

LUXNET CORPORATION AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Review Report
For the Three Months Ended March 31, 2021 and 2020**

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

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Independent Auditors' Review Report

To the Board of Directors of LuxNet Corporation:

Introduction

We have reviewed the accompanying consolidated balance sheets of LuxNet Corporation and its subsidiaries as of March 31, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2021 and 2020, 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 paragraph for the three months ended March 31, 2020, 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 three months ended March 31, 2021

As stated in Note 6(e), the investments accounted for using equity method of LuxNet Corporation and its subsidiaries in its investee companies of NT\$72,496 thousand as of March 31, 2020, and its related share of loss of associates accounted for using equity method of NT\$4,776 thousand for the three months ended March 31, 2020, 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 paragraph for the three months ended March 31, 2020 above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of LuxNet Corporation and its subsidiaries as of March 31, 2021 and 2020, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2021 and 2020 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)

May 6, 2021

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of March 31, 2021 and 2020

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

**March 31,
2021, December 31, 2020, and March 31, 2020**

(Expressed in Thousands of New Taiwan Dollars)

		March 31, 2021		December 31, 2020		March 31, 2020				March 31, 2021		December 31, 2020		March 31, 2020	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
Assets															
Current assets:															
1100	Cash and cash equivalents (note 6(a))	\$ 252,656	13	292,319	13	308,908	15	2100	Short-term borrowings (note 6(g))	\$ 254,368	14	235,352	11	258,000	12
1170	Notes and account receivable, net (notes 6(c) and (p))	105,013	5	144,072	7	144,507	7	2130	Current contract liabilities (note 6(p))	6,266	-	100	-	1,709	-
130X	Inventories (note 6(d))	323,189	16	311,365	15	356,500	17	2170	Accounts payable	89,912	4	110,297	5	159,082	8
1410	Prepaid expenses	9,051	1	10,138	-	4,736	-	2200	Accrued expenses and other payables	78,751	4	90,580	4	87,734	4
1470	Other current assets (note 7)	<u>7,298</u>	-	<u>8,865</u>	-	<u>13,883</u>	<u>1</u>	2321	Bonds payable, current portion (note 6(i))	-	-	12,259	1	12,073	1
		<u>697,207</u>	<u>35</u>	<u>766,759</u>	<u>35</u>	<u>828,534</u>	<u>40</u>	2300	Other current liabilities	<u>6,299</u>	-	<u>11,261</u>	-	<u>4,022</u>	-
										<u>435,596</u>	<u>22</u>	<u>459,849</u>	<u>21</u>	<u>522,620</u>	<u>25</u>
Non-current assets:															
1517	Non-current financial assets at fair value through other comprehensive income (notes 6(b) and (e))	298,560	15	354,569	16	-	-	2540	Long-term borrowings (notes 6(h) and 8)	320,000	16	320,000	15	320,000	15
1550	Investments accounted for using equity method, net (note 6(e))	-	-	-	-	72,496	4	2600	Other non-current liabilities	<u>278</u>	-	<u>283</u>	-	<u>1,008</u>	-
1600	Property, plant and equipment (notes 6(f) and 8)	985,487	48	1,021,021	47	1,153,189	55		Total liabilities	<u>755,874</u>	<u>38</u>	<u>780,132</u>	<u>36</u>	<u>843,628</u>	<u>40</u>
1780	Intangible assets	2,301	-	513	-	2,773	-		Equity attributable to owners of parent:						
1900	Other non-current assets (note 8)	<u>37,169</u>	<u>2</u>	<u>27,629</u>	<u>2</u>	<u>26,494</u>	<u>1</u>	3100	Ordinary shares (note 6(m))	1,200,363	59	1,201,243	55	1,199,803	58
		<u>1,323,517</u>	<u>65</u>	<u>1,403,732</u>	<u>65</u>	<u>1,254,952</u>	<u>60</u>	3200	Capital surplus (notes 6(i) and (m))	85,667	4	85,809	4	352,614	17
								3350	Accumulated deficit (note 6(m))	(160,887)	(8)	(87,453)	(4)	(274,083)	(13)
								3400	Other equity interest (note 6(n))	<u>139,707</u>	<u>7</u>	<u>190,760</u>	<u>9</u>	<u>(38,476)</u>	<u>(2)</u>
									Total equity	<u>1,264,850</u>	<u>62</u>	<u>1,390,359</u>	<u>64</u>	<u>1,239,858</u>	<u>60</u>
Total assets		<u>\$ 2,020,724</u>	<u>100</u>	<u>2,170,491</u>	<u>100</u>	<u>2,083,486</u>	<u>100</u>	Total liabilities and equity		<u>\$ 2,020,724</u>	<u>100</u>	<u>2,170,491</u>	<u>100</u>	<u>2,083,486</u>	<u>100</u>

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards
LUXNET CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the three months ended March 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		For the three months ended March 31			
		2021		2020	
		Amount	%	Amount	%
4000	Operating revenue (note 6(p))	\$ 183,606	100	256,071	100
5000	Operating costs (notes 6(d), (j), (k), (n) and 12)	<u>208,128</u>	<u>113</u>	<u>259,561</u>	<u>101</u>
	Gross loss	<u>(24,522)</u>	<u>(13)</u>	<u>(3,490)</u>	<u>(1)</u>
	Operating expenses (notes 6(c), (j), (k), (n) and 12):				
6100	Selling expenses	5,378	3	3,969	2
6200	Administrative expenses	25,556	14	23,599	9
6300	Research and development expenses	21,485	12	25,529	10
6450	Expected credit loss (gain)	<u>(27)</u>	<u>-</u>	<u>65</u>	<u>-</u>
		<u>52,392</u>	<u>29</u>	<u>53,162</u>	<u>21</u>
	Net operating loss	<u>(76,914)</u>	<u>(42)</u>	<u>(56,652)</u>	<u>(22)</u>
	Non-operating income and expenses:				
7020	Other gains and losses, net (notes 6(i) and (r))	4,141	2	(4,720)	(2)
7050	Finance costs (note 6(i))	(1,979)	(1)	(2,405)	(1)
7055	Expected credit gain (note 7)	1,318	1	898	-
7070	Share of loss of associates accounted for using equity method (note 6(e))	<u>-</u>	<u>-</u>	<u>(4,776)</u>	<u>(2)</u>
		<u>3,480</u>	<u>2</u>	<u>(11,003)</u>	<u>(5)</u>
7900	Loss before income tax	(73,434)	(40)	(67,655)	(27)
7950	Less: income tax expenses (note 6(l))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Loss	<u>(73,434)</u>	<u>(40)</u>	<u>(67,655)</u>	<u>(27)</u>
8300	Other comprehensive loss:				
8310	Items that may not be reclassified subsequently to profit or loss				
8316	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	<u>(56,009)</u>	<u>(31)</u>	<u>-</u>	<u>-</u>
	Components of other comprehensive income that will not be reclassified to profit or loss	<u>(56,009)</u>	<u>(31)</u>	<u>-</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign operation's financial statements	<u>-</u>	<u>-</u>	<u>(847)</u>	<u>-</u>
	Components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>(847)</u>	<u>-</u>
8300	Other comprehensive loss, net	<u>(56,009)</u>	<u>(31)</u>	<u>(847)</u>	<u>-</u>
8500	Comprehensive income	<u>\$ (129,443)</u>	<u>(71)</u>	<u>(68,502)</u>	<u>(27)</u>
	Losses per share (note 6(o))				
9750	Basic losses per share (NT dollars)	<u>\$ (0.62)</u>		<u>(0.58)</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2021 and 2020

(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	
Balance at January 1, 2020	\$ 1,202,263	350,154	(206,428)	(5,569)	(2,951)	(36,551)	1,300,918
Loss for the three months ended March 31, 2020	-	-	(67,655)	-	-	-	(67,655)
Other comprehensive income for the three months ended March 31, 2020	-	-	-	(847)	-	-	(847)
Total comprehensive income for the three months ended March 31, 2020	-	-	(67,655)	(847)	-	-	(68,502)
Amortization of restricted stock	-	-	-	-	-	7,442	7,442
Retirement of restricted stock	(2,460)	2,460	-	-	-	-	-
Balance at March 31, 2020	\$ 1,199,803	352,614	(274,083)	(6,416)	(2,951)	(29,109)	1,239,858
Balance at January 1, 2021	\$ 1,201,243	85,809	(87,453)	-	208,135	(17,375)	1,390,359
Loss for the three months ended March 31, 2021	-	-	(73,434)	-	-	-	(73,434)
Other comprehensive income for the three months ended March 31, 2021	-	-	-	-	(56,009)	-	(56,009)
Total comprehensive income for the three months ended March 31, 2021	-	-	(73,434)	-	(56,009)	-	(129,443)
Amortization of restricted stock	-	-	-	-	-	3,934	3,934
Retirement of restricted stock	(880)	(142)	-	-	-	1,022	-
Balance at March 31, 2021	\$ 1,200,363	85,667	(160,887)	-	152,126	(12,419)	1,264,850

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 Cash Flows

For the three months ended March 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2021	2020
Cash flows from (used in) operating activities:		
Loss before tax	\$ (73,434)	(67,655)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization expense	37,306	45,835
Losses related to inventories	18,849	14,104
Expected credit gain	(1,345)	(833)
Losses on financial assets and liabilities at fair value through profit or loss	-	570
Share of loss of associates accounted for using the equity method	-	4,776
Interest expense	1,979	2,405
Compensation cost of share-based payments	3,934	7,442
Gains on disposal of property, plant and equipment	(3,665)	(1,539)
Losses on redemption of bonds	-	7,995
Total adjustments to reconcile profit	57,058	80,755
Changes in operating assets and liabilities:		
Notes and accounts receivable	39,086	27,468
Inventories	(30,673)	(60,854)
Prepaid and other current assets	3,972	5,995
Total changes in operating assets	12,385	(27,391)
Notes and accounts payable	(20,385)	(25,841)
Contract liabilities	6,166	1,606
Accrued expenses and other payables	(14,430)	(14,234)
Other current liabilities	(268)	(1,810)
Other operating liabilities	(5)	(39)
Total changes in operating liabilities	(28,922)	(40,318)
Total changes in operating assets and liabilities	(16,537)	(67,709)
Total adjustments	40,521	13,046
Cash outflow generated from operations	(32,913)	(54,609)
Interest paid	(1,938)	(1,271)
Net cash flows used in operating activities	(34,851)	(55,880)
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(5,266)	(16,008)
Proceeds from disposal of property, plant and equipment	138	92
Increase in other non-current assets	-	(2,025)
Increase in prepayments for equipment	(6,400)	-
Net cash flows used in investing activities	(11,528)	(17,941)
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	19,016	128,000
Redemption of bonds	(12,300)	(289,776)
Net cash flows from (used in) financing activities	6,716	(161,776)
Net decrease in cash and cash equivalents	(39,663)	(235,597)
Cash and cash equivalents at beginning of period	292,319	544,505
Cash and cash equivalents at end of period	\$ 252,656	308,908

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards

LUXNET CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2021 and 2020

(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 and issued on May 6, 2021.

(3) New standards, amendments and interpretations adopted:

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

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2021:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”

- (b) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on April 1, 2021, would not have a significant impact on its consolidated financial statements:

- Amendments to IFRS 16 “Covid-19-Related Rent Concessions beyond June 30, 2021”

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The following new and amended standards, which may be relevant to the Group, have been issued by IASB, but have yet to be endorsed by the FSC:

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	<p>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.</p> <p>The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.</p>	January 1, 2023

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.

The Group does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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, 2020. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2020.

(b) Basis of consolidation

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

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		
			March 31, 2021	December 31, 2020	March 31, 2020
The Company	Toplight Corporation (Toplight)	Holding company	100 %	100 %	100 %
Toplight	Toptrans Corporation Limited (Toptrans)	Holding company	100 %	100 %	100 %

(c) Income taxes

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

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(d) Employee benefits

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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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, 2020. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2020.

(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, 2020. Please refer to note 6 of the 2020 annual consolidated financial statements.

(a) Cash and cash equivalents

	<u>March 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>March 31,</u> <u>2020</u>
Cash on hand	\$ 68	74	136
Demand deposits	<u>252,588</u>	<u>292,245</u>	<u>308,772</u>
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 252,656</u>	<u>292,319</u>	<u>308,908</u>

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

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

	<u>March 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>March 31,</u> <u>2020</u>
Equity investments at fair value through other comprehensive income			
Equities unlisted in foreign markets- Toptrans(Suzhou) Corporation Limited	<u>\$ 298,560</u>	<u>354,569</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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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(e).
- (iii) There were no disposals of strategic investments and transfers of any cumulative gain or loss within equity relating to these investments as of the three months ended March 31, 2021.
- (iv) The Group did not provide any of the aforementioned financial assets as collateral.
- (c) Notes and accounts receivable

	<u>March 31, 2021</u>	<u>December 31, 2020</u>	<u>March 31, 2020</u>
Notes receivable	\$ 64	-	73
Accounts receivable	157,035	196,185	196,635
Less: allowance for impairment	<u>(52,086)</u>	<u>(52,113)</u>	<u>(52,201)</u>
	<u>\$ 105,013</u>	<u>144,072</u>	<u>144,507</u>

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

	<u>March 31, 2021</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	\$ 100,129	0.01%~3%	9
Overdue 1 to 120 days	4,894	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>\$ 157,099</u>		<u>52,086</u>

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	December 31, 2020		
	Carrying amounts of notes and accounts receivable	Lifetime weighted- average ECL rate	Loss allowance provision of lifetime ECL
Current	\$ 123,950	0.01%~3%	35
Overdue 1 to 120 days	20,159	0.01%~3%	2
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	52,076	100.00%	52,076
	\$ 196,185		52,113

	March 31, 2020		
	Carrying amounts of notes and accounts receivable	Lifetime weighted- average ECL rate	Loss allowance provision of lifetime ECL
Current	\$ 143,055	0.01%~3%	88
Overdue 1 to 120 days	1,555	0.01%~3%	15
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	52,098	100.00%	52,098
	\$ 196,708		52,201

(ii) The movements in the allowance for notes and accounts receivable were as follows :

	For the three months ended March 31	
	2021	2020
Balance on January 1, 2021 and 2020	\$ 52,113	52,136
Impairment losses recognized(reversed)	(27)	65
Balance on March 31, 2021 and 2020	\$ 52,086	52,201

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

(d) Inventories

	March 31, 2021	December 31, 2020	March 31, 2020
Raw materials	\$ 106,488	101,826	74,482
Work in process	52,734	51,633	112,596
Finished goods	163,967	157,906	169,422
	\$ 323,189	311,365	356,500

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The Group recognized the following items as cost of goods sold:

	For the three months ended March 31	
	2021	2020
Losses on inventory valuation and obsolete inventories	\$ 18,849	14,104
Gains on sale of scrap	(2,208)	-
Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity	30,659	37,196
	\$ 47,300	51,300

As of March 31, 2021, December 31 and March 31, 2020, the Group did not provide any of the aforementioned inventory as collateral.

(e) Investments accounted for using the equity method

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

	March 31, 2021	December 31, 2020	March 31, 2020
Associates	\$ -	-	72,496

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

	For the three months ended March 31	
	2021	2020
Attributable to the Group:		
Loss	\$ -	(4,776)
Other comprehensive income	-	(847)
Comprehensive income	\$ -	(5,623)

- (i) On May 6, 2020, Toptrans Suzhou re-elected its directors, 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.
- (ii) The Group did not provide any investment accounted for using the equity method as collateral.
- (iii) Investments accounted for using equity method as of March 31, 2020, and the share of profit or loss and other comprehensive income of those investments for the three months ended March 31, 2020, were calculated based on the financial statements that have not been reviewed.

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(f) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the three months ended March 31, 2021 and 2020 were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Equipment under acceptance</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2021	\$ 247,696	361,779	1,457,109	5,239	41,940	2,113,763
Additions	-	-	-	-	1,497	1,497
Reclassifications	-	-	15,112	-	(15,112)	-
Disposals	-	-	(24,181)	-	-	(24,181)
Balance on March 31, 2021	<u>\$ 247,696</u>	<u>361,779</u>	<u>1,448,040</u>	<u>5,239</u>	<u>28,325</u>	<u>2,091,079</u>
Balance on January 1, 2020	\$ 247,696	361,779	1,502,702	5,239	20,735	2,138,151
Additions	-	-	-	-	17,814	17,814
Reclassifications	-	-	24,173	-	(24,173)	-
Disposals	-	-	(5,048)	-	-	(5,048)
Balance on March 31, 2020	<u>\$ 247,696</u>	<u>361,779</u>	<u>1,521,827</u>	<u>5,239</u>	<u>14,376</u>	<u>2,150,917</u>
Depreciation and impairment:						
Balance on January 1, 2021	\$ -	99,374	989,481	3,887	-	1,092,742
Depreciation	-	2,859	32,850	155	-	35,864
Disposals	-	-	(23,014)	-	-	(23,014)
Balance on March 31, 2021	<u>\$ -</u>	<u>102,233</u>	<u>999,317</u>	<u>4,042</u>	<u>-</u>	<u>1,105,592</u>
Balance on January 1, 2020	\$ -	87,353	867,898	3,267	-	958,518
Depreciation	-	3,112	40,589	155	-	43,856
Disposals	-	-	(4,646)	-	-	(4,646)
Balance on March 31, 2020	<u>\$ -</u>	<u>90,465</u>	<u>903,841</u>	<u>3,422</u>	<u>-</u>	<u>997,728</u>
Carrying amounts:						
Balance on January 1, 2021	<u>\$ 247,696</u>	<u>262,405</u>	<u>467,628</u>	<u>1,352</u>	<u>41,940</u>	<u>1,021,021</u>
Balance on March 31, 2021	<u>\$ 247,696</u>	<u>259,546</u>	<u>448,723</u>	<u>1,197</u>	<u>28,325</u>	<u>985,487</u>
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 March 31, 2020	<u>\$ 247,696</u>	<u>271,314</u>	<u>617,986</u>	<u>1,817</u>	<u>14,376</u>	<u>1,153,189</u>

As of March 31, 2021, December 31 and March 31, 2020, 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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(g) Short-term borrowings

The details were as follows:

	<u>March 31, 2021</u>	<u>December 31, 2020</u>	<u>March 31, 2020</u>
Unsecured bank loans	\$ <u>254,368</u>	\$ <u>235,352</u>	\$ <u>258,000</u>
Unused credit lines	\$ <u>186,775</u>	\$ <u>203,902</u>	\$ <u>115,230</u>
Annual interest rates	<u>0.94%~1.42%</u>	<u>0.99%~1.42%</u>	<u>1.21%~2.75%</u>

(h) Long-term borrowings

The details were as follows:

<u>March 31, 2021</u>			
<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Secured bank loans	TWD	1.42%	2023
			\$ 320,000
Less: current portion			-
Total			\$ <u>320,000</u>
Unused credit lines			\$ <u>-</u>
<u>December 31, 2020</u>			
<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Secured bank loans	TWD	1.47%	2022
			\$ 320,000
Less: current portion			-
Total			\$ <u>320,000</u>
Unused credit lines			\$ <u>-</u>
<u>March 31, 2020</u>			
<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Secured bank loans	TWD	1.49%~1.51%	2022
			\$ 320,000
Less: current portion			-
Total			\$ <u>320,000</u>
Unused credit lines			\$ <u>-</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.

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LUXNET CORPORATION AND SUBSIDIARIES
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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.

The Group re-signed a long-term loan contract with CTBC Bank on March 12, 2021, to extend the original maturity year of long-term loan from 2022 to 2023.

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

(i) Convertible bonds payable

	March 31, 2021	December 31, 2020	March 31, 2020
Aggregate principal amount	\$ 1,100,000	1,100,000	1,100,000
Accumulated redeemed amount	(1,099,200)	(1,086,900)	(1,086,900)
Accumulated converted amount	(800)	(800)	(800)
Unamortized discount	-	(41)	(227)
Ending balance of bonds payable	-	12,259	12,073
Less: Bonds payable – current	-	(12,259)	(12,073)
Ending balance of bonds payable – non-current	<u>\$ -</u>	<u>-</u>	<u>-</u>
Embedded derivative component – the value of redemption at the option of the Company/bondholders	<u>\$ -</u>	<u>-</u>	<u>-</u>
Equity component (recorded as capital surplus – stock option)	<u>\$ -</u>	<u>581</u>	<u>581</u>

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LUXNET CORPORATION AND SUBSIDIARIES
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	For the three months ended March 31	
	2021	2020
Embedded derivative component – revaluation loss on redemption at the option of the Company/bond holders (recorded as other gains and losses)	\$ <u> -</u>	<u> (570)</u>
Interest expense (recorded as finance cost)	\$ <u> 41</u>	<u> 997</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 second domestic unsecured convertible bonds issued by the Group were matured on March 12, 2021. The residual bonds at par value \$12,300 thousand were redeemed to the holders at par value in March 2021.

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

	1st domestic unsecured convertible bonds	2nd domestic unsecured convertible bonds
Offering amount	NT\$800,000 thousand	NT\$300,000 thousand
Issue date	December 22, 2015	March 12, 2018
Issuance price	At par value	At par value
Face interest rate	0%	0%
Issue period	December 22, 2015, to December 22, 2018	March 12, 2018, to March 12, 2021
Redemption at the option of the Company	The Group may redeem the bonds within 5 trading days after the bonds' recovery reference date with cash at a 1.5% yield rate at any time from January 22, 2016, to November 12, 2018, if the closing price of the common shares on the TPEX on each trading day during a period of 30 consecutive trading days exceeds 30% of the conversion price or if the amount of unconvertible bonds is less than 10% of the offering amount.	The Group may redeem the bonds within 5 trading days after the bonds' recovery reference date with cash at par value at any time from June 12, 2018, to February 2, 2021, if the closing price of the common shares on the TPEX on each trading day during a period of 30 consecutive trading days exceeds 30% of the conversion price or if the amount of unconvertible bonds is less than 10% of the offering amount.

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LUXNET CORPORATION AND SUBSIDIARIES
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	1st domestic unsecured convertible bonds	2nd domestic unsecured convertible bonds
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)	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)
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.

Note : 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.

(j) Lease liabilities

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

The amounts recognized in profit or loss were as follows:

	For the three months ended March 31	
	2021	2020
Expenses relating to short-term leases and leases of low-value items	\$ <u>401</u>	<u>635</u>

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

	For the three months ended March 31	
	2021	2020
Rental paid in operating activities	\$ <u>401</u>	<u>635</u>

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(k) 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, 2020 and 2019.

The Group did not report any pension expense for the three months ended March 31, 2021 and 2020.

(ii) Defined contribution plans

The pension costs under defined contribution plans were as follows:

	For the three months ended March 31	
	2021	2020
Operating cost	\$ 2,855	2,688
Selling expenses	170	119
Administration expenses	695	733
Research and development expenses	478	425
	\$ 4,198	3,965

(l) Income taxes

(i) For the three months ended March 31, 2021 and 2020, there were no current and deferred tax expenses.

(ii) For the three months ended March 31, 2021 and 2020, there was no income tax recognized in equity.

(iii) For the three months ended March 31, 2021 and 2020, 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.

(m) Capital and other equity

Except for the following paragraph, there were no significant changes on the capital and other equity for the periods from January 1 to March 31, 2021 and 2020. For related information, please refer to note 6(o) of the consolidated financial statements for the year ended December 31, 2020.

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As of March 31, 2021, December 31 and March 31, 2020, 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 \$1,200,363 thousand, \$1,201,243 thousand and \$1,199,803 thousand, respectively.

Reconciliation of shares outstanding for the three months ended March 31, 2021 and 2020 was as follows:

	Ordinary shares (in thousands of shares)	
	For the three months ended March 31	
	2021	2020
Balance on January 1	120,125	120,227
Retirement of restricted stock (note 6(n))	(88)	(246)
Balance on March 31	120,037	119,981
(i) Capital surplus		

The balances of capital surplus as of March 31, 2021, December 31 and March 31, 2020, were as follows:

	March 31, 2021	December 31, 2020	March 31, 2020
Additional paid-in capital	\$ 16,757	16,757	215,675
Employee stock options	1,456	1,456	1,456
Conversion options of convertible bonds	-	581	581
Restricted employee stock options	18,653	18,795	24,360
Changes in ownership interests of investments accounted for using the equity method	-	-	62,322
Other	48,801	48,220	48,220
	\$ 85,667	85,809	352,614

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

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LUXNET CORPORATION AND SUBSIDIARIES
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(ii) Retained earnings

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

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

1) Earnings distribution

Based on the resolution approved in the Board of Directors meeting held on March 18, 2021, the Company would not distribute earnings because of the loss for the year ended December 31, 2020.

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.

(n) Share-based payment

Except for the following paragraph, there were no significant changes in share based payment for the three months ended March 31, 2021 and 2020. Please refer to note 6(p) to the consolidated financial statement for the year ended December 31, 2020, for further information.

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

	For the three months ended March 31	
	2021	2020
Outstanding at January 1	1,716	2,400
Expired during the period	(14)	(55)
Outstanding at March 31	1,702	2,345

Compensation cost attributable to share-based payment for the three months ended March 31, 2021 and 2020 was \$3,934 thousand and \$7,442 thousand, respectively.

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LUXNET CORPORATION AND SUBSIDIARIES
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- (i) 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.
- (ii) Based on the resolution approved in the Board of Directors meeting held on January 21, 2021, the number of shares was reduced by 88 thousand shares due to the retirement of restricted stock, with January 22, 2021 as the date of capital reduction. The relevant statutory registration procedures were completed.

(o) Losses per share

The calculation of basic losses per share was as follows:

	For the three months ended March 31	
	2021	2020
Loss attributable to common stockholders	\$ (73,434)	(67,655)
Weighted-average number of common shares (thousand shares)	118,320	117,580
Basic losses per share (NT dollars)	\$ (0.62)	(0.58)

Since the potential common shares have no dilutive effect, the Company needs only disclose the calculation on basic earnings per share for the three months ended March 31, 2021 and 2020.

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended March 31	
	2021	2020
Primary geographical markets		
Taiwan	\$ 23,714	18,670
China	57,849	60,323
America	98,805	176,697
Other	3,238	381
	\$ 183,606	256,071

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	For the three months ended March 31		
	2021	2020	
Major products			
Active components for optical communication and modules	\$ 153,130	218,530	
Chips	7,492	20,631	
Other	22,984	16,910	
	\$ 183,606	256,071	
 (ii) Contract balances			
	March 31, 2021	December 31, 2020	March 31, 2020
Notes and accounts receivable	\$ 157,099	196,185	196,708
Less: allowance for impairment	(52,086)	(52,113)	(52,201)
	\$ 105,013	144,072	144,507
Contract liabilities	\$ 6,266	100	1,709

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

The contract liabilities primarily relate to the advance consideration received from customers, for the sales contracts whose revenue is recognized when products are delivered to customers. The amount of revenue recognized for the three months ended March 31, 2021 and 2020, that was included in the contract liability balance at the beginning of the years was \$2 thousand and \$100 thousand, respectively.

(q) 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 the employees of the Company's subsidiaries or affiliated companies under certain requirements.

The Company did not estimate any remuneration to employees, directors and supervisors for the three months ended March 31, 2021 and 2020. 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 2020 and 2019. The amounts, as stated in the consolidated financial statements, are identical with those of the actual distributions for 2020 and 2019. Related information would be available at the Market Observation Post System website.

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(r) Non-operating income and expenses

Other gains and losses were as follows:

	For the three months ended March 31	
	2021	2020
Foreign currency exchange gains	\$ 105	2,182
Net losses on financial assets and liabilities measured at fair value through profit or loss	-	(570)
Gains on disposal of property, plant and equipment	3,665	1,539
Loss on redemption of bonds	-	(7,995)
Other	371	124
	\$ 4,141	(4,720)

(s) 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, 2020, for further information.

(i) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including interest but excluding the effect of any netting agreement:

	Carrying amount	Contractual cash flows	Within 1 year	1~2 years	2~5 years
March 31, 2021					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 254,368	254,845	254,845	-	-
Accounts payable	89,912	89,912	89,912	-	-
Accrued expenses and other payables	74,226	74,226	74,226	-	-
Long-term borrowings	320,000	328,744	4,544	324,200	-
	\$ 738,506	747,727	423,527	324,200	-

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1~2 years</u>	<u>2~5 years</u>
December 31, 2020					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 235,352	236,001	236,001	-	-
Convertible bonds	12,259	12,300	12,300	-	-
Accounts payable	110,297	110,297	110,297	-	-
Accrued expenses and other payables	85,681	85,681	85,681	-	-
Long-term borrowings	<u>320,000</u>	<u>325,516</u>	<u>4,704</u>	<u>320,812</u>	<u>-</u>
	<u><u>\$ 763,589</u></u>	<u><u>769,795</u></u>	<u><u>448,983</u></u>	<u><u>320,812</u></u>	<u><u>-</u></u>
March 31, 2020					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 258,000	258,482	258,482	-	-
Convertible bonds	12,073	12,300	12,300	-	-
Accounts payable	159,082	159,082	159,082	-	-
Accrued expenses and other payables	84,849	84,849	84,849	-	-
Long-term borrowings	<u>320,000</u>	<u>329,307</u>	<u>4,832</u>	<u>324,475</u>	<u>-</u>
	<u><u>\$ 834,004</u></u>	<u><u>844,020</u></u>	<u><u>519,545</u></u>	<u><u>324,475</u></u>	<u><u>-</u></u>

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

(ii) Currency risk

1) Exposure to foreign currency risk

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

	<u>March 31, 2021</u>			<u>December 31, 2020</u>			<u>March 31, 2020</u>			
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	
Financial assets										
Monetary items										
USD:NTD	\$	5,072	28.52	144,653	5,657	28.09	158,905	6,742	30.23	203,811
Financial liabilities										
Monetary items										
USD:NTD		2,860	28.52	81,567	3,135	28.09	88,062	3,807	30.23	115,086

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, 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 March 31, 2021 and 2020, would have increased or decreased the net loss before tax by \$3,154 thousand and \$4,436 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 March 31			
	2021		2020	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
NTD	<u>\$ 105</u>	1.000	<u>2,182</u>	1.000

(iii) Interest rate analysis

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

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

If the interest rate had increased or decreased by 25 basis points, the net loss before tax would have increased or decreased by the amount of \$201 thousand and \$168 thousand for the three months ended March 31, 2021 and 2020 respectively, which would have mainly resulted from bank savings and borrowings with variable interest rates.

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

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LUXNET CORPORATION AND SUBSIDIARIES
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(iv) Fair value

1) Kinds of financial instruments and fair value

The fair value of financial assets at fair value through other comprehensive income is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, disclosure of fair value information is not required:

	March 31, 2021				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 252,656				
Notes and accounts receivable	105,013				
Refundable deposits	<u>21,860</u>				
Total	<u>\$ 379,529</u>				
Financial assets at fair value through other comprehensive income— non-current	<u>\$ 298,560</u>	-	-	298,560	298,560
Financial liabilities at amortized cost					
Long-term and short-term borrowings	\$ 574,368				
Accounts payable	89,912				
Other financial liabilities	<u>74,226</u>				
Total	<u>\$ 738,506</u>				

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LUXNET CORPORATION AND SUBSIDIARIES
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		December 31, 2020				
		Fair Value				
	Book value	Level 1	Level 2	Level 3	Total	
Financial assets measured at amortized cost						
Cash and cash equivalents	\$ 292,319					
Notes and accounts receivable	144,072					
Refundable deposits	21,860					
Total	<u>\$ 458,251</u>					
Financial assets at fair value through other comprehensive income — non-current						
	<u>\$ 354,569</u>	-	-	354,569		354,569
Financial liabilities at amortized cost						
Long-term and short-term borrowings	\$ 555,352					
Accounts payable	110,297					
Convertible bonds	12,259	-	12,267	-		12,267
Other financial liabilities	85,681					
Total	<u>\$ 763,589</u>					
		March 31, 2020				
		Fair Value				
	Book value	Level 1	Level 2	Level 3	Total	
Financial assets measured at amortized cost						
Cash and cash equivalents	\$ 308,908					
Notes and accounts receivable	144,507					
Refundable deposits	21,910					
Total	<u>\$ 475,325</u>					
Financial liabilities at amortized cost						
Long-term and short-term borrowings	\$ 578,000					
Accounts payable	159,082					
Convertible bonds	12,073	-	12,068	-		12,068
Other financial liabilities	84,849					
Total	<u>\$ 834,004</u>					

- 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.

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LUXNET CORPORATION AND SUBSIDIARIES
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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

	Financial assets (liabilities) at fair value through profit or loss	Financial assets at fair value through other comprehensive income
Balance on January 1, 2021	\$ -	354,569
Recognized in profit or loss	-	-
Recognized in other comprehensive income	-	(56,009)
Disposal / pay-off	-	-
Reclassification	-	-
Balance on March 31, 2021	\$ -	298,560
Balance on January 1, 2020	\$ (89)	-
Recognized in profit or loss	(570)	-
Disposal / pay-off	659	-
Balance on March 31, 2020	\$ -	-

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.

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LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Significant quantitative information about unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationships between significant unobservable inputs and fair value</u>
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"> • Multiplier of price-to-book ratio (3.29 on March 31, 2021) • Discount for lack of marketability (29.25% on March 31, 2021) 	<ul style="list-style-type: none"> • The fair value would increase if the multiplier was higher • The fair value would decrease if the discount for lack of marketability was higher

- 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:

<u>March 31, 2021</u>	<u>Inputs</u>	<u>Increase or decrease</u>	<u>Effects of changes in fair value on other comprehensive income and loss</u>	
Financial assets at fair value through other comprehensive income—equity investments in inactive markets	Multiplier of price-to-book ratio	±10%	\$ <u>29,856</u>	<u>(29,856)</u>
	Discount for lack of marketability	±10%	\$ <u>29,856</u>	<u>(29,856)</u>

- 7) In the three months ended March 31, 2021 and 2020, there were no transfers between levels.

- (t) 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, 2020.

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LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(v) Supplementary information of cash flow

(i) The Group's cash outflow from acquisition of property, plant and equipment amounted to \$5,266 thousand and \$16,008 thousand, wherein cash payment for payables on equipment and the increase of payables on equipment amounted to \$3,769 thousand and \$1,806 thousand for the three months ended March 31, 2021 and 2020, respectively. Please refer to note 6(f).

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

(w) Change in liabilities from financing activities

Reconciliation of liabilities arising from financing activities was as follows:

	January 1, 2021	Cash flows	Non-cash changes	March 31, 2021
Short-term borrowings	\$ 235,352	19,016	-	254,368
Long-term borrowings	320,000	-	-	320,000
Bonds payables	12,259	(12,300)	41	-
Total liabilities from financing activities	<u>\$ 567,611</u>	<u>6,716</u>	<u>41</u>	<u>574,368</u>

	January 1, 2020	Cash flows	Non-cash changes	March 31, 2020
Short-term borrowings	\$ 130,000	128,000	-	258,000
Long-term borrowings	320,000	-	-	320,000
Bonds payables	292,197	(289,776)	9,652	12,073
Total liabilities from financing activities	<u>\$ 742,197</u>	<u>(161,776)</u>	<u>9,652</u>	<u>590,073</u>

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LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

(b) Significant transactions with related parties

Loans to related parties

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

The loans to associate Toptrans Suzhou were as follows:

	March 31, 2020
Other receivables – loans	\$ 10,910
Other receivables – interest	28
	10,938
Less: allowance impairment	(10,938)
	<u>\$ -</u>

For the three months ended March 31, 2021 and 2020, the Group recognized expected credit gains of \$1,318 thousand and \$898 thousand, respectively, as other gains and losses due to collections from the loans.

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LUXNET CORPORATION AND SUBSIDIARIES
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(c) Key management personnel compensation

	For the three months ended March 31	
	2021	2020
Short-term employee benefits	\$ 5,587	5,226
Post-employment benefits	162	162
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	<u>1,444</u>	<u>1,284</u>
	<u>\$ 7,193</u>	<u>6,672</u>

(8) Pledged assets:

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

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>Book value of pledged assets</u>		
		<u>March 31, 2021</u>	<u>December 31, 2020</u>	<u>March 31, 2020</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	259,546	262,405	271,314
Refundable deposits	Collateral for court proceedings	<u>21,740</u>	<u>21,740</u>	<u>21,740</u>
		<u>\$ 528,982</u>	<u>531,841</u>	<u>540,750</u>

(9) Commitments and contingencies:

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

	<u>March 31, 2021</u>	<u>December 31, 2020</u>	<u>March 31, 2020</u>
Unused letters of credit for purchasing machinery and equipment	<u>\$ 2,377</u>	<u>3,837</u>	<u>-</u>

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

	<u>March 31, 2021</u>	<u>December 31, 2020</u>	<u>March 31, 2020</u>
Guarantee notes issued	US \$ <u>5,500</u>	<u>5,500</u>	<u>5,500</u>
Guarantee notes issued	NT \$ <u>990,000</u>	<u>990,000</u>	<u>990,000</u>

(10) Losses Due to Major Disasters: None.

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LUXNET CORPORATION AND SUBSIDIARIES
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(11) Subsequent Events:

Based on the resolution approved in the Board of Directors meeting held on April 12, 2021, the Company resolved to issue 13,000 thousand common stocks under private placement, at \$20.35 per share, amounting to \$264,550 thousand, with April 14, 2021, as the date of capital increase. The relevant statutory registration procedures were not completed yet.

(12) Other:

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

By item	For the three months ended March 31					
	2021			2020		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	51,733	29,771	81,504	53,687	28,470	82,157
Labor and health insurance	6,146	2,402	8,548	5,417	2,231	7,648
Pension	2,855	1,343	4,198	2,688	1,277	3,965
Remuneration of directors	-	711	711	-	520	520
Others	3,434	1,567	5,001	3,466	986	4,452
Depreciation	30,595	5,268	35,863	38,116	5,740	43,856
Amortization	579	864	1,443	1,059	920	1,979

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the three months ended March 31, 2021:

(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	8,155	18,156	6,837	2%	Required loans to other parties	-	Operating capital	6,837	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, \$126,485 thousand, in the latest financial statements. The total amounts loaned to all companies shall not exceed 40% of the Company's net worth, \$505,940 thousand.

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

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LUXNET CORPORATION AND SUBSIDIARIES
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- (iii) Securities held as of March 31, 2021 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	March 31, 2021				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 %	-	
Toptrons Corporation Limited	Toptrons Suzhou	-	"	-	298,560	9.90 %	298,560	

- (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 \$100 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: None
- (x) Business relationships and significant intercompany transactions: None.

- (b) Information on investees:

The following is the information on investees for the three months ended March 31, 2021:

Name of investor	Name of investee	Location	Main and Businesses products	Original investment amount		Ending balance			Investee recognize as of March 31, 2021		Note
				March 31, 2021	December 31, 2020	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 %	298,560	-	-	(Note)
Toplight Corporation Limited	Toptrons Corporation Limited	Hong Kong	Holding company	122,980	122,980	4,000	100 %	298,560	-	-	(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.

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(d) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
TriKnight Capital Corporation		18,558,990	15.46 %

(14) Segment information:

The Group's revenues are mainly from active components for optical communication. The chief operating decision maker (CODM) of the Group used overall operating results as the basis for evaluating performance and considered the Group a single segment. The segment information for the three months ended March 31, 2021 and 2020 was the same as the Group's consolidated financial statements.