

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

**LUXNET CORPORATION
AND ITS SUBSIDIARIES**

Consolidated Interim Financial Statements

September 30, 2017 and 2016

(With Independent Auditors' Review Report Thereon)

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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 September 30, 2017 and 2016, 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, 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 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". A review consists principally of inquiries of the Group's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with the generally accepted auditing standards, the objective of which is the expression of 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 interim financial statements of subsidiaries, which were not reviewed by independent auditors. The total assets of these subsidiaries amounted to NT\$45,043 thousand and NT\$105,685 thousand, constituting 1% and 3% of the total consolidated assets as of September 30, 2017 and 2016, respectively. The total liabilities amounted to NT\$16,982 thousand and NT\$32,192 thousand, constituting 1% and 2% of the total consolidated liabilities as of September 30, 2017 and 2016, respectively. The comprehensive income amounted to a loss of NT\$9,460 thousand, NT\$5,751 thousand, NT\$29,453 thousand and NT\$13,180 thousand, constituting 7%, 5%, 7% and 30% of the total consolidated comprehensive income for the three months and for the nine months ended September 30, 2017 and 2016, respectively.

Based on our reviews, except for the effects of the adjustments, if any, that might have emerged had the interim 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 Regulations 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 of the Republic of China.

KPMG

Taipei, Taiwan (Republic of China)
November 8, 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 generally accepted auditing standards as of September 30, 2017 and 2016.

LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2017 and December 31 and September 30, 2016

(Expressed in thousands of New Taiwan Dollars)

	September 30, 2017		December 31, 2016		September 30, 2016	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (note 6(a))	\$ 793,766	22	539,171	16	573,836	16
1170 Notes and account receivable, net (note 6(b))	475,076	13	340,594	10	468,407	13
1180 Accounts receivable from related parties, net (notes 6(b) and 7)	-	-	66,603	2	84,504	2
130X Inventories, net (note 6(c))	786,734	22	783,877	23	816,284	23
1410 Prepaid expenses	5,794	-	6,106	-	15,114	-
1470 Other current assets (note 6(b))	37,280	1	37,580	1	27,950	1
	<u>2,098,650</u>	<u>58</u>	<u>1,773,931</u>	<u>52</u>	<u>1,986,095</u>	<u>55</u>
Non-current assets:						
1600 Property, plant and equipment (notes 6(d), (t) and 8)	1,463,182	40	1,500,694	44	1,450,547	41
1780 Intangible assets	7,800	-	15,960	1	18,322	1
1900 Other non-current assets (note 6(t))	51,348	2	93,103	3	122,609	3
	<u>1,522,330</u>	<u>42</u>	<u>1,609,757</u>	<u>48</u>	<u>1,591,478</u>	<u>45</u>
Total assets	<u>\$ 3,620,980</u>	<u>100</u>	<u>3,383,688</u>	<u>100</u>	<u>3,577,573</u>	<u>100</u>
Liabilities and Equity						
Current liabilities:						
2100 Short-term borrowings (note 6(f))	\$ 415,000	11	356,000	11	694,000	19
2170 Notes and accounts payable	254,541	7	252,391	7	295,684	8
2180 Accounts payable to related parties (note 7)	-	-	157	-	305	-
2200 Accrued expenses and other payables	75,043	2	96,155	3	88,211	2
2321 Bonds payable, current portion (note 6(h))	782,745	22	772,119	23	-	-
2322 Long-term borrowings, current portion (notes 6(g) and 8)	100,000	3	-	-	-	-
2300 Other current liabilities (notes 6(e) and (h))	20,820	1	22,992	1	13,198	1
	<u>1,648,149</u>	<u>46</u>	<u>1,499,814</u>	<u>45</u>	<u>1,091,398</u>	<u>30</u>
Non-Current liabilities:						
2530 Bonds payable (note 6(h))	-	-	-	-	768,609	21
2540 Long-term borrowings (notes 6(g) and 8)	250,000	7	250,000	7	-	-
2600 Other non-current liabilities (notes 6(e) and (h))	9,667	-	10,858	-	22,231	1
	<u>259,667</u>	<u>7</u>	<u>260,858</u>	<u>7</u>	<u>790,840</u>	<u>22</u>
	<u>1,907,816</u>	<u>53</u>	<u>1,760,672</u>	<u>52</u>	<u>1,882,238</u>	<u>52</u>
Total liabilities						
Equity attributable to owners of parent:						
3100 Ordinary shares (notes 6(l) and (m))	910,216	25	738,577	22	738,577	21
3200 Capital surplus (note 6(h))	801,515	22	460,559	13	461,415	13
3310 Legal reserve (note 6(l))	120,889	3	120,889	4	120,889	3
3350 Unappropriated retained earnings (Accumulated deficit) (note 6(l))	(114,699)	(3)	314,405	9	389,211	11
3400 Other equity (note 6(m))	(4,757)	-	(11,414)	-	(14,757)	-
	<u>1,713,164</u>	<u>47</u>	<u>1,623,016</u>	<u>48</u>	<u>1,695,335</u>	<u>48</u>
Total equity	<u>1,713,164</u>	<u>47</u>	<u>1,623,016</u>	<u>48</u>	<u>1,695,335</u>	<u>48</u>
Total liabilities and equity	<u>\$ 3,620,980</u>	<u>100</u>	<u>3,383,688</u>	<u>100</u>	<u>3,577,573</u>	<u>100</u>

(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 and for the nine months ended September 30, 2017 and 2016

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

	For the three months ended September 30				For the nine months ended September 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
4000 Operating revenues (note 7)	\$ 514,546	100	478,394	100	1,251,338	100	2,119,747	100
5000 Operating costs (notes 6(c), (j), (m), (o), 7 and 12)	566,884	110	498,350	104	1,408,726	113	1,818,119	86
Gross profit (loss)	(52,338)	(10)	(19,956)	(4)	(157,388)	(13)	301,628	14
Operating expenses (notes 6(j), (m), (o), 7 and 12):								
6100 Selling expenses	6,441	1	8,559	2	20,301	2	31,736	1
6200 Administrative expenses	34,065	7	29,035	6	102,625	8	112,101	5
6300 Research and development expenses	26,796	5	48,501	10	103,801	8	121,256	6
Total operating expenses	67,302	13	86,095	18	226,727	18	265,093	12
Net operating income (loss)	(119,640)	(23)	(106,051)	(22)	(384,115)	(31)	36,535	2
Non-operating income and expenses:								
7020 Other gains and losses, net (notes 6 (e), (h) & (p))	(2,041)	-	(16,943)	(4)	(30,452)	(2)	(39,707)	(2)
7050 Finance costs, net (note 6(h))	(5,729)	(1)	(4,556)	(1)	(16,598)	(1)	(11,915)	(1)
7100 Interest revenue	676	-	113	-	1,123	-	431	-
	(7,094)	(1)	(21,386)	(5)	(45,927)	(3)	(51,191)	(3)
7900 Loss before tax	(126,734)	(24)	(127,437)	(27)	(430,042)	(34)	(14,656)	(1)
7950 Less: income tax expense (benefits) (note 6(k))	-	-	(24,260)	(5)	(799)	-	26,503	1
Loss	(126,734)	(24)	(103,177)	(22)	(429,243)	(34)	(41,159)	(2)
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	285	-	(1,702)	-	(978)	-	(3,447)	-
8399 Income tax expense related to items that may be reclassified subsequently to profit or loss (note 6(k))	(49)	-	289	-	166	-	586	-
	236	-	(1,413)	-	(812)	-	(2,861)	-
8300 Other comprehensive income (loss), net (after tax)	236	-	(1,413)	-	(812)	-	(2,861)	-
Comprehensive income (loss)	\$ (126,498)	(24)	(104,590)	(22)	(430,055)	(34)	(44,020)	(2)
Earnings (Loss) per share (note 6(n))								
Basic earnings (loss) per share	\$ (1.40)		(1.41)		(5.44)		(0.56)	

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LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the nine months ended September 30, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings			Other equity interest			Total equity		
	Ordinary shares	Capital surplus	Legal reserve	Unappropriated retained earnings (Accumulated deficit)	Total retained earnings	Exchange differences on translation of foreign operation's financial statements		Unearned employee compensation	Treasury shares
Balance on January 1, 2016	\$ 743,719	457,209	66,635	736,494	803,149	2,584	(17,291)	-	1,989,370
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 appropriated	-	-	54,234	(54,234)	-	-	-	-	-
Cash dividends of ordinary shares	3,690	10,184	-	(223,076)	(223,076)	-	-	-	(223,076)
Issuance of restricted stock	-	-	-	-	-	-	(6,494)	-	7,380
Amortization of restricted stock	-	-	-	-	-	-	8,301	-	8,301
Refinement 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	(42,204)
Balance on September 30, 2016	\$ 738,577	461,415	120,889	389,211	510,100	(277)	(14,480)	-	1,695,335
Balance on January 1, 2017	\$ 738,577	460,559	120,889	314,405	435,294	(734)	(10,680)	-	1,623,016
Loss	-	-	-	(429,243)	(429,243)	-	-	-	(429,243)
Other comprehensive loss	-	-	-	-	-	(812)	-	-	(812)
Comprehensive loss	-	-	-	(429,243)	(429,243)	(812)	-	-	(430,055)
Issuance of ordinary shares	170,000	340,000	-	-	-	-	-	-	510,000
Issuance of restricted stock	2,080	4,378	-	-	-	-	-	-	4,160
Amortization of restricted stock	-	-	-	-	-	-	(2,298)	-	7,070
Retirement of restricted stock	(441)	(3,422)	-	139	139	-	2,697	-	(1,027)
Balance on September 30, 2017	\$ 910,216	801,515	120,889	(114,699)	6,190	(1,546)	(3,211)	-	1,713,164

Appropriation and distribution of retained earnings:

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LUXNET CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2017	2016
Cash flows from (used in) operating activities:		
Loss before tax	\$ (430,042)	(14,656)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization expense	178,594	157,365
Provisions for bad debt expense	278	3,129
Losses (gains) on inventory valuation and obsolete inventories	(18,564)	62,722
Loss on disposal of inventories	96,122	-
Compensation cost of share-based payment	7,070	8,301
Loss on financial liabilities at fair value through profit or loss	3,745	9,920
Loss on disposal of property, plant and equipment	4	35
Interest expense	16,598	11,915
Interest revenue	(1,123)	(431)
Total adjustments to reconcile profit	282,724	252,956
Changes in operating assets and liabilities:		
Notes and accounts receivable	(68,163)	763,832
Inventories	(80,844)	(259,515)
Prepaid expenses and other current assets	1,418	4,916
Total changes in operating assets	(147,589)	509,233
Notes and accounts payable	1,993	(473,359)
Accrued expenses and other payables	(21,127)	(197,364)
Others	(6,942)	(10,120)
Total changes in operating liabilities	(26,076)	(680,843)
Total changes in operating assets and liabilities	(173,665)	(171,610)
Total adjustments	109,059	81,346
Cash inflow generated from (used in) operations	(320,983)	66,690
Interest received	1,117	426
Interest paid	(5,961)	(1,278)
Income taxes paid	-	(124,597)
Net cash flows used in operating activities	(325,827)	(58,759)
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(65,308)	(274,034)
Proceeds from disposal of property, plant and equipment	76	60
Increase in prepayments for equipments	(16,466)	(96,176)
Acquisition of other non-current assets	(9,887)	(24,369)
Net cash flows used in investing activities	(91,585)	(394,519)
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	59,000	672,000
Increase in long-term borrowings	100,000	-
Issuance of restricted stock	4,160	7,380
Proceeds from issuing ordinary shares	510,000	-
Cash dividends paid	-	(223,076)
Cost of acquisition of treasury shares	-	(42,204)
Others	(1,027)	(416)
Net cash flows from financing activities	672,133	413,684
Effect of exchange rate changes on cash and cash equivalents	(126)	529
Net increase (decrease) in cash and cash equivalents	254,595	(39,065)
Cash and cash equivalents at beginning of period	539,171	612,901
Cash and cash equivalents at end of period	\$ 793,766	573,836

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 the generally accepted auditing standards as of
September 30, 2017 and 2016

LUXNET CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

September 30, 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 November 8, 2017.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

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

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 believes that the adoption of the above IFRSs would not have any material impact on its consolidated interim financial statements.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Classification and Measurement of Share based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated interim financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting. The actual impact of adopting IFRS 9 on the Group’s consolidated financial statements in 2018 can only be determined and reliably estimated depending on the financial instruments that the Group holds and economic conditions at that time, as well as the accounting elections and judgments that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments. However, the Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on its positions at September 30, 2017 and hedging relationships designated under during the first half of 2017 under IAS 39.

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at September 30, 2017, would have had a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

2) Impairment-Financial assets and contact assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

Based on its preliminary assessment, the Group does not believe that the adoption of IFRS 9 would have a material impact.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group’s preliminary assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at 1 January 2018.

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

1) Sales of goods

For the sale of A products, revenue is currently recognized when the goods are delivered to the customers’ premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Group has performed an initial assessment, indicating the timing of the related risks and rewards transferred is similar to the timing of control transferred. Therefore, the Group believes that there would not be any material impact on its consolidated financial statements.

2) Transition

The Group plans to adopt IFRS 15 in its consolidated financial statements using the cumulative effect approach. As a result, there is no need to reproduce the comparative information in previous periods. The cumulative effect of the first application of the principle will adjust the retained earnings of January 1, 2018.

The Group plans to use the practical expedients for completed contracts. This means that when a contract is deemed as a completed contracts at the date of adoption (January 1, 2018), it will not be restated.

Based on preliminary assessment, revenue might be adjusted due to the adoption of IFRS 15; however, any quantitative impact needs to be assessed further.

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LUXNET CORPORATION AND ITS SUBSIDIARIES
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- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019

Those which may be relevant to the Group are set out below:

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

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

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LUXNET CORPORATION AND ITS SUBSIDIARIES
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(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 statements 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:

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		
			September 30, 2017	December 31, 2016	September 30, 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.

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LUXNET CORPORATION AND ITS SUBSIDIARIES
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(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.

(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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Cash on hand	\$ 895	376	334
Demand deposits	282,871	523,696	537,835
Time deposits	<u>510,000</u>	<u>15,099</u>	<u>35,667</u>
Cash and cash equivalents in consolidated statement of cash flows	<u>\$ 793,766</u>	<u>539,171</u>	<u>573,836</u>

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LUXNET CORPORATION AND ITS SUBSIDIARIES
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(b) Notes and accounts receivable, and other receivables

	September 30, 2017	December 31, 2016	September 30, 2016
Notes receivable	\$ 25	-	14
Accounts receivable	481,779	413,648	557,989
Other receivables	2,062	128	134
Less: allowance for doubtful accounts	<u>(6,728)</u>	<u>(6,451)</u>	<u>(5,092)</u>
	<u><u>\$ 477,138</u></u>	<u><u>407,325</u></u>	<u><u>553,045</u></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.

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

	For the nine months ended September 30	
	2017	2016
Balance on January 1	\$ 6,451	1,964
Recognition of impairment loss	278	3,129
Exchange differences on translation of foreign currency	<u>(1)</u>	<u>(1)</u>
Balance on September 30	<u><u>\$ 6,728</u></u>	<u><u>5,092</u></u>

(c) Inventories

	September 30, 2017	December 31, 2016	September 30, 2016
Raw materials	\$ 226,976	295,856	308,374
Work in process	168,196	260,837	266,834
Finished goods	<u>391,562</u>	<u>227,184</u>	<u>241,076</u>
	<u><u>\$ 786,734</u></u>	<u><u>783,877</u></u>	<u><u>816,284</u></u>

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LUXNET CORPORATION AND ITS SUBSIDIARIES
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For the three months and nine months ended September 30, 2017 and 2016, the Group recognized the following items as cost of goods sold:

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Losses (gains) on inventory valuation and obsolete inventories	\$ (74,995)	22,500	(18,564)	62,722
Loss on disposal of inventories	96,122	-	96,122	-
Sales of scraps	(1,957)	-	(4,863)	(2,836)
Unallocated fixed overhead cost under the standard capacity	<u>25,816</u>	<u>14,027</u>	<u>50,488</u>	<u>14,027</u>
	<u>\$ 44,986</u>	<u>36,527</u>	<u>123,183</u>	<u>73,913</u>

As of September 30, 2017, December 31 and September 30, 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 nine months ended September 30, 2017 and 2016 were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Total</u>
Cost or deemed cost:					
Balance on January 1, 2017	\$ 247,696	359,540	1,398,315	31,255	2,036,806
Additions	-	2,240	62,865	203	65,308
Reclassifications	-	-	50,931	-	50,931
Disposals	-	-	(5,585)	(635)	(6,220)
Effect of movements in exchange rates	-	-	(421)	(459)	(880)
Balance on September 30, 2017	<u>\$ 247,696</u>	<u>361,780</u>	<u>1,506,105</u>	<u>30,364</u>	<u>2,145,945</u>
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>1,949,038</u>

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LUXNET CORPORATION AND ITS SUBSIDIARIES
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	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Total</u>
Depreciation:					
Balance on January 1, 2017	\$ -	45,394	469,598	21,120	536,112
Depreciation	-	10,458	140,129	2,713	153,300
Disposals	-	-	(5,549)	(595)	(6,144)
Effect of movements in exchange rates	-	-	(250)	(255)	(505)
Balance on September 30, 2017	<u>\$ -</u>	<u>55,852</u>	<u>603,928</u>	<u>22,983</u>	<u>682,763</u>
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>498,491</u>
Carrying amounts:					
Balance on January 1, 2017	<u>\$ 247,696</u>	<u>314,146</u>	<u>928,717</u>	<u>10,135</u>	<u>1,500,694</u>
Balance on September 30, 2017	<u>\$ 247,696</u>	<u>305,928</u>	<u>902,177</u>	<u>7,381</u>	<u>1,463,182</u>
Balance on January 1, 2016	<u>\$ 247,696</u>	<u>320,926</u>	<u>648,281</u>	<u>14,661</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>1,450,547</u>

As of September 30, 2017, December 31 and September 30, 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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Redemption of bonds payable at the option of the Company and the bondholders (note 6(h))	\$ 17,840	14,400	12,720
Derivative instruments not used for hedging (recorded as other current liabilities)	<u>112</u>	<u>-</u>	<u>-</u>
	<u>\$ 17,952</u>	<u>14,400</u>	<u>12,720</u>

(i) Derivative financial instruments are used to manage certain foreign currency risk arising from the Group's operation. As of September 30, 2017, the derivative financial instrument not used for hedging, which was accounted for as held for trading financial liabilities, was as follows:

	<u>September 30, 2017</u>		
	<u>Amount (thousand)</u>	<u>Currency</u>	<u>Maturity date</u>
Forward exchange sold	USD 900	USD : TWD	2017.10.31

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There were no relevant derivative instruments as of December 31 and September 30, 2016.

- (ii) For the three months and for the nine months ended September 30, 2017 and 2016, loss on valuation of financial liabilities due to change in fair value were \$1,502, \$6,320, \$3,745 and \$9,920, respectively, and were recognized in other gains and losses for the period. Please refer to note 6(p).

(f) Short-term borrowings

The details were as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Unsecured bank loans	\$ <u>415,000</u>	<u>356,000</u>	<u>694,000</u>
Unused credit lines	\$ <u>440,780</u>	<u>1,108,132</u>	<u>820,060</u>
Annual interest rates	<u>0.9%~1.373%</u>	<u>0.9%~1.373%</u>	<u>0.90%~1.369%</u>

(g) Long-term borrowings

The details were as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Unsecured bank loans	\$ 100,000	100,000	-
Secured bank loans	250,000	150,000	-
Less: current portion	<u>(100,000)</u>	<u>-</u>	<u>-</u>
Total	\$ <u>250,000</u>	<u>250,000</u>	<u>-</u>
Unused credit lines	\$ <u>70,000</u>	<u>220,000</u>	<u>420,000</u>
Period-end interest rates	<u>1.23%~1.38%</u>	<u>1.2%~1.36%</u>	<u>-</u>

- (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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LUXNET CORPORATION AND ITS SUBSIDIARIES
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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 deemed to be due. According to the contract, the Company should transfer its business transaction cash flow to the CTBC Bank account every half-year, and the cash flow is at least \$350,000.

(h) Convertible bonds payable

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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Aggregate principal amount	\$ 800,000	800,000	800,000
Unamortized discount	(17,255)	(27,881)	(31,391)
Accumulated converted amount	-	-	-
Ending balance of bonds payable	782,745	772,119	768,609
Less: Bonds payable – current	<u>(782,745)</u>	<u>(772,119)</u>	<u>-</u>
Ending balance of bonds payable – non-current	<u>\$ -</u>	<u>-</u>	<u>768,609</u>
Embedded derivative component – the value of redemption at the option of the Company/bondholders (recorded as other current and non-current liabilities)	<u>\$ (17,840)</u>	<u>(14,400)</u>	<u>(12,720)</u>
Equity component (recorded as capital surplus – stock option)	<u>\$ 34,656</u>	<u>34,656</u>	<u>34,656</u>
	<u>For the three months ended September 30</u>	<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Embedded derivative component – revaluation gains on redemption at the option of the Company/bondholders (recorded as other gains and losses)	<u>\$ 1,600</u>	<u>6,320</u>	<u>3,440</u>
Interest expense (recorded as financial cost)	<u>\$ 3,558</u>	<u>3,494</u>	<u>10,485</u>

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

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

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(j) Employee benefits

(i) 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 accompanying interim financial statements was measured and disclosed as of December 31, 2016 and 2015.

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

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Administrative expenses	\$ <u>39</u>	<u>39</u>	<u>117</u>	<u>117</u>

(ii) Defined contribution plans

The pension costs under defined contribution plans were as follows:

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Operating cost	\$ 2,895	3,301	8,837	9,783
Selling expenses	135	209	477	633
Administrative expenses	758	770	2,373	2,195
Research and development expenses	<u>659</u>	<u>806</u>	<u>2,053</u>	<u>2,080</u>
	<u>\$ 4,447</u>	<u>5,086</u>	<u>13,740</u>	<u>14,691</u>

(k) Income taxes

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

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current tax expense (benefits)	\$ <u>-</u>	<u>(24,260)</u>	<u>(799)</u>	<u>26,503</u>

(ii) For the three months ended and for the nine months ended September 30, 2017 and 2016, there was no income tax recognized in equity.

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

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2017	2016	2017	2016
Exchange differences on translation of foreign operations' financial statements \$	49	(289)	(166)	(586)

- (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:

	September 30, 2017	December 31, 2016	September 30, 2016
Unappropriated earnings in 1998 and after	\$ (114,699)	314,405	389,211
Balance of imputation credit account	\$ 118,587	117,165	103,386
		2016(actual)	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.

(I) 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, 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 stockholders' meeting held on May 26, 2017, the board of directors was authorized to undertake cash offering through private placement within one year, with less than 27,000 thousand stocks to be issued. On June 2, 2017, the board of directors resolved to issue 17,000 thousand new common stocks amounting to \$510,000 at \$30 per share, with a par value of \$10 per share, and June 26, 2017 was set as the date of capital increase. The relevant statutory registration procedures had been completed.

The aforementioned private placement of ordinary shares and the transfer of any subsequently obtained bonus shares would be subject to the requirements stated under section 43(8) of the Securities and Exchange Act. The Company can only apply for these shares, to be traded on the TPEX, after a three-year period has elapsed from the delivery date of the private placement securities, and after applying for a public offering from the Financial Supervisory Commission.

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Based on the resolution approved in the board of directors' meeting held on March 2, May 11, 2016, and May 10, 2017, the number of shares was reduced by 13, 10 and 44 thousand shares, respectively, from the retirement of restricted stock, with March 9, May 16, 2016, and June 21, 2017, respectively, as the date of capital reduction. The relevant statutory registration procedures had been 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 stockholders' meeting held on May 26, 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 \$	<u>223,076</u>

(iv) Treasury shares

For the nine months ended September 30, 2016, the Company repurchased 860 thousand shares, amounted to \$42,204, 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, 2017.

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

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

(m) Share-based payment

Except for the following paragraph, there were no significant changes in share-based payment for the nine months ended September 30, 2017 and 2016. Please refer to note 6(m) to the consolidated financial statements for the year ended December 31, 2016, for further information.

- (i) Based on the resolution approved in the stockholders' meeting 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.
- (ii) Based on the resolution approved in the board of directors' meeting held on September 2, 2016, and May 10, 2017, the Company resolved to issue 413 and 244 thousand new shares of restricted stock, respectively. The actual numbers of shares issued were 369 and 208 thousand shares, respectively.
- (iii) As of September 30, 2017, the outstanding restricted stock of the Company was as follows:

	<u>Plan 4-2</u>	<u>Plan 4-1</u>
	June 1, 2017	September 21, 2016
Grant date		
Fair value on grant date (per share)	31.05	37.60
Exercise price	20	20
Granted units (thousand shares)	208	369
Vesting period	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.

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.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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

(thousand shares)	For the nine months ended September 30	
	2017	2016
Outstanding at January 1	567	534
Granted during the year	208	369
Vested during the year	(326)	(294)
Expired during the year	(73)	(22)
Outstanding at September 30	<u>376</u>	<u>587</u>

Compensation cost attributable to share-based payment for the three months and nine months ended September 30, 2017 and 2016, was \$3,379, \$2,882, \$7,070 and \$8,301, respectively.

(n) Earnings (loss) per share

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

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Basic earnings (loss) per share				
Loss attributable to ordinary stockholders	<u>\$ (126,734)</u>	<u>(103,177)</u>	<u>(429,243)</u>	<u>(41,159)</u>
Weighted-average number of ordinary shares (thousand shares)	<u>90,334</u>	<u>73,169</u>	<u>78,960</u>	<u>73,557</u>

Since the potential ordinary shares have no dilutive effect, the Company needs only disclose the calculation on basic earnings per share for the nine months ended September 30, 2017 and 2016.

(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 Company did not estimate any remuneration to employees, and directors and supervisors due to its loss for the nine months ended September 30, 2017. For the three months and for the nine months ended September 30, 2016, the Company reversed its employee remuneration amounted to \$8,059, and \$0, and directors' and supervisors' remuneration amounted to \$3,287 and \$0. 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.

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LUXNET CORPORATION AND ITS SUBSIDIARIES
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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 were as follows:

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Foreign currency exchange losses	\$ (646)	(11,263)	(27,589)	(31,668)
Net losses on financial assets/liabilities measured at fair value through profit or loss	(1,502)	(6,320)	(3,745)	(9,920)
Other	<u>107</u>	<u>640</u>	<u>882</u>	<u>1,881</u>
	<u>\$ (2,041)</u>	<u>(16,943)</u>	<u>(30,452)</u>	<u>(39,707)</u>

(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

	<u>September</u> <u>30, 2017</u>	<u>December</u> <u>31, 2016</u>	<u>September</u> <u>30, 2016</u>
Past due 1-120 days	\$ 18,748	3,299	93,946
Past due 121-365 days	<u>4,438</u>	<u>3,107</u>	<u>-</u>
	<u>\$ 23,186</u>	<u>6,406</u>	<u>93,946</u>

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

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(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
September 30, 2017					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 415,000	415,246	415,246	-	-
Bonds payable	782,745	800,000	800,000	-	-
Notes and accounts payable (including related parties)	254,451	254,541	254,541	-	-
Accrued expenses and other payables	26,821	26,821	26,821	-	-
Long-term borrowings	350,000	356,111	101,148	254,963	-
	<u>\$ 1,829,017</u>	<u>1,852,719</u>	<u>1,597,756</u>	<u>254,963</u>	<u>-</u>
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	-
	<u>\$ 1,660,237</u>	<u>1,691,047</u>	<u>1,438,688</u>	<u>252,359</u>	<u>-</u>
September 30, 2016					
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	30,117	30,117	30,117	-	-
	<u>\$ 1,788,715</u>	<u>1,821,048</u>	<u>1,021,048</u>	<u>-</u>	<u>800,000</u>

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

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(iii) Currency risk

1) Exposure to foreign currency risk

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

	September 30, 2017			December 31, 2016			September 30, 2016		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets									
Monetary items									
USD:TWD	\$ 23,080	30.260	698,401	28,309	32.250	912,965	33,879	31.360	1,062,445
CNY:TWD	283	4.551	1,288	353	4.617	1,630	144	4.69	676
JPY:TWD	10	0.269	3	-	-	-	10	0.311	3
Financial liabilities									
Monetary items									
USD:TWD	5,650	30.260	170,969	6,448	32.250	207,948	6,082	31.360	190,732
CNY:TWD	9	4.551	41	4	4.6170	18	197	4.693	925
JPY:TWD	-	-	-	162	0.2760	45	25	0.311	8

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 TWD against the USD, the CNY and the JPY as of September 30, 2017 and 2016, would have decreased or increased the net loss before tax by \$26,434 and \$43,573 for the nine months ended September 30, 2017 and 2016, respectively. The analysis is performed on the same basis for both periods.

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

	For the nine months ended September 30			
	2017		2016	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
TWD	\$ (28,376)	1.000	(31,153)	1.000
CNY	787	4.492	(515)	4.916
	<u>\$ (27,589)</u>		<u>(31,668)</u>	

(iv) Interest rate analysis

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

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

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 \$904 and \$293 for the nine months ended September 30, 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.

	September 30, 2017				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Loans and receivables					
Cash and cash equivalents	\$ 793,766				
Notes and accounts receivable	475,076				
Other receivables	<u>2,062</u>				
Total	<u>\$ 1,270,904</u>				
Financial liabilities at amortized cost through profit or loss					
Borrowings	\$ 765,000				
Notes and accounts payable	254,541				
Bonds payable	782,745	-	798,400	-	798,400
Other financial liabilities	<u>75,043</u>				
Total	<u>\$ 1,877,329</u>				
Financial liabilities at fair value through profit or loss – current					
	<u>\$ 17,952</u>	-	-	17,952	17,952

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

		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	<u>128</u>				
Total	<u>\$ 946,496</u>				
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	<u>96,155</u>				
Total	<u>\$ 1,726,822</u>				
Financial liabilities at fair value through profit or loss – current	<u>\$ 14,400</u>	-	-	14,400	14,400
		September 30, 2016			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Loans and receivables					
Cash and cash equivalents	\$ 573,836				
Notes and accounts receivable (including related parties)	552,911				
Other receivables	<u>134</u>				
Total	<u>\$ 1,126,881</u>				
Financial liabilities at amortized cost through profit or loss					
Borrowings	\$ 694,000				
Notes and accounts payable (including related parties)	295,989				
Bonds payable	768,609	-	795,400	-	795,400
Other financial liabilities	<u>88,211</u>				
Total	<u>\$ 1,846,809</u>				
Financial liabilities at fair value through profit or loss – non-current	<u>\$ 12,720</u>	-	-	12,720	12,720

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- 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

	<u>Forward contract</u>	<u>Convertible bonds</u>	<u>Total</u>
Balance on January 1, 2017	\$ -	(14,400)	(14,400)
Recognized in profit or loss	(305)	(3,440)	(3,745)
Disposal / pay-off	193	-	193
Balance on September 30, 2017	\$ (112)	(17,840)	(17,952)
Balance on January 1, 2016	\$ -	(2,800)	(2,800)
Recognized in profit or loss	-	(9,920)	(9,920)
Balance on September 30, 2016	\$ -	(12,720)	(12,720)

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, 2017 and 2016, were as follows:

	<u>For the nine months ended</u> <u>September 30</u>	
	<u>2017</u>	<u>2016</u>
Total gains and losses (recognized in "other gains and losses")	\$ <u>(3,745)</u>	<u>(9,920)</u>

- 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.

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

- 6) In the nine months ended September 30, 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 nine months ended September 30, 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 \$50,931 and \$69,687. Please refer to note 6(d).

(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 financial statements.

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

Note: The chairman of the Company resigned as the chairman of InnoLight on July 3, 2017. Therefore, only those transactions made with InnoLight during January 1 to June 30, 2017 were included in note 7(b), while all transactions made during July 1 to September 30, 2017, as well as the transaction balance on September 30, 2017 need not be disclosed.

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(b) Significant transactions with related parties

(i) Sale of goods to related parties

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

	Sales				Notes and accounts receivable		
	For the three months ended September 30		For the nine months ended September 30		September 30, 2017	December 31, 2016	September 30, 2016
	2017	2016	2017	2016			
Other related party							
InnoLight	\$ -	67,412	101,485	247,152	-	66,603	84,504

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 September 30		For the nine months ended September 30		September 30, 2017	December 31, 2016	September 30, 2016
	2017	2016	2017	2016			
Other related party	\$ -	49	-	1,300	-	157	223

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

(iii) Property transactions and others

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

	Purchases				Accounts payable - related party		
	For the three months ended September 30		For the nine months ended September 30		September 30, 2017	December 31, 2016	September 30, 2016
	2017	2016	2017	2016			
Other related party	\$ -	65	145	275	-	-	82

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(c) Key management personnel compensation

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Short-term employee benefits	\$ 5,743	4,429	20,087	24,094
Post-employment benefits	216	215	648	639
Termination benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Share-based payments	143	474	657	2,213
	<u>\$ 6,102</u>	<u>5,118</u>	<u>21,392</u>	<u>26,946</u>

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

(8) Pledged assets:

As of September 30, 2017 and 2016, assets pledged as collateral were as follows:

Pledged assets	Pledged to secure	September 30, 2017	December 31, 2016	September 30, 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	305,928	314,146	317,110
		<u>\$ 553,624</u>	<u>561,842</u>	<u>564,806</u>

(9) Significant commitments and contingencies:

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

	September 30, 2017	December 31, 2016	September 30, 2016
Unused letters of credit for purchasing machinery and equipment	\$ -	32,992	34,060

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

		September 30, 2017	December 31, 2016	September 30, 2016
Guarantee notes issued	USD	\$ 13,500	24,500	24,500
Guarantee notes issued	TWD	\$ 965,000	1,131,652	1,131,652

(10) Losses Due to Major Disasters: None.

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LUXNET CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Interim Financial Statements

(11) Subsequent Events:

Based on the resolution approved in the board of directors' meeting held on November 8, 2017, the Company resolved to issue the second unsecured convertible bonds in order to repay its bank loans and maintain a solid capital. The maximum limit to the amount of the issuance is NT\$300 million.

(12) Other:

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, 2017			For the three months ended September 30, 2016		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
By item						
Employee benefit expenses						
Salaries	50,697	29,148	79,845	58,591	31,972	90,563
Labor and health insurance	5,686	2,785	8,471	5,585	1,479	7,064
Pension	2,895	1,591	4,486	3,301	1,824	5,125
Others	4,777	1,952	6,729	5,905	2,776	8,681
Depreciation	45,039	6,040	51,079	42,043	3,799	45,842
Amortization	3,767	2,425	6,192	5,664	6,708	12,372

By function	For the nine months ended September 30, 2017			For the nine months ended September 30, 2016		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
By item						
Employee benefit expenses						
Salaries	163,084	100,381	263,465	190,794	114,320	305,114
Labor and health insurance	17,246	7,984	25,230	18,435	7,194	25,629
Pension	8,837	5,020	13,857	9,783	5,025	14,808
Others	15,021	7,353	22,374	17,603	9,218	26,821
Depreciation	133,303	19,997	153,300	108,828	14,123	122,951
Amortization	12,841	12,453	25,294	15,265	19,149	34,414

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LUXNET CORPORATION AND ITS SUBSIDIARIES
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(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:

Number	Name of lender	Name of borrower	Account name	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
												Item	Value		
0	The Company	Toptrans Suzhou	Accounts receivable-related party	3,951	18,156	3,951	2%	Required loans to other parties	-	Operating capital	-	-	-	(Note 1)	(Note 1)

Note 1: The amounts loaned to a company from the Company or subsidiaries shall not exceed 10% of the entity's net worth, \$171,316, in the latest financial statements. The total amounts loaned to all companies shall not exceed 40% of the Company's net worth, \$685,266.

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

(iii) Information regarding securities held as of September 30, 2017 (excluding investment in subsidiaries, associates and joint ventures):

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

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.

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LUXNET CORPORATION AND ITS SUBSIDIARIES
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- (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:

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	InnoLight	Other related parties	(Sales)	(101,485)	(8.11)%	Open Account 90 Days	No significant differences	No significant differences	-	-%	(Note)

Note: InnoLight has become a non-related party to the Group since July 3, 2017. Therefore, only those transactions made during January 1 to June 30, 2017 were disclosed.

- (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: Please refer to note 6(e).
- (x) Business relationships and significant intercompany transactions:

For the nine months ended September 30, 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	Transaction between parent company and subsidiary	Operating costs	58,734	Open account 30 days	4.69%
0	"	"	"	Accounts receivable	15,433 (Note 2)	Open account 150 days, or be offset by accounts payable and can be extended	0.43%

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.

(Continued)

LUXNET CORPORATION AND ITS SUBSIDIARIES
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(b) Information on investments:

The following is the information on investees for the nine months ended September 30, 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 title	Original investment amount		Ending balance			Investee recognize as of September 30, 2017		Note
				September 30, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership(%)	Carrying value	Net income (losses)	Investment income (losses)	
The Company	Toplight	Seychelles	Holding company	122,980	122,980	4,000	100 %	12,512	(28,641)	(28,641)	(Note)
Toplight	Toptrans	Hong Kong	#	122,980	122,980	4,000	100 %	12,512	(28,641)	(28,641)	#

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 September 30, 2017	Percentage of ownership	Net income (losses) of the investee	Carrying value as of September 30, 2017	Accumulated remittance of earnings in current period
					Outflow	Inflow					
Toptrans Suzhou	Electronic components manufacturing	122,980 (USD 4,000)	(note)	122,980 (USD 4,000)	-	-	122,980 (USD 4,000)	100 %	(28,641)	12,512	-

Note: The company indirectly invest Toptrans Suzhou by Toplight and Toptrans.

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 September 30, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
122,980 (USD4,000)	123,743 (USD4,000)	1,027,898

Note 1: The Company indirectly invest Toptrans Suzhou by Toplight and Toptrans.

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 September 30, 2017, with the spot exchange rate of 30.26, except for the investment income (which are measured by using the average exchange rate for the nine months ended September 30, 2017) 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.

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LUXNET CORPORATION AND ITS SUBSIDIARIES
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(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of the consolidated interim financial statements for the nine months ended September 30, 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 nine months ended September 30, 2017 and 2016, were the same as the Group’s consolidated interim financial statements.