Stock Code:4979

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

With Independent Auditors' Review Report
For the Three Months Ended March 31, 2019 and 2018

Address: No. 6, Hejiang Road, Zhongli, Taoyuan
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The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

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Independent Auditors' Review Report

To the Board of Directors of LuxNet Corporation:

Introduction

We have reviewed the accompanying consolidated balance sheets of LuxNet Corporation and its subsidiaries as of March 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in note 4(b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to NT$38,892 thousand, constituting 1% of consolidated total assets as of March 31, 2018, total liabilities amounting to NT$24,576 thousand, constituting 2% of consolidated total liabilities as of March 31, 2018, and total comprehensive loss amounting to NT$12,885 thousand, constituting 11% of consolidated total comprehensive loss for the three months ended March 31, 2018.

Furthermore, as stated in note 6(d), the investments accounted for using equity method of LuxNet Corporation and its subsidiaries in its investee companies of NT$34,539 thousand as of March 31, 2019, and its related share of loss of associates accounted for using equity method of NT$6,788 thousand for the three months ended March 31, 2019, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of LuxNet Corporation and its subsidiaries as of March 31, 2019 and 2018, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Mei-Pin Wu and Chi-Lung Yu.

KPMG

Taipei, Taiwan (Republic of China)
May 2, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and 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 financial statements are those generally accepted and applied in the Republic of China.

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

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

Reviewed only, not audited in accordance with the generally accepted auditing standards as of March 31, 2019 and 2018

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019, December 31, 2018, and March 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

	Assets	March 31, 2019 Amount	%	December 31, 2018 Amount	%	March 31, 2018 Amount	%
	Current assets:						
1100	Cash and cash equivalents (note 6(a))	$ 404,959	18	361,682	16	263,942	9
1170	Notes and account receivable, net (note 6(b))	249,258	11	232,035	10	455,090	15
1180	Accounts receivable from related parties, net (notes 6(b) and 7)	4,899	-	-	-	-	-
130X	Inventories (note 6(c))	312,984	14	330,012	14	810,466	26
1410	Prepaid expenses	5,413	-	3,616	-	13,195	-
1470	Other current assets	7,731	-	24,562	1	36,446	1
		985,244	43	951,907	41	1,579,139	51
	Non-current assets:						
1550	Investments accounted for using equity method, net (note 6(d))	34,539	1	40,374	2	-	-
1600	Property, plant and equipment (notes 6(f) and 8)	1,237,162	54	1,271,009	55	1,436,222	47
1780	Intangible assets	2,586	-	3,644	-	6,733	-
1900	Other non-current assets (notes 6(w) and 8)	48,113	2	50,655	2	51,451	2
		1,322,400	57	1,365,682	59	1,494,406	49
	Total assets	$ 2,307,644	100	2,317,589	100	3,073,545	100

	Liabilities and Equity	March 31, 2019 Amount	%	December 31, 2018 Amount	%	March 31, 2018 Amount	%
	Current liabilities:						
2100	Short-term borrowings (note 6(h))	$ 200,000	9	200,000	9	122,575	4
2130	Current contract liabilities (note 6(q))	58,797	3	49,579	2	-	-
2170	Notes and accounts payable	189,669	8	167,439	7	469,556	15
2200	Accrued expenses and other payables	85,496	4	72,249	3	74,692	2
2313	Unearned revenue (note 6(e))	20,316	1	40,631	2	-	-
2321	Bonds payable, current portion (note 6(j))	287,764	12	2,600	-	2,565	-
2322	Long-term borrowings, current portion (notes 6(i) and 8)	23,214	1	31,395	2	186,645	6
2300	Other current liabilities (notes 6(g) & (j))	4,649	-	3,995	-	19,480	1
		869,905	38	567,888	25	875,513	28
	Non-Current liabilities:						
2530	Bonds payable (note 6(j))	-	-	286,328	12	282,737	10
2540	Long-term borrowings (notes 6(i) and 8)	320,000	14	320,000	14	190,487	6
2600	Other non-current liabilities (notes 6(g) & (j))	4,146	-	6,312	-	5,728	-
		324,146	14	612,640	26	478,952	16
	Total liabilities	1,194,051	52	1,180,528	51	1,354,465	44
	Equity attributable to owners of parent:						
3100	Ordinary shares (note 6(n))	1,028,803	44	1,028,973	44	1,029,216	33
3200	Capital surplus (notes 6(j) & (n))	805,555	35	805,912	35	1,026,784	33
3310	Legal reserve (note 6(n))	-	-	-	-	120,889	4
3350	Accumulated deficit (note 6(n))	(716,395)	(31)	(692,355)	(30)	(451,634)	(14)
3400	Other equity interest	(4,370)	-	(5,469)	-	(6,175)	-
	Total equity	1,113,593	48	1,137,061	49	1,719,080	56
	Total liabilities and equity	$ 2,307,644	100	2,317,589	100	3,073,545	100

See accompanying notes to consolidated financial statements.

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

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

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2019 and 2018

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

		For the three months ended March 31			
		2019		2018	
		Amount	%	Amount	%
4000	**Operating revenue (notes 6(q) and 7)**	$ 302,290	100	483,151	100
5000	**Operating costs (notes 6(c), (l) & (o) and 12)**	276,804	92	517,596	107
	Gross profit (loss)	25,486	8	(34,445)	(7)
	Operating expenses (notes 6(b), (l) & (o), 7 and 12):				
6100	Selling expenses	6,636	2	6,140	1
6200	Administrative expenses	27,774	9	35,971	8
6300	Research and development expenses	29,071	10	28,012	6
6450	Expected credit loss	34	-	1,058	-
		63,515	21	71,181	15
	Net operating loss	(38,029)	(13)	(105,626)	(22)
	Non-operating income and expenses:				
7020	Other gains and losses, net (notes 6(e), (g), (j), (s) & (t))	24,280	8	(3,944)	(1)
7050	Finance costs (note 6(j))	(3,503)	(1)	(3,643)	(1)
7070	Share of loss of associates accounted for using equity method (note 6(d))	(6,788)	(2)	-	-
7100	Interest revenue	-	-	5	-
		13,989	5	(7,582)	(2)
7900	**Loss before income tax**	(24,040)	(8)	(113,208)	(24)
7950	Less: income tax expenses (note 6(m))	-	-	-	-
	Loss	(24,040)	(8)	(113,208)	(24)
8300	**Other comprehensive income (loss):**				
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences on translation of foreign operation's financial statements	953	-	(130)	-
8399	Income tax expense related to items that may be reclassified subsequently to profit or loss	-	-	30	-
		953	-	(100)	-
8300	**Other comprehensive income (loss), net**	953	-	(100)	-
8500	**Comprehensive loss**	$ (23,087)	(8)	(113,308)	(24)
	Earnings per share (note 6(p))				
9750	**Basic earnings per share (NT dollars)**	$	(0.23)		(1.23)

See accompanying notes to consolidated financial statements.

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

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

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Ordinary shares	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Unappropriated retained earnings (Accumulated deficit)	Retained earnings: Total retained earnings	Total other equity interest: Exchange differences on translation of foreign financial statements	Total other equity interest: Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total other equity interest: Unearned employee compensation	Total equity
Balance at January 1, 2018 after adjustments	$ 909,716	801,515	120,889	(338,426)	(217,537)	(1,585)	(2,951)	(2,408)	1,486,750
Loss for the three months ended March 31, 2018	-	-	-	(113,208)	(113,208)	-	-	-	(113,208)
Other comprehensive income for the three months ended March 31, 2018	-	-	-	-	-	(100)	-	-	(100)
Total comprehensive income for the three months ended March 31, 2018	-	-	-	(113,208)	(113,208)	(100)	-	-	(113,308)
Issuance of ordinary shares	119,500	211,500	-	-	-	-	-	-	331,000
Issuance of convertible bonds	-	14,183	-	-	-	-	-	-	14,183
Amortization of restricted stock	-	-	-	-	-	-	-	605	605
Retirement of restricted stock	-	(414)	-	-	-	-	-	264	(150)
Balance at March 31, 2018	**$ 1,029,216**	**1,026,784**	**120,889**	**(451,634)**	**(330,745)**	**(1,685)**	**(2,951)**	**(1,539)**	**1,719,080**
Balance at January 1,2019	$ 1,028,973	805,912	-	(692,355)	(692,355)	(2,299)	(2,951)	(219)	1,137,061
Loss for the three months ended March 31, 2019	-	-	-	(24,040)	(24,040)	-	-	-	(24,040)
Other comprehensive income for the three months ended March 31, 2019	-	-	-	-	-	953	-	-	953
Total comprehensive income for the three months ended March 31, 2019	-	-	-	(24,040)	(24,040)	953	-	-	(23,087)
Amortization of restricted stock	-	-	-	-	-	-	-	(41)	(41)
Retirement of restricted stock	(170)	(357)	-	-	-	-	-	187	(340)
Balance at March 31, 2019	**$ 1,028,803**	**805,555**	**-**	**(716,395)**	**(716,395)**	**(1,346)**	**(2,951)**	**(73)**	**1,113,593**

See accompanying notes to consolidated financial statements.

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

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

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		For the three months ended March 31	
		2019	2018
Cash flows from (used in) operating activities:			
Loss before tax	$	(24,040)	(113,208)
Adjustments:			
Adjustments to reconcile profit (loss):			
Depreciation and amortization expense		48,512	56,813
Expected credit loss		34	1,058
Losses (gains) inventory valuation and obsolete inventories		(46,981)	29,880
Losses (gains) on financial liabilities at fair value through profit or loss		(1,256)	60
Share of loss of associates accounted for using equity method		6,788	-
Gains on disposal of investments		(20,315)	-
Interest expense		3,503	3,643
Interest revenue		-	(5)
Compensation cost of share-based payments		(41)	605
Losses (gains) disposal of property, plant and equipment		(229)	6
Total adjustments to reconcile profit (loss)		(9,985)	92,060
Changes in operating assets and liabilities:			
Notes and accounts receivable		(22,156)	(75,493)
Inventories		64,009	(94,770)
Prepaid and other current assets		(4,154)	(7,309)
Total changes in operating assets		37,699	(177,572)
Notes and accounts payable		22,230	192,105
Contract liabilities		9,218	-
Accrued expenses and other payables		13,279	(9,306)
Other operating liabilities		(256)	15,889
Total changes in operating liabilities		44,471	198,688
Total changes in operating assets and liabilities		82,170	21,116
Total adjustments		72,185	113,176
Cash inflow (outflow) generated from operations		48,145	(32)
Interest received		-	6
Interest paid		(2,099)	(3,915)
Tax refund received		19,188	-
Net cash flows from (used in) operating activities		65,234	(3,941)
Cash flows from (used in) investing activities:			
Acquisition of property, plant and equipment		(8,913)	(26,705)
Proceeds from disposal of property, plant and equipment		875	759
Acquisition of other non-current assets		(959)	(25,780)
Increase in prepayments for equipments		(1,839)	(1,918)
Net cash flows used in investing activities		(10,836)	(53,644)
Cash flows from (used in) financing activities:			
Decrease in short-term borrowings		-	(497,425)
Redemption of bonds		(2,600)	-
Decrease in of long-term borrowings		(8,181)	(112,868)
Proceeds from issuance of convertible bonds		-	300,000
Proceeds from issuance of ordinary shares		-	331,000
Other		(340)	(150)
Net cash flows from (used in) financing activities		(11,121)	20,557
Effect of exchange rate changes on cash and cash equivalents		-	(655)
Net increase (decrease) in cash and cash equivalents		43,277	(37,683)
Cash and cash equivalents at beginning of period		361,682	301,625
Cash and cash equivalents at end of period	$	404,959	263,942

See accompanying notes to consolidated financial statements.

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

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

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

These consolidated financial statements were authorized for issuance by the board of directors on May 2, 2019.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the Financial Supervisory Commission, R.O.C. ("the FSC") and are effective for annual periods beginning on or after January 1, 2019. (In addition, based on the announcement issued by the FSC on December 12, 2017, the Group can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation") :

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
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 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

The Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) The impact of the International Financial Reporting Standards issued by the International Accounting Standards Board but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
October 31, 2018	Amendments to IAS 1 and IAS 8 "Definition of Material"	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

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.

(4) Summary of significant accounting policies:

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Report by Securities Issuers (" the Regulation") and guidelines of IAS 34 "Interim Financial Reporting" which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2018. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2018.

(b) Basis of consolidation

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

			Percentage of shareholding			
Name of investor	**Name of subsidiary**	**Principal activities**	**March 31, 2019**	**December 31, 2018**	**March 31, 2018**	**Description**
The Company	Toplight Corporation (Toplight)	Holding company	100 %	100 %	100 %	(note)
Toplight	Toptrans Corporation Limited (Toptrans)	Holding company	100 %	100 %	100 %	(note)
Toptrans	Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou)	Electronic components manufacturing	24.94 %	24.94 %	100 %	(note 1) (note 2)

Note : The company is a non-significant subsidiary, and its financial statements for the three months ended March 31, 2018, have not been reviewed.

Note 1: The company is a non-significant subsidiary on March 31, 2018, and its financial statements for the three months ended March 31, 2018, have not been reviewed.

Note 2: Toptrans Suzhou had a cash capital increase in June 2018. However, the Group did not subscribe for additional shares, which resulted in a decrease in the Group's ownership interest from 100% to 24.94% of Toptrans Suzhou and therefore lost the control. The Group transferred Toptrans Suzhou from a subsidiary to associate.

(c) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of International Financial Reporting Standards 34 "Interim Financial Reporting".

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim 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.

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 tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(d) Employee benefits

The pension cost in the interim period was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(Continued)

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

The preparation of the consolidated financial statements in conformity with the regulations and IFRSs (in accordance with IAS 34 "Interim Financial Reporting" and endorsed by the FSC) requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2018. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2018.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	March 31, 2019	December 31, 2018	March 31, 2018
Cash on hand	$ 140	100	86
Demand deposits	404,819	361,582	263,856
Cash and cash equivalents in consolidated statements of cash flows	$ 404,959	361,682	263,942

Please refer to note 6(t) for the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

(b) Notes and accounts receivable (including related parties)

	March 31, 2019	December 31, 2018	March 31, 2018
Notes receivable	$ 6	99	-
Accounts receivable	307,787	285,538	524,896
Less: allowance for impairment	(53,636)	(53,602)	(69,806)
	$ 254,157	232,035	455,090

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) The Group applies the simplified approach to provide for its ECL, the use of lifetime ECL provision for all notes and accounts receivables. To measure the ECL, notes and accounts receivable have been grouped based on shared credit risk characteristics and customer's ability to pay all the amounts due based on the terms of the contract as well as incorporated forward looking information. The ECL allowance provision analysis was as follows:

	March 31, 2019		
	Carrying amounts of notes and accounts receivable	**Lifetime weighted-average ECL rate**	**Loss allowance provision of lifetime ECL**
Current	$ 250,284	0.01%	88
Overdue 1 to 120 days	3,961	0.01%	-
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	53,548	100.00%	53,548
	$ **307,793**		**53,636**

	December 31, 2018		
	Carrying amounts of notes and accounts receivable	**Lifetime weighted-average ECL rate**	**Loss allowance provision of lifetime ECL**
Current	$ 229,701	0.01%	25
Overdue 1 to 120 days	2,359	0.01%	-
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	53,577	100.00%	53,577
	$ **285,637**		**53,602**

	March 31, 2018		
	Carrying amounts of notes and accounts receivable	**Lifetime weighted-average ECL rate**	**Loss allowance provision of lifetime ECL**
Current	$ 451,959	0.12%	545
Overdue 1 to 120 days	3,676	0.01%	-
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	69,261	100.00%	69,261
	$ **524,896**		**69,806**

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) The movement in the allowance for notes and accounts receivable was as follows:

	For the three months ended March 31	
	2019	**2018**
Balance on January 1, 2019 and 2018	$ 53,602	68,749
Impairment losses recognized	34	1,058
Effect of exchange rate changes	-	(1)
Balance on March 31, 2019 and 2018	$ 53,636	69,806

(iii) The Group did not provide any of the aforementioned financial assets as collateral.

(c) Inventories

	March 31, 2019	December 31, 2018	March 31, 2018
Raw materials	$ 80,826	95,934	208,961
Work in process	93,357	74,441	270,982
Finished goods	138,801	159,637	330,523
	$ 312,984	330,012	810,466

For the three months ended March 31, 2019 and 2018, the Group recognized the following items as cost of goods sold:

	For the three months ended March 31	
	2019	**2018**
Losses (gains) on inventory valuation and obsolete inventories	$ (46,981)	29,880
Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity	38,619	6,294
	$ (8,362)	36,174

As of March 31, 2019, December 31 and March 31, 2018, the Group did not provide any of the aforementioned inventory as collateral.

(d) Investments accounted for using equity method

Investments in associated companies accounted for using the equity method at the reporting date were as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Associates	$ 34,539	40,374	-

(Continued)

The Group's share of the net income of associates was as follows:

		For the three months ended March 31, 2019
Attributable to the Group:		
Loss	$	(6,788)
Other comprehensive income		953
Comprehensive income	$	(5,835)

(i) The Group lost control over Toptrans Suzhou in June 2018. While retaining significant influence on Toptrans Suzhou, the investment is accounted for using the equity method. Please refer to note 6(e).

(ii) The Group did not provide any investment accounted for using equity method as collateral.

(iii) Investments accounted for by the equity method, and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been reviewed.

(e) Loss control of subsidiaries

Toptrans Suzhou had a cash capital increase of $244,190 (US $8,030) in June 2018. However, the Group did not subscribe for additional shares due to operational strategy considerations, which resulted in a decrease in the Group's ownership interest from 100% to 24.94% of Toptrans Suzhou, and lost the control but retained significant influence on Toptrans Suzhou, the investment was therefore accounted for using the equity method. As the group is expected to continue providing technical supporting services of research, design and production test to Toptrans Suzhou per the agreement signed with the investors, capital increase is deemed as related to the technical supporting services, and the revaluation gain $81,262 is therefore deferred and recognized as unearned revenue. The Group recognize gain from unearned revenue during services are provided. From January 1 to March 31, 2019, gains transferred from unearned revenue amounted to $20,315, and was recognized as other gains and losses for the period. Please refer to note 6(s).

(f) 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, 2019 and 2018 were as follows:

		Land	Buildings and construction	Machinery and equipment	Office and other equipment	Total
Cost or deemed cost:						
Balance on January 1, 2019	$	247,696	361,779	1,473,656	5,239	2,088,370
Additions		-	-	8,913	-	8,913
Reclassifications		-	-	3,426	-	3,426
Disposals		-	-	(2,580)	-	(2,580)
Balance on March 31, 2019	$	247,696	361,779	1,483,415	5,239	2,098,129

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		Land	Buildings and construction	Machinery and equipment	Office and other equipment	Total
Balance on January 1, 2018	$	247,696	361,779	1,533,906	30,433	2,173,814
Additions		-	-	26,314	30	26,344
Reclassifications		-	-	19,355	-	19,355
Disposals		-	-	(4,399)	(108)	(4,507)
Effect of movements in exchange rates		-	-	640	469	1,109
Balance on March 31, 2018	$	247,696	361,779	1,575,816	30,824	2,216,115
Depreciation:						
Balance on January 1, 2019	$	-	73,813	740,901	2,647	817,361
Depreciation		-	3,529	41,856	155	45,540
Disposals		-	-	(1,934)	-	(1,934)
Balance on March 31, 2019	$	-	77,342	780,823	2,802	860,967
Balance on January 1, 2018	$	-	59,444	648,178	23,718	731,340
Depreciation		-	3,592	47,299	590	51,481
Disposals		-	-	(3,646)	(103)	(3,749)
Effect of movements in exchange rates		-	-	430	391	821
Balance on March 31, 2018	$	-	63,036	692,261	24,596	779,893
Carrying amounts:						
Balance on January 1, 2019	$	247,696	287,966	732,755	2,592	1,271,009
Balance on March 31, 2019	$	247,696	284,437	702,592	2,437	1,237,162
Balance on January 1, 2018	$	247,696	302,335	885,728	6,715	1,442,474
Balance on March 31, 2018	$	247,696	298,743	883,555	6,228	1,436,222

As of March 31, 2019, December 31 and March 31, 2018, property, plant and equipment of the Group had been pledged as collateral for long-term borrowings and credit lines; please refer to note 8.

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

		March 31, 2019	December 31, 2018	March 31, 2018
Bonds (note 6(j))	$	838	2,094	780

For the three months ended March 31, 2019 and 2018, gain or loss on valuation of financial liabilities due to change in fair value was gain of $1,256 and loss of $60, respectively, and was recognized in other gains and losses for the period. Please refer to note 6(s).

(h) Short-term borrowings

The details were as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Unsecured bank loans	$ 200,000	200,000	122,575
Unused credit lines	$ -	91,918	495,500
Annual interest rates	1.31%~1.35%	1.23%~1.50%	1.05%~5.66%

The group did not provide any asset pledged as collateral for short term borrowings.

(i) Long-term borrowings

The details were as follows:

Creditors	Nature	Loan period	March 31, 2019	December 31, 2018	March 31, 2018
CTBC Bank	Secured loans	2016.12.15~2018.12.14	$ -	-	30,000
CTBC Bank	Secured loans	2016.12.19~2018.12.19	-	-	120,000
CTBC Bank	Secured loans	2017.09.15~2019.09.13	-	-	40,000
CTBC Bank	Secured loans	2017.09.19~2019.09.19	-	-	60,000
CTBC Bank	Secured loans	2017.12.13~2019.12.13	-	-	70,000
CTBC Bank	Secured loans	2018.12.14~2020.12.14	150,000	150,000	-
CTBC Bank	Secured loans	2018.12.26~2020.12.25	170,000	170,000	-
Chailease Finance Co., Ltd.	Secured loans	2017.11.30~2019.11.30	23,214	31,395	57,132
Less: current portion			(23,214)	(31,395)	(186,645)
Total			$ 320,000	320,000	190,487
Unused credit lines			$ -	-	-
Interest rates for the periods ended			1.25%~1.53%	1.25%~1.55%	1.25%~1.43%

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

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The Group repaid long-term loans due in September and December 2019 in advance in December 2018.

(ii) The Company signed a long term loan contract with Chailease Finance Co., Ltd. (Chailease) in November 2017 amounted to $70,000. It provided notes, which are due monthly, to Chailease in December 2017 based on the contract.

(iii) The Company signed a long term loan contract with CTBC Bank in July 2018, with the credit line of $320,000. The contract period of the loan expires two years after its first application. The principal is to be repaid on the expiration date. The Company has to maintain the following financial ratios calculated based on the Company's semi annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 110%; (2) stockholders' equity of not less than $1,200,000; and (3) a self owned capital ratio of not less than 45%. If the Company violates the financial covenants and made no progress in the financial ratios within the period of improvement, the bank has the right to cease or decrease the credit line, or shorten the contract period, or the principal and interest are deemed to be due. According to the contract, the Company should transfer its business transaction cash flow to the CTBC Bank account every half-year, and the cash flow is at least $350,000.

On December 28, 2018, the Company obtained the notice from CTBC Bank for changing the terms of the credit line. CTBC Bank agreed to waive the financial restrictions on the stockholders' equity of not less than $1,200,000.

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

(j) Convertible bonds payable

	March 31, 2019	December 31, 2018	March 31, 2018
Aggregate principal amount	$ 1,100,000	1,100,000	1,100,000
Accumulated redeemed amount	(800,000)	(797,400)	(797,400)
Accumulated converted amount	(800)	(800)	-
Unamortized discount	(11,436)	(12,872)	(17,298)
Ending balance of bonds payable	287,764	288,928	285,302
Less: Bonds payable – current	(287,764)	(2,600)	(2,565)
Ending balance of bonds payable – non-current	$ -	286,328	282,737
Embedded derivative component – the value of redemption at the option of the Company/bondholders (recorded as other current liabilities and other non-current liabilities)	$ (838)	(2,094)	(780)
Equity component (recorded as capital surplus – stock option)	$ 14,145	14,145	14,296

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	For the three months ended March 31	
	2019	2018
Embedded derivative component – revaluation gain (loss) on redemption at the option of the Company/bond holders (recorded as other gains and losses)	$ 1,256	(60)
Interest expense (recorded as finance cost)	$ 1,435	308

The first domestic unsecured convertible bonds issued by the Group were matured on December 22, 2018. The residual bonds at par value $2,600 were redeemed to the holders at par value in January 2019.

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

	1st domestic unsecured convertible bonds	2st domestic unsecured convertible bonds
Offering amount	NT$800,000 thousand	NT$300,000 thousand
Issue date	December 22, 2015	March 12, 2018
Issuance price	At par value	At par value
Face interest rate	0%	0%
Issue period	December 22, 2015, to December 22, 2018	March 12, 2018, to March 12, 2021
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.	The Group may redeem the bonds within 5 trading days after the bonds' recovery reference date with cash at par value at any time from June 12, 2018, to February 2, 2021, 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)	Each Holder has the right to require the Group to redeem the Holder's bonds on March 12, 2020, at a redemption price equal to the principal amount of the bonds with a yield-to-maturity of 0.5% per annum.

(Continued)

	1st domestic unsecured convertible bonds	**2st domestic unsecured convertible bonds**
Conversion period	Each Holder of the bonds has the right at any time during the period from January 22, 2016, to the maturity date of the bond, to convert their bonds.	Each Holder of the bonds has the right at any time during the period from June 12, 2018, to the maturity date of the bond, to convert their bonds.
Conversion price on March 31, 2019 (note 1)	-	NT$30

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

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

(k) Operating lease

In the three months ended March 31, 2019 and 2018, the Group did not sign significant new operating lease contracts. Please refer to note 6(k) to the consolidated financial statements for the year ended December 31, 2018, for further information.

(l) Employee benefits

(i) Defined benefit plans

There was no material volatility of the market, no material reimbursement and settlement or other material one time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2018 and 2017.

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

	For the three months ended March 31	
	2019	**2018**
Administration expenses	$ 39	39

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(ii) Defined contribution plans

The pension costs under defined contribution plans were as follows:

	For the three months ended March 31	
	2019	**2018**
Operating cost	$ 2,700	2,945
Selling expenses	144	142
Administration expenses	729	748
Research and development expenses	590	644
	$ 4,163	4,479

(m) Income taxes

(i) For the three months ended March 31, 2019 and 2018, there was no current and deferred tax expense.

(ii) For the three months ended March 31, 2019 and 2018, there was no income tax recognized in equity.

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

	For the three months ended March 31	
	2019	**2018**
Exchange differences on translation of foreign operations' financial statements	$ -	(30)

(iv) The Company's income tax returns have been examined by the tax authority through the years up to 2016.

(n) Capital and other equity

As of March 31, 2019, December 31 and March 31, 2018, the nominal common stock amounted to $1,200,000. Par value of each share is $10 (dollars). The number of shares includes employee stock options for 8,000 thousand shares. The issued amounts were $1,028,803, $1,028,973 and $1,029,216, respectively.

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Reconciliation of shares outstanding for the three months ended March 31, 2019 and 2018 was as follows:

	For the three months ended March 31	
(thousand shares)	2019	2018
Balance on January 1	102,898	90,972
Issuance of ordinary shares	-	11,950
Retirement of restricted stock	(17)	-
Balance on March 31	**102,881**	**102,922**

(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 and January 19, 2018, the board of directors resolved to issue 17,000 thousand and 1,950 thousand new common stocks amounting to $510,000 and $58,500 at $30 per share, with a par value of $10 per share, respectively. June 16, 2017 and January 26, 2018 were 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.

Based on the resolution approved in the board meeting held on December 14, 2017, for the issuance of 10,000 thousand ordinary shares, with par value of $10 per share, amounting to $275,000, and March 19, 2018, was set as the date of capital increase. In addition, the amount of underwriting fee $2,500 was deducted from the capital surplus in excess of par value. The relevant statutory registration procedures had been completed.

Based on the resolution approved in the board meeting held on March 19, 2019, the number of shares was reduced by 17 thousand shares from retirement of restricted stock, with March 22, 2019 as the date of capital reduction. The relevant statutory registration procedures were completed.

The second domestic unsecured convertible bonds issued by the Company were converted into 27 thousand ordinary shares ($267) due to the conversion of the holders on July 2, 2018. The relevant statutory registration procedures were completed.

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(ii) Capital surplus

The balances of capital surplus as of March 31, 2019, December 31 and March 31, 2018, were as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Additional paid-in capital	$ 753,655	753,655	967,860
Employee stock options	1,456	1,456	1,456
Conversion options of convertible bonds	14,145	14,145	14,296
Restricted employee stock options	1,643	2,000	8,629
Other	34,656	34,656	34,543
	$ 805,555	805,912	1,026,784

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

(iii) Retained earnings

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

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

1) Earnings distribution

Based on the resolution approved in the board of directors' meeting held on March 19, 2019, the Company would not distribute earnings because of the loss for the year ended December 31, 2018.

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Based on the resolution approved in the stockholders' meeting held on June 29, 2018, the Company would not distribute earnings because of the loss for the year ended December 31, 2017.

Based on the resolution approved in the stockholders' meeting held on June 29, 2018, the Company offset accumulated deficits by legal reserve of $120,889 and by capital surplus of $220,489.

(o) Share-based payment

Except for the following paragraph, there were no significant changes in share based payment for the three months ended March 31, 2019 and 2018. Please refer to note 6(o) to the consolidated financial statements for the year ended December 31, 2018, for further information.

Compensation cost (reversal gain) attributable to share-based payment for the three months ended March 31, 2019 and 2018 was $(40) and $605, respectively.

(p) Earnings (loss) per share

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

	For the three months ended March 31	
	2019	2018
Loss attributable to common stockholders	$ (24,040)	(113,208)
Weighted-average number of common shares (thousand shares)	102,802	91,895

Since the potential common shares have no dilutive effect, the Company needs only disclose the calculation on basic earnings per share for the three months ended March 31, 2019 and 2018.

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended March 31	
	2019	2018
Primary geographical markets		
Taiwan	$ 20,320	26,380
China	135,881	310,057
America	144,428	144,337
Other	1,661	2,377
	$ 302,290	483,151

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		For the three months ended March 31 2019	2018
Major products			
Active components for optical communication	$	173,612	344,757
Chips		19,399	5,543
Modules		85,604	120,843
Others		23,675	12,008
	$	302,290	483,151

(ii) Contract balances

		March 31, 2019	December 31, 2018	March 31, 2018
Notes and accounts receivable	$	307,793	285,637	524,896
Less: allowance for impairment		(53,636)	(53,602)	(69,806)
	$	254,157	232,035	455,090
Contract liabilities	$	58,797	49,579	-

For details on accounts receivable and allowance for impairment, please refer to note 6(b).

The contract liabilities primarily relate to the advance consideration received from customers, for the sales contracts whose revenue is recognized when products are delivered to customers. The amount of revenue recognized for the three months ended March 31, 2019 that was included in the contract liability balance at the beginning of the period was $13,336.

(r) 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 three months ended March 31, 2019 and 2018. If there are any subsequent adjustments to the actual remuneration amounts, the adjustments will be regarded as changes in accounting estimates and will be reflected in profit or loss in the next year.

The Company did not estimate any remuneration to employees, and directors and supervisors due to its loss in 2018 and 2017. The amounts, as stated in the consolidated financial statements, are identical with those of the actual distributions for 2018 and 2017. Related information would be available at the Market Observation Post System website.

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(s) Non-operating income and expenses

Other gains and losses were as follows:

	For the three months ended March 31	
	2019	2018
Foreign currency exchange gains (losses)	$ 2,416	(4,743)
Net gains (losses) on financial liabilities measured at fair value through profit or loss	1,256	(60)
Gains on disposal of investments	20,315	-
Other	293	859
	$ 24,280	(3,944)

(t) Financial instruments

Except for the following paragraph, there were no significant changes in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. Please refer to note 6(u) of the consolidated financial statements for the year ended December 31, 2018, for further information.

(i) 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, 2019					
Non-derivative financial liabilities:					
Short-term borrowings	$ 200,000	200,168	200,168	-	-
Convertible bonds	287,764	299,200	299,200	-	-
Notes and accounts payable	189,669	189,669	189,669	-	-
Accrued expenses and other payables	42,287	42,287	42,287	-	-
Long-term borrowings	343,214	352,332	23,870	328,462	-
	$ 1,062,934	1,083,656	755,194	328,462	-

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	Carrying amount	Contractual cash flows	Within 1 year	1~2 years	2~5 years
December 31, 2018					
Non-derivative financial liabilities:					
Short-term borrowings	$ 200,000	200,365	200,365	-	-
Convertible bonds	288,928	301,800	2,600	-	299,200
Notes and accounts payable	167,439	167,439	167,439	-	-
Accrued expenses and other payables	16,155	16,155	16,155	-	-
Long-term borrowings	351,395	362,066	32,270	329,796	-
	$ 1,023,917	1,047,825	418,829	329,796	299,200
March 31, 2018					
Non-derivative financial liabilities:					
Short-term borrowings	$ 122,575	122,971	122,971	-	-
Convertible bonds	285,302	302,600	2,600	-	300,000
Notes and accounts payable	469,556	469,556	469,556	-	-
Accrued expenses and other payables	25,873	25,873	25,873	-	-
Long-term borrowings	377,132	383,730	188,882	194,848	-
	$ 1,280,438	1,304,730	809,882	194,848	300,000

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

(ii) Currency risk

1) Exposure to foreign currency risk

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

	March 31, 2019			December 31, 2018			March 31, 2018		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets									
Monetary items									
USD:TWD	$ 17,047	30.820	525,389	16,961	30.715	520,957	23,887	29.105	695,231
Financial liabilities									
Monetary items									
USD:TWD	4,778	30.820	147,258	3,038	30.715	93,312	12,018	29.105	349,784

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2) Sensitivity analysis

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

A strengthening (weakening) of 5% of the TWD against the USD as of March 31, 2019 and 2018, would have increased or decreased the net loss before tax by $18,907 and $17,272, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain or loss on monetary items

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

	For the three months ended March 31			
	2019		2018	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
TWD	$ 2,416	1.000	(5,655)	1.000
CNY	-	4.565	912	4.611
	$ 2,416		(4,743)	

(iii) 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 $72 and $112 for the three months ended March 31, 2019 and 2018 respectively, which would have mainly resulted from bank savings and borrowings with variable interest rates.

Financial instruments with fixed interest rates held or issued by the Group are valued at amortized cost. Since the change in market interest rate at the end of each reporting period had no impact on profit and loss, disclosure of the sensitivity to changes in fair value is not necessary.

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(iv) Fair value

1) Kinds of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss is measured on a recurring basis. The carrying amount and fair value of the Group' s financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

	March 31, 2019				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 404,959				
Notes and accounts receivable (including related parties)	254,157				
Total	$ 659,116				
Financial liabilities at amortized cost					
Long-term and short-term borrowings	$ 543,214				
Notes and accounts payable	189,669				
Convertible bonds	287,764	-	289,207	-	289,207
Other financial liabilities	85,496				
Total	$ 1,106,143				
Financial liabilities at fair value through profit or loss–current	$ 838	-	-	838	838

	December 31, 2018				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 361,682				
Notes and accounts receivable	232,035				
Total	$ 593,717				
Financial liabilities at amortized cost					
Long-term and short-term borrowings	$ 551,395				
Notes and accounts payable	167,439				
Convertible bonds	288,928	-	265,537	-	265,537
Other financial liabilities	72,249				
Total	$ 1,080,011				

(Continued)

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	December 31, 2018				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss–non-currents	$ 2,094	-	-	2,094	2,094

	March 31, 2018				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 263,942				
Notes and accounts receivable	455,090				
Total	$ 719,032				
Financial liabilities at amortized cost					
Long-term and short-term borrowings	$ 499,707				
Notes and accounts payable	469,556				
Convertible bonds	285,302	-	302,916	-	302,916
Other financial liabilities	74,692				
Total	$ 1,329,257				

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.

4) Changes in Level 3

	Convertible bonds
Balance on January 1, 2019	$ (2,094)
Recognized in profit or loss	1,256
Balance on March 31, 2019	$ (838)
Balance on January 1, 2018	-
Recognized in profit or loss	$ (60)
Acquisition / disposal / pay-off	(720)
Balance on March 31, 2018	$ (780)

(Continued)

The aforementioned total gains and losses were recognized in "other gains and losses". The details of the liabilities which the Group still held as of March 31, 2019 and 2018, were as follows:

	For the three months ended March 31	
	2019	**2018**
Total gains and losses (recognized in "other gains and losses")	$ 1,256	(60)

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, 2019 and 2018, there were no transfers between levels.

(u) Financial risk management

The Group's objectives and policies on financial risk management are consistent with note 6(v) to the consolidated financial statements for the year ended December 31, 2018.

(v) 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, 2018. The information on capital management items has no significant difference from that of the consolidated financial statements for the year ended December 31, 2018. Please refer to note 6(w) to the consolidated financial statements for the year ended December 31, 2018, for further information.

(w) 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, 2019 and 2018, were as follows:

(i) The increase in property, plant and equipment and other non-current assets from the transfer of prepayment for equipment was $3,426 and $19,355, respectively. Please refer to note 6(f).

(ii) For retirement of restricted stock, please refer to note 6(n).

(iii) For conversion of convertible bonds to ordinary shares, please refer to note 6(n).

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(x) Changes in liabilities from financing activities

Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2019	Cash flows	Discount of bonds payable	March 31, 2019
Short-term borrowings	$ 200,000	-	-	200,000
Long-term borrowings	351,395	(8,181)	-	343,214
Bonds payables	288,928	(2,600)	1,436	287,764
Total liabilities from financing activities	$ 840,323	(10,781)	1,436	830,978

	January 1, 2018	Cash flows	Discount of bonds payable	March 31, 2018
Short-term borrowings	$ 620,000	(497,425)	-	122,575
Long-term borrowings	490,000	(112,868)	-	377,132
Bonds payables	2,555	300,000	(17,253)	285,302
Total liabilities from financing activities	$ 1,112,555	(310,293)	(17,253)	785,009

(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.

Name of related party	Relationship with the Group
Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou)	An associates of the Group (Note)

Note : The Group lost control over Toptrans Suzhou in June, 2018 while retaining significant influence. Therefore, the Group transferred Toptrans Suzhou from a subsidiary to associate.

(b) Significant transactions with related parties

(i) Provide service to related parties

For the three months ended March 31, 2019, revenue from providing service to associate, Toptrans Suzhou, amounted to $4,899. As of March 31, 2019, the accounts receivable arising from aforementioned transactions amounting to $4,899 was recognized under accounts receivable from related parties.

(Continued)

(ii) Loans to related parties

The loans to associate Toptrans Suzhou were as follows:

	March 31, 2019	December 31, 2018
Other receivables — loans	$ 16,751	16,751
Other receivables — interest	190	190
	16,941	16,941
Less: allowance impairment	(16,941)	(16,941)
	$ -	-

(c) Key management personnel compensation

	For the three months ended March 31	
	2019	**2018**
Short-term employee benefits	$ 7,427	4,477
Post-employment benefits	212	216
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	108	36
	$ 7,747	4,729

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

(8) Pledged assets:

The Group's assets pledged as collateral were as follows:

		Book value of pledged assets		
Pledged assets	**Pledged to secure**	**March 31, 2019**	**December 31, 2018**	**March 31, 2018**
Fixed assets – land	Long-term borrowings and credit line collateral	$ 247,696	247,696	247,696
Fixed assets – buildings and construction	Long-term borrowings and credit line collateral	284,438	287,966	298,743
Fixed assets–machinery and equipment	Long-term borrowings	98,607	98,495	109,902
Refundable deposits	Long-term borrowings and collateral for court proceedings	35,740	35,740	35,740
		$ 666,481	669,897	692,081

(Continued)

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(9) Commitments and contingencies:

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

	March 31, 2019	December 31, 2018	March 31, 2018
Unused letters of credit for purchasing machinery and equipment	$ -	8,082	-

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

		March 31, 2019	December 31, 2018	March 31, 2018
Guarantee notes issued	USD	$ 7,500	7,500	13,500
Guarantee notes issued	TWD	$ 835,000	835,000	965,000

(c) Contingencies

Toptrans Suzhou had a cash capital increase in June 2018. Pursuant to the agreement with investors, the Group shall indemnify the investors in the event of unresolved or unpaid obligation arising from past transactions, or breach of non-competitive clause after the capital increase.

(10) Losses Due to Major Disasters:None.

(11) Subsequent Events:None.

(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					
	2019			2018		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	46,707	31,041	77,748	56,795	31,281	88,076
Labor and health insurance	5,664	2,559	8,223	5,837	2,510	8,347
Pension	2,700	1,502	4,202	2,944	1,574	4,518
Others	3,315	1,356	4,671	4,328	4,348	8,676
Depreciation	39,123	6,417	45,540	45,218	6,263	51,481
Amortization	1,552	1,420	2,972	3,312	2,020	5,332

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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 for the three months ended March 31, 2019:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

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	Other receivables	16,751	18,156	16,751	2%	Required loans to other parties	-	Operating capital	16,751	-	-	(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, $111,359, in the latest financial statements. The total amounts loaned to all companies shall not exceed 40% of the Company's net worth, $445,437.

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

(iii) Securities held as of March 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	March 31, 2019				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	BANDWIDTH10, INC.	-	Financial assets measured at FVOCI–Non-current	220	-	4.43 %	-	

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

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

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

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of TWD$300 million or 20% of the capital stock:None.

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

(ix) Trading in derivative instruments: Please refer to note 6(g).

(x) Business relationships and significant intercompany transactions:None

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(b) Information on investees:

The following is the information on investees for the three months ended March 31, 2019 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main and Businesses products	Original investment amount		Ending balance			Investee recognize as of March 31, 2019		Note
				March 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership (%)	Carrying value	Net income (losses)	Investment income (losses)	
The Company	Toplight Corporation Limited	Seychelles	Holding company	122,980	122,980	4,000	100 %	14,224	13,528	13,528	(Note)
Toplight Corporation Limited	Toptrans Corporation Limited	Hong Kong	Holding company	122,980	122,980	4,000	100 %	14,224	13,528	13,528	(Note)

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

(c) Information on investment in Mainland China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of March 31, 2019	Percentage of ownership	Investment income (loss)	Book value	Accumulated remittance of earnings in current period	Note
					Outflow	Inflow						
Toptrans (Suzhou) Corporation Limited	Electronic components manufacturing	367,169 (USD 12,030)	(note)	122,980 (USD 4,000)	-	-	122,980 (USD 4,000)	24.94 %	(6,788)	34,539	-	-

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

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of March 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
122,980 (USD4,000)	123,743 (USD4,000)	668,156

Note1: The company indirectly invested Toptrans (Suzhou) by Toplight corporation and Toptrans Corporations Limited.

Note 2: The above investment income (losses) was came from the financial reports prepared by the investees, not reviewed by auditors.

Note 3: The TWD amount was measured on March 31, 2019 with the spot exchange rate of 30.820, except for the investment income (which are measured by using the average exchange rate for the three months ended March 31, 2019) and outflow of investment (which was measured by using the exchange rate on outflow date).

(Continued)

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China are disclosed in the "Information on significant 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, 2019 and 2018 were the same as the Group's consolidated financial statements.