Stock Code:4979

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Interim Financial Statements

March 31, 2017 and 2016
(With Independent Auditors' Review Report Thereon)

Address: No. 6, Hejiang Road, Zhongli, Taoyuan
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The auditors' report and the accompanying Consolidated Interim 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 Interim Financial Statements, the Chinese version shall prevail.

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Independent Auditors' Review Report

To the Board of Directors of LuxNet Corporation:

We have reviewed the accompanying consolidated balance sheets of LuxNet Corporation and its subsidiaries as of March 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the three months ended March 31, 2017 and 2016. These consolidated interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

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 interim financial statements taken as a whole. Accordingly, we do not express such an opinion.

Also included in the accompanying consolidated interim financial statements are the financial statements of subsidiaries, which were not reviewed by independent auditors. The total assets of these subsidiaries amounted to NT$60,587 thousand and NT$82,571 thousand, both constituting 2% of the total consolidated assets as of March 31, 2017 and 2016. The total liabilities amounted to NT$21,813 thousand and NT$21,414 thousand, both constituting 1% of the total consolidated liabilities as of March 31, 2017 and 2016. The comprehensive income amounted to a loss of NT$10,249 thousand and NT$3,120 thousand, constituting 7% and 3% of the total consolidated comprehensive income for the three months ended March 31, 2017 and 2016, 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 interim 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.

KPMG

Taipei, Taiwan (Republic of China)
May 10, 2017

Notes to Readers

The accompanying Consolidated Interim Financial Statements are intended only to present the Consolidated Interim Financial Statements 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 review such Consolidated Interim Financial Statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying Consolidated Interim 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 Interim Financial Statements, the Chinese version shall prevail.

(English translation of consolidated interim financial statements and report originally issued in chinese)

Reviewed only, not audited in accordance with the generally accepted auditing standards as of March 31, 2017 and 2016

LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2017, December 31 and March 31, 2016

(Expressed in thousands of New Taiwan Dollars)

	Assets	March 31, 2017 Amount	%	December 31, 2016 Amount	%	March 31, 2016 Amount	%
1100	Cash and cash equivalents (note 6(a))	$ 449,569	13	539,171	16	618,029	15
1170	Notes and account receivable, net (note 6(b))	382,180	11	340,594	10	1,174,495	29
1180	Accounts receivable from related parties, net (notes 6(b) and 7)	58,318	2	66,603	2	89,474	2
130X	Inventories, net (note 6(c))	830,864	25	783,877	23	724,226	18
1410	Prepaid expenses	3,632	-	6,106	-	5,498	-
1470	Other current assets (note 6(b))	34,857	1	37,580	1	45,300	1
		1,759,420	52	1,773,931	52	2,657,022	65
1600	Property, plant and equipment (notes 6(d) & (t) and 8)	1,523,424	46	1,500,694	44	1,259,184	31
1780	Intangible assets	11,006	-	15,960	1	22,198	1
1900	Other non-current assets (note 6(t))	54,239	2	93,103	3	144,442	3
		1,588,669	48	1,609,757	48	1,425,824	35
	Total assets	$ 3,348,089	100	3,383,688	100	4,082,846	100

	Liabilities and Equity	March 31, 2017 Amount	%	December 31, 2016 Amount	%	March 31, 2016 Amount	%
	Current liabilities:						
2100	Short-term borrowings (notes 6(f) and 8)	$ 469,000	14	356,000	11	70,000	2
2170	Notes and accounts payable	269,391	8	252,391	7	794,070	19
2180	Accounts payable to related parties (note 7)	144	-	157	-	3,823	-
2200	Accrued expenses and other payables	86,318	3	96,155	3	311,746	8
2321	Bonds payable, current portion (note 6(h))	775,645	23	772,119	23	-	-
2300	Other current liabilities (notes 6(e) & (h))	17,953	1	22,992	1	37,298	1
		1,618,451	49	1,499,814	45	1,216,937	30
	Non-Current liabilities:						
2530	Bonds payable (note 6(h))	-	-	-	-	761,536	19
2540	Long-term borrowings (notes 6(g) and 8)	250,000	7	250,000	7	-	-
2600	Other non-current liabilities (notes 6(e) & (h))	9,800	-	10,858	-	13,817	-
		259,800	7	260,858	7	775,353	19
	Total liabilities	1,878,251	56	1,760,672	52	1,992,290	49
	Equity attributable to owners of parent:						
3100	Ordinary shares (note 6(l))	738,577	22	738,577	22	743,588	18
3200	Capital surplus (note 6(h))	460,156	14	460,559	13	456,599	11
3300	Retained earnings (note 6(l))	281,247	8	435,294	13	902,500	22
3400	Other equity (note 6(m))	(10,142)	-	(11,414)	-	(12,131)	-
	Total equity	1,469,838	44	1,623,016	48	2,090,556	51
	Total liabilities and equity	$ 3,348,089	100	3,383,688	100	4,082,846	100

See accompanying notes to Consolidated Interim Financial Statements.

(English translation of consolidated interim financial statements and report originally issued in chinese)

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2017 and 2016

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

		For the three months ended March 31			
		2017		2016	
		Amount	%	Amount	%
4000	**Operating revenues (note 7)**	$ 399,347	100	1,038,515	100
5000	**Operating costs (notes 6(c), (j), (m) & (o), 7 and 12)**	441,361	111	792,584	76
	Gross profit (loss)	(42,014)	(11)	245,931	24
	Operating expenses (notes 6(b), (j), (m) & (o), 7 and 12):				
6100	Selling expenses	5,333	1	14,136	2
6200	Administrative expenses	34,106	9	51,595	5
6300	Research and development expenses	40,631	10	31,651	3
	Total operating expenses	80,070	20	97,382	10
	Net operating income (loss)	(122,084)	(31)	148,549	14
	Non-operating income and expenses:				
7020	Other gains and losses, net (notes 6 (h) & (p))	(26,757)	(7)	(24,902)	(2)
7050	Finance costs, net (note 6(h))	(5,315)	(1)	(3,595)	-
7100	Interest revenue	89	-	135	-
		(31,983)	(8)	(28,362)	(2)
7900	**Profit (loss) before tax**	(154,067)	(39)	120,187	12
7950	Less: income tax expense (note 6(k))	-	-	20,842	2
	Profit (loss)	(154,067)	(39)	99,345	10
8300	**Other comprehensive income (loss):**				
8360	**Items that may be reclassified subsequently to profit or loss:**				
8361	Exchange differences on translation of foreign operations' financial statements	(1,677)	-	(251)	-
8399	Income tax expense related to items that may be reclassified subsiquently to profit or loss (note 6(k))	285	-	43	-
		(1,392)	-	(208)	-
8300	**Other comprehensive loss, net (after tax)**	(1,392)	-	(208)	-
	Comprehensive income (loss)	$ (155,459)	(39)	99,137	10
	Earnings (loss) per share (note 6(n))				
	Basic earnings (loss) per share	$	(2.10)		1.35
	Diluted earnings (loss) per share	$	(2.10)		1.20

See accompanying notes to Consolidated Interim Financial Statements.

(English translation of consolidated interim financial statements and report originally issued in chinese)

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

LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2017 and 2016

(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	Total equity
Balance on January 1, 2016	$ 743,719	457,209	66,655	736,494	803,149	2,584	(17,291)	1,989,370
Profit for the three months ended March 31, 2016	-	-	-	99,345	99,345	-	-	99,345
Other comprehensive loss for the three months ended March 31, 2016	-	-	-	-	-	(208)	-	(208)
Comprehensive income for the three months ended March 31, 2016	-	-	-	99,345	99,345	(208)	-	99,137
Amortization of restricted stock	-	-	-	-	-	-	2,421	2,421
Retirement of restricted stock	(131)	(610)	-	6	6	-	363	(372)
Balance on March 31, 2016	$ 743,588	456,599	66,655	835,845	902,500	2,376	(14,507)	2,090,556
Balance on January 1,2017	$ 738,577	460,559	120,889	314,405	435,294	(734)	(10,680)	1,623,016
Loss for the three months ended March 31, 2017	-	-	-	(154,067)	(154,067)	-	-	(154,067)
Other comprehensive loss for the three months ended March 31, 2017	-	-	-	-	-	(1,392)	-	(1,392)
Comprehensive loss for the three months ended March 31, 2017	-	-	-	(154,067)	(154,067)	(1,392)	-	(155,459)
Amortization of restricted stock	-	-	-	-	-	-	2,401	2,401
Retirement of restricted stock	-	(403)	-	20	20	-	263	(120)
Balance on March 31, 2017	$ 738,577	460,156	120,889	160,358	281,247	(2,126)	(8,016)	1,469,838

See accompanying notes to Consolidated Interim Financial Statements.

(English translation of consolidated interim financial statements and report originally issued in chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2017	2016
Cash flows from (used in) operating activities:		
Profit (loss) before tax	$ (154,067)	120,187
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortination expense	62,653	47,092
Provisions (Reversal of provision) for bad debt expense	(1,623)	3,284
Losses related to inventories	15,618	21,648
Compensation cost of share-based payment	2,401	2,421
Net losses (profit) on financial liabilities at fair value through profit or loss	(2,240)	-
Gain on disposal of property, plan and equipment	(10)	-
Interest expense	5,315	3,595
Interest revenue	(89)	(135)
Total adjustments to reconcile profit	82,025	77,905
Changes in operating assets and liabilities:		
Notes and accounts receivable	(31,748)	52,966
Inventories	(63,689)	(124,444)
Prepaid expenses and other current assets	5,201	(8,927)
Total changes in operating assets	(90,236)	(80,405)
Notes and accounts payable	16,987	28,545
Accrued expenses and other financial liabilities	(9,814)	(86,542)
Other operating liabilities	(3,572)	14,940
Total changes in operating liabilities	3,601	(43,057)
Total changes in operating assets and liabilities	(86,635)	(123,462)
Total adjustments	(4,610)	(45,557)
Cash inflow generated from (used in) operations	(158,677)	74,630
Interest received	85	163
Interest paid	(1,816)	(175)
Net cash flows from (used in) operating activities	(160,408)	74,618
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(40,441)	(58,391)
Proceeds from disposal of property, plant and equipment	76	-
Increase in prepayments for equipments	(507)	(55,198)
Acquisition of other non-current assets	(1,714)	(3,422)
Net cash flows used in investing activities	(42,586)	(117,011)
Cash flows from (used in) financing activities:		
Increase in short-term loans	113,000	48,000
Other financing activities	(121)	(371)
Net cash flows from financing activities	112,879	47,629
Effect of exchange rate changes on cash and cash equivalents	513	(108)
Net increase (decrease) in cash and cash equivalents	(89,602)	5,128
Cash and cash equivalents at beginning of period	539,171	612,901
Cash and cash equivalents at end of period	$ 449,569	618,029

See accompanying notes to Consolidated Interim Financial Statements.

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2017 and 2016

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

(1) Company history

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

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

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

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

The consolidated interim financial statements were authorized for issuance by the board of directors on May 10, 2017.

(3) New standards, amendments and interpretations adopted

(a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already taken effect.

The Group 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 consolidated interim 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 " Presentation of Financial Statements-Disclosure Initiative"	January 1, 2016

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 " Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 " Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010-2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated interim 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 interim financial statements were issued, except for IFRS 9 and IFRS 15, which should be applied 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

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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 with 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

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.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
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.
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.

(Continued)

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 19, 2016	Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	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".
January 29, 2016	Amendments to IAS 7 "Disclosure Initiative"	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.

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 interim 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 interim 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 consolidated financial statements.

Except as described in the following paragraph, the significant accounting policies adopted in the preparation of the consolidated interim financial statement are applied consistently with those of the consolidated financial statements for the year ended December 31, 2016. For other related information, please refer to note 4 to the consolidated financial statements for the year ended December 31, 2016.

(b) Basis of consolidation

The principles of preparation of the consolidated interim financial statement are consistent with the consolidated financial statements for the year ended December 31, 2016. Please refer to note 4(c) to the consolidated financial statements for the year ended December 31, 2016, for further information.

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

			Percentage of shareholding		
Name of investor	**Name of subsidiary**	**Principal activities**	**March 31, 2017**	**December 31, 2016**	**March 31, 2016**
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 %

(c) 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.

(d) Income taxes

Tax expense in the consolidated interim 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.

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

The preparation of the consolidated interim 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 interim 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, 2016.

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim 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, 2016. Please refer to note 6 to the consolidated financial statements for the year ended December 31, 2016, for further information.

(a) Cash and cash equivalents

	March 31, 2017	December 31, 2016	March 31, 2016
Cash on hand	$ 871	376	628
Demand deposits	374,367	523,696	615,412
Time deposits	74,331	15,099	1,989
Cash and cash equivalents in consolidated statement of cash flows	$ 449,569	539,171	618,029

(b) Notes and accounts receivable, and other receivables

	March 31, 2017	December 31, 2016	March 31, 2016
Notes receivable	$ 18	-	147
Accounts receivable	445,307	413,648	1,269,070
Other receivables	157	128	62
Less: allowance for doubtful accounts	(4,827)	(6,451)	(5,248)
	$ 440,655	407,325	1,264,031

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:

	For the three months ended March 31,	
	2017	2016
Balance on January 1	$ 6,451	1,964
Recognition (reversal) of impairment loss	(1,623)	3,284
Exchange differences on translation of foreign currency	(1)	-
Balance on March 31	$ 4,827	5,248

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(c) Inventories

		March 31, 2017	December 31, 2016	March 31, 2016
Raw materials	$	274,986	295,856	246,653
Work in process		290,483	260,837	296,111
Finished goods		265,395	227,184	181,462
	$	830,864	783,877	724,226

For the three months ended March 31, 2017 and 2016, the Group recognized the following items as cost of goods sold:

		For the three months ended March 31,	
		2017	2016
Losses on inventory valuation and obsolete inventories	$	15,618	21,648
other		(332)	-
	$	15,286	21,648

As of March 31, 2017, December 31, 2016, and March 31, 2016, the Group did not provide any of the aforementioned inventory as collateral.

(d) Property, plant and equipment

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

		Land	Buildings and construction	Machinery and equipment	Office and other equipment	Total
Cost or deemed cost:						
Balance on January 1,2017	$	247,696	359,540	1,398,315	31,255	2,036,806
Additions		-	-	40,424	17	40,441
Reclassifications		-	-	34,413	-	34,413
Disposals		-	-	(3,661)	(442)	(4,103)
Effect of movements in exchange rates		-	-	(1,547)	(1,281)	(2,828)
Balance on March 31, 2017	$	247,696	359,540	1,467,944	29,549	2,104,729
Balance on January 1, 2016	$	247,696	353,346	1,004,875	31,954	1,637,871
Additions		-	2,828	54,776	787	58,391
Reclassifications		-	-	5,935	-	5,935
Effect of movements in exchange rates		-	-	(200)	(138)	(338)
Balance on March 31, 2016	$	247,696	356,174	1,065,386	32,603	1,701,859

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	Land	Buildings and construction	Machinery and equipment	Office and other equipment	Total
Depreciation:					
Balance on January 1, 2017	$ -	45,394	469,598	21,120	536,112
Depreciation	-	3,405	46,331	1,376	51,112
Disposals	-	-	(3,560)	(481)	(4,041)
Effect of movements in exchange rates	-	-	(973)	(905)	(1,878)
Balance on March 31, 2017	$ -	48,799	511,396	21,110	581,305
Balance on January 1, 2016	$ -	32,420	356,594	17,293	406,307
Depreciation	-	3,085	32,022	1,460	36,567
Effect of movements in exchange rates	-	-	(104)	(95)	(199)
Balance on March 31, 2016	$ -	35,505	388,512	18,658	442,675
Carrying amounts:					
Balance on January 1, 2017	$ 247,696	314,146	928,717	10,135	1,500,694
Balance on March 31, 2017	$ 247,696	310,741	956,548	8,439	1,523,424
Balance on January 1, 2016	$ 247,696	320,926	648,281	14,661	1,231,564
Balance on March 31, 2016	$ 247,696	320,669	676,874	13,945	1,259,184

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

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

	March 31, 2017	December 31, 2016	March 31, 2016
Redemption of bonds payable at the option of the Company and the bondholders (note 6(h))	$ 12,160	14,400	2,800

For the three months ended March 31, 2017 and 2016, gain or loss on valuation of financial liabilities due to change in fair value was $2,240 and $0, respectively, and was recognized in other gains and losses for the period. Please refer to note 6(p).

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(f) Short-term borrowings

The details were as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Unsecured bank loans	$ 439,000	356,000	30,000
Secured bank loans	30,000	-	40,000
Total	$ 469,000	356,000	70,000
Unused credit lines	$ 807,203	1,108,132	1,051,864
Annual interest rates	0.9%~1.373%	0.9%~1.373%	1.10%~1.13%

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

(g) Long-term borrowings

The details were as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Unsecured bank loans	$ 100,000	100,000	-
Secured bank loans	150,000	150,000	-
Less: current portion	-	-	-
Total	$ 250,000	250,000	-
Unused credit lines	$ 170,000	220,000	470,000
Annual interest rates	1.2%~1.36%	1.2%~1.36%	-

(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 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 (interim) 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.

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(iii) The Company signed a long-term loan contract with CTBC Bank in June 2016. 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 (interim) 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 deem 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.

(h) Convertible bonds payable

The Group's information of domestic unsecured convertible bonds was as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Aggregate principal amount	$ 800,000	800,000	800,000
Unamortized discount	(24,355)	(27,881)	(38,464)
Accumulated converted amount	-	-	-
Ending balance of bonds payable	775,645	772,119	761,536
Less: Bonds payable – current	(775,645)	(772,119)	-
Ending balance of bonds payable – non-current	$ -	-	761,536
Embedded derivative component – the value of redemption at the option of the Company/bondholders (recorded as other current and non-current liabilities)	$ (12,160)	(14,400)	(2,800)
Equity component (recorded as capital surplus – stock option)	$ 34,656	34,656	34,656

	For the three months ended March 31, 2017	2016
Embedded derivative component – revaluation gains on redemption at the option of the Company/bondholders (recorded as other gains and losses)	$ 2,240	-
Interest expense (recorded as financial cost)	$ 3,526	3,412

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)
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 March 31, 2017 (note 1)	NT74.7

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

Note 2: Due to the conditions listed above, the Group reclassified its long-term bonds to current portion. The reclassification does not mean that the Group has to repay the bond, but the bond holders have the optional rights to require the Group to redeem the bonds.

(i) Operating lease

In the three months ended March 31, 2017 and 2016, 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, 2016, for further information.

(j) Employee benefits

(i) Defined benefit plans

There was no material volatility of the market, reimbursement, settlement or other material one-time events since the prior fiscal year. As a result, the pension cost in the accompanying interim financial statements was measured and disclosed according to the actuarial report as of December 31, 2016 and 2015.

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

	For the three months ended March 31,	
	2017	**2016**
Administrative expenses	$ 39	39

(ii) Defined contribution plans

The pension costs under defined contribution plans were as follows:

	For the three months ended March 31,	
	2017	**2016**
Operating cost	$ 2,832	3,173
Selling expenses	171	240
Administrative expenses	806	724
Research and development expenses	690	606
	$ 4,499	4,743

(k) Income taxes

(i) The amounts of income tax expenses were as follows:

	For the three months ended March 31,	
	2017	**2016**
Current tax expense	$ -	20,842

(ii) For the three months ended March 31, 2017 and 2016, there was no income tax recognized in equity.

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

	For the three months ended March 31,	
	2017	**2016**
Exchange differences on translation of foreign operations' financial statements	$ (285)	(43)

(iv) The Company's income tax returns have been examined by the tax authority through the years up to 2015.

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

	March 31, 2017	**December 31, 2016**	**March 31, 2016**
Unappropriated earnings in 1998 and after	$ 160,358	314,405	835,845
Balance of imputation credit account	$ 117,165	117,165	73,796

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

The above 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

Except for the following paragraph, there were no significant changes between the capital and other equity for the three months ended March 31, 2017 and 2016. Please refer to note 6(l) to the consolidated financial statements for the year ended December 31, 2016, for further information.

(i) Common stock

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

(ii) 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.

(iii) Earnings distribution

Based on the resolution approved in the board of directors' meeting held on March 6, 2017, the Company would not distribute earnings because of the loss for the year ended December 31, 2016.

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

	2015	
	Amount per share (dollars)	**Earnings distributed**
Cash	3.0	$ 223,076

(m) Share-based payment

Except for the following paragraph, there were no significant changes in share-based payment for the three months ended March 31, 2017 and 2016. Please refer to note 6(m) to the consolidated financial statements for the year ended December 31, 2016, for further information.

Compensation cost attributable to share-based payment for the three months ended March 31, 2017 and 2016, was $2,401 and $2,421, respectively.

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(n) Earnings (loss) per share

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

	For the three months ended March 31, 2017	2016
Basic earnings (loss) per share		
Profit (Loss) attributable to ordinary stockholders	$ (154,067)	99,345
Weighted-average number of ordinary shares (thousand shares)	73,271	73,837

	For the three months ended March 31, 2016
Diluted earnings per share	
Profit attributable to ordinary stockholders (basic)	$ 99,345
Interest expense of convertible bonds payable (after tax)	2,832
Profit attributable to ordinary stockholders (diluted)	$ 102,177
Weighted-average number of ordinary shares	73,837
Effect of employee stock bonuses	992
Effect of restricted stock	281
Effect of convertible bonds payable	10,127
Weighted-average number of ordinary shares (thousand shares)	85,237

Since the potential ordinary shares have no dilutive effect, the Company needs only disclose the calculation on basic earnings per share for the three months ended March 31, 2017.

(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 of directors' resolution, wherein the amount should not exceed 5% of annual profit after offsetting prior years' deficits.

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The Company did not estimate any remuneration to employees, and directors and supervisors due to its loss for the three months ended March 31, 2017. For the three months ended March 31, 2016, the Company estimated its employee remuneration amounted to $9,759, and directors' and supervisors' remuneration amounted to $3,487. 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 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 $61,470, and directors' and supervisors' remuneration amounted to $20,397. 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.

(p) Non-operating income and expenses

Other gains and losses for the three months ended March 31, 2017 and 2016 were as follows:

	For the three months ended March 31, 2017	2016
Foreign currency exchange losses	$ (29,465)	(25,714)
Net gains (losses) on financial assets/liabilities measured at fair value through profit or loss	2,240	-
Other	468	812
	$ (26,757)	(24,902)

(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, 2016. Please refer to note 6(r) to the consolidated financial statements for the year ended December 31, 2016, for further information.

(i) Credit risk

	March 31, 2017	December 31, 2016	March 31, 2016
Past due 1-120 days	$ 155,152	3,299	97,064
Past due 121-365 days	-	3,107	6
	$ 155,152	6,406	97,070

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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.

(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
March 31, 2017					
Non-derivative financial liabilities:					
Short-term borrowings	$ 469,000	469,688	469,688	-	-
Bonds payable	775,645	800,000	800,000	-	-
Notes and accounts payable (including related parties)	269,535	269,535	269,535	-	-
Accrued expenses and other payables	38,460	38,460	38,460	-	-
Long-term borrowings	250,000	254,863	3,238	251,625	-
	$ 1,802,640	1,832,546	1,580,921	251,625	-
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	-

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	Carrying amount	Contractual cash flows	Within 1 year	1~2 years	2~5 years
March 31, 2016					
Non-derivative financial liabilities:					
Short-term borrowings	$ 70,000	70,033	70,033	-	-
Bonds payable	761,536	800,000	-	-	800,000
Notes and accounts payable (including related parties)	797,893	797,893	797,893	-	-
Accrued expenses and other payables	35,033	35,033	35,033	-	-
	$ 1,664,462	1,702,959	902,959	-	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.

(iii) Currency risk

1) Exposure to foreign currency risk

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

	March 31, 2017			December 31, 2016			March 31, 2016		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets									
Monetary items									
USD:NTD	$ 28,315	30.330	858,794	28,309	32.250	912,965	55,601	32.185	1,789,518
JPY:NTD	-	-	-	-	-	-	114,181	0.29	32,656
Financial liabilities									
Monetary items									
USD:NTD	7,391	30.330	224,169	6,448	32.250	207,948	17,961	32.185	578,075
JPY:NTD	763	0.271	207	162	0.2760	45	748	0.286	214

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 weakening (strengthening) of 5% of the NTD against the USD and the JPY as of March 31, 2017 and 2016, would have decreased or increased the net loss before tax by $31,721 for the three months period ended March 31, 2017 and increased or decreased the net profit before tax by $62,194 for the three months period ended March 31, 2016, respectively. The analysis is performed on the same basis for both periods.

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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), NTD, was as follows:

	For the three months ended March 31,			
	2017		2016	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
NTD	$ (29,829)	1.000	(26,080)	1.000
CNY	364	4.529	366	5.050
	$ (29,465)		(25,714)	

(iv) Interest rate analysis

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

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

If the interest rate had increased or decreased by 25 basis points, the net loss before tax would have increased or decreased by the amount of $215 and the net profit before tax would have increased or decreased by the amount of $341 for the three months ended March 31, 2017 and 2016 respectively, which would have mainly resulted from bank savings and borrowings with variable interest rates.

Financial instruments with fixed interest rates held or issued by the Group are valued at amortized cost. Since the change in market interest rate at the end of each reporting have 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.

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	March 31, 2017				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Loans and receivables					
Cash and cash equivalents	$ 449,569				
Notes and accounts receivable (including related parties)	440,498				
Other receivables	157				
Total	$ 890,224				
Financial liabilities at amortized cost through profit or loss					
Borrowings	$ 719,000				
Notes and accounts payable (including related parties)	269,535				
Bonds payable	775,645	-	804,000	-	804,000
Other financial liabilities	86,318				
Total	$ 1,850,498				
Financial liabilities at fair value through profit or loss – current	$ 12,160	-	-	12,160	12,160

	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				
Bonds payable	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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	March 31, 2016				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Loans and receivables					
Cash and cash equivalents	$ 618,029				
Notes and accounts receivable (including related parties)	1,263,969				
Other receivables	62				
Total	$ 1,882,060				
Financial liabilities at amortized cost through profit or loss					
Borrowings	$ 70,000				
Notes and accounts payable (including related parties)	797,893				
Bonds payable	761,536	-	858,480	-	858,480
Other financial liabilities	311,746				
Total	$ 1,941,175				
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

	Convertible bonds	Total
Balance on January 1, 2017	$ (14,400)	(14,400)
Recognized in profit or loss	2,240	2,240
Balance on March 31,2017	$ (12,160)	(12,160)
Balance on January 1,2016	$ (2,800)	(2,800)
Recognized in profit or loss	-	-
Balance on March 31,2016	$ (2,800)	(2,800)

The aforementioned total gains and losses were recognized in “other gains and losses”.

(Continued)

The details of the liabilities which the Group still held as of March 31, 2017 and 2016, were as follows:

	For the three months ended March 31,	
	2017	**2016**
Total gains and losses (recognized in "other gains and losses")	$ 2,240	-

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 three months ended March 31, 2017 and 2016, there were no transfers between levels.

(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, 2016.

(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, 2016. The information on capital management items has no significant difference from that of the consolidated financial statements for the year ended December 31, 2016. Please refer to note 6(t) to the consolidated financial statements for the year ended December 31, 2016, 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 in the three months ended March 31, 2017 and 2016, were as follows:

(i) The increase in property, plant and equipment and other non-current assets from the transfer of prepayment for equipment was $34,413 and $6,097. Please refer to note 6(d).

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(7) Related-party transactions:

(a) Name and relationship with related parties

The followings are entities that have had transactions with the related party during the periods covered in the consolidated interim financial statements.

Name of related party	Relationship with the Group
InnoLight Technology (Suzhou) Ltd.	The same chairman as the Company
Key management personnel	Key management personnel of the Group

(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		
	For the three months ended March 31,		March 31,	December	March 31,
	2017	2016	2017	31, 2016	2016
Other related party	$ 57,145	91,226	58,318	66,603	89,474

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		
	For the three months ended March 31,		March 31,	December	March 31,
	2017	2016	2017	31, 2016	2016
Other related party	$ -	1,251	-	157	3,583

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.

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(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		
	For the three months ended March 31,				
	2017	2016	March 31, 2017	December 31, 2016	March 31, 2016
Other related party	$ 127	210	144	-	240

(c) Key management personnel compensation

	For the three months ended March 31,	
	2017	2016
Short-term employee benefits	$ 7,564	14,711
Post-employment benefits	216	209
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	251	902
	$ 8,031	15,822

Please refer to note 6(m) to the information about share-based payment.

(8) Pledged assets:

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

		Book value of pledged assets		
Pledged assets	Pledged to secure	March 31, 2017	December 31, 2016	March 31, 2016
Fixed assets – land	Loan and credit line collateral	$ 247,696	247,696	247,696
Fixed assets – buildings and construction	Loan and credit line collateral	310,741	314,146	320,669
		$ 558,437	561,842	568,365

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(9) Significant commitments and contingencies:

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

	March 31, 2017	December 31, 2016	March 31, 2016
Unused letters of credit for purchasing machinery and equipment	$ 2,757	32,992	93,726

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

		March 31, 2017	December 31, 2016	March 31, 2016
Guarantee notes issued	USD	$ 19,500	24,500	21,570
Guarantee notes issued	NTD	$ 1,131,652	1,131,652	931,652

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:

In order to strengthen competitiveness and promote operating efficiency, a resolution was approved in the board of directors'meeting held on April 12, 2017, to undertake a cash offering by private placement. The expected amount of issuance would be less than 27,000 thousand shares. The proposal for private placement has yet to be approved during the stockholders' meeting.

(12) Other:

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

By function / By item	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	Operating cost	**Operating expenses**	**Total**	**Operating cost**	**Operating expenses**	**Total**
Employee benefit expenses						
Salaries	54,309	36,069	90,378	74,967	56,177	131,144
Labor and health insurance	5,514	2,679	8,193	6,337	3,032	9,369
Pension	2,832	1,706	4,538	3,173	1,609	4,782
Others	5,103	3,000	8,103	5,419	2,557	7,976
Depreciation	44,324	6,788	51,112	32,402	4,165	36,567
Amortization	4,729	6,812	11,541	4,401	6,124	10,525

(Continued)

(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) Information regarding Securities held as of March 31, 2017 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Share/Units (thousands)	Fair value	Share/Units (thousands)	Percentage of ownership (%)	
The Company	BANDWIDTH10, INC	Investee at cost	Financial assets at cost - noncurrent	220	-	4.43 %	(Note)	220	4.43 %	

Note: Unlisted Company.

(iv) Information regarding individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the Company's paid-in capital: None.

(v) Information regarding acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the Company's paid-in capital: None.

(vi) Information regarding disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the Company's paid-in capital: None.

(vii) Information regarding related-party transactions for purchases and sales with amounts exceeding the lower of NT$100 million or 20% of the Company's paid-in capital: None.

(viii) Information regarding receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the Company's paid-in capital: None.

(ix) Information regarding trading in derivative instruments: None.

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(x) Business relationships and significant intercompany transactions:

For the three months ended March 31, 2017

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			Percentage of the consolidated net revenue or total assets
				Account name	Amount	Trading terms	
0	The Company	Toptrans (Suzhou) Corporation Limited	Transaction between parent company and subsidiary	Operating costs	17,719	Open account 30 days	4.44%

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

(b) Information on investments:

The following is the information on investees for the three months ended March 31, 2017 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account tile	Original investment amount		Ending balance			Investee recognize as of March 31, 2017		Note
				March 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership(%)	Carrying value	Net income (losses)	Investment income (losses)	
The Company	Toplight Corporation Limited	Brunei	Holding company	122,980	122,980	4,000	100 %	31,597	(8,857)	(8,857)	(Note)
Toplight Corporation Limited	Toptrans Corporation Limited	Hong Kong	Holding company	122,980	122,980	4,000	100 %	31,597	(8,857)	(8,857)	(Note)

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

(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars)

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, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of March 31, 2017	Percentage of ownership	Net income (losses) of the investee	Carrying value as of March 31, 2017	Accumulated remittance of earnings in current period
					Outflow	Inflow					
Toptrans (Suzhou) Corporation Limited	Electronic components manufacturing	122,980 (USD 4,000)	(note)	122,980 (USD 4,000)	-	-	122,980 (USD 4,000)	100 %	(8,857)	31,597	-

Note: The company indirectly invest Toptrans (Suzhou) by Toplight Corporation and Toptrans Corporations Limited.
Note 1: The long-term equity investments were eliminated in the preparation of the consolidated interim financial statements.

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of March 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
122,980 (USD4,000)	123,743 (USD4,000)	881,903

Note 1: The company indirectly invest Toptrans (Suzhou) by Toplight Corporation and Toptrans Corporations Limited.

Note 2: The information was came from the financial reports prepared by the investees, not reviewed by auditors.

Note 3: The TWD amount was measured on 3.31.2017 with the spot exchange rate of 30.33, except for the investment income (which are measured by using the average exchange rate for the three months ended March 31) and outflow of investment (which was measured by using the exchange rate on outflow date).

Note 4: The long-term equity investments were eliminated in the preparation of the consolidated interim financial statements.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated interim financial statements for the three months ended March 31, 2017, are disclosed in " Information on significant transactions" and "Business relationships and significant intercompany transactions".

(14) 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 three months ended March 31, 2017 and 2016, were the same as the Group's consolidated interim financial statements.