

**LUXNET CORPORATION  
AND SUBSIDIARIES**

**Consolidated Financial Statements  
September 30, 2016 and 2015  
(With Independent Auditors' Report Thereon)**



安侯建業聯合會計師事務所  
KPMG

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

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

## Independent Auditors' Report

The Board of Directors  
LuxNet Corporation:

We have reviewed the accompanying consolidated balance sheets of LuxNet Corporation and its subsidiaries as of September 30, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the three months and for the nine months ended September 30, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our reviews.

Except as described in the following paragraph, we conducted our reviews in accordance with Statement on Auditing Standards No. 36 "Engagements to Review Financial Statements". Those guidelines require that we plan and perform the review, consisting principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the auditing standards generally accepted in the Republic of China, with the objective of expressing an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Also included in the accompanying consolidated financial statements are the financial statements of subsidiaries, which were not reviewed by independent auditors. The total assets of these subsidiaries amounted to NT\$105,685 thousand and NT\$110,734 thousand, both constituting 3% of the total consolidated assets as of September 30, 2016 and 2015. The total liabilities amounted to NT\$32,192 thousand and NT\$61,159 thousand, constituting 2% and 4% of the total consolidated liabilities as of September 30, 2016 and 2015, respectively. The comprehensive income amounted to a profit (loss) of NT\$(5,751) thousand, NT\$374 thousand, NT\$(13,180) thousand and NT\$(26,784) thousand, constituting 5%, 0%, 30% and 7% of the total consolidated comprehensive income for the three months and for the nine months ended September 30, 2016 and 2015, respectively.



Based on our reviews, except for the effects of the adjustments, if any, that might have emerged had the financial statements of the said consolidated subsidiaries been reviewed by independent auditors, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements described in the first paragraph for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 “Interim Financial Reporting”, which was endorsed by the Financial Supervisory Commission.

A handwritten signature of the KPMG firm, written in black ink, appearing as 'KPMG' in a cursive, stylized font.

November 10, 2016

**Note to Readers**

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations, and consolidated cash flows in accordance with the Guidelines Governing the Preparation of Financial Report by Securities Issuers and IAS 34 Interim Financial Reporting as endorsed by the Financial Supervisory Commission in the Republic of China and not those of any other jurisdictions. The standards, procedures, and practices to review such financial statements are those generally accepted and applied in the Republic of China.

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

LUXNET CORPORATION AND SUBSIDIARIES

As of September 30, 2016 and 2015 reviewed only, not audited in accordance with generally accepted auditing standards

Consolidated Balance Sheets

September 30, 2016, and December 31 and September 30, 2015  
(expressed in thousands of New Taiwan dollars)

	September 30, 2016		December 31, 2015		September 30, 2015	
	Amount	%	Amount	%	Amount	%
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents (note 6(a))	\$ 573,836	16	612,901	16	464,739	13
Notes and accounts receivable, net (note 6(b))	468,407	13	1,224,716	31	1,079,444	31
Accounts receivable – related parties, net (notes 6(b) and 7)	84,504	2	95,503	2	95,160	3
Inventories, net (note 6(c))	816,284	23	621,430	16	520,730	15
Prepaid expenses	15,114	-	4,973	-	4,628	-
Other current assets (note 6(b))	27,950	1	36,926	1	25,132	1
	<u>1,986,095</u>	<u>55</u>	<u>2,596,449</u>	<u>66</u>	<u>2,199,833</u>	<u>63</u>
<b>Non-current assets:</b>						
Property, plant and equipment (notes 6(t) & (i) and 8)	1,450,547	41	1,231,564	31	1,183,585	34
Intangible assets	18,322	1	25,034	1	28,400	1
Other non-current assets (note 6(t))	122,609	3	99,448	2	83,408	2
	<u>1,591,478</u>	<u>45</u>	<u>1,356,046</u>	<u>34</u>	<u>1,295,393</u>	<u>37</u>
<b>Total assets</b>	<b>\$ 3,577,573</b>	<b>100</b>	<b>3,952,495</b>	<b>100</b>	<b>3,485,226</b>	<b>100</b>
<b>Liabilities and equity</b>						
<b>Current liabilities:</b>						
Short-term borrowings (notes 6(f) and 8)	\$ 694,000	19	22,000	1	22,000	1
Notes and accounts payable	295,684	8	767,042	19	767,042	19
Accounts payable – related parties (note 7)	305	-	2,306	-	2,306	-
Accrued expenses and other payables	88,211	2	377,438	10	309,547	9
Other current liabilities	13,198	1	22,205	1	30,625	1
	<u>1,091,398</u>	<u>30</u>	<u>1,190,991</u>	<u>31</u>	<u>1,389,768</u>	<u>40</u>
<b>Non-current liabilities:</b>						
Bonds payable (note 6(h))	768,609	21	758,124	19	-	-
Long-term borrowings (notes 6(g) and 8)	-	-	-	-	300,000	9
Other non-current liabilities (notes 6(e) & (h))	22,231	1	14,010	-	11,809	-
	<u>790,840</u>	<u>22</u>	<u>772,134</u>	<u>19</u>	<u>311,809</u>	<u>9</u>
<b>Total liabilities</b>	<b>1,882,238</b>	<b>52</b>	<b>1,963,125</b>	<b>50</b>	<b>1,701,577</b>	<b>49</b>
<b>Equity attributable to stockholders of parent:</b>						
Common stock (note 6(f))	738,577	21	743,719	19	743,719	21
Capital surplus (note 6(h))	461,415	13	457,209	11	422,553	12
Retained earnings (note 6(f))	510,100	14	803,149	20	634,196	18
Other equity	(14,757)	-	(14,707)	-	(16,819)	-
	<u>1,695,335</u>	<u>48</u>	<u>1,989,370</u>	<u>50</u>	<u>1,783,649</u>	<u>51</u>
<b>Total equity</b>	<b>3,577,573</b>	<b>100</b>	<b>3,952,495</b>	<b>100</b>	<b>3,485,226</b>	<b>100</b>
<b>Total liabilities and equity</b>	<b>\$ 3,577,573</b>	<b>100</b>	<b>3,952,495</b>	<b>100</b>	<b>3,485,226</b>	<b>100</b>

See accompanying notes to consolidated financial statements.

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

**LUXNET CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**

**For the three months and for the nine months ended September 30, 2016 and 2015**  
 (expressed in thousands of New Taiwan dollars, except earnings per share)

	For the three months ended September 30,				For the nine months ended September 30,			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Operating revenue (note 7)	\$ 478,394	100	979,837	100	2,119,747	100	3,002,832	100
Operating cost (notes 6(c), (j), (m) & (o), 7 and 12)	<u>498,350</u>	<u>104</u>	<u>701,065</u>	<u>72</u>	<u>1,818,119</u>	<u>86</u>	<u>2,298,991</u>	<u>77</u>
Gross profit (loss)	<u>(19,956)</u>	<u>(4)</u>	<u>278,772</u>	<u>28</u>	<u>301,628</u>	<u>14</u>	<u>703,841</u>	<u>23</u>
Operating expenses (notes 6(j), (m) & (o), 7 and 12):								
Selling expenses	8,559	2	11,825	1	31,736	1	35,246	1
Administrative expenses	29,035	6	64,766	7	112,101	5	156,474	5
Research and development expenses	<u>48,501</u>	<u>10</u>	<u>30,585</u>	<u>3</u>	<u>121,256</u>	<u>6</u>	<u>82,441</u>	<u>3</u>
	<u>86,095</u>	<u>18</u>	<u>107,176</u>	<u>11</u>	<u>265,093</u>	<u>12</u>	<u>274,161</u>	<u>9</u>
Net operating income (loss)	<u>(106,051)</u>	<u>(22)</u>	<u>171,596</u>	<u>17</u>	<u>36,535</u>	<u>2</u>	<u>429,680</u>	<u>14</u>
Non-operating income and expenses:								
Other gains and losses (notes 6(h) and (p))	(16,943)	(4)	50,823	5	(39,707)	(2)	40,428	1
Finance costs (note 6(h))	(4,556)	(1)	(2,566)	-	(11,915)	(1)	(6,946)	-
Interest revenue	<u>113</u>	<u>-</u>	<u>96</u>	<u>-</u>	<u>431</u>	<u>-</u>	<u>187</u>	<u>-</u>
	<u>(21,386)</u>	<u>(5)</u>	<u>48,353</u>	<u>5</u>	<u>(51,191)</u>	<u>(3)</u>	<u>33,669</u>	<u>1</u>
Income (loss) before income taxes	(127,437)	(27)	219,949	22	(14,656)	(1)	463,349	15
Income tax expense (note 6(k))	<u>(24,260)</u>	<u>(5)</u>	<u>38,801</u>	<u>4</u>	<u>26,503</u>	<u>1</u>	<u>90,049</u>	<u>3</u>
Net income (loss)	<u>(103,177)</u>	<u>(22)</u>	<u>181,148</u>	<u>18</u>	<u>(41,159)</u>	<u>(2)</u>	<u>373,300</u>	<u>12</u>
Other comprehensive income (loss):								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translation of foreign operation's financial statements	(1,702)	-	1,942	-	(3,447)	-	989	-
Less: income tax relating to components of other comprehensive income (loss) (note 6(k))	<u>289</u>	<u>-</u>	<u>(330)</u>	<u>-</u>	<u>586</u>	<u>-</u>	<u>(168)</u>	<u>-</u>
	<u>(1,413)</u>	<u>-</u>	<u>1,612</u>	<u>-</u>	<u>(2,861)</u>	<u>-</u>	<u>821</u>	<u>-</u>
Comprehensive income (loss)	\$ <u>(104,590)</u>	<u>(22)</u>	\$ <u>182,760</u>	<u>18</u>	\$ <u>(44,020)</u>	<u>(2)</u>	\$ <u>374,121</u>	<u>12</u>
Earnings per share (note 6(n)):								
Basic earnings per share (NT dollars)	\$ <u>(1.41)</u>		\$ <u>2.46</u>		\$ <u>(0.56)</u>		\$ <u>5.08</u>	
Diluted earnings per share (NT dollars)	\$ <u>(1.41)</u>		\$ <u>2.45</u>		\$ <u>(0.56)</u>		\$ <u>5.01</u>	

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards  
LUXNET CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Changes in Equity**

For the nine months ended September 30, 2016 and 2015  
(expressed in thousands of New Taiwan dollars)

	Retained earnings				Total	Exchange differences on translation of foreign operation's financial statements	Unearned employee compensation	Treasury shares	Total equity
	Common stock	Capital surplus	Legal reserve	Unappropriated retained earnings					
<b>Balance on January 1, 2015</b>	\$ 672,709	399,789	44,968	350,356	395,324	2,976	(6,809)	-	1,463,982
Net income	-	-	-	373,300	373,300	-	-	-	373,300
Other comprehensive income	-	-	-	-	-	821	-	-	821
Comprehensive income	-	-	-	373,300	373,300	821	-	-	374,121
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	21,687	(21,687)	-	-	-	-	-
Cash and stock dividends of ordinary shares	67,247	-	-	(134,494)	(134,494)	-	-	-	(67,247)
Issuance and amortization of restricted stock	4,620	25,021	-	-	-	-	(15,252)	-	14,389
Retirement of restricted stock	(857)	(2,257)	-	66	66	-	1,445	-	(1,603)
<b>Balance on September 30, 2015</b>	\$ 743,719	422,553	66,655	567,541	634,196	3,797	(20,616)	-	1,783,649
<b>Balance on January 1, 2016</b>	\$ 743,719	457,209	66,655	736,494	803,149	2,584	(17,291)	-	1,989,370
Net loss	-	-	-	(41,159)	(41,159)	-	-	-	(41,159)
Other comprehensive loss	-	-	-	-	-	(2,861)	-	-	(2,861)
Comprehensive loss	-	-	-	(41,159)	(41,159)	(2,861)	-	-	(44,020)
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	54,234	(54,234)	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	(223,076)	(223,076)	-	-	-	(223,076)
Issuance and amortization of restricted stock	3,690	10,184	-	-	-	-	1,807	-	15,681
Retirement of restricted stock	(232)	(1,224)	-	36	36	-	1,004	-	(416)
Acquisition of treasury shares	-	-	-	-	-	-	-	(42,204)	(42,204)
Retirement of treasury shares	(8,600)	(4,754)	-	(28,850)	(28,850)	-	-	42,204	-
<b>Balance on September 30, 2016</b>	\$ 738,577	461,415	120,889	389,211	510,100	(277)	(14,480)	-	1,695,335

See accompanying notes to consolidated financial statements.

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the nine months ended September 30, 2016 and 2015**

**(expressed in thousands of New Taiwan dollars)**

	<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Income (loss) before income taxes	\$ (14,656)	463,349
<b>Adjustments:</b>		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	157,365	117,896
Provisions for bad debt allowance and losses related to inventories	65,851	48,477
Compensation cost of share-based payment	8,301	5,149
Net loss (profit) on financial liabilities at fair value through profit or loss	9,920	(1,728)
Gains on disposal of property, plant and equipment	35	-
Interest expenses	11,915	6,946
Interest revenue	(431)	(187)
Total adjustments to reconcile profit	<u>252,956</u>	<u>176,553</u>
<b>Changes in operating assets and liabilities:</b>		
Notes and accounts receivable	763,832	(305,511)
Inventories	(259,515)	66,325
Prepaid expenses and other current assets	4,916	23,477
Changes in operating assets	<u>509,233</u>	<u>(215,709)</u>
Notes and accounts payable	(473,359)	46,123
Accrued expenses and other payables	(197,364)	38,320
Other	(10,120)	20,044
Changes in operating liabilities	<u>(680,843)</u>	<u>104,487</u>
Changes in operating assets and liabilities	<u>(171,610)</u>	<u>(111,222)</u>
Adjustments	<u>81,436</u>	<u>65,331</u>
Cash flows from operations	66,690	528,680
Interest received	(1,278)	187
Interest paid	426	(6,857)
Income taxes paid	(124,597)	(66,994)
<b>Net cash flows provided by (used in ) operating activities</b>	<u>(58,759)</u>	<u>455,016</u>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment	(274,034)	(193,506)
Proceeds from disposals of property, plant and equipment	60	-
Increase in prepayment for equipment	(96,176)	(46,346)
Acquisition of other non-current assets	(24,369)	(32,890)
<b>Net cash flows used in investing activities</b>	<u>(394,519)</u>	<u>(272,742)</u>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	672,000	58,260
Increase in long-term borrowings	-	120,000
Issurance of restricted stock	7,380	9,240
Cash dividends of ordinary shares	(223,076)	-
Cost of acquisition of treasury shares	(42,204)	-
Other	(416)	(1,602)
<b>Net cash flows provided by financing activities</b>	<u>413,684</u>	<u>185,898</u>
Effect of foreign currency exchange rate changes	529	493
Net increase (decrease) in cash and cash equivalents	(39,065)	368,665
Cash and cash equivalents at beginning of period	612,901	96,074
Cash and cash equivalents at end of period	<u>\$ 573,836</u>	<u>464,739</u>

See accompanying notes to consolidated financial statements.

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**September 30, 2016 and 2015**

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

**(1) Organization**

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

The major business activities of the Company and its subsidiaries (together referred to as “the Group”) are the manufacturing, processing and sale of electronic components and active components for optical communication and the retail sale of electronic materials.

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

**(2) Financial Statements Authorization Date and Authorization Process**

The consolidated financial statements were authorized for issuance by the board of directors on November 10, 2016.

**(3) New Standards and Interpretations Not Yet Adopted**

(a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commissions 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 (excluding IFRS 9 “Financial Instruments”, IFRS 15 “Revenue from Contracts with Customers”, and others which have yet to be approved by the FSC in order for them to take effect) in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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

(Continued)



**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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
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 as of the end of reporting date is as follows:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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

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

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
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 standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: <ul style="list-style-type: none"> <li>• 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.</li> </ul>

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
		<ul style="list-style-type: none"> <li>• Impairment: The expected credit loss model is used to evaluate impairment.</li> <li>• Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.</li> </ul>
January 13, 2016	IFRS 16 “Leases”	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul>
January 19, 2016	Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	<p>The objective of this project is to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. It clarifies that taxable profit excluding tax deductions’ used for assessing the utilization of deductible temporary differences is different from taxable profit on which income taxes are payable.</p>
January 29, 2016	Amendments to IAS 7 “Disclosure Initiative”	<p>The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.</p>

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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**

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and the guidelines of IAS 34 “Interim Financial Reporting”, which were endorsed by the FSC. These consolidated financial statements do not include all of the information required by the International Financial Reporting Standards, the International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (“the IFRS endorsed by the FSC”) for the annual financial statements.

Except as described in the following paragraph, the significant accounting policies adopted in the preparation of the consolidated financial statement are applied consistently with those of the consolidated financial statements for the year ended December 31, 2015. For other related information, please refer to note 4 to the consolidated financial statements for the year ended December 31, 2015.

(b) Basis of consolidation

The principles of preparation of the consolidated financial statement are consistent with the consolidated financial statements for the year ended December 31, 2015. Please refer to note 4(c) to the consolidated financial statements for the year ended December 31, 2015, for further information.

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

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		
			September 30, 2016	December 31, 2015	September 30, 2015
The Company	Toplight Corporation (Toplight)	Holding company	100%	100%	100%
Toplight	Toptrans Corporation Limited (Toptrans)	Holding company	100%	100%	100%
Toptrans	Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou)	Electronic components manufacturing	100%	100%	100%

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(c) Income taxes

Tax expense in the financial statements is measured and disclosed according to paragraph B12 of IAS 34 “Interim Financial Reporting”.

Income tax expense for the period is best estimated by multiplying the profit before tax for the reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period.

If tax expense is recognized directly in equity or other comprehensive income, temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the effective tax rate at the time of realization or liquidation.

(d) Employee benefits

Pension cost for the period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the reporting date of the prior financial year adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

**(5) Significant Accounting Assumptions and Judgments, and Major Sources of Estimation Uncertainty**

The preparation of the consolidated financial statements in conformity with IAS 34 “Interim Financial Reporting” 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.

In the preparation of the consolidated financial statements, the major sources of significant accounting assumptions, judgments and estimation uncertainty are consistent with note 5 to the consolidated financial statements for the year ended December 31, 2015.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(6) Explanation of Significant Accounts**

Except as described in the following paragraph, there were no significant changes between the explanation of the significant accounts and those of the consolidated financial statements for the year ended December 31, 2015. Please refer to note 6 to the consolidated financial statements for the year ended December 31, 2015, for further information.

(a) Cash and cash equivalents

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>	<u>September 30,</u> <u>2015</u>
Cash on hand	\$ 334	813	1,685
Demand deposits	537,835	612,088	463,054
Time deposits	<u>35,667</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents in consolidated statement of cash flows	<u>\$ 573,836</u>	<u>612,901</u>	<u>464,739</u>

(b) Notes and accounts receivable, and other receivables

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>	<u>September 30,</u> <u>2015</u>
Notes receivable	\$ 14	147	2,742
Accounts receivable	557,989	1,322,036	1,173,629
Other receivables	134	29	2,494
Less: allowance for doubtful accounts	<u>(5,092)</u>	<u>(1,964)</u>	<u>(1,767)</u>
	<u>\$ 553,045</u>	<u>1,320,248</u>	<u>1,177,098</u>

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

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

	<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
Balance on January 1	\$ 1,964	419
Recognition of impairment loss	3,129	1,348
Exchange differences on translation of foreign currency	(1)	-
Balance on September 30	<b><u>\$ 5,092</u></b>	<b><u>1,767</u></b>

(c) Inventories

	<b>September 30, 2016</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>
	Raw materials	\$ 308,374	200,921
Work in process	266,834	270,931	199,754
Finished goods	<u>241,076</u>	<u>149,578</u>	<u>110,319</u>
	<b><u>\$ 816,284</u></b>	<b><u>621,430</u></b>	<b><u>520,730</u></b>

For the nine months ended September 30, 2016 and 2015, the Group recognized the following items as cost of goods sold:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Losses on inventory valuation and obsolete inventories	\$ 22,500	16,669	62,722	47,129
Unallocated fixed overhead cost under the standard capacity	14,027	-	14,027	-
Revenue from sale of scrap	-	(2,353)	(2,836)	(4,551)
	<b><u>\$ 36,527</u></b>	<b><u>14,316</u></b>	<b><u>73,913</u></b>	<b><u>42,578</u></b>

As of September 30, 2016, December 31, 2015, and September 30, 2015, the Group did not provide any of the aforementioned inventory as collateral.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(d) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the nine months ended September 30, 2016 and 2015, were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
<b>Cost or deemed cost:</b>						
Balance on January 1, 2016	\$ 247,696	353,346	1,004,875	31,954	-	1,637,871
Additions	-	5,765	266,312	1,957	-	274,034
Reclassifications	-	-	69,525	-	-	69,525
Disposals	-	-	(28,228)	(202)	-	(28,430)
Effect of movements in exchange rates	-	-	(2,209)	(1,753)	-	(3,962)
Balance on September 30, 2016	<u>\$ 247,696</u>	<u>359,111</u>	<u>1,310,275</u>	<u>31,956</u>	<u>-</u>	<u>1,949,038</u>
Balance on January 1, 2015	\$ 247,696	353,346	693,636	25,521	-	1,320,199
Additions	-	-	186,813	6,871	-	193,684
Reclassifications	-	-	45,600	-	-	45,600
Disposals	-	-	(734)	-	-	(734)
Effect of movements in exchange rates	-	-	568	566	-	1,134
Balance on September 30, 2015	<u>\$ 247,696</u>	<u>353,346</u>	<u>925,883</u>	<u>32,958</u>	<u>-</u>	<u>1,559,883</u>
<b>Depreciation:</b>						
Balance on January 1, 2016	\$ -	32,420	356,594	17,293	-	406,307
Depreciation	-	9,581	109,003	4,367	-	122,951
Disposals	-	-	(28,148)	(190)	-	(28,338)
Effect of movements in exchange rates	-	-	(1,286)	(1,143)	-	(2,429)
Balance on September 30, 2016	<u>\$ -</u>	<u>42,001</u>	<u>436,163</u>	<u>20,327</u>	<u>-</u>	<u>498,491</u>
Balance on January 1, 2015	\$ -	20,597	251,494	12,494	-	284,585
Depreciation	-	8,868	79,331	3,608	-	91,807
Disposals	-	-	(734)	-	-	(734)
Effect of movements in exchange rates	-	-	346	294	-	640
Balance on September 30, 2015	<u>\$ -</u>	<u>29,465</u>	<u>330,437</u>	<u>16,396</u>	<u>-</u>	<u>376,298</u>
<b>Carrying amounts:</b>						
Balance on January 1, 2016	<u>\$ 247,696</u>	<u>320,926</u>	<u>648,281</u>	<u>14,661</u>	<u>-</u>	<u>1,231,564</u>
Balance on September 30, 2016	<u>\$ 247,696</u>	<u>317,110</u>	<u>874,112</u>	<u>11,629</u>	<u>-</u>	<u>1,450,547</u>
Balance on January 1, 2015	<u>\$ 247,696</u>	<u>332,749</u>	<u>442,142</u>	<u>13,027</u>	<u>-</u>	<u>1,035,614</u>
Balance on September 30, 2015	<u>\$ 247,696</u>	<u>323,881</u>	<u>595,446</u>	<u>16,562</u>	<u>-</u>	<u>1,183,585</u>

As of September 30, 2016, December 31, 2015, and September 30, 2015, property, plant and equipment of the Group had been pledged as collateral for short-term and long-term borrowings and credit lines; please refer to note 8.

(Continued)



**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

	<b>September 30, 2016</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>
Redemption of bonds payable at the option of the Company and the bondholders (recorded as other non-current liabilities)	\$ <u>12,720</u>	<u>2,800</u>	<u>-</u>

Since the Group entered into forward contracts for the three months and for the nine months ended September 30, 2015, gains on valuation of financial liabilities due to change in fair value were \$290 and \$1,728, respectively. Please refer to note 6(q). There were no such contracts for the three months and for the nine months ended September 30, 2016. In addition, the financial liabilities reported at fair value through profit or loss listed above are embedded derivative components of convertible bonds; please refer to note 6(h).

(f) Short-term borrowings

The details were as follows:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>
Unsecured bank loans	\$ 694,000	22,000	360,500
Secured bank loans	-	-	80,000
Total	<u>\$ 694,000</u>	<u>22,000</u>	<u>440,500</u>
Unused credit lines	<u>\$ 820,060</u>	<u>931,727</u>	<u>746,622</u>
Annual interest rates	<u>0.90%~1.369%</u>	<u>1.08%~1.61%</u>	<u>1.10%~1.61%</u>

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

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(g) Long-term borrowings

The details were as follows:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>
Unsecured bank loans	\$ -	-	100,000
Secured bank loans	-	-	200,000
Less: current portion	-	-	-
Total	<u>\$ -</u>	<u>-</u>	<u>300,000</u>
Unused credit lines	<u>\$ 420,000</u>	<u>470,000</u>	<u>140,000</u>
Annual interest rates	<u>-</u>	<u>-</u>	<u>1.56%~1.62%</u>

1. Please refer to note 8 for further information on assets pledged as collateral.
2. The Company signed a long-term loan contract with Fubon Bank in September 2014. The credit line is \$100,000. The contract period expires three years after the first use. The principal is amortized in eight installments from two years before the expiration date. The Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 100%; (2) a financial debt ratio of not greater than 125%; (3) an interest coverage ratio of not less than 1000%; and (4) tangible stockholders' equity of not less than \$1,000,000. If the Company violates the financial covenants, the banks have the right to add 0.25% to the interest rate from the next interest calculation date. If the Company violates the financial covenants twice, the banks have the right to rearrange the credit line. According to the contract, the Company should transfer business transaction cash flow from specific customers to the Fubon Bank account every quarter. The Company prepaid the loan in June 2015.
3. The Company signed a long-term loan contract with Fubon Bank in June 2015. The credit line is \$100,000. The contract period expires two years after the first use. The principal is to be repaid on the expiration date. The Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 100%; (2) a debt ratio of not greater than 125%; (3) an interest coverage ratio of not less than 1000%; and (4) tangible stockholders' equity of not less than \$1,000,000. If the Company violates the financial covenants, the banks have the right to add 0.25% to the interest rate from the next interest calculation date. If the Company violates the financial covenants twice, the banks have the right to rearrange the credit line. According to the contract, the Company should transfer business transaction cash flow from specific customers to the Fubon Bank account every quarter. The Company prepaid the loan in December 2015.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

4. The Company signed a long-term loan contract with CTBC Bank in July 2015. The credit line is \$320,000. The contract period of the loan expires two years after the first use. The principal is to be repaid on the expiration date. The Company has to maintain the following financial ratios calculated based on the Company's semi-annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 110%; (2) stockholders' equity of not less than \$1,200,000; and (3) a self-owned capital ratio of not less than 45%. If the Company violates the financial covenants, the banks have the right to increase the interest rate from the next interest calculation date. According to the contract, the Company should transfer business transaction cash flow from specific customers to the CTBC Bank account every half-year. The Company prepaid the loan in December 2015.

(h) Convertible bonds payable

	<u>September 30,</u> 2016	<u>December 31,</u> 2015
Aggregate principal amount	\$ 800,000	800,000
Unamortized discount	(31,391)	(41,876)
Accumulated converted amount	-	-
Ending balance of bonds payable	<u>768,609</u>	<u>758,124</u>
Less: Bonds payable – current	-	-
Ending balance of bonds payable – non-current	<u>\$ 768,609</u>	<u>758,124</u>
Embedded derivative component – the value of redemption at the option of the Company/bondholders (recorded as other non-current liabilities)	<u>\$ (12,720)</u>	<u>(2,800)</u>
Equity component (recorded as capital surplus – stock option)	<u>\$ 34,656</u>	<u>34,656</u>

	<u>For the three months</u> <u>ended September 30, 2016</u>	<u>For the nine months</u> <u>ended September 30, 2016</u>
Embedded derivative component – revaluation loss on redemption at the option of the Company/bond holders (recorded as other gains and losses)	\$ <u>6,320</u>	<u>9,920</u>
Interest expense (recorded as finance cost)	\$ <u>3,494</u>	<u>10,485</u>

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

	<b>1<sup>st</sup> domestic unsecured convertible bonds</b>
	<hr/>
Offering amount	NT\$800,000 thousand
Issue date	December 22, 2015
Issuance price	At par value
Face interest rate	0%
Issue period	December 22, 2015, to December 22, 2018
Redemption at the option of the Company	The Group may redeem the bonds within 5 trading days after the bonds' recovery reference date with cash at a 1.5% yield rate at any time from January 22, 2016, to November 12, 2018, if the closing price of the common shares on the TPEX on each trading day during a period of 30 consecutive trading days exceeds 30% of the conversion price or if the amount of unconvertible bonds is less than 10% of the offering amount.
Redemption at the option of the Holder	Each Holder has the right to require the Group to redeem the Holder's bonds on December 22, 2017, at a redemption price equal to the principal amount of the bonds with a yield-to-maturity of 0.5% per annum.
Conversion period	Each Holder of the bonds has the right at any time during the period from January 22, 2016, to the maturity date of the bond to convert their bonds.
Conversion price on September 30, 2016 (note)	NT\$74.7

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

(i) Operating lease

In the nine months ended September 30, 2016 and 2015, the Group did not sign significant new operating lease contracts. Please refer to note 6(i) to the consolidated financial statements for the year ended December 31, 2015, for further information.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(j) Employee benefits

1. Defined benefit plans

There was no material volatility of the market, reimbursement, settlement or other material one-time events in the prior fiscal year. As a result, the pension cost in the financial statements was measured and disclosed as of December 31, 2015 and 2014.

The expenses recognized in profit or loss for the Group were as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Administrative expenses	\$ <u>39</u>	<u>43</u>	<u>117</u>	<u>130</u>

2. Defined contribution plans

The pension costs under defined contribution plans were as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Operating cost	\$ 3,301	2,835	9,783	7,755
Selling expenses	209	257	633	779
Administrative expenses	770	800	2,195	2,218
Research and development expenses	<u>806</u>	<u>600</u>	<u>2,080</u>	<u>1,843</u>
	\$ <u>5,086</u>	<u>4,492</u>	<u>14,691</u>	<u>12,595</u>

(k) Income taxes

1. The amounts of income tax expenses (benefits) were as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Current tax expense (benefit)	\$ <u>(24,260)</u>	<u>38,801</u>	<u>26,503</u>	<u>90,049</u>

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

2. For the nine months ended September 30, 2016 and 2015, there was no income tax recognized in equity.
3. The amounts of income tax expense (benefit) recognized in other comprehensive income (loss) were as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Exchange differences on translation of foreign operations' financial statements \$	<u>(289)</u>	<u>330</u>	<u>(586)</u>	<u>168</u>

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

	<b>September 30, 2016</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>
Unappropriated earnings in 1998 and after	<u>\$ 389,211</u>	<u>736,494</u>	<u>567,541</u>
Balance of imputation credit account	<u>\$ 103,386</u>	<u>73,796</u>	<u>46,871</u>
		<b><u>2015 (actual)</u></b>	<b><u>2014 (actual)</u></b>
Creditable ratio for earnings distribution to ROC resident stockholders		<u>22.51%</u>	<u>24.11%</u>

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

(1) Capital and other equity

Except for the following paragraph, there were no significant changes between the capital and other equity for the nine months ended September 30, 2016 and 2015. Please refer to note 6(1) to the consolidated financial statements for the year ended December 31, 2015, for further information.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

1. 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, 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.

2. Retained earnings

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

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

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

According to the Company Act as amended in May 2015, employee bonuses and directors' and supervisors' remuneration are no longer subject to earnings distribution. Please refer to note 6(o) for changes to the articles of the Company approved in the board meeting and waiting for approval of the meeting of stockholders.

**3. Earnings distribution**

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

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

On May 25, 2016 and May 27, 2015, the stockholders' meeting resolved the distribution of earnings for 2015 and 2014, respectively. The distribution of earnings was as follows:

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

**4. Treasury shares**

For the nine months ended September 30, 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 September 30, 2016, a total of 860 thousand shares were retired. There were no such issues for the nine months ended September 30, 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.

(Continued)



**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

**(m) Share-based payment**

Except for the following paragraph, there were no significant changes in share-based payment for the nine months ended September 30, 2016 and 2015. Please refer to note 6(m) to the consolidated financial statements for the year ended December 31, 2015, for further information.

1. 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 such restricted stock. The Company has received the approval from the Securities and Futures Bureau.
2. 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 such restricted stock. The Company has received the approval from the Securities and Futures Bureau.
3. 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.
4. As of September 30, 2016, the outstanding restricted stock of the Company was as follows:

	Plan 4	Plan 3	Plan 2
	September 21, 2016	August 31, 2015	June 15, 2015
Grant date			
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.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

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

	<b><u>For the nine months ended September 30,</u></b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
(thousand shares)		
Outstanding at January 1	534	318
Granted during the year	369	462
Vested during the year	(294)	(188)
Expired during the year	<u>(22)</u>	<u>(58)</u>
Outstanding at September 30	<u><u>587</u></u>	<u><u>534</u></u>

Compensation cost attributable to share-based payment for the nine months ended September 30, 2016 and 2015, was \$8,301 and \$5,149, respectively.

(n) Earnings per share

The calculation of basic and diluted earnings per share was as follows:

	<b><u>For the three months</u></b>		<b><u>For the nine months</u></b>	
	<b><u>ended September 30,</u></b>		<b><u>ended September 30,</u></b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Basic earnings per share				
Profit (Loss) attributable to common stockholders	\$ <u>(103,177)</u>	<u>181,148</u>	<u>(41,159)</u>	<u>373,300</u>
Weighted-average number of common shares (thousand shares)	<u>73,169</u>	<u>73,490</u>	<u>73,557</u>	<u>73,492</u>
Diluted earnings per share				
Profit (Loss) attributable to ordinary stockholders (diluted)	\$ <u>(103,177)</u>	<u>181,148</u>	<u>(41,159)</u>	<u>373,300</u>

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Weighted-average number of ordinary shares	73,169	73,490	73,557	73,492
Effect of employee stock bonuses	-	191	-	553
Effect of restricted stock	-	403	-	433
Weighted-average number of ordinary shares (thousand shares)	<b>73,169</b>	<b>74,084</b>	<b>73,557</b>	<b>74,478</b>

(o) 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 employee remuneration amounted to \$(8,059), \$14,417, \$0 and \$31,375, respectively, for the three months and for the nine months ended September 30, 2016 and 2015. The directors' and supervisors' remuneration amounted to \$(3,287), \$4,035, \$0 and \$8,048, respectively, for the three months and for the nine months ended September 30, 2016 and 2015. 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 benefits were expensed under operating costs or operating expenses during this period. The differences between the amounts approved in the stockholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

If the board of directors' meeting resolves to pay employee bonuses in stock, the shares are calculated based on the closing price of common stock on the day before the resolution date.

Employee bonuses and directors' and supervisors' remuneration amounted to \$61,470 and \$20,397, respectively, for 2015. These remuneration approved for appropriation agreed with those accrued in the financial statement. The information about the employee bonuses and directors' and supervisors' remuneration can be accessed in the Market Observation Post System.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(p) Non-operating income and expenses

Other gains and losses were as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Foreign currency exchange gains (losses)	\$ (11,263)	50,625	(31,668)	37,530
Net gains (losses) on financial liabilities measured at fair value through profit or loss	(6,320)	290	(9,920)	1,728
Other	640	(92)	1,881	1,170
	<b>\$ (16,943)</b>	<b>50,823</b>	<b>(39,707)</b>	<b>40,428</b>

(q) Financial instruments

Except for the following paragraph, the credit risk, liquidity risk, and fair value had no significant difference from the consolidated financial statements for the year ended December 31, 2015. Please refer to note 6(r) to the consolidated financial statements for the year ended December 31, 2015, for further information.

1. Credit risk

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

	<b>September 30, 2016</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>
Past due 1-120 days	\$ 93,946	95,234	110,421
Past due 121-365 days	-	3,376	3,615
	<b>\$ 93,946</b>	<b>98,610</b>	<b>114,036</b>

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

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

2. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including interest:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1~2 years</u>	<u>2~5 years</u>
<b>September 30, 2016</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 694,000	694,942	694,942	-	-
Bonds payable	768,609	800,000	-	-	800,000
Notes and accounts payable (including related parties)	295,989	295,989	295,989	-	-
Accrued expenses and other payables	<u>30,117</u>	<u>30,117</u>	<u>30,117</u>	<u>-</u>	<u>-</u>
	<b><u>\$ 1,788,715</u></b>	<b><u>1,821,048</u></b>	<b><u>1,021,048</u></b>	<b><u>-</u></b>	<b><u>800,000</u></b>
<b>December 31, 2015</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 22,000	22,019	22,019	-	-
Bonds payable	758,124	800,000	-	-	800,000
Notes and accounts payable (including related parties)	769,348	769,348	769,348	-	-
Accrued expenses and other payables	<u>34,922</u>	<u>34,922</u>	<u>34,922</u>	<u>-</u>	<u>-</u>
	<b><u>\$ 1,584,394</u></b>	<b><u>1,626,289</u></b>	<b><u>826,289</u></b>	<b><u>-</u></b>	<b><u>800,000</u></b>
<b>September 30, 2015</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 440,500	440,812	440,812	-	-
Long-term borrowings	300,000	307,299	-	307,299	-
Notes and accounts payable (including related parties)	609,096	609,096	609,096	-	-
Accrued expenses and other payables	<u>89,071</u>	<u>89,071</u>	<u>89,071</u>	<u>-</u>	<u>-</u>
	<b><u>\$ 1,438,667</u></b>	<b><u>1,446,278</u></b>	<b><u>1,138,979</u></b>	<b><u>307,299</u></b>	<b><u>-</u></b>

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

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

3. Market risk

(i) Currency risk

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

	<u>September 30, 2016</u>			<u>December 31, 2015</u>			<u>September 30, 2015</u>			
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	
<b><u>Financial assets</u></b>										
<b><u>Monetary items</u></b>										
USD:TWD	\$	33,879	31.360	1,062,445	52,849	32.825	1,734,768	45,765	32.870	1,504,296
CNY:TWD		144	4.693	676	713	4.995	3,561	668	5.176	3,458
JPY:TWD		10	0.311	3	-	-	-	-	-	-
<b><u>Financial liabilities</u></b>										
<b><u>Monetary items</u></b>										
USD:TWD		6,082	31.360	190,732	17,025	32.825	558,846	11,210	32.870	368,473
CNY:TWD		197	4.693	925	-	-	-	-	-	-
JPY:TWD		25	0.311	8	6,231	0.273	1,701	4,585	0.274	1,256

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, other receivables, loans and borrowings, and accounts payable that are denominated in foreign currency.

A strengthening (weakening) of 5% of the TWD against the USD, CNY and JPY as of September 30, 2016 and 2015, would have decreased or increased the net loss after tax by \$36,166 and increased or decreased the net profit after tax by 47,228, respectively. The analysis is performed on the same basis for both periods.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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 in terms of the functional currency of the parent company (the presentation currency), TWD, was as follows:

<b>For the nine months ended September 30</b>				
<b>2016</b>		<b>2015</b>		
	<b><u>Foreign exchange gain or loss</u></b>	<b><u>Average exchange rate</u></b>	<b><u>Foreign exchange gain or loss</u></b>	<b><u>Average exchange rate</u></b>
TWD	\$ (31,153)	1.000	44,019	1.000
CNY	<u>(515)</u>	4.916	<u>(6,489)</u>	5.019
	<b><u>\$ (31,668)</u></b>		<b><u>37,530</u></b>	

(ii) Interest rate analysis

The interest risk exposure from financial 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 \$243 and the net profit after tax would have decreased or increased by \$432 for the nine months ended September 30, 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.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

4. Fair value

(i) Kinds of financial instruments and fair value

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

	September 30, 2016				
	Book value	Fair Value			Total
	Level 1	Level 2	Level 3		
<b>Loans and receivables</b>					
Cash and cash equivalents	\$ 573,836				
Notes and accounts receivable (including related parties)	552,911				
Other receivables	134				
<b>Total</b>	<b>\$ 1,126,881</b>				
<b>Financial liabilities at amortized cost through profit or loss</b>					
Borrowings	\$ 694,000				
Notes and accounts payable (including related parties)	295,989				
Convertible bonds	768,609		795,400		795,400
Other financial liabilities	88,211				
<b>Total</b>	<b>\$ 1,846,809</b>				
<b>Financial liabilities at fair value through profit or loss – non-current</b>					
	<b>\$ 12,720</b>		12,720		12,720

(Continued)



**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

		December 31, 2015				
		Fair Value				
Book value	Level 1	Level 2	Level 3	Total		
<b>Loans and receivables</b>						
Cash and cash equivalents	\$	612,901				
Notes and accounts receivable (including related parties)		1,320,219				
Other receivables		29				
Total	\$	<u>1,933,149</u>				
<b>Financial liabilities at amortized cost through profit or loss</b>						
Borrowings	\$	22,000				
Notes and accounts payable (including related parties)		769,348				
Convertible bonds		758,124	853,791		853,791	
Other financial liabilities		377,438				
Total	\$	<u>1,926,910</u>				
<b>Financial liabilities at fair value through profit or loss – non-current</b>	\$	<u>2,800</u>		2,800	2,800	
		September 30, 2015				
		Fair Value				
Book value	Level 1	Level 2	Level 3	Total		
<b>Loans and receivables</b>						
Cash and cash equivalents	\$	464,739				
Notes and accounts receivable (including related parties)		1,174,604				
Other receivables		2,494				
Total	\$	<u>1,641,837</u>				
<b>Financial liabilities at amortized cost through profit or loss</b>						
Borrowings	\$	740,500				
Notes and accounts payable (including related parties)		609,096				
Other financial liabilities		309,547				
Total	\$	<u>1,659,143</u>				

- (ii) 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 prices are unavailable, valuation is based on discounted cash flow.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(iii) Fair value valuation technique of financial instruments measured at fair value

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

(iv) Changes in Level 3

	<u>Forward contract</u>	<u>Convertible bonds</u>	<u>Total</u>
Balance on January 1, 2016	\$ -	(2,800)	(2,800)
Recognized in profit or loss	-	(9,920)	(9,920)
Balance on September 30, 2016	\$ <u>-</u>	<u>(12,720)</u>	<u>(12,720)</u>
Balance on January 1, 2015	\$ (2,981)	-	(2,981)
Recognized in profit or loss	1,728	-	1,728
Acquisition / disposal / pay-off	<u>1,253</u>	-	<u>1,253</u>
Balance on September 30, 2015	\$ <u>-</u>	<u>-</u>	<u>-</u>

The aforementioned total gains and losses were recognized in "other gains and losses". The details of the liabilities which the Group still held as of September 30, 2016 and 2015, were as follows:

	<u>For the nine months</u> <u>ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
In profit or loss (recognized in "other gains and losses")	\$ <u>(9,920)</u>	<u>-</u>

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

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

(vi) For the nine months ended September 30, 2016 and 2015, there were no transfers between levels.

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(r) Financial risk management

The Group's objectives and policies on financial risk management are consistent with note 6(s) to the consolidated financial statements for the year ended December 31, 2015.

(s) Capital management

The Group's objectives, policies and process of managing capital are consistent with the consolidated financial statements for the year ended December 31, 2015. The information on capital management items has no significant difference from that of the consolidated financial statements for the year ended December 31, 2015. Please refer to note 6(t) to the consolidated financial statements for the year ended December 31, 2015, for further information.

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

The Group's investing and financing activities which did not affect the current cash flow for the nine months ended September 30, 2016 and 2015, were as follows:

1. The increase in property, plant and equipment and other non-current assets from the transfer of prepayment for equipment was \$69,687. Please refer to note 6(d).
2. Please refer to note 6(l) for the retirement of restricted stock for the nine months ended September 30, 2016 and 2015.
3. Please refer to note 6(l) for the retirement of treasury shares.

**(7) Related-party Transactions**

(a) Significant transactions with related parties

1. Sale of goods to related parties

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

	<u>Sales</u>		<u>Sales</u>		<u>Notes and accounts receivable</u>		
	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>		<u>September</u>	<u>December</u>	<u>September</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>30, 2016</u>	<u>31, 2015</u>	<u>30, 2015</u>
Other related parties	\$ <u>67,412</u>	<u>42,750</u>	<u>247,152</u>	<u>198,245</u>	<u>84,504</u>	<u>95,503</u>	<u>95,160</u>

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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 suppliers were 30 to 105 days except for payments received in advance.

**2. Purchases of goods from related parties**

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

	<u>Purchase of goods</u>		<u>Purchase of goods</u>		<u>Notes and accounts payable</u>		
	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>		<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>			
Other related parties	\$ <u>49</u>	<u>17</u>	<u>1,300</u>	<u>7,686</u>	<u>223</u>	<u>2,306</u>	<u>7,248</u>

There were no significant differences in the purchasing prices and trading terms between related parties and other suppliers. For the nine months ended September 30, 2016 and 2015, the transaction terms with related parties were both about 90 days, whereas the terms with other suppliers were 30 to 120 days and 30 to 90 days, respectively.

**3. Property transactions and others**

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

	<u>Purchase</u>		<u>Purchase</u>		<u>Notes and accounts payable</u>		
	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>		<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>			
Other related parties	\$ <u>65</u>	<u>-</u>	<u>275</u>	<u>959</u>	<u>82</u>	<u>-</u>	<u>-</u>

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(b) Key management personnel compensation

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Short-term employee benefits	\$ 4,429	10,181	24,094	37,802
Post-employment benefits	215	186	639	510
Termination benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Share-based payments	<u>474</u>	<u>723</u>	<u>2,213</u>	<u>1,305</u>
	<b>\$ <u>5,118</u></b>	<b><u>11,090</u></b>	<b><u>26,946</u></b>	<b><u>39,617</u></b>

For information related to share-based payments, please refer to note 6(m).

**(8) Pledged Assets**

As of September 30, 2016 and 2015, assets pledged as collateral were as follows:

<b>Pledged assets</b>	<b>Pledged to secure</b>	<b>Book value of pledged assets</b>		
		<b>September 30, 2016</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>
Fixed assets – land	Loan collateral	\$ 247,696	247,696	247,696
Fixed assets – buildings and construction	Loan collateral	<u>317,110</u>	<u>320,926</u>	<u>323,881</u>
		<b>\$ <u>564,806</u></b>	<b><u>568,622</u></b>	<b><u>571,577</u></b>

**(9) Commitments and Contingencies**

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

	<b>September 30, 2016</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>
	<u>\$ 34,060</u>	<u>106,698</u>	<u>69,058</u>

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

		<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>	<u>September 30,</u> <u>2015</u>
Guarantee notes issued	USD	\$ <u>24,500</u>	<u>16,570</u>	<u>715,580</u>
Guarantee notes issued	NTD	\$ <u>1,131,652</u>	<u>931,652</u>	<u>931,652</u>

(10) Loss Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Others

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

By function	For the three months ended September 30, 2016			For the three months ended September 30, 2015		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
By item						
Employee benefit expenses						
Salaries	58,591	31,972	90,563	67,298	67,904	135,202
Labor and health insurance	5,585	1,479	7,064	5,593	3,130	8,723
Pension	3,301	1,824	5,125	2,835	1,700	4,535
Others	5,905	2,776	8,681	5,371	2,857	8,228
Depreciation	42,043	3,799	45,842	29,425	3,306	32,731
Amortization	5,664	6,708	12,372	3,564	5,858	9,422

By function	For the nine months ended September 30, 2016			For the nine months ended September 30, 2015		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
By item						
Employee benefit expenses						
Salaries	190,794	114,320	305,114	197,432	164,967	362,399
Labor and health insurance	18,435	7,194	25,629	15,317	8,634	23,951
Pension	9,783	5,025	14,808	7,755	4,970	12,725
Others	17,603	9,218	26,821	15,771	7,765	23,536
Depreciation	108,828	14,123	122,951	82,618	9,189	91,807
Amortization	15,265	19,149	34,414	10,432	15,657	26,089

(Continued)

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(13) Segment 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 nine months ended September 30, 2016 and 2015, was the same as that in the Group's consolidated financial statements.