

**LUXNET CORPORATION AND SUBSIDIARIES****Consolidated Financial Statements****With Independent Auditors' Review Report  
For the Nine Months Ended September 30, 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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安侯建業聯合會計師事務所

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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 September 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2020 and 2019, as well as the changes in equity and cash flows for the nine months ended September 30, 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 of the consolidated financial statements for the nine months ended September 30, 2019 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 of the consolidated financial statements for the nine months ended September 30, 2019

As stated in Note 6(f), the investments accounted for using equity method of LuxNet Corporation and its subsidiaries in its investee companies of NT\$76,624 thousand as of September 30, 2019, and its related share of loss of associates accounted for using equity method of NT\$8,085 thousand and NT\$23,670 thousand, for the three months and nine months ended September 30, 2019, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

### **Qualified Conclusion and Unqualified 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 of the consolidated financial statements for the nine months ended September 30, 2019 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 September 30, 2020 and 2019, and of its consolidated financial performance for the three months and nine months ended September 30, 2020 and 2019, as well as its consolidated cash flows for the nine months ended September 30, 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.

### **Emphasis of Matter**

As stated in Note 6(f), LuxNet Corporation and its subsidiaries lost their significant influence over Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou) on May 6, 2020. Thereafter, the investment of Toptrans (Suzhou) was reclassified from investment accounted for using the equity method to financial assets at fair value through other comprehensive income, resulting in a gain on disposal of investments of \$128,479 thousand. Our conclusion is not modified in respect of this matter.

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)  
November 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 September 30, 2020 and 2019**

**LUXNET CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**September 30,  
2020, December 31, 2019, and September 30, 2019**

**(Expressed in Thousands of New Taiwan Dollars)**

Assets		September 30, 2020		December 31, 2019		September 30, 2019		Liabilities and Equity		September 30, 2020		December 31, 2019		September 30, 2019	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
<b>Current assets:</b>								<b>Current liabilities:</b>							
1100	Cash and cash equivalents (note 6(a))	\$ 336,137	17	544,505	24	290,100	14	2100	Short-term borrowings (note 6(i))	\$ 248,460	12	130,000	6	148,624	7
1170	Notes and account receivable, net (notes 6(d) and (r))	189,837	9	172,040	7	198,379	9	2130	Current contract liabilities (note 6(r))	3,033	-	103	-	18,118	1
1180	Accounts receivable from related parties, net (notes 6(d), (r) and 7)	-	-	-	-	350	-	2170	Notes and accounts payable	127,679	6	184,923	8	173,792	8
130X	Inventories (note 6(e))	334,995	16	309,750	13	284,277	14	2200	Accrued expenses and other payables	113,537	6	100,025	4	92,450	5
1410	Prepaid expenses	10,402	-	4,333	-	5,587	-	2321	Bonds payable, current portion (note 6(k))	12,197	-	292,197	13	290,706	14
1470	Other current assets (notes 6(b) and (k))	5,326	-	17,534	1	17,670	1	2322	Long-term borrowings, current portion (notes 6(j) and 8)	-	-	320,000	14	-	-
		<u>876,697</u>	<u>42</u>	<u>1,048,162</u>	<u>45</u>	<u>796,363</u>	<u>38</u>	2300	Other current liabilities (notes 6(b) and (k))	6,377	-	5,922	-	5,977	-
										<u>511,283</u>	<u>24</u>	<u>1,033,170</u>	<u>45</u>	<u>729,667</u>	<u>35</u>
<b>Non-current assets:</b>								<b>Non-Current liabilities:</b>							
1517	Non-current financial assets at fair value through other comprehensive income (note 6(c))	124,897	6	-	-	-	-	2540	Long-term borrowings (notes 6(j) and 8)	320,000	16	-	-	320,000	15
1550	Investments accounted for using equity method, net (note 6(f))	-	-	78,119	3	76,624	4	2600	Other non-current liabilities	1,008	-	1,047	-	4,104	-
1600	Property, plant and equipment (notes 6(h) and 8)	1,032,983	50	1,179,633	51	1,206,129	57			<u>321,008</u>	<u>16</u>	<u>1,047</u>	<u>-</u>	<u>324,104</u>	<u>15</u>
1780	Intangible assets	1,266	-	1,279	-	1,595	-		<b>Total liabilities</b>	<u>832,291</u>	<u>40</u>	<u>1,034,217</u>	<u>45</u>	<u>1,053,771</u>	<u>50</u>
1900	Other non-current assets (note8)	27,846	2	27,942	1	29,268	1	<b>Equity attributable to owners of parent:</b>							
		<u>1,186,992</u>	<u>58</u>	<u>1,286,973</u>	<u>55</u>	<u>1,313,616</u>	<u>62</u>	3100	Ordinary shares (note 6(o))	1,201,243	58	1,202,263	51	1,055,263	50
								3200	Capital surplus (notes 6(f), (k) and (o))	86,702	4	350,154	15	202,379	10
								3350	Accumulated deficit (note 6(o))	(13,475)	-	(206,428)	(9)	(145,895)	(7)
								3400	Other equity interest (note 6(p))	(43,072)	(2)	(45,071)	(2)	(55,539)	(3)
									<b>Total equity</b>	<u>1,231,398</u>	<u>60</u>	<u>1,300,918</u>	<u>55</u>	<u>1,056,208</u>	<u>50</u>
<b>Total assets</b>		<u>\$ 2,063,689</u>	<u>100</u>	<u>2,335,135</u>	<u>100</u>	<u>2,109,979</u>	<u>100</u>		<b>Total liabilities and equity</b>	<u>\$ 2,063,689</u>	<u>100</u>	<u>2,335,135</u>	<u>100</u>	<u>2,109,979</u>	<u>100</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 Comprehensive Income**

**For the nine months ended September 30, 2020 and 2019**

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

	For the three months ended September 30				For the nine months ended September 30				
	2020		2019		2020		2019		
	Amount	%	Amount	%	Amount	%	Amount	%	
4000	<b>Operating revenue (notes 6(r) and 7)</b>								
	\$	303,651	100	299,923	100	906,262	100	893,585	100
5000	<b>Operating costs (notes 6(e), (l), (m), (p) and 12)</b>								
		287,131	94	301,127	100	844,504	93	858,738	96
	<b>Gross profit</b>								
		16,520	6	(1,204)	-	61,758	7	34,847	4
	<b>Operating expenses (notes 6(d), (l), (m), (p) and 12):</b>								
6100	Selling expenses	3,509	1	3,370	1	11,416	1	14,222	2
6200	Administrative expenses	26,380	9	33,977	11	79,029	9	93,375	10
6300	Research and development expenses	23,690	8	29,486	10	72,757	8	91,476	10
6450	Expected credit loss (gain)	136	-	(1,231)	-	144	-	(1,484)	-
		53,715	18	65,602	22	163,346	18	197,589	22
	<b>Net operating loss</b>								
		(37,195)	(12)	(66,806)	(22)	(101,588)	(11)	(162,742)	(18)
	<b>Non-operating income and expenses:</b>								
7020	Other gains and losses, net (notes 6(b), (k), (t) and (u))	12,148	4	2,960	1	30,496	4	6,538	1
7050	Finance costs (note 6(k))	(2,143)	(1)	(3,871)	(1)	(6,688)	(1)	(11,104)	(1)
7055	Expected credit gain (note 7)	930	-	4,044	1	2,753	-	4,044	-
7070	Share of loss of associates accounted for using equity method (note 6(f))	-	-	(8,085)	(3)	(6,362)	(1)	(23,670)	(3)
7100	Interest revenue	-	-	-	-	54	-	408	-
7225	Gains on disposal of investments (notes 6(f) and (g))	-	-	-	-	128,479	14	40,631	4
7673	Impairment loss on property, plant and equipment (note 6(h))	-	-	-	-	(60,619)	(6)	-	-
		10,935	3	(4,952)	(2)	88,113	10	16,847	1
7900	<b>Loss before income tax</b>								
		(26,260)	(9)	(71,758)	(24)	(13,475)	(1)	(145,895)	(17)
7950	Less: income tax expenses (note 6(n))	-	-	-	-	-	-	-	-
	<b>Loss</b>								
		(26,260)	(9)	(71,758)	(24)	(13,475)	(1)	(145,895)	(17)
8300	<b>Other comprehensive income (loss):</b>								
8310	<b>Items that may not be reclassified to profit or loss</b>								
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(24,877)	(8)	-	-	(18,586)	(2)	-	-
	Components of other comprehensive income that will not be reclassified to profit or loss	(24,877)	(8)	-	-	(18,586)	(2)	-	-
8360	<b>Items that may be reclassified subsequently to profit or loss</b>								
8361	Exchange differences on translation of foreign operation's financial statements (note 6(f))	-	-	(2,976)	(1)	5,569	-	(2,402)	-
	Components of other comprehensive income that will be reclassified to profit or loss	-	-	(2,976)	(1)	5,569	-	(2,402)	-
8300	<b>Other comprehensive income (loss), net</b>								
		(24,877)	(8)	(2,976)	(1)	(13,017)	(2)	(2,402)	-
8500	<b>Comprehensive loss</b>								
		(51,137)	(17)	(74,734)	(25)	(26,492)	(3)	(148,297)	(17)
	<b>Losses per share (note 6(q))</b>								
9750	Basic losses per share (NT dollars)	(0.22)		(0.69)		(0.11)		(1.42)	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
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**LUXNET CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the nine months ended September 30, 2020 and 2019**

(Expressed in Thousands of New Taiwan Dollars)

	Ordinary shares	Capital surplus	Retained earnings Accumulated deficit	Exchange differences on translation of foreign financial statements	Total other equity interest		Total equity
					Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unearned employee compensation	
<b>Balance at January 1, 2019</b>	\$ 1,028,973	805,912	(692,355)	(2,299)	(2,951)	(219)	1,137,061
Loss for the nine months ended September 30, 2019	-	-	(145,895)	-	-	-	(145,895)
Other comprehensive income for the nine months ended September 30, 2019	-	-	-	(2,402)	-	-	(2,402)
Total comprehensive income for the nine months ended September 30, 2019	-	-	(145,895)	(2,402)	-	-	(148,297)
Capital surplus used to offset accumulated deficits	-	(692,355)	692,355	-	-	-	-
Issuance of restricted stock	26,460	26,857	-	-	-	(53,317)	-
Amortization of restricted stock	-	-	-	-	-	5,462	5,462
Retirement of restricted stock	(170)	(357)	-	-	-	187	(340)
Changes in ownership interests of investments accounted for using equity method	-	62,322	-	-	-	-	62,322
<b>Balance at September 30, 2019</b>	<b>\$ 1,055,263</b>	<b>202,379</b>	<b>(145,895)</b>	<b>(4,701)</b>	<b>(2,951)</b>	<b>(47,887)</b>	<b>1,056,208</b>
<b>Balance at January 1, 2020</b>	\$ 1,202,263	350,154	(206,428)	(5,569)	(2,951)	(36,551)	1,300,918
Loss for the nine months ended September 30, 2020	-	-	(13,475)	-	-	-	(13,475)
Other comprehensive income for the nine months ended September 30, 2020	-	-	-	5,569	(18,586)	-	(13,017)
Total comprehensive income for the nine months ended September 30, 2020	-	-	(13,475)	5,569	(18,586)	-	(26,492)
Capital surplus used to offset accumulated deficits	-	(206,428)	206,428	-	-	-	-
Issuance of restricted stock	3,540	5,097	-	-	-	(8,637)	-
Amortization of restricted stock	-	-	-	-	-	19,294	19,294
Retirement of restricted stock	(4,560)	201	-	-	-	4,359	-
Changes in ownership interests of investments accounted for using equity method	-	(7,100)	-	-	-	-	(7,100)
Disposal of investments accounted for using equity method	-	(55,222)	-	-	-	-	(55,222)
<b>Balance at September 30, 2020</b>	<b>\$ 1,201,243</b>	<b>86,702</b>	<b>(13,475)</b>	<b>-</b>	<b>(21,537)</b>	<b>(21,535)</b>	<b>1,231,398</b>

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 nine months ended September 30, 2020 and 2019**

**(Expressed in Thousands of New Taiwan Dollars)**

	For the nine months ended September	
	2020	2019
<b>Cash flows from (used in) operating activities:</b>		
Loss before tax	\$ (13,475)	(145,895)
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation and amortization expense	130,188	143,173
Expected credit gain	(2,609)	(5,528)
Losses (gains) related to inventories	41,501	(17,073)
Losses (gains) on financial assets and liabilities at fair value through profit or loss	566	(568)
Interest expense	6,688	11,104
Interest revenue	(54)	(408)
Compensation cost of share-based payments	19,294	5,462
Share of loss of associates accounted for using equity method	6,362	23,670
Losses (gains) on disposal of property, plant and equipment	(11,212)	777
Gains on disposal of investments	(128,479)	(40,631)
Losses on redemption of bonds	7,995	-
Impairment loss on property, plant and equipment	60,619	-
<b>Total adjustments to reconcile profit</b>	<b>130,859</b>	<b>119,978</b>
<b>Changes in operating assets and liabilities:</b>		
Notes and accounts receivable	(17,941)	34,790
Inventories	(66,746)	62,808
Prepaid and other current assets	8,840	(10,223)
<b>Total changes in operating assets</b>	<b>(75,847)</b>	<b>87,375</b>
Notes and accounts payable	(57,244)	6,353
Contract liabilities	2,930	(31,461)
Accrued expenses and other payables	10,769	11,979
Other current liabilities	545	-
Other operating liabilities	(39)	342
<b>Total changes in operating liabilities</b>	<b>(43,039)</b>	<b>(12,787)</b>
<b>Total changes in operating assets and liabilities</b>	<b>(118,886)</b>	<b>74,588</b>
<b>Total adjustments</b>	<b>11,973</b>	<b>194,566</b>
Cash inflow (outflow) generated from operations	(1,502)	48,671
Interest received	54	408
Interest paid	(5,462)	(6,686)
Tax refund received	56	19,188
<b>Net cash flows from (used in) operating activities</b>	<b>(6,854)</b>	<b>61,581</b>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of property, plant and equipment	(45,477)	(58,451)
Proceeds from disposal of property, plant and equipment	17,454	3,037
Increase in other non-current assets	(2,175)	(4,344)
<b>Net cash flows used in investing activities</b>	<b>(30,198)</b>	<b>(59,758)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term borrowings	118,460	(51,376)
Redemption of bonds	(289,776)	(2,600)
Decrease in long-term borrowings	-	(19,089)
Other	-	(340)
<b>Net cash flows used in financing activities</b>	<b>(171,316)</b>	<b>(73,405)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(208,368)</b>	<b>(71,582)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>544,505</b>	<b>361,682</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 336,137</b>	<b>290,100</b>

See accompanying notes to consolidated financial statements.



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**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**September 30, 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 reported for issue by the board of directors on November 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
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 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 the FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2021:

<b><u>New, Revised or Amended Standards and Interpretations</u></b>	<b><u>Effective date per IASB</u></b>
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	January 1, 2021

The Group assesses that the adoption of the abovementioned amendments would not have any material impact on its consolidated financial statements.

- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

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

<b><u>New, Revised or Amended Standards and Interpretations</u></b>	<b><u>Effective date per IASB</u></b>
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, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”	January 1, 2021

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
January 23, 2020	Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

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, 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:

<b>Name of investor</b>	<b>Name of subsidiary</b>	<b>Principal activities</b>	<b>Percentage of shareholding</b>		
			<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
The Company	Toplight Corporation (Toplight)	Holding company	100 %	100 %	100 %
Toplight	Toptrans Corporation Limited (Toptrans)	Holding company	100 %	100 %	100 %

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**LUXNET CORPORATION AND SUBSIDIARIES**  
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(c) Investment in associates

The Group discontinues the use of the equity method and measures the retained interest at fair value from the date when its investment ceases to be an associate. The difference between the fair value of retained interest and proceeds from disposing, and the carrying amount of the investment at the date the equity method was discontinued is recognized in profit or loss. The Group accounts for all the amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would have been required if the associates had directly disposed of the related assets or liabilities. If a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss (or retained earnings) on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (or retained earnings) when the equity method is discontinued. If the Group's ownership interest in an associate is reduced while it continues to apply the equity method, the Group reclassifies the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest to profit or loss.

(d) 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.

(e) 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.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
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**(6) Explanation of significant accounts:**

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2019. Please refer to note 6 of the 2019 annual consolidated financial statements.

(a) Cash and cash equivalents

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Cash on hand	\$ 114	115	105
Demand deposits	336,023	544,390	289,995
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 336,137</u>	<u>544,505</u>	<u>290,100</u>

Please refer to note 6(u) for the interest rate risk, currency risk and the related sensitivity analysis of the financial assets and liabilities of the Group.

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Bonds (note 6(k))	<u>\$ 4</u>	<u>(89)</u>	<u>(1,526)</u>

For the three months and the nine months ended September 30, 2020 and 2019, the gains (losses) on valuation of financial assets and liabilities due to change in fair value amounted to \$0 thousand, \$598 thousand, \$(566) thousand and \$568 thousand, respectively, which were recognized in other gains and losses for the periods. Please refer to note 6(t).

(c) Financial assets at fair value through other comprehensive income

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
<b>Equity investments at fair value through other comprehensive income</b>			
Equities unlisted in foreign markets- Toptrans (Suzhou) Corporation Limited	<u>\$ 124,897</u>	<u>-</u>	<u>-</u>

- (i) The Group designated the investments above as equity securities at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes and not for sale.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
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- (ii) The Group lost its significant influence over Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou) on May 6, 2020. Thereafter, the investment of Toptrans Suzhou was reclassified from investment accounted for using the equity method to financial assets at fair value through other comprehensive income. Please refer to note 6(f).
- (iii) The Group did not provide any of the aforementioned financial assets as collateral.
- (d) Notes and accounts receivable (including related parties)

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Notes receivable	\$ -	46	39
Accounts receivable	242,117	224,130	250,808
Less: allowance for impairment	<u>(52,280)</u>	<u>(52,136)</u>	<u>(52,118)</u>
	<u>\$ 189,837</u>	<u>172,040</u>	<u>198,729</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 (including related parties) was as follows:

	<u>September 30, 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	\$ 179,298	0.01%~3%	203
Overdue 1 to 120 days	10,743	0.01%~3%	1
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	<u>52,076</u>	100.00%	<u>52,076</u>
	<u>\$ 242,117</u>		<u>52,280</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>\$ 224,176</u>		<u>52,136</u>

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**LUXNET CORPORATION AND SUBSIDIARIES**  
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	<b>September 30, 2019</b>		
	<b>Carrying amounts of notes and accounts receivable (including related parties)</b>	<b>Lifetime weighted- average ECL rate</b>	<b>Loss allowance provision of lifetime ECL</b>
Current	\$ 198,749	0.01%	20
Overdue 1 to 120 days	-	0.01%	-
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	52,098	100.00%	52,098
	<b>\$ 250,847</b>		<b>52,118</b>

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

	<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Balance on January 1, 2020 and 2019	\$ 52,136	53,602
Impairment losses recognized (reversed)	144	(1,484)
Balance on September 30, 2020 and 2019	<b>\$ 52,280</b>	<b>52,118</b>

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

- (e) Inventories

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Raw materials	\$ 69,334	86,094	70,048
Work in process	104,221	80,073	107,420
Finished goods	161,440	143,583	106,809
	<b>\$ 334,995</b>	<b>309,750</b>	<b>284,277</b>

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**LUXNET CORPORATION AND SUBSIDIARIES**  
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The Group recognized the following items as cost of goods sold:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Losses (gains) on inventory valuation and obsolete inventories	\$ 8,590	22,904	41,499	(141,924)
Loss on physical inventory	2	-	2	-
Losses on disposal of inventories	-	-	-	124,851
Gains on sale of scrap	-	(4,116)	(2,214)	(4,116)
Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity	<u>32,720</u>	<u>43,260</u>	<u>101,796</u>	<u>120,662</u>
	<b><u>\$ 41,312</u></b>	<b><u>62,048</u></b>	<b><u>141,083</u></b>	<b><u>99,473</u></b>

As of September 30, 2020, December 31 and September 30, 2019, the Group did not provide any of the aforementioned inventory as collateral.

(f) Investments accounted for using equity method

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>	
Associates	<u>\$ -</u>	<u>78,119</u>	<u>76,624</u>	
	<b>For the three months ended September 30</b>	<b>For the nine months ended September 30</b>		
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Attributable to the Group:				
Loss	\$ -	(8,085)	(6,362)	(23,670)
Other comprehensive income	<u>-</u>	<u>(2,976)</u>	<u>(1,534)</u>	<u>(2,402)</u>
Comprehensive income	<b><u>\$ -</u></b>	<b><u>(11,061)</u></b>	<b><u>(7,896)</u></b>	<b><u>(26,072)</u></b>

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**LUXNET CORPORATION AND SUBSIDIARIES**  
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- (i) 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) On May 6, 2020, the Board of Director resolved to amend the shareholding structure in the articles of the Toptrans Suzhou. Thereafter, the Group's ownership interest in Toptrans Suzhou decreased from 16.92% to 15.21%, resulting in the capital surplus of the Group to decrease by \$7,100 thousand due to the decrease of the Group's proportionate interest in the net assets. Also, Toptrans Suzhou re-elected its directors at the same day, without the Group appointing any directors to participate in its operational management due to the adjustment made in the investment strategy of the Group. Hence, the Group lost its significant influence over Toptrans Suzhou, resulting in its investment of \$143,483 thousand at fair value to be reclassified to financial assets at fair value through other comprehensive income, which incurred a revaluation gain of \$80,360 thousand. Additionally, the Group reclassified the exchange differences on translation of foreign operation's financial statements of \$(7,103) thousand and capital surplus of \$55,222 thousand to other income. The Group recorded the net gain of its disposals amounting to \$128,479 thousand under other gains and losses.
- (iii) The Group did not provide any investment accounted for using equity method as collateral.
- (iv) Investments accounted for using equity method as of September 30, 2019, and the share of profit or loss and other comprehensive income of those investments for the nine months ended September 30, 2019, were calculated based on the financial statements that have not been reviewed.
- (g) 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 and the nine months ended September 30, 2019, gains transferred from unearned revenue to gain on disposal of investment amounted to \$0 thousand and \$40,631 thousand, respectively, which were recognized as non-operating income and expenses for the periods.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
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(h) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the nine months ended September 30, 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>
<b>Cost or deemed cost:</b>						
Balance on January 1, 2020	\$ 247,696	361,779	1,502,702	5,239	20,735	2,138,151
Additions	-	-	-	-	44,693	44,693
Reclassifications	-	-	36,112	-	(36,112)	-
Disposals	-	-	(96,482)	-	-	(96,482)
Balance on September 30, 2020	<u>\$ 247,696</u>	<u>361,779</u>	<u>1,442,332</u>	<u>5,239</u>	<u>29,316</u>	<u>2,086,362</u>
Balance on January 1, 2019	\$ 247,696	361,779	1,473,656	5,239	-	2,088,370
Additions	-	-	17,558	-	49,075	66,633
Reclassifications	-	-	7,616	-	-	7,616
Disposals	-	-	(35,893)	-	-	(35,893)
Balance on September 30, 2019	<u>\$ 247,696</u>	<u>361,779</u>	<u>1,462,937</u>	<u>5,239</u>	<u>49,075</u>	<u>2,126,726</u>
<b>Depreciation and impairment:</b>						
Balance on January 1, 2020	\$ -	87,353	867,898	3,267	-	958,518
Depreciation	-	9,095	114,922	465	-	124,482
Impairment loss	-	-	60,619	-	-	60,619
Disposals	-	-	(90,240)	-	-	(90,240)
Balance on September 30, 2020	<u>\$ -</u>	<u>96,448</u>	<u>953,199</u>	<u>3,732</u>	<u>-</u>	<u>1,053,379</u>
Balance on January 1, 2019	\$ -	73,813	740,901	2,647	-	817,361
Depreciation	-	10,329	124,521	465	-	135,315
Disposals	-	-	(32,079)	-	-	(32,079)
Balance on September 30, 2019	<u>\$ -</u>	<u>84,142</u>	<u>833,343</u>	<u>3,112</u>	<u>-</u>	<u>920,597</u>
<b>Carrying amounts:</b>						
Balance on January 1, 2020	<u>\$ 247,696</u>	<u>274,426</u>	<u>634,804</u>	<u>1,972</u>	<u>20,735</u>	<u>1,179,633</u>
Balance on September 30, 2020	<u>\$ 247,696</u>	<u>265,331</u>	<u>489,133</u>	<u>1,507</u>	<u>29,316</u>	<u>1,032,983</u>
Balance on January 1, 2019	<u>\$ 247,696</u>	<u>287,966</u>	<u>732,755</u>	<u>2,592</u>	<u>-</u>	<u>1,271,009</u>
Balance on September 30, 2019	<u>\$ 247,696</u>	<u>277,637</u>	<u>629,594</u>	<u>2,127</u>	<u>49,075</u>	<u>1,206,129</u>

(i) Because the Group adjusted its production lines, some of its equipment became idle. According to the external appraisal report, the recoverable amount of the equipment was based on fair value less costs of disposal, and the fair value was evaluated by cost approach. The Group recognized an impairment loss incurred from those equipment amounting to \$60,619 thousand, which was accounted for as other gains and losses, for the nine months ended September 30, 2020.

(ii) As of September 30, 2020, December 31 and September 30, 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.

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## (i) Short-term borrowings

The details were as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Unsecured bank loans	<u>\$ 248,460</u>	<u>130,000</u>	<u>148,624</u>
Unused credit lines	<u>\$ 169,087</u>	<u>349,980</u>	<u>242,347</u>
Annual interest rates	<u>1.21%~2.75%</u>	<u>1.35%~1.59%</u>	<u>1.31%~3.57%</u>

## (j) Long-term borrowings

The details were as follows:

<b>Creditors</b>	<b>Nature</b>	<b>Loan period</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
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	-	-
Less: current portion			-	(320,000)	-
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>1.47%</u>	<u>1.25%~1.52%</u>	<u>1.25%~1.52%</u>

- (i) The Group 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 Group has to maintain the following financial ratios calculated based on the Group'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 Group 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 Group 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. CTBC Bank will review the cash flow every half year.

On December 28, 2018, the Group 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.

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The Group 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.

On August 6, 2020, the Group obtained the notice from CTBC Bank for changing the terms of the credit line, 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 \$1,100,000 thousand; and (3) a self-owned capital ratio of not less than 50%.

According to the contract, the Group should transfer its business transaction cash flow to the CTBC Bank account every half-year, and the cash flow is at least \$250,000 thousand. CTBC Bank will review the cash flow quarterly.

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

(k) Convertible bonds payable

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
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	(103)	(7,003)	(8,494)
Ending balance of bonds payable	12,197	292,197	290,706
Less: Bonds payable – current	(12,197)	(292,197)	(290,706)
Ending balance of bonds payable – non-current	\$ -	-	-
Embedded derivative component – the value of redemption at the option of the Company/bondholders (recorded as other current assets and liabilities)	\$ 4	(89)	(1,526)
Equity component (recorded as capital surplus – stock option)	\$ 581	14,145	14,145

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	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Embedded derivative component –				
revaluation gain (loss) on redemption at the option of the Company/bond holders (recorded as other gains and losses)	\$ <u>-</u>	<u>598</u>	<u>(566)</u>	<u>568</u>
Interest expense (recorded as finance cost)	\$ <u>63</u>	<u>1,484</u>	<u>1,121</u>	<u>4,379</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.

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

	<b>1st domestic unsecured convertible bonds</b>	<b>2nd domestic unsecured convertible bonds</b>
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.

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	<u>1st domestic unsecured convertible bonds</u>	<u>2nd domestic unsecured convertible bonds</u>
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 September 30, 2020 (note 1)	-	NT\$29.50

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.

(1) 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:

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Expenses relating to short-term leases and leases of low-value items	\$ <u>467</u>	<u>718</u>	<u>1,717</u>	<u>2,285</u>

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

	<u>For the nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>
Rental paid in operating activities	\$ <u>1,717</u>	<u>2,285</u>

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(m) 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:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Administration expenses	\$ -	39	-	117

(ii) Defined contribution plans

The pension costs under defined contribution plans were as follows:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Operating cost	\$ 2,856	2,746	8,283	8,122
Selling expenses	106	84	344	357
Administration expenses	805	732	2,320	2,193
Research and development expenses	438	520	1,300	1,681
	<b>\$ 4,205</b>	<b>4,082</b>	<b>12,247</b>	<b>12,353</b>

(n) Income taxes

- (i) For the nine months ended September 30, 2020 and 2019, there was no current and deferred tax expense.
- (ii) For the nine months ended September 30, 2020 and 2019, there was no income tax recognized in equity.
- (iii) For the nine months ended September 30, 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.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(o) 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 September 30, 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 September 30, 2020, December 31 and September 30, 2019, the nominal common stock all amounted to \$1,500,000 thousand. 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 \$1,201,243 thousand, \$1,202,263 thousand and \$1,055,263 thousand, respectively.

Reconciliation of shares outstanding for the nine months ended September 30, 2020 and 2019 was as follows:

	<b>Ordinary shares (in thousands of shares)</b>	
	<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Balance on January 1	120,227	102,898
Issuance of restricted stock (note 6(p))	354	2,646
Retirement of restricted stock (note 6(p))	(456)	(17)
Balance on September 30	<b>120,125</b>	<b>105,527</b>

(i) Capital surplus

The balances of capital surplus as of September 30, 2020, December 31 and September 30, 2019, were as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Additional paid-in capital	\$ 16,727	215,675	62,943
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(p))	19,718	21,900	26,857
Changes in ownership interests of investments accounted for using equity method	-	62,322	62,322
Other	48,220	34,656	34,656
	<b>\$ 86,702</b>	<b>350,154</b>	<b>202,379</b>

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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 stockholders' meeting held on June 16, 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 16, 2020, the Company offset accumulated deficits by capital surplus of \$206,428 thousand.

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.

(p) Share-based payment

(i) Based on the resolution approved in the Board of Directors meeting held on May 5, 2020, the Company resolved to issue 354 thousand new shares of restricted stock. The actual numbers of shares issued were same as those approved during the board meeting.

(ii) Based on the resolution approved in the stockholders' meeting held on June 14, 2019, the Company resolved to issue 3,000 thousand new shares of restricted stock. Only employees meeting specific conditions were granted such restricted stock. The Company has received the approval from the Securities and Futures Bureau.

(iii) Based on the resolution approved in the Board of Directors meeting held on August 1, 2019, the Company resolved to issue 2,646 thousand new shares of restricted stock. The actual numbers of shares issued were same as those approved during the board meeting.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iv) As of September 30, 2020, the outstanding restricted stock of the Company was as follows:

	<u>Plan 5-2</u>	<u>Plan 5-1</u>
Grant date	May 26, 2020	August 2, 2019
Fair value on grant date (per share)	24.40	20.15
Exercise price	-	-
Granted units (thousand shares)	354	2,646
Vesting period	1~3 years (note)	1~3 years (note)

Note : If the employees continue to provide service to the Company, one third of the restricted stock shall be vested in year 1 after the grant date, one third of the restricted stock shall be vested in year 2 after the grant date, and the remaining one third shall be vested in year 3 after the grant date.

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

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

	<u>For the nine months ended</u> <u>September 30</u>	
	<u>2020</u>	<u>2019</u>
Outstanding at January 1	2,400	94
Granted during the year	354	2,646
Vested during the year	(737)	(77)
Expired during the year	(210)	(17)
Outstanding at September 30	<u>1,807</u>	<u>2,646</u>

Compensation cost attributable to share-based payment for the three months and the nine months ended September 30, 2020 and 2019 was \$4,674 thousand, \$5,430 thousand, \$19,294 thousand and \$5,462 thousand, respectively.

(v) 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.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (vi) 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.
- (vii) Based on the resolution approved in the board of directors meeting held on May 5, 2020, the number of shares was reduced by 73 thousand shares due to the retirement of restricted stock, with May 25, 2020 as the date of capital reduction. The relevant statutory registration procedures were completed.
- (viii) Based on the resolution approved in the board of directors meeting held on August 6, 2020, the number of shares was reduced by 137 thousand shares due to the retirement of restricted stock, with August 10, 2020 as the date of capital reduction. The relevant statutory registration procedures were completed.
- (q) Losses per share

The calculation of basic losses per share was as follows:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Loss attributable to common stockholders	<u>\$ (26,260)</u>	<u>(71,758)</u>	<u>(13,475)</u>	<u>(145,895)</u>
Weighted-average number of common shares (thousand shares)	<u>118,072</u>	<u>102,880</u>	<u>117,744</u>	<u>102,837</u>
Basic losses per share (NT dollars)	<u>\$ (0.22)</u>	<u>(0.69)</u>	<u>(0.11)</u>	<u>(1.42)</u>

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 and the nine months ended September 30, 2020 and 2019.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (r) Revenue from contracts with customers

## (i) Disaggregation of revenue

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Primary geographical markets				
Taiwan	\$ 32,343	9,699	115,366	48,430
China	57,367	104,362	194,330	340,212
America	213,092	183,533	594,942	498,856
Other	<u>849</u>	<u>2,329</u>	<u>1,624</u>	<u>6,087</u>
	<b><u>\$ 303,651</u></b>	<b><u>299,923</u></b>	<b><u>906,262</u></b>	<b><u>893,585</u></b>
Major products				
Active components for optical communication and modules	\$ 266,297	264,554	762,243	762,496
Chips	22,876	22,733	91,865	65,588
Other	<u>14,478</u>	<u>12,636</u>	<u>52,154</u>	<u>65,501</u>
	<b><u>\$ 303,651</u></b>	<b><u>299,923</u></b>	<b><u>906,262</u></b>	<b><u>893,585</u></b>

## (ii) Contract balances

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Notes and accounts receivable	\$ 242,117	224,176	250,847
Less: allowance for impairment	<u>(52,280)</u>	<u>(52,136)</u>	<u>(52,118)</u>
	<b><u>\$ 189,837</u></b>	<b><u>172,040</u></b>	<b><u>198,729</u></b>
Contract liabilities	<b><u>\$ 3,033</u></b>	<b><u>103</u></b>	<b><u>18,118</u></b>

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

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 and the nine months ended September 30, 2020 and 2019, that was included in the contract liability balance at the beginning of the period was \$0 thousand, \$5,067 thousand, \$100 thousand and \$49,563 thousand, respectively.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(s) Employee compensation and directors' and supervisors' remuneration

According to the articles of the Company, once the Company has annual profit, it should appropriate 5%~15% of the profit to its employees and 5% or less to its directors and supervisors as remuneration. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The pervading target given via shares or cash includes employees of the Company's subsidiaries under certain requirements

The Company did not estimate any remuneration to employees, directors and supervisors for the nine months ended September 30, 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.

(t) Non-operating income and expenses

Other gains and losses were as follows:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Foreign currency exchange gains (losses)	\$ (3,146)	2,577	(2,955)	6,540
Net gains (losses) on financial assets and liabilities measured at fair value through profit or loss	-	598	(566)	568
Gains (losses) on disposal of property, plant and equipment	7,271	(313)	11,212	(777)
Loss on redemption of bonds	-	-	(7,995)	-
Government grants	7,825	-	30,325	-
Other	198	98	475	207
	<b><u>\$ 12,148</u></b>	<b><u>2,960</u></b>	<b><u>30,496</u></b>	<b><u>6,538</u></b>

(u) 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.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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>
<b>September 30, 2020</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 248,460	248,858	248,858	-	-
Convertible bonds	12,197	12,300	12,300	-	-
Notes and accounts payable	127,679	127,679	127,679	-	-
Accrued expenses and other payables	108,785	108,785	108,785	-	-
Long-term borrowings	<u>320,000</u>	<u>326,702</u>	<u>4,704</u>	<u>321,998</u>	<u>-</u>
	<u><b>\$ 817,121</b></u>	<u><b>824,324</b></u>	<u><b>502,326</b></u>	<u><b>321,998</b></u>	<u><b>-</b></u>
<b>December 31, 2019</b>					
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	97,081	97,081	97,081	-	-
Long-term borrowings	<u>320,000</u>	<u>324,648</u>	<u>324,648</u>	<u>-</u>	<u>-</u>
	<u><b>\$ 1,024,201</b></u>	<u><b>1,036,080</b></u>	<u><b>1,036,080</b></u>	<u><b>-</b></u>	<u><b>-</b></u>
<b>September 30, 2019</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 148,624	148,696	148,696	-	-
Convertible bonds	290,706	299,200	299,200	-	-
Notes and accounts payable	173,792	173,792	173,792	-	-
Accrued expenses and other payables	88,270	88,270	88,270	-	-
Long-term borrowings	<u>320,000</u>	<u>325,968</u>	<u>-</u>	<u>325,968</u>	<u>-</u>
	<u><b>\$ 1,021,392</b></u>	<u><b>1,035,926</b></u>	<u><b>709,958</b></u>	<u><b>325,968</b></u>	<u><b>-</b></u>

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

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Currency risk

1) Exposure to foreign currency risk

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

	September 30, 2020			December 31, 2019			September 30, 2019			
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	
<b>Financial assets</b>										
<b>Monetary items</b>										
USD:NTD	\$	7,924	29.100	230,588	7,369	29.980	220,923	8,379	31.040	260,084
<b>Financial liabilities</b>										
<b>Monetary items</b>										
USD:NTD		3,547	29.100	103,218	4,729	29.980	141,775	5,089	31.040	157,963

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 short-term and long-term borrowings, accounts payable, and accrued expenses and other payables that are denominated in foreign currency.

A strengthening (weakening) of 5% of the NTD against the USD as of September 30, 2020 and 2019, would have increased or decreased the net loss before tax by \$6,369 thousand and \$5,106 thousand, 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), NTD, was as follows:

	For the three months ended September 30				For the nine months ended September 30			
	2020		2019		2020		2019	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
NTD	\$ (3,146)	1.000	2,577	1.000	(2,955)	1.000	6,540	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.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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 \$436 thousand and \$307 thousand for the nine months ended September 30, 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 and financial assets at fair value through other comprehensive income are 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:

	Book value	September 30, 2020			Total
		Fair Value			
		Level 1	Level 2	Level 3	
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	\$ 336,137				
Notes and accounts receivable	189,837				
Refundable deposits	21,860				
Total	<u>\$ 547,834</u>				
<b>Financial assets at fair value through profit or loss-current</b>	<u>\$ 4</u>	-	-	4	4
<b>Financial assets at fair value through other comprehensive income -non-current</b>	<u>\$ 124,897</u>	-	-	124,897	124,897
<b>Financial liabilities at amortized cost</b>					
Long-term and short-term borrowings	\$ 568,460				
Notes and accounts payable	127,679				
Convertible bonds	12,197	-	12,221	-	12,221
Other financial liabilities	108,785				
Total	<u>\$ 817,121</u>				

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

		December 31, 2019				
		Fair Value				
	Book value	Level 1	Level 2	Level 3	Total	
<b>Financial assets measured at amortized cost</b>						
Cash and cash equivalents	\$ 544,505					
Notes and accounts receivable	172,040					
Refundable deposits	21,985					
Total	<u>\$ 738,530</u>					
<b>Financial liabilities at amortized cost</b>						
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	97,081					
Total	<u>\$ 1,024,201</u>					
<b>Financial liabilities at fair value through profit or loss—current</b>	<u>\$ 89</u>	-	-	89		89
		September 30, 2019				
		Fair Value				
	Book value	Level 1	Level 2	Level 3	Total	
<b>Financial assets measured at amortized cost</b>						
Cash and cash equivalents	\$ 290,100					
Notes and accounts receivable (including related parties)	198,729					
Refundable deposits	22,222					
Total	<u>\$ 511,051</u>					
<b>Financial liabilities at amortized cost</b>						
Long-term and short-term borrowings	\$ 468,624					
Notes and accounts payable	173,792					
Convertible bonds	290,706	-	295,101	-		295,101
Other financial liabilities	88,270					
Total	<u>\$ 1,021,392</u>					
<b>Financial liabilities at fair value through profit or loss—current</b>	<u>\$ 1,526</u>	-	-	1,526		1,526

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- 2) Valuation techniques to measure fair value of financial instruments not measured at fair value

Financial instruments of the Group not measured at fair value are financial assets and liabilities valued at amortized cost. Measurement of fair value of these financial instruments is based on recent transaction prices. When market price are unavailable, valuation is based on discounted cash flow.

- 3) Fair value valuation technique of financial instruments measured at fair value

- a) Non-derivative financial instruments

Financial instruments of the Group are equity instruments without an active market. The measurements of fair value of equity instruments without an active market are based on the market comparable listed company approach, which assumes that the fair value is measured by the book value per share of the investee and the price-book ratio of market comparable listed companies. The estimation of the fair value of equity instruments has been adjusted due to the effect of the discount arising from the lack of marketability.

- b) Derivative financial instruments

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

	<b>Financial assets (liabilities) at fair value through profit or loss</b>	<b>Financial assets at fair value through other comprehensive income</b>
<b>Balance on January 1, 2020</b>	\$ (89)	-
Recognized in profit or loss	(566)	-
Recognized in other comprehensive income	-	(18,586)
Disposal / pay-off	659	-
Reclassification	-	143,483
<b>Balance on September 30, 2020</b>	<b>\$ 4</b>	<b>124,897</b>
<b>Balance on January 1, 2019</b>	\$ (2,094)	-
Recognized in profit or loss	568	-
<b>Balance on September 30, 2019</b>	<b>\$ (1,526)</b>	-

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**LUXNET CORPORATION AND SUBSIDIARIES**  
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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 September 30, 2020 and 2019, were as follows:

	<b>For the nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Total gains and losses (recognized in “other gains and losses”)	<b>\$ (566)</b>	<b>568</b>

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

The fair value measurements of the Group which are categorized into Level 3 are classified as financial assets and liabilities at fair value through profit or loss – derivative financial instruments and financial assets at fair value through other comprehensive income – equity securities. The derivative financial instruments 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.

Significant quantitative information about unobservable inputs was as follows:

<b>Item</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationships between significant unobservable inputs and fair value</b>
Financial assets at fair value through other comprehensive income – equity investments in inactive markets	Market comparable listed company approach	<ul style="list-style-type: none"> <li>• Multiplier of price-to-book ratio (3.07 on September 30, 2020)</li> <li>• Discounts for lack of marketability (44.3% on September 30, 2020)</li> </ul>	<ul style="list-style-type: none"> <li>• The fair value would increase if the multiplier were higher</li> <li>• The fair value would decrease if the discount for lack of marketability were higher</li> </ul>

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- 6) Fair value measured in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The Group's measurement of fair value of financial instruments is reasonable, but using different evaluation models or parameters will cause different results. For financial instruments in Level 3, if the evaluation parameters had changed, the effects on other comprehensive income and loss would have been as follows:

<b>September 30, 2020</b>	<b>Inputs</b>	<b>Increase or decrease</b>	<b>Effects of changes in fair value on other comprehensive income and loss</b>	
Financial assets at fair value through other comprehensive income – equity investments in inactive markets	Multiplier of price-to-book ratio	±10%	\$ <u>12,490</u>	<u>(12,490)</u>
	Discount for lack of marketability	±10%	\$ <u>12,490</u>	<u>(12,490)</u>

- 7) In the nine months ended September 30, 2020 and 2019, there were no transfers between levels.

- (v) 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.

- (w) 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.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

The Group's investing and financing activities which did not affect the current cash flow in the nine months ended September 30, 2020 and 2019, were as follows:

- (i) The increase in property, plant and equipment from the transfer of prepayment for equipment was \$0 thousand and \$7,616 thousand, respectively. Please refer to note 6(h).
- (ii) For retirement of restricted stock, please refer to note 6(p).

(y) Change in liabilities from financing activities

Reconciliation of liabilities arising from financing activities was as follows:

	<b>January 1, 2020</b>	<b>Cash flows</b>	<b>Non-cash changes</b>	<b>September 30, 2020</b>
Short-term borrowings	\$ 130,000	118,460	-	248,460
Long-term borrowings	320,000	-	-	320,000
Bonds payables	<u>292,197</u>	<u>(289,776)</u>	<u>9,776</u>	<u>12,197</u>
Total liabilities from financing activities	<u>\$ 742,197</u>	<u>(171,316)</u>	<u>9,776</u>	<u>580,657</u>

	<b>January 1, 2019</b>	<b>Cash flows</b>	<b>Non-cash changes</b>	<b>September 30, 2019</b>
Short-term borrowings	\$ 200,000	(51,376)	-	148,624
Long-term borrowings	351,395	(19,089)	(12,306)	320,000
Bonds payables	<u>288,928</u>	<u>(2,600)</u>	<u>4,378</u>	<u>290,706</u>
Total liabilities from financing activities	<u>\$ 840,323</u>	<u>(73,065)</u>	<u>(7,928)</u>	<u>759,330</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 (note)

Note: The Group lost its significant influence over Toptrans Suzhou on May 6, 2020. Therefore, its transactions related to Toptrans Suzhou need not be disclosed thereafter.

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(b) Significant transactions with related parties

(i) Provide service to related parties

For the three months and the nine months ended September 30, 2019, revenue from providing service to associate, Toptrans Suzhou, amounted to \$27 thousand and \$5,883 thousand, respectively. As of September 30, 2019, the accounts receivable arising from aforementioned transactions amounting to \$350 thousand, was recognized under accounts receivable from related parties.

(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:

	<u>September 30, 2020 (note)</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Other receivables – loans	\$ -	11,808	12,707
Other receivables – interest	-	28	190
	-	11,836	12,897
Less: allowance impairment	-	(11,836)	(12,897)
	<u>\$ -</u>	<u>-</u>	<u>-</u>

Note: Since May 6, 2020, Toptrans Suzhou was no longer a related party of the Group. Therefore, all loans related to Toptrans Suzhou need not be disclosed thereafter.

For January 1, 2020 to May 6, 2020, the Group recognized expected credit gains of \$1,198 thousand, as other gains and losses due to collections from the loans.

(c) Key management personnel compensation

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 6,054	5,917	16,921	19,997
Post-employment benefits	189	182	524	600
Termination benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Share-based payments	<u>1,595</u>	<u>855</u>	<u>4,287</u>	<u>1,035</u>
	<u>\$ 7,838</u>	<u>6,954</u>	<u>21,732</u>	<u>21,632</u>

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

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(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>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 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	265,331	274,426	277,637
Refundable deposits	Collateral for court proceedings	21,740	21,740	21,740
		<u>\$ 534,767</u>	<u>543,862</u>	<u>547,073</u>

**(9) Commitments and contingencies:**

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Unused letters of credit for purchasing machinery and equipment	\$ <u>26,553</u>	<u>-</u>	<u>4,056</u>

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

		<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Guarantee notes issued	USD \$	<u>5,500</u>	<u>5,500</u>	<u>5,500</u>
Guarantee notes issued	NTD \$	<u>990,000</u>	<u>990,000</u>	<u>935,000</u>

**(10) Losses Due to Major Disasters: None.**

**(11) Subsequent Events: None.**

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(12) Other:**

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

By function	For the three months ended September 30					
	2020			2019		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
<b>By item</b>						
Employee benefit expenses						
Salaries	59,291	28,288	87,579	50,766	31,696	82,462
Labor and health insurance	5,730	2,342	8,072	5,525	2,298	7,823
Pension	2,856	1,349	4,205	2,746	1,375	4,121
Remuneration of directors	-	642	642	-	615	615
Others	3,713	1,074	4,787	3,473	1,317	4,790
Depreciation	33,155	5,159	38,314	38,613	6,042	44,655
Amortization	668	982	1,650	1,324	980	2,304

By function	For the nine months ended September 30					
	2020			2019		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
<b>By item</b>						
Employee benefit expenses						
Salaries	174,219	85,919	260,138	146,705	93,541	240,246
Labor and health insurance	16,683	6,880	23,563	16,488	7,258	23,746
Pension	8,283	3,964	12,247	8,122	4,348	12,470
Remuneration of directors	-	1,920	1,920	-	1,942	1,942
Others	10,705	3,719	14,424	10,060	4,860	14,920
Depreciation	108,006	16,476	124,482	116,557	18,758	135,315
Amortization	2,750	2,956	5,706	4,262	3,596	7,858

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(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 nine months ended September 30, 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	9,055	2%	Required loans to other parties	-	Operating capital	9,055	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, \$123,140 thousand, in the latest financial statements. The total amounts loaned to all companies shall not exceed 40% of the Company's net worth, \$492,559 thousand.

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

(iii) Securities held as of September 30, 2020 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	September 30, 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 %	-	
Toptrans Corporation Limited	Toptrans Suzhou	-	"	-	124,897	14.01 %	124,897	

(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(b).

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**LUXNET CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(x) Business relationships and significant intercompany transactions: None.

(b) Information on investees:

The following is the information on investees for the nine months ended September 30, 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 September 30, 2020		Note
				September 30, 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 %	124,897	122,118	122,118	(Note)
Toplight Corporation Limited	Toptrans Corporation Limited	Hong Kong	Holding company	122,980	122,980	4,000	100 %	124,897	122,118	122,118	(Note)

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

(c) Information on investment in mainland China: None.

(d) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
TriKnight Capital Corporation		18,558,990	15.45 %

**(14) Segment information:**

The Group's revenues are mainly from active components for optical communication. The chief operating decision maker (CODM) of the Group used overall operating results as the basis for evaluating performance and considered the Group a single segment. The segment information for the nine months ended September 30, 2020 and 2019 were the same as the Group's consolidated financial statements.