

LUXNET CORPORATION AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Review Report
For the Three Months Ended March 31, 2020 and 2019**

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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, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. The 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 6(d), the investments accounted for using equity method of LuxNet Corporation and its subsidiaries in its investee companies of NT\$72,496 thousand and NT\$34,539 thousand as of March 31, 2020 and 2019, and its related share of loss of associates accounted for using equity method of NT\$4,776 thousand and NT\$6,788 thousand, respectively, for the three months ended March 31, 2020 and 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 equity accounted investee companies described in the Basis for Qualified Conclusion 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, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2020 and 2019 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 5, 2020

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, 2020 and 2019

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31,
2020, December 31, 2019, and March 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

	March 31, 2020		December 31, 2019		March 31, 2019		March 31, 2019							
	Amount	%	Amount	%	Amount	%	Amount	%						
Assets														
Current assets:														
1100 Cash and cash equivalents (note 6(a))	\$ 308,908	15	544,505	24	404,959	18	2100	Short-term borrowings (note 6(h))	\$ 258,000	12	130,000	6	200,000	9
1170 Notes and account receivable, net (note 6(b))	144,507	7	172,040	7	249,258	11	2130	Current contract liabilities (note 6(g))	1,709	-	103	-	58,797	3
1180 Accounts receivable from related parties, net (notes 6(b) and 7)	-	-	-	-	4,899	-	2170	Notes and accounts payable	159,082	8	184,923	8	189,669	8
130X Inventories (note 6(c))	356,500	17	309,750	13	312,984	14	2200	Accrued expenses and other payables	87,734	4	100,025	4	85,496	4
1410 Prepaid expenses	4,736	-	4,333	-	5,413	-	2313	Unearned revenue (note 6(e))	-	-	-	-	20,316	1
1470 Other current assets	13,883	1	17,534	1	7,731	-	2321	Bonds payable, current portion (note 6(i))	12,073	1	292,197	13	287,764	12
	828,534	40	1,048,162	45	985,244	43	2322	Long-term borrowings, current portion (notes 6(i) and 8)	-	-	320,000	14	23,214	1
							2300	Other current liabilities (notes 6(g) & (j))	4,022	-	5,922	-	4,649	-
Non-current assets:									522,620	25	1,033,170	45	869,905	38
1550 Investments accounted for using equity method, net (note 6(d))	72,496	4	78,119	3	34,539	1								
1600 Property, plant and equipment (notes 6(f) and 8)	1,153,189	55	1,179,633	51	1,237,162	54	2540	Non-Current liabilities:	320,000	15	-	-	320,000	14
1780 Intangible assets	2,773	-	1,279	-	2,586	-	2600	Long-term borrowings (notes 6(i) and 8)	1,008	-	1,047	-	4,146	-
1900 Other non-current assets (note 8)	26,494	1	27,942	1	48,113	2		Other non-current liabilities	321,008	15	1,047	-	324,146	14
	1,254,952	60	1,286,973	55	1,322,400	57		Total liabilities	843,628	40	1,034,217	45	1,194,051	52
								Equity attributable to owners of parent:	1,199,803	58	1,202,263	51	1,028,803	44
							3100	Ordinary shares (note 6(n))	352,614	17	350,154	15	805,555	35
							3200	Capital surplus (notes 6(d), (f) & (n))	(274,083)	(13)	(206,428)	(9)	(716,395)	(31)
							3350	Accumulated deficit (note 6(m))	(38,476)	(2)	(45,071)	(2)	(4,370)	-
							3400	Other equity interest (note 6(m))	1,239,858	60	1,300,918	55	1,113,593	48
								Total equity	2,083,486	100	2,335,135	100	2,307,644	100
Total assets	\$ 2,083,486	100	2,335,135	100	2,307,644	100		Total liabilities and equity	\$ 2,083,486	100	2,335,135	100	2,307,644	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, 2020 and 2019

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

		For the three months ended March 31			
		2020		2019	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(q) and 7)	\$ 256,071	100	302,290	100
5000	Operating costs (notes 6(c), (k), (l), (o) and 12)	<u>259,561</u>	<u>101</u>	<u>276,804</u>	<u>92</u>
	Gross profit (loss)	<u>(3,490)</u>	<u>(1)</u>	<u>25,486</u>	<u>8</u>
	Operating expenses (notes 6(b), (k), (l), (o) and 12):				
6100	Selling expenses	3,969	2	6,636	2
6200	Administrative expenses	23,599	9	27,774	9
6300	Research and development expenses	25,529	10	29,071	10
6450	Expected credit gain	<u>65</u>	<u>-</u>	<u>34</u>	<u>-</u>
		<u>53,162</u>	<u>21</u>	<u>63,515</u>	<u>21</u>
	Net operating loss	<u>(56,652)</u>	<u>(22)</u>	<u>(38,029)</u>	<u>(13)</u>
	Non-operating income and expenses:				
7020	Other gains and losses, net (notes 6(e), (g), (j), (s) & (t))	(4,720)	(2)	24,280	8
7050	Finance costs (note 6(j))	(2,405)	(1)	(3,503)	(1)
7055	Expected credit gain (note 7)	898	-	-	-
7070	Share of loss of associates accounted for using equity method (note 6(d))	<u>(4,776)</u>	<u>(2)</u>	<u>(6,788)</u>	<u>(2)</u>
		<u>(11,003)</u>	<u>(5)</u>	<u>13,989</u>	<u>5</u>
7900	Loss before income tax	<u>(67,655)</u>	<u>(27)</u>	<u>(24,040)</u>	<u>(8)</u>
7950	Less: income tax expenses (note 6(m))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Loss	<u>(67,655)</u>	<u>(27)</u>	<u>(24,040)</u>	<u>(8)</u>
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	<u>(847)</u>	<u>-</u>	<u>953</u>	<u>-</u>
	Components of other comprehensive income that will be reclassified to profit or loss	<u>(847)</u>	<u>-</u>	<u>953</u>	<u>-</u>
8300	Other comprehensive income (loss), net	<u>(847)</u>	<u>-</u>	<u>953</u>	<u>-</u>
8500	Comprehensive loss	<u>\$ (68,502)</u>	<u>(27)</u>	<u>(23,087)</u>	<u>(8)</u>
	Earnings (losses) per share (note 6(p))				
9750	Basic earnings (losses) per share (NT dollars)	<u>\$ (0.58)</u>		<u>(0.23)</u>	

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, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	Ordinary shares	Capital surplus	Legal reserve	Retained earnings		Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unearned employee compensation	Total equity
				Accumulated deficit	Total retained earnings				
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
Balance at January 1, 2020	\$ 1,202,263	350,154	-	(206,428)	(206,428)	(5,569)	(2,951)	(36,551)	1,300,918
Loss for the three months ended March 31, 2020	-	-	-	(67,655)	(67,655)	-	-	-	(67,655)
Other comprehensive income for the three months ended March 31, 2020	-	-	-	-	-	(847)	-	-	(847)
Total comprehensive income for the three months ended March 31, 2020	-	-	-	(67,655)	(67,655)	(847)	-	-	(68,502)
Amortization of restricted stock	-	-	-	-	-	-	-	7,442	7,442
Retirement of restricted stock	(2,460)	2,460	-	-	-	-	-	-	-
Balance at March 31, 2020	\$ 1,199,803	352,614	-	(274,083)	(274,083)	(6,416)	(2,951)	(29,109)	1,239,858

Balance at January 1, 2019

Loss for the three months ended March 31, 2019

Other comprehensive income for the three months ended March 31, 2019

Total comprehensive income for the three months ended March 31, 2019

Amortization of restricted stock

Retirement of restricted stock

Balance at March 31, 2019

Balance at January 1, 2020

Loss for the three months ended March 31, 2020

Other comprehensive income for the three months ended March 31, 2020

Total comprehensive income for the three months ended March 31, 2020

Amortization of restricted stock

Retirement of restricted stock

Balance at March 31, 2020

(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, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2020	2019
Cash flows from (used in) operating activities:		
Loss before tax	\$ (67,655)	(24,040)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization expense	45,835	48,512
Expected credit loss (gain)	(833)	34
Losses (gains) on inventory valuation and obsolete inventories	14,104	(46,981)
Losses on redemption of bonds	7,995	-
Losses (gains) on financial liabilities at fair value through profit or loss	570	(1,256)
Share of loss of associates accounted for using equity method	4,776	6,788
Gains on disposal of investments account for using equity method	-	(20,315)
Interest expense	2,405	3,503
Compensation cost of share-based payments	7,442	(41)
Losses on disposal of property, plant and equipment	(1,539)	(229)
Total adjustments to reconcile profit (loss)	80,755	(9,985)
Changes in operating assets and liabilities:		
Notes and accounts receivable	27,468	(22,156)
Inventories	(60,854)	64,009
Prepaid and other current assets	5,995	(4,154)
Total changes in operating assets	(27,391)	37,699
Notes and accounts payable	(25,841)	22,230
Contract liabilities	1,606	9,218
Accrued expenses and other payables	(14,234)	13,279
Other current liabilities	(1,810)	(184)
Other operating liabilities	(39)	(72)
Total changes in operating liabilities	(40,318)	44,471
Total changes in operating assets and liabilities	(67,709)	82,170
Total adjustments	13,046	72,185
Cash inflow (out flow) generated from operations	(54,609)	48,145
Interest paid	(1,271)	(2,099)
Tax refund received	-	19,188
Net cash flows from (used in) operating activities	(55,880)	65,234
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(16,008)	(8,913)
Proceeds from disposal of property, plant and equipment	92	875
Increase in other non-current assets	(2,025)	(959)
Increase in prepayments for equipment	-	(1,839)
Net cash flows used in investing activities	(17,941)	(10,836)
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	128,000	-
Redemption of bonds	(289,776)	(2,600)
Decrease in long-term borrowings	-	(8,181)
Other	-	(340)
Net cash flows used in financing activities	(161,776)	(11,121)
Net increase (decrease) in cash and cash equivalents	(235,597)	43,277
Cash and cash equivalents at beginning of period	544,505	361,682
Cash and cash equivalents at end of period	\$ 308,908	404,959

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

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

(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 issue by the board of directors on May 5, 2020.

(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, ROC. (“the FSC”) and are effective for annual periods beginning on or after January 1, 2020.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

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 IFRS issued by IASB 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:

<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 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

The Group is evaluating the impact on its consolidated financial position and consolidated financial position 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, 2019. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2019.

- (b) Basis of consolidation

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

<u>Name of investor</u>	<u>Name of subsidiary</u>	<u>Principal activities</u>	<u>Percentage of shareholding</u>		
			<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
The Company	Toplight Corporation (Toplight)	Holding company	100 %	100 %	100 %
Toplight	Toptrans Corporation Limited (Toptrans)	Holding company	100 %	100 %	100 %

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

(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, 2019. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2019.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	March 31, 2020	December 31, 2019	March 31, 2019
Cash on hand	\$ 136	115	140
Demand deposits	308,772	544,390	404,819
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 308,908</u>	<u>544,505</u>	<u>404,959</u>

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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Notes receivable	\$ 73	46	6
Accounts receivable	196,635	224,130	307,787
Less: allowance for impairment	<u>(52,201)</u>	<u>(52,136)</u>	<u>(53,636)</u>
	<u><u>\$ 144,507</u></u>	<u><u>172,040</u></u>	<u><u>254,157</u></u>

- (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:

	<u>March 31, 2020</u>		
	<u>Carrying amounts of notes and accounts receivable</u>	<u>Lifetime weighted- average ECL rate</u>	<u>Loss allowance provision of lifetime ECL</u>
Current	\$ 143,055	0.01%~3%	88
Overdue 1 to 120 days	1,555	0.01%~3%	15
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	<u>52,098</u>	100.00%	<u>52,098</u>
	<u><u>\$ 196,708</u></u>		<u><u>52,201</u></u>
	<u>December 31, 2019</u>		
	<u>Carrying amounts of notes and accounts receivable</u>	<u>Lifetime weighted- average ECL rate</u>	<u>Loss allowance provision of lifetime ECL</u>
Current	\$ 154,208	0.01%~3%	36
Overdue 1 to 120 days	17,870	0.01%~3%	2
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	<u>52,098</u>	100.00%	<u>52,098</u>
	<u><u>\$ 224,176</u></u>		<u><u>52,136</u></u>

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	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%~3%	88
Overdue 1 to 120 days	3,961	0.01%~3%	-
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	53,548	100.00%	53,548
	\$ 307,793		53,636

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

	For the three months ended March 31	
	2020	2019
Balance on January 1, 2020 and 2019	\$ 52,136	53,602
Impairment losses recognized	65	34
Balance on March 31, 2020 and 2019	\$ 52,201	53,636

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

(c) Inventories

	March 31, 2020	December 31, 2019	March 31, 2019
Raw materials	\$ 74,482	86,094	80,826
Work in process	112,596	80,073	93,357
Finished goods	169,422	143,583	138,801
	\$ 356,500	309,750	312,984

For the three months ended March 31, 2020 and 2019, the Group recognized the following items as cost of goods sold:

	For the three months ended March 31	
	2020	2019
Losses (gains) on inventory valuation and obsolete inventories	\$ 14,104	(46,981)
Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity	37,196	38,619
	\$ 51,300	(8,362)

As of March 31, 2020, December 31 and March 31, 2019, the Group did not provide any of the aforementioned inventory as collateral.

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(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, 2020	December 31, 2019	March 31, 2019
Associates	\$ <u>72,496</u>	<u>78,119</u>	<u>34,539</u>

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

	For the three months ended March 31	
	2020	2019
Attributable to the Group:		
Loss	\$ (4,776)	(6,788)
Other comprehensive income	<u>(847)</u>	<u>953</u>
Comprehensive income	<u>\$ (5,623)</u>	<u>(5,835)</u>

- (i) Toptrans Suzhou Corporation Limited (Toptrans Suzhou) had a cash capital increase of \$409,891 (US\$13,000) thousand in August 2019. However, the Group did not subscribe for additional shares due to its operational strategy considerations, which resulted in a decrease in the Group's ownership interest from 24.94% to 16.92%. Due to the increase of the Group's proportionate interest in the net assets of the associate, the Group recorded the amount of \$62,322 thousand as an adjustment to investments accounted for using the equity method, with the corresponding amount credited to capital surplus. In addition, the Group holds two of the six seats of Toptrans Suzhou's board; therefore, the Group still retains significant influence over Toptrans Suzhou. The above investment was therefore accounted for using the equity method.
- (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.

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(e) Loss control of subsidiaries

Toptrans Suzhou had a cash capital increase of \$244,190 (US \$8,030) thousand 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 thousand is therefore deferred and recognized as unearned revenue. The Group recognize gain from unearned revenue during services are provided. For the three months ended March 31, 2019, gains transferred from unearned revenue to gain on disposal of investment amounted to \$20,315 thousand, which were 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, 2020 and 2019 were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Equipment under acceptance</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2020	\$ 247,696	361,779	1,502,702	5,239	20,735	2,138,151
Additions	-	-	-	-	17,814	17,814
Reclassifications	-	-	24,173	-	(24,173)	-
Disposals	-	-	(5,048)	-	-	(5,048)
Balance on March 31, 2020	<u>\$ 247,696</u>	<u>361,779</u>	<u>1,521,827</u>	<u>5,239</u>	<u>14,376</u>	<u>2,150,917</u>
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	<u>\$ 247,696</u>	<u>361,779</u>	<u>1,483,415</u>	<u>5,239</u>	<u>-</u>	<u>2,098,129</u>
Depreciation:						
Balance on January 1, 2020	\$ -	87,353	867,898	3,267	-	958,518
Depreciation	-	3,112	40,589	155	-	43,856
Disposals	-	-	(4,646)	-	-	(4,646)
Balance on March 31, 2020	<u>\$ -</u>	<u>90,465</u>	<u>903,841</u>	<u>3,422</u>	<u>-</u>	<u>997,728</u>
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	<u>\$ -</u>	<u>77,342</u>	<u>780,823</u>	<u>2,802</u>	<u>-</u>	<u>860,967</u>

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	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Equipment under acceptance</u>	<u>Total</u>
Carrying amounts:						
Balance on January 1, 2020	\$ 247,696	274,426	634,804	1,972	20,735	1,179,633
Balance on March 31, 2020	\$ 247,696	271,314	617,986	1,817	14,376	1,153,189
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

As of March 31, 2020, December 31 and March 31, 2019, 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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Bonds (note 6(j))	\$ -	89	838

For the three months ended March 31, 2020 and 2019, the gains (losses) on valuation of financial liabilities due to change in fair value amounted to \$(570) thousand and \$1,256 thousand, respectively, which were recognized in other gains and losses for the periods. Please refer to note 6(s).

- (h) Short-term borrowings

The details were as follows:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Unsecured bank loans	\$ 258,000	130,000	200,000
Unused credit lines	\$ 115,230	349,980	-
Annual interest rates	<u>1.21%~2.75%</u>	<u>1.35%~1.59%</u>	<u>1.31%~1.35%</u>

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LUXNET CORPORATION AND SUBSIDIARIES
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(i) Long-term borrowings

The details were as follows:

Creditors	Nature	Loan period	March 31, 2020	December 31, 2019	March 31, 2019
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
CTBC Bank	Secured loans	2020.02.17~2022.02.17	120,000	-	-
CTBC Bank	Secured loans	2020.03.13~2022.03.31	200,000	-	-
Chailease Finance Co., Ltd.	Secured loans	2017.11.30~2019.11.30	-	-	23,214
Less: current portion			-	(320,000)	(23,214)
Total			<u>\$ 320,000</u>	<u>-</u>	<u>320,000</u>
Unused credit lines			<u>\$ -</u>	<u>-</u>	<u>-</u>
Interest rates for the periods ended			<u>1.49%~1.51%</u>	<u>1.25%~1.52%</u>	<u>1.25%~1.53%</u>

- (i) The Company signed a long-term loan contract with CTBC Bank in July 2018, with the credit line of \$320,000 thousand. 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 thousand; 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 thousand.

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 thousand.

The Company re-signed a long-term loan contract with CTBC Bank on July 2, 2019, to extend the original due date of credit line to June 30, 2021, the revised restrictions of financial ratios were as follows: (1) a current ratio of not less than 110%; (2) stockholders' equity of not less than \$1,000,000 thousand; and (3) a self-owned capital ratio of not less than 45%.

In January 2020, the Group repaid, in advance, its long-term loans due in December 2020. In addition, in February and March of 2020, the Group used the revolving credit line of \$320,000 thousand in accordance with the above loan condition.

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

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LUXNET CORPORATION AND SUBSIDIARIES
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(j) Convertible bonds payable

	March 31, 2020	December 31, 2019	March 31, 2019
Aggregate principal amount	\$ 1,100,000	1,100,000	1,100,000
Accumulated redeemed amount	(1,086,900)	(800,000)	(800,000)
Accumulated converted amount	(800)	(800)	(800)
Unamortized discount	<u>(227)</u>	<u>(7,003)</u>	<u>(11,436)</u>
Ending balance of bonds payable	12,073	292,197	287,764
Less: Bonds payable – current	<u>(12,073)</u>	<u>(292,197)</u>	<u>(287,764)</u>
Ending balance of bonds payable – non-current	<u>\$ -</u>	<u>-</u>	<u>-</u>
Embedded derivative component – the value of redemption at the option of the Company/bondholders (recorded as other current liabilities)	<u>\$ -</u>	<u>(89)</u>	<u>(838)</u>
Equity component (recorded as capital surplus – stock option)	<u>\$ 581</u>	<u>14,145</u>	<u>14,145</u>
		For the three months ended March 31	
		2020	2019
Embedded derivative component – revaluation gain (loss) on redemption at the option of the Company/bond holders (recorded as other gains and losses)		<u>\$ (570)</u>	<u>1,256</u>
Interest expense (recorded as finance cost)		<u>\$ 997</u>	<u>1,435</u>

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

On March 17, 2020, as the holders of the second domestic unsecured convertible bonds issued by the Group exercised the redemption rights, the Group redeemed the bonds at a par value of \$286,900 thousand, with an interest amounting to \$2,876 thousand.

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

	1st domestic unsecured convertible bonds	2nd 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. (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.	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, 2020 (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.

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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) Lease liabilities

The Group leases vehicles, employees' dormitories and warehouses. The leases typically run for a period of one year. These leases are short-term or leases of low-value items. The Group has elected not to recognize its right-of-use assets and lease liabilities for these leases.

The amounts recognized in profit or loss were as follows:

	For the three months ended March 31	
	2020	2019
Expenses relating to short-term leases and leases of low-value items	\$ 635	778

The amounts recognized in the statement of cash flows for the Group was as follows:

	For the three months ended March 31	
	2020	2019
Rental paid in operating activities	\$ 635	778

(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, 2019 and 2018.

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

	For the three months ended March 31	
	2020	2019
Administration expenses	\$ -	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	
	2020	2019
Operating cost	\$ 2,688	2,700
Selling expenses	119	144
Administration expenses	733	729
Research and development expenses	425	590
	\$ 3,965	4,163

(m) Income taxes

- (i) For the three months ended March 31, 2020 and 2019, there was no current and deferred tax expense.
- (ii) For the three months ended March 31, 2020 and 2019, there was no income tax recognized in equity.
- (iii) For the three months ended March 31, 2020 and 2019, there was no income tax recognized in other comprehensive income.
- (iv) The Company's income tax returns have been examined by the tax authority through the years up to 2018.

(n) Capital and other equity

Except for the following paragraph, there were no significant changes on the capital and other equity for the periods from January 1 to March 31, 2020 and 2019. For related information, please refer to note 6(o) of the consolidated financial statements for the year ended December 31, 2019.

As of March 31, 2020, December 31 and March 31, 2019, the nominal common stock amounted to \$1,500,000 thousand, \$1,500,000 thousand and \$1,200,000 thousand, respectively. 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 \$1,199,803 thousand, \$1,202,263 thousand and \$1,028,803 thousand, respectively.

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LUXNET CORPORATION AND SUBSIDIARIES
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Reconciliation of shares outstanding for the three months ended March 31, 2020 and 2019 was as follows:

(thousand shares)	For the three months ended March 31	
	2020	2019
Balance on January 1	120,227	102,898
Retirement of restricted stock (note 6(o))	(246)	(17)
Balance on March 31	<u>119,981</u>	<u>102,881</u>
(i) Capital surplus		

The balances of capital surplus as of March 31, 2020, December 31 and March 31, 2019, were as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Additional paid-in capital	\$ 215,675	215,675	753,655
Employee stock options	1,456	1,456	1,456
Conversion options of convertible bonds	581	14,145	14,145
Restricted employee stock options (note 6(o))	24,360	21,900	1,643
Changes in ownership interests of investments accounted for using equity method	62,322	62,322	-
Other	48,220	34,656	34,656
	<u>\$ 352,614</u>	<u>350,154</u>	<u>805,555</u>

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.

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(ii) 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, 2020, the Company would not distribute earnings because of the loss for the year ended December 31, 2019.

Based on the resolution approved in the stockholders' meeting held on June 14, 2019, the Company would not distribute earnings because of the loss for the year ended December 31, 2018.

Based on the resolution approved in the stockholders' meeting held on June 14, 2019, the Company offset accumulated deficits by capital surplus of \$692,355 thousand.

(o) Share-based payment

- (i) Except for the following paragraph, there were no significant changes in share based payment for the three months ended March 31, 2020 and 2019. Please refer to note 6(p) to the consolidated financial statements for the year ended December 31, 2019, for further information.

Compensation cost (reversal gain) attributable to share based payment for the three months ended March 31, 2020 and 2019 was \$7,442 and \$(41), respectively.

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

Based on the resolution approved in the board of directors' meeting held on January 10, 2020, the number of shares was reduced by 246 thousand shares due to the retirement of restricted stock, with January 10, 2020 as the date of capital reduction. The relevant statutory registration procedures were completed.

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(p) Earnings (losses) per share

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

	For the three months ended March 31	
	2020	2019
Loss attributable to common stockholders	\$ (67,655)	(24,040)
Weighted-average number of common shares (thousand shares)	117,580	102,802

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, 2020 and 2019.

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended March 31	
	2020	2019
Primary geographical markets		
Taiwan	\$ 18,670	20,320
China	60,323	135,881
America	176,697	144,428
Other	381	1,661
	\$ 256,071	302,290
Major products		
Active components for optical communication and modules	\$ 218,530	259,216
Chips	20,631	19,399
Other	16,910	23,675
	\$ 256,071	302,290

(ii) Contract balances

	March 31, 2020	December 31, 2019	March 31, 2019
Notes and accounts receivable	\$ 196,708	224,176	307,793
Less: allowance for impairment	(52,201)	(52,136)	(53,636)
	\$ 144,507	172,040	254,157
Contract liabilities	\$ 1,709	103	58,797

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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, 2020 and 2019, that was included in the contract liability balance at the beginning of the period was \$100 thousand and \$13,336 thousand, respectively.

(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. Related information would be available at the Market Observation Post System website.

The Company did not estimate any remuneration to employees, and directors and supervisors due to its loss for the three months ended March 31, 2020 and 2019. 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 2019 and 2018. The amounts, as stated in the consolidated financial statements, are identical with those of the actual distributions for 2019 and 2018. Related information would be available at the Market Observation Post System website.

(s) Non-operating income and expenses

Other gains and losses were as follows:

	For the three months ended March 31	
	2020	2019
Foreign currency exchange gains	\$ 2,182	2,416
Net gains (losses) on financial liabilities measured at fair value through profit or loss	(570)	1,256
Losses on disposal of property, plant and equipment	1,539	229
Gains on disposal of investments accounted for using equity method	-	20,315
Loss on redemption of bonds	(7,995)	-
Other	124	64
	<u>\$ (4,720)</u>	<u>24,280</u>

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(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, 2019, 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:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1~2 years</u>	<u>2~5 years</u>
March 31, 2020					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 258,000	258,482	258,482	-	-
Convertible bonds	12,073	12,300	12,300	-	-
Notes and accounts payable	159,082	159,082	159,082	-	-
Accrued expenses and other payables	45,049	45,049	45,049	-	-
Long-term borrowings	<u>320,000</u>	<u>329,307</u>	<u>4,832</u>	<u>324,475</u>	<u>-</u>
	<u>\$ 794,204</u>	<u>804,220</u>	<u>479,745</u>	<u>324,475</u>	<u>-</u>
December 31, 2019					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 130,000	130,228	130,228	-	-
Convertible bonds	292,197	299,200	299,200	-	-
Notes and accounts payable	184,923	184,923	184,923	-	-
Accrued expenses and other payables	47,990	47,990	47,990	-	-
Long-term borrowings	<u>320,000</u>	<u>324,648</u>	<u>324,648</u>	<u>-</u>	<u>-</u>
	<u>\$ 975,110</u>	<u>986,989</u>	<u>986,989</u>	<u>-</u>	<u>-</u>

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1~2 years</u>	<u>2~5 years</u>
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	<u>343,214</u>	<u>352,332</u>	<u>23,870</u>	<u>328,462</u>	<u>-</u>
	<u>\$ 1,062,934</u>	<u>1,083,656</u>	<u>755,194</u>	<u>328,462</u>	<u>-</u>

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:

	<u>March 31, 2020</u>			<u>December 31, 2019</u>			<u>March 31, 2019</u>			
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	
Financial assets										
Monetary items										
USD:NTD	\$	6,742	30,230	203,811	7,369	29,980	220,923	17,047	30,820	525,389
Financial liabilities										
Monetary items										
USD:NTD		3,807	30,230	115,086	4,729	29,980	141,775	4,778	30,820	147,258

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 NTD against the USD as of March 31, 2020 and 2019, would have increased or decreased the net loss before tax by \$4,436 thousand and \$18,907 thousand, respectively. The analysis is performed on the same basis for both periods.

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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), NTD, was as follows:

	For the three months ended March 31			
	2020		2019	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
NTD	\$ 2,182	1.000	2,416	1.000

(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 \$168 thousand and \$72 thousand for the three months ended March 31, 2020 and 2019 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.

(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, disclosure of fair value information is not required:

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		March 31, 2020				
		Fair Value				
	Book value	Level 1	Level 2	Level 3	Total	
Financial assets measured at amortized cost						
Cash and cash equivalents	\$ 308,908					
Notes and accounts receivable	144,507					
Refundable deposits	21,910					
Total	<u>\$ 475,325</u>					
Financial liabilities at amortized cost						
Long-term and short-term borrowings	\$ 578,000					
Notes and accounts payable	159,082					
Convertible bonds	12,073	-	12,068	-	12,068	
Other financial liabilities	87,734					
Total	<u>\$ 836,889</u>					
		December 31, 2019				
		Fair Value				
	Book value	Level 1	Level 2	Level 3	Total	
Financial assets measured at amortized cost						
Cash and cash equivalents	\$ 544,505					
Notes and accounts receivable	172,040					
Refundable deposits	21,985					
Total	<u>\$ 738,530</u>					
Financial liabilities at amortized cost						
Long-term and short-term borrowings	\$ 450,000					
Notes and accounts payable	184,923					
Convertible bonds	292,197	-	292,083	-	292,083	
Other financial liabilities	100,025					
Total	<u>\$ 1,027,145</u>					
Financial liabilities at fair value through profit or loss—current	<u>\$ 89</u>	-	-	89	89	

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	March 31, 2019				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 404,959				
Notes and accounts receivable (including related parties)	254,157				
Refundable deposits	<u>36,222</u>				
Total	<u>\$ 695,338</u>				
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	<u>85,496</u>				
Total	<u>\$ 1,106,143</u>				
Financial liabilities at fair value through profit or loss—current	<u>\$ 838</u>	-	-	838	838

- 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

	<u>Convertible bonds</u>
Balance on January 1, 2020	\$ (89)
Recognized in profit or loss	(570)
Disposal / pay-off	<u>659</u>
Balance on March 31, 2020	<u>\$ -</u>
Balance on January 1, 2019	(2,094)
Recognized in profit or loss	<u>1,256</u>
Balance on March 31, 2019	<u>\$ (838)</u>

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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, 2020 and 2019, were as follows:

	For the three months ended March 31	
	2020	2019
Total gains and losses (recognized in “other gains and losses”)	\$ -	1,256

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, 2020 and 2019, 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, 2019.

(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, 2019. The information on capital management items has no significant difference from that of the consolidated financial statements for the year ended December 31, 2019. Please refer to note 6(w) to the consolidated financial statements for the year ended December 31, 2019, 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, 2020 and 2019, were as follows:

(i) The increase in property, plant and equipment and other non-current assets from the transfer of prepayment for equipment was \$0 thousand and \$3,426 thousand, respectively. Please refer to note 6(f).

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

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(x) Change in liabilities from financing activities

Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2020	Cash flows	Non-cash changes	March 31, 2020
Short-term borrowings	\$ 130,000	128,000	-	258,000
Long-term borrowings	320,000	-	-	320,000
Bonds payables	<u>292,197</u>	<u>(289,776)</u>	<u>9,642</u>	<u>12,063</u>
Total liabilities from financing activities	<u>\$ 742,197</u>	<u>(161,776)</u>	<u>9,642</u>	<u>590,063</u>

	January 1, 2019	Cash flows	Non-cash changes	March 31, 2019
Short-term borrowings	\$ 200,000	-	-	200,000
Long-term borrowings	351,395	(8,181)	-	343,214
Bonds payables	<u>288,928</u>	<u>(2,600)</u>	<u>1,436</u>	<u>287,764</u>
Total liabilities from financing activities	<u>\$ 840,323</u>	<u>(10,781)</u>	<u>1,436</u>	<u>830,978</u>

(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>
Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou)	An associate of the Group

(b) Significant transactions with related parties

(i) Provide service to related parties

For the three months ended March 31, 2020 and 2019, revenue from providing service to associate, Toptrans Suzhou, amounted to \$0 thousand and \$4,899 thousand, respectively. As of March 31, 2020 and 2019, the accounts receivable arising from aforementioned transactions amountings to \$0 thousand and \$4,899 thousand, respectively, was recognized under accounts receivable from related parties.

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(ii) Loans to related parties

The loans to Toptran Suzhou was derived from the accounts receivable of selling goods to Toptran Suzhou. However, Toptran Suzhou failed to settle its debt due the difficulties its business is facing, resulting in the Group to reclassify its accounts receivable to loans.

The loans to associate Toptrans Suzhou were as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Other receivables -- loans	\$ 10,910	11,808	16,751
Other receivables -- interest	<u>28</u>	<u>28</u>	<u>190</u>
	10,938	11,836	16,941
Less: allowance impairment	<u>(10,938)</u>	<u>(11,836)</u>	<u>(16,941)</u>
	<u>\$ -</u>	<u>-</u>	<u>-</u>

For the three months ended March 31, 2020 and 2019, the Group recognized expected credit gains of \$898 thousand, and \$0 thousand, respectively, as other gains and losses due to collections from the loans.

(c) Key management personnel compensation

	For the three months ended March 31	
	2020	2019
Short-term employee benefits	\$ 5,226	7,427
Post-employment benefits	162	212
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	<u>1,284</u>	<u>108</u>
	<u>\$ 6,672</u>	<u>7,747</u>

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

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(8) Pledged assets:

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

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>Book value of pledged assets</u>		
		<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
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	271,314	274,426	284,438
Fixed assets–machinery and equipment	Long-term borrowings	-	-	98,607
Refundable deposits	Long-term borrowings and collateral for court proceedings	<u>21,740</u>	<u>21,740</u>	<u>35,740</u>
		<u>\$ 540,750</u>	<u>543,862</u>	<u>666,481</u>

(9) Commitments and contingencies:

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

		<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Guarantee notes issued	USD \$	<u>5,500</u>	<u>5,500</u>	<u>7,500</u>
Guarantee notes issued	NTD \$	<u>990,000</u>	<u>990,000</u>	<u>835,000</u>

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

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(12) Other:

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

By function By item	For the three months ended March 31					
	2020			2019		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	53,687	28,470	82,157	46,707	30,356	77,063
Labor and health insurance	5,417	2,231	7,648	5,664	2,559	8,223
Pension	2,688	1,277	3,965	2,700	1,502	4,202
Remuneration of directors	-	520	520	-	685	685
Others	3,466	986	4,452	3,315	1,356	4,671
Depreciation	38,116	5,740	43,856	39,123	6,417	45,540
Amortization	1,059	920	1,979	1,552	1,420	2,972

(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, 2020:

(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	11,808	18,156	10,910	2%	Required loans to other parties	-	Operating capital	10,910	None	-	(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, \$123,986 thousand, in the latest financial statements. The total amounts loaned to all companies shall not exceed 40% of the Company's net worth, \$495,943 thousand.

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

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- (iii) Securities held as of March 31, 2020 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	March 31, 2020				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 \$300 million or 20% of the capital stock: None.
- (v) Acquisition of individual real estate with an amount exceeding the lower of \$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with an amount exceeding the lower of \$300 million or 20% of the capital stock: None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of \$300 million or 20% of the capital stock: None.
- (viii) Receivables from related parties with amounts exceeding the lower of \$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.
- (b) Information on investees:

The following is the information on investees for the three months ended March 31, 2020 (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, 2020		Note
				March 31, 2020	December 31, 2019	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 %	72,496	(4,776)	(4,776)	(Note)
Toplight Corporation Limited	Toptrans Corporation Limited	Hong Kong	Holding company	122,980	122,980	4,000	100 %	72,496	(4,776)	(4,776)	(Note)

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

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(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, 2020	Investment flows		Accumulated outflow of investment from Taiwan as of March 31, 2020	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	547,616 (USD 17,730 thousand)	(note)	122,980 (USD 4,000 thousand)	-	-	122,980 (USD 4,000 thousand)	16.92 %	(4,776)	72,496	-	(Note 1)

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, 2020	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
122,980 (USD4,000 thousand)	123,743 (USD4,000 thousand)	743,915

Note 1: The NTD amount was measured on March 31, 2020 with the spot exchange rate of 30.230, except for the investment income (which are measured by using the average exchange rate for the three months ended March 31, 2020) and outflow of investment (which was measured by using the exchange rate on outflow date).

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

- (iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China are disclosed in the "Information on significant transactions".

- (d) Major shareholders:

Shareholder's Name	Shareholding Thousand shares	Percentage
TriKnight Capital Corporation	18,559	15.46 %

(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, 2020 and 2019 were the same as the Group's consolidated financial statements.