110%; (2) stockholders' equity of not less than $1,200,000; and (3) a self-owned capital ratio of not less than 45%. If the Company violates the financial covenants, 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.

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

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(h) Convertible bonds payable

	December 31, 2016	December 31, 2015
Aggregate principal amount	$ 800,000	800,000
Unamortized discount	(27,881)	(41,876)
Accumulated converted amount	-	-
Ending balance of bonds payable	772,119	758,124
Less: Bonds payable – current	(772,119)	-
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)	$ (14,400)	(2,800)
Equity component (recorded as capital surplus – stock option)	$ 34,656	34,656

	2016	2015
Embedded derivative component – revaluation loss on redemption at the option of the Company/bond holders (recorded as other gains and losses)	$ 11,600	320
Interest expense (recorded as finance cost)	$ 13,995	379

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

	1st domestic unsecured convertible bonds
Offering amount	NT$800,000 thousand
Issue date	December 22, 2015
Issuance price	At par value
Face interest rate	0%
Issue period	December 22, 2015, to December 22, 2018
Redemption at the option of the Company	The Group may redeem the bonds within 5 trading days after the bonds' recovery reference date with cash at a 1.5% yield rate at any time from January 22, 2016, to November 12, 2018, if the closing price of the common shares on the TPEx on each trading day during a period of 30 consecutive trading days exceeds 30% of the conversion price or if the amount of unconvertible bonds is less than 10% of the offering amount.
Redemption at the option of the Holder	Each Holder has the right to require the Group to redeem the Holder's bonds on December 22, 2017, at a redemption price equal to the principal amount of the bonds with a yield-to-maturity of 0.5% per annum. (note 2)

(Continued)

	1st domestic unsecured convertible bonds
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, 2016 (note 1)	NT74.7

note 1: The conversion price will be subject to adjustment in accordance with the conversion formula when the Group increases its capital or upon the occurrence of certain events involving the convertible bonds payable.

note 2: Due to the conditions listed above, the Group reclassified its long-term bonds to current portion. The bond holders have the optional rights to require the Group to redeem the bonds.

(i) Operating lease

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2016	**December 31, 2015**
Less than one year	$ 6,497	13,044
Between two and five years	19,593	1,267
	$ 26,090	14,311

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

For the years ended December 31, 2016 and 2015, the Group recognized operating lease expenses of $20,364 and $7,061, respectively, as income and expenses. There is no contingent rent in any of the operating lease contracts.

(j) Employee benefits

(i) Defined benefit plans

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

	December 31, 2016	**December 31, 2015**
Present value of defined benefit obligations	$ 12,194	10,770
Fair value of plan assets	3,581	2,161
Net defined benefit liability	$ 8,613	8,609

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

1) Composition of plan assets

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

The Group's Bank of Taiwan labor pension reserve account balance amounted to $3,581 at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations for the Group for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Defined benefit obligation at January 1	$ 10,770	10,461
Current service costs and interest	201	208
Remeasurement of net defined liability	1,223	101
Defined benefit obligation at December 31	**$ 12,194**	**10,770**

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

The movements in the fair value of the defined benefit plan assets for the Group for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Fair value of plan assets at January 1	$ 2,161	1,753
Contributions paid by the employer	1,400	360
Interest income	45	35
Remeasurement of net defined liability	(25)	13
Fair value of plan assets at December 31	**$ 3,581**	**2,161**

(Continued)

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group for the years ended December 31, 2016 and 2015, were as follows:

		2016	2015
Net interest of net liabilities for defined benefit	$	156	173
Administrative expenses	$	156	173

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

As of December 31, 2016 and 2015, the Group's re-measurement of the net defined benefit liabilities (asset) recognized in other comprehensive income were as follows:

		2016	2015
Accumulated amount at January 1	$	(88)	-
Recognized during the period		(1,248)	(88)
Accumulated amount at December 31	$	(1,336)	(88)

6) Actuarial assumptions

The following are the Group's principal actuarial assumptions:

	December 31, 2016	December 31, 2015
Discount rate	1.375%	1.875%
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 $960. The weighted-average lifetime of the defined benefit plans is 18.47 years.

7) Sensitivity analysis

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

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

	Influence of defined benefit obligations	
December 31, 2015:	**Increased 0.25%**	**Decreased 0.25%**
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 2016 and 2015.

(ii) Defined contribution plans

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

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

The Group recognized pension costs under the defined contribution method amounting to $18,904 and $17,270 for the years ended December 31, 2016 and 2015, respectively.

(k) Income taxes

(i) The amounts of income tax expenses for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Current tax expense	$ 13,779	118,942
Adjustment for prior periods	2,216	123
	15,995	119,065
Deferred tax benefit	(9,247)	(2,824)
Income tax expense	**$ 6,748**	**116,241**

(ii) For the years ended December 31, 2016 and 2015, there was no income tax recognized in equity.

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

	2016	2015
Exchange differences on translation of foreign operations' financial statements	$ (679)	(80)

(iv) Reconciliation of income tax and profit (loss) before tax for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Profit (loss) excluding income tax	$ (108,036)	658,582
Income tax using the Company's domestic tax rate	(27,643)	111,996
Effect of tax rates in foreign jurisdictions	1,728	17
Non-deductible expenses	7,352	119
Recognition of previously unrecognized tax losses	2,619	-
Change in unrecognized temporary differences	6,830	821
Investment tax credits	-	(2,905)
Adjustment for prior year's tax expense	2,216	123
Undistributed earnings additional tax at 10%	13,779	6,069
Others	(133)	1
	$ 6,748	116,241

(v) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

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

	December 31, 2016	December 31, 2015
Share of income of subsidiaries accounted for using equity method	$ 13,920	10,826
Loss on inventory valuation and obsolete inventories	3,655	1,768
Impairment loss	502	502
Unfunded pension fund contribution	255	467
	$ 18,332	13,563

(Continued)

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Unused prior-year tax loss carryforwards of the Company's foreign subsidiary were $43,909. According to the effective local tax rate, the maximum deductible tax amount was $10,977.

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2016 and 2015 were as follows:

	Unrealized foreign exchange gains and losses	Excess allowance for doubtful account	Share of other comprehensive income of subsidiaries accounted for using equity method	Total
Deferred tax liabilities:				
Balance on January 1, 2016	$ 1,735	36	832	2,603
Recognized in profit or loss	(173)	(36)	-	(209)
Recognized in other comprehensive income	-	-	(679)	(679)
Balance on December 31, 2016	**$ 1,562**	**-**	**153**	**1,715**
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	**$ 1,735**	**36**	**832**	**2,603**

	Loss on inventory valuation and obsolete inventories	Excess allowance for doubtful account	The carryforward of unused tax losses	Others	Total
Deferred tax assets:					
Balance on January 1, 2016	$ (5,305)	-	-	(586)	(5,891)
Recognized in profit or loss	(5,662)	(374)	(3,378)	376	(9,038)
Balance on December 31, 2016	**$ (10,967)**	**(374)**	**(3,378)**	**(210)**	**(14,929)**
Balance on January 1, 2015	(2,700)	-	-	(883)	(3,583)
Recognized in profit or loss	(2,605)	-	-	297	(2,308)
Balance on December 31, 2015	**$ (5,305)**	**-**	**-**	**(586)**	**(5,891)**

(Continued)

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Notes to Consolidated Financial Statements

As of December 31, 2016, the company recongnized the tax losses of deferred tax assets, and the expiry date is as following:

Year of loss	Expiry date	Unused balance	Unused tax losses carry forward
2016 (estimated)	2116	$ 19,871	3,378

(vi) The Company's income tax returns have been examined by the tax authority through the years up to 2014.

(vii) Information related to the unappropriated earnings and tax deduction ratio is summarized below:

	December 31, 2016	December 31, 2015
Unappropriated earnings in 1998 and after	$ 314,405	736,494
Balance of imputation credit account	$ 117,165	73,796

	2016(estimated)	2015(actual)
Creditable ratio for earnings distribution to ROC residents stockholders	33.87%	22.51%

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

(l) Capital and other equity

As of December 31, 2016 and 2015, 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 $738,577 and $743,719, respectively.

Reconciliation of shares outstanding for the years ended December 31, 2016 and 2015 was as follows:

(thousand shares)	2016	2015
Balance on January 1	74,372	67,271
Stock dividends	-	6,725
Issued for restricted stock (note 6(m))	369	462
Retirement of restricted stock	(23)	(86)
Retirement of treasury shares	(860)	-
Balance on December 31	73,858	74,372

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(i) Common stock

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

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

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 meetings held on January 29 and June 10, 2015, the number of shares was reduced by 24 and 62 thousand shares, respectively, 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.

(ii) Capital surplus

The balances of capital surplus as of December 31, 2016 and 2015, were as follows:

	December 31, 2016	December 31, 2015
Additional paid-in capital	$ 403,478	393,166
Employee stock options	1,456	1,456
Conversion options of convertible bonds	34,656	34,656
Restricted employee stock options	20,969	27,931
	$ 460,559	**457,209**

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

(Continued)

(iii) Retained earnings

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

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

1) Legal reserve

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

2) Special reserve

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

3) Earnings distribution

Earnings distribution for 2015 and 2014 approved in the stockholders' meetings on May 25, 2016, and May 27, 2015, respectively, was as follows:

	2015		2014	
	Amount per share (dollars)	**Total amount**	**Amount per share (dollars)**	**Total amount**
Cash	3.0	$ 223,076	1.0	67,247
Stock	-	-	1.0	67,247
Total		$ 223,076		134,494

4) Treasury shares

In 2016, the Company repurchased 860 thousand shares as treasury shares in order to protect the Company's integrity and stockholders' equity in accordance with the requirements under section 28(2) of the Securities and Exchange Act. As of December 31, 2016, a total of 860 thousand shares were retired. There were no such issues in 2015.

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

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

(m) Share-based payment

(i) Based on the resolution approved in the meeting of stockholders held on May 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.

(ii) Based on the resolution approved in the meeting of stockholders held on May 25, 2016, the Company issued 613 thousand new shares of restricted stock. Only employees meeting specific conditions were granted the restricted stock. The Company has received approval from the Securities and Futures Bureau.

(iii) Based on the resolution approved in the board meetings held on June 10, 2015, July 22, 2015 and September 2, 2016, the Company distributed 89, 373 and 413 thousand shares, respectively, of restricted stock.

(iv) As of December 31, 2016, the outstanding restricted stock of the Company was as follows:

	Plan 4	**Plan 3**	**Plan 2**
Grant date	September 21, 2016	August 31, 2015	June 15, 2015
Fair value on grant date (per share)	37.60	59.90	82
Exercise price	20	20	20
Granted units (thousand shares)	369	373	89
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.

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

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

(thousand shares)	**2016**	**2015**
Outstanding at January 1	534	318
Granted during the year	369	462
Vested during the year	(294)	(188)
Expired during the year	(42)	(58)
Outstanding at December 31	**567**	**534**

Compensation cost attributable to share-based payment for the years ended December 31, 2016 and 2015 was $11,445 and $8,474, respectively.

(n) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share at December 31, 2016 and 2015, was based on the profit (loss) attributable to ordinary stockholders of the Company and the weighted-average number of common shares outstanding, calculated as follows:

	2016	**2015**
Profit (loss) attributable to common stockholders	**$ (114,784)**	**542,341**

Weighted-average number of common shares

(thousand shares)	**2016**	**2015**
Ordinary shares at January 1	73,838	66,930
Effect of stock dividends	-	6,725
Effect of treasury shares	(481)	-
Effect of restricted stock	128	50
Ordinary shares at December 31	**73,485**	**73,705**

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the year ended December 31, 2015, 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:

	2015
Profit attributable to ordinary stockholders (diluted)	$ 542,341

(thousand shares)	**2015**
Weighted-average number of ordinary shares (basic)	73,705
Effect of employee stock bonuses	911
Effect of restricted stock	283
Weighted-average number of ordinary shares (diluted)	74,899

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

(o) Operating revenue

The operating revenue in the years ended December 31, 2016 and 2015, was as follows:

	2016	**2015**
Goods sold	$ 2,518,184	4,181,307

(p) Remuneration to employees, directors and supervisors

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

The Company did not estimate any remuneration to employees, and directors and supervisors due to its loss in 2016. For the year ended December 31, 2015, the Company estimated its employee remuneration amounted to $61,430, and directors’ and supervisors’ remuneration amounted to $20,397. These amounts were calculated based on the Company’s income before income taxes, excluding remuneration to employees, directors and supervisors, using the earnings allocation method as stated under the Company’s articles. These remunerations were expensed under operating costs or operating expenses during this period. The amounts, as stated in the consolidated financial statements, are identical with those of the actual distributions for 2016 and 2015. Related information would be available at the Market Observation Post System website.

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(q) Non-operating income and expenses

Other gains and losses in the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Foreign currency exchange gains (losses)	$ (15,299)	46,084
Net gains (losses) on financial assets/liabilities measured at fair value through profit or loss	(11,600)	1,408
Other	3,474	2,424
	$ (23,425)	49,916

(r) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration of credit risk

Sales to individual customers constituting over 10% of total revenue for the years ended December 31, 2016 and 2015, totaled 69% and 72%, respectively. As of December 31, 2016 and 2015, 45% and 76%, 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.

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

	December 31, 2016	December 31, 2015
Past due 1-120 days	$ 3,299	95,234
Past due 121-365 days	3,107	3,376
	$ 6,406	98,610

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.

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(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 1 year	1~2 years	2~5 years
December 31, 2016					
Non-derivative financial liabilities:					
Short-term borrowings	$ 356,000	356,570	356,570	-	-
Bonds payable	772,119	800,000	800,000	-	-
Notes and accounts payable (including related parties)	252,548	252,548	252,548	-	-
Accrued expenses and other payables	29,570	29,570	29,570	-	-
Long-term borrowings	250,000	252,359	-	252,359	-
	$ 1,660,237	1,691,047	1,438,688	252,359	-
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	34,922	34,922	34,922	-	-
	$ 1,584,394	1,626,289	826,289	-	800,000

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

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(iii) Currency risk

1) Exposure to foreign currency risk

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

	December 31, 2016			December 31, 2015		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD:TWD	$ 28,309	32.250	912,965	52,849	32.825	1,734,768
Financial liabilities						
Monetary items						
USD:TWD	6,448	32.250	207,948	17,025	32.825	558,846
JPY:TWD	162	0.276	45	6,231	0.273	1,701

2) Sensitivity analysis

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

A strengthening (weakening) of 5% of the TWD against the USD and the JPY as of December 31, 2016 and 2015, would have increased or decreased the net loss after tax and decresaed or increased the net profit after tax by $29,256 and $48,730 , respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain or loss on monetary items

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

	2015		2015	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
TWD	$ (12,091)	1.000	51,552	1.000
CNY	(3,208)	4.849	(5,468)	5.028
	$ (15,299)		46,084	

(iv) Interest rate analysis

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

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

If the interest rate had increased or decreased by 25 basis points, the net loss after tax would have increased or decreased by the amount of $171 and the net profit after tax would decreased or increased by the amount of $1,224 for the years ended December 31, 2016 and 2015 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.

(v) Fair value

1) 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.

	December 31, 2016				
		Fair Value			
	Book value	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans and receivables					
Cash and cash equivalents	$ 539,171				
Notes and accounts receivable (including related parties)	407,197				
Other receivables	128				
Total	$ 946,496				
Financial liabilities at amortized cost through profit or loss					
Borrowings	$ 606,000				
Notes and accounts payable (including related parties)	252,548				
Convertible bonds	772,119	-	796,000	-	796,000
Other financial liabilities	96,155				
Total	$ 1,726,822				
Financial liabilities at fair value through profit or loss – current	$ 14,400	-	-	14,400	14,400

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	December 31, 2015				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Loans and receivables					
Cash and cash equivalents	$ 612,901				
Notes and accounts receivable (including related parties)	1,320,219				
Other receivables	29				
Total	$ 1,933,149				
Financial liabilities at amortized cost through profit or loss					
Borrowings	$ 22,000				
Notes and accounts payable (including related parties)	769,348				
Convertible bonds	758,124	-	853,971	-	853,971
Other financial liabilities	377,438				
Total	$ 1,926,910				
Financial liabilities at fair value through profit or loss – non-current	**$ 2,800**	**-**	**-**	**2,800**	**2,800**

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

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

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

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

4) Changes in Level 3

	Forward contract	Convertible bonds	Total
Balance on January 1, 2016	$ -	(2,800)	(2,800)
Recognized in profit or loss	-	(11,600)	(11,600)
Acquisition / disposal / pay-off	-	-	-
Balance on December 31, 2016	**$ -**	**(14,400)**	**(14,400)**
Balance on January 1, 2015	$ (2,981)	-	(2,981)
Recognized in profit or loss	1,728	(320)	1,408
Acquisition / disposal / pay-off	1,253	(2,480)	(1,227)
Balance on December 31, 2015	**$ -**	**(2,800)**	**(2,800)**

(Continued)

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, 2016 and 2015, were as follows:

	2016	2015
Total gains and losses (recognized in "other gains and losses")	$ (11,600)	(320)

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

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

6) In the years ended December 31, 2016 and 2015, there were no transfers between levels.

(s) Financial risk management

(i) Overview

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

1) Credit risk

2) Liquidity risk

3) Market risk

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

(ii) Structure of risk management

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

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

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

(iii) Credit risk

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

1) Cash and cash equivalents

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

2) Notes, accounts and other receivables

The Group only do business transaction 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.

3) Derivative instruments

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

4) Guarantees

The Group has established a credit policy under that the Group can only provide guarantees to 100%-held subsidiaries. As of December 31, 2016 and 2015, the Group did not provide any guarantee.

(iv) Liquidity risk

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

(Continued)

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 $1,328,132 and $1,401,727 as of December 31, 2016 and 2015, respectively.

(v) Market risk

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

1) Currency risk

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

2) Interest rate risk

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

(t) Capital management

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

The Group's debt-to-equity ratio as of December 31, 2016 and 2015, was 75% and 68%, 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, 2016 and 2015, were as follows:

(i) The increase in property, plant and equipment and other non-current assets from the transfer of prepayment for equipment was $156,862 and $51,472, respectively. Please refer to note 6(d).

(ii) Please refer to note 6(m) for further information on retirement of restricted stock.

(7) Related-party transactions:

(a) 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

(i) Sale of goods to related parties

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

	Sales		Notes and accounts receivable	
	2016	**2015**	**December 31, 2016**	**December 31, 2015**
Other related parties	$ 301,490	276,751	66,603	95,503

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

(ii) Purchases of goods from related parties

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

	Purchase of goods		Notes and accounts payable	
	2016	**2015**	**December 31, 2016**	**December 31, 2015**
Other related parties	$ 12,863	9,671	157	2,306

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

(iii) Property transactions and others

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

	Purchases		Accounts payable - related party	
	2016	**2015**	**December 31, 2016**	**December 31, 2015**
Other related parties	$ 407	959	-	-

(c) Key management personnel compensation

	2016	2015
Short-term employee benefits	$ 31,989	102,154
Post-employment benefits	855	671
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	2,642	2,207
	$ 35,486	105,032

(8) Pledged assets:

As of December 31, 2016 and 2015, assets pledged as collateral were as follows:

		Book value of pledged assets	
Pledged assets	**Pledged to secure**	**December 31, 2016**	**December 31, 2015**
Fixed assets – land	Loan and credit line collateral	$ 247,696	247,696
Fixed assets – buildings and construction	Loan and credit line collateral	314,146	320,926
		$ 561,842	568,622

(9) Commitments and contingencies:

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

	December 31, 2016	December 31, 2015
Unused letters of credit for purchasing machinery and equipment	$ 32,992	106,698

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

		December 31, 2016	December 31, 2015
Guarantee notes issued	USD	$ 24,500	543,910
Guarantee notes issued	TWD	$ 1,131,652	931,652

(10) Losses Due to Major Disasters:None.

(11) Subsequent Events:None.

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(12) Other:

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

By function / By item	2016 Operating cost	2016 Operating expenses	2016 Total	2015 Operating cost	2015 Operating expenses	2015 Total
Employee benefit expenses						
Salaries	243,605	150,833	394,438	295,511	251,109	546,620
Labor and health insurance	23,234	9,819	33,053	21,363	12,829	34,192
Pension	12,378	6,682	19,060	10,695	6,748	17,443
Others	22,473	12,640	35,113	20,954	10,871	31,825
Depreciation	153,235	20,460	173,695	113,473	13,443	126,916
Amortization	20,324	26,157	46,481	14,600	21,685	36,285

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

(i) Loans to other parties:None.

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

(iii) Securities held as of December 31, 2016 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance: Shares/Units (thousands)	Ending balance: Carrying value	Ending balance: Percentage of ownership (%)	Ending balance: Fair value	Highest balance during the year: Share/Units (thousands)	Highest balance during the year: Percentage of ownership (%)	Note
The Company	BANDWIDTH10, INC.	Investee at cost	Financial assets at cost - noncurrent	220	-	6.46%	(Note)	220	6.46%	

Note: Unlisted Company.

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

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

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

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

(In Thousands of New Taiwan Dollars)

			Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		
Name of company	Related party	Nature of relationship	Purchase /Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	Note
The Company	Toptrans (Suzhou) Corporation Limited	Grandson company of The company	Purchase	131,873	9.09%	Open Account 30 Days	No significant differences	No significant differences	10,572	2.50%	(Note)
The Company	InnoLight Technology (Suzhou) Corporation Limited	Other related parties	(Sales)	(295,290)	11.87%	Open Account 90 Days	No significant differences	No significant differences	66,101	15.62%	

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

(viii) Receivables from related parties with amounts exceeding the lower of TWD$100 million or 20% of the capital stock:None.

(ix) Trading in derivative instruments:None.

(x) Business relationships and significant intercompany transactions:

			Nature of	Intercompany transactions			
No.	Name of company	Name of counter-party	relationship	Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Toptrans (Suzhou) Corporation Limited	Transactions between parent company and subsidiary	Operating costs	144,516	Open account 30 days	5.74%
0	The Company	Toptrans (Suzhou) Corporation Limited	Transactions between parent company and subsidiary	Accounts receivable	10,572 (Note 2)	Open account 150 days, or be offset by Accounts payable and can be extended	0.31%

Note1: 1.“0” represents the parent company.
Note2: These amounts derived from the sales of the Company. However, the Company did not recognize any sales since the risks and rewards of transactions were not transferred substantially. However, the accounts receivable were not reversed.
Note3: Only disclose transactions amounts exceeding $10,000.
Note4: The inter-company transactions were eliminated in the preparation of the consolidated financial statements.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES

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(b) Information on investees:

The following is the information on investees for the year ended December 31, 2016 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main and Businesses products	Original investment amount		Ending balance			Investee recognize as of December 31, 2016		Highest balance during the year		Note
				December 31, 2016	December 31, 2015	Shares (thousands)	Percentage of ownership (%)	Carrying value	Net income (losses)	Investment income (losses)	Shares (thousands)	Percentage of ownership	
The Company	Toplight Corporation Limited	Brunei	Holding company			4,000	100%	42,132	(18,190)	(18,190)	4,000	100%	(Note)
Toplight Corporation Limited	Toptrans Corporation Limited	Hong Kong	Holding company			4,000	100%	42,132	(18,190)	(18,190)	4,000	100%	(Note)

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

(c) Information on investment in mainland China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2016	Percentage of ownership	Net income (losses) of the Investment income (loss)	Book value	Accumulated remittance of earnings in current period	Highest balance during the year	
					Outflow	Inflow						investment	percentage of ownership
Toptrans (Suzhou) Corporation Limited	Electronic components manufacturing	122,980 (USD 4,000)	(note 1)	122,980 (USD 4,000)	-	-	122,980 (USD 4,000)	100%	(18,190)	42,132	-	122,980	100%

Note1: The company indirectly invested Toptrans (Suzhou) by Toplight Corporation and Toptrans Corporations Limited.
Note2: The long-term equity investments were eliminated in the preparation of the consolidated financial statements.

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
122,980 (USD4,000)	123,743 (USD4,000)	973,810

Note: The TWD amount was measured on 12.31.2016 with the spot exchange rate of 32.25, except for the investment income (which are measured by using the average exchange rate for the year 2016) and outflow of investment (which was measured by using the exchange rate on outflow date).

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

(iii) Significant transactions:

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

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Notes to Consolidated Financial Statements

(14) Segment information:

(a) General information

The Group's revenues are mainly from active components for optical communication. The chief operating decision maker (CODM) of the Group used overall operating results as the basis for evaluating performance and considered the Group a single segment. The segment information for the years ended December 31, 2016 and 2015 were the same as the Group's consolidated financial statements.

(b) Entity-wide information

(i) Product and service information

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

Product		2016	2015
Active components for optical communication	$	2,222,765	3,608,599
Chips		89,941	90,330
Modules		189,334	451,274
Others		16,144	31,104
	$	2,518,184	4,181,307

(ii) Geographic information

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

Geographic Information		2016	2015
Revenues from external customers:			
Taiwan	$	305,115	155,255
China		1,943,406	3,604,655
Americas		249,470	390,439
Other		20,193	30,958
	$	2,518,184	4,181,307

		December 3: 2016	December 3 2015
Non-current assets:			
Taiwan	$	1,567,807	1,317,809
China		27,022	32,346
	$	1,594,829	1,350,155

(Continued)

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(iii) Major customer information

The information on major customers that accounted for more than 10% of revenue in the consolidated statements of comprehensive income in 2016 and 2015 is as follows:

	2016		2015	
	Net sales	**Percentage of net sales**	**Net sales**	**Percentage of net sales**
Company CN-HK02	$ 580,376	23	839,948	20
Company CN-HK05	520,122	21	1,268,423	30
Company CN-C052	343,722	13	498,112	12
Company CN-C107	301,490	12	276,993	7
Company CN-C003	-	-	417,704	10
Company CN-J022	-	-	324,455	8
	$ 1,745,710	69	3,625,635	87