

**LUXNET CORPORATION****Parent Company Only Financial Statements****With Independent Auditors' Report  
For the Years Ended December 31, 2021 and 2020**

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## Independent Auditors' Report

To the Board of Directors of LuxNet Corporation:

### Opinion

We have audited the parent company only financial statements of LuxNet Corporation, which comprise the parent company only balance sheets as of December 31, 2021 and 2020, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2021 and 2020, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of LuxNet Corporation as at December 31, 2021 and 2020, and its parent company only financial performance and its parent company only cash flows for the years ended December 31, 2021 and 2020 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### Basis for Opinion

We conducted our audit of the financial statements in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of LuxNet Corporation in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements of LuxNet Corporation for the year ended December 31, 2021. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In our professional judgments, the key audit matters to be communicated in the independent auditors' report are listed below.

#### 1. Evaluation of inventories

### Notes to Readers

The accompanying financial statements are intended only to present the 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 audit such financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' audit report and the accompanying 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' audit report and financial statements, the Chinese version shall prevail.

Please refer to Note 4(g) for accounting policy, Note 5 for assumptions and estimation uncertainty, and Note 6(c) for details on inventories.

Description of key audit matter:

LuxNet Corporation's inventories are measured at the lower of cost and net realizable value. Since economic environment changes rapidly, new products and techniques may have an influence on market demands, which could result in the cost of inventories to be higher than the net realizable value. Therefore, evaluation of inventories is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the policies of evaluating the inventories and assessing whether existing inventory policies are applied; understanding the difference in allowance provided on inventory valuation between estimated amounts and real amounts; understanding the sales price which the management adopted, and sampling the inventories sold in the subsequent period to assess whether the allowance for inventories are reasonable.

## 2. Impairment assessment on non financial assets

Please refer to Note 4(l) for accounting policy, Note 5 for assumptions and estimation uncertainty, and Note 6(e) for details on non financial assets.

Description of key audit matter:

LuxNet Corporation's business is involved in a fast changing economic environment. Therefore, the assessment of impairment for non financial assets is important. The assessment for impairment included identifying the Cash Generating Unit (CGU), deciding the model for evaluating, establishing significant assumption, and calculating the recoverable amount, all of which depend on the management's subjective judgment. Therefore, impairment assessment on non financial assets is a key audit matter for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: evaluating the CGU, and external and internal impairment indications identified by the management, and ensuring all assets which needed annual impairment test are covered in the assessment made by the management; acquiring the valuation report from external experts engaged by the management; and understanding whether any significant matters occurred after the reporting date that may have an impact on the impairment test.

## 3. Investments accounted for using equity method

See Note 4(h) for the accounting policy relevant to investments accounted for using equity method. See Note 6(d) for details of investments accounted for using equity method.

Description of key audit matter:

LuxNet Corporation had owned the investment in equity of Toptrans (Suzhou) Corporation Limited through Toptrans Corporation Limited, a subsidiary of LuxNet Corporation. The equity investment was listed as financial assets at fair value through other comprehensive income. As the subsequent measurement of the financial assets had a material impact on the amount of investments accounted for using equity method and was so important as to influence financial statement users' understanding of the overall financial statements, the

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measurement of the financial assets at fair value was therefore the important matter to be audited while we were auditing the parent company only financial report of LuxNet Corporation.

How the matter was addressed in our audit:

Our main audit procedure included appointing internal experts to assist in reviewing the evaluation method used by LuxNet Corporation to evaluate fair value and the rationality of choosing important assumptions, evaluating the accuracy of the gain or loss on valuation calculated by the management authority, and reviewing whether the disclosures indicated in the financial report were appropriate.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing LuxNet Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate LuxNet Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including Audit Committee) are responsible for overseeing LuxNet Corporation's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LuxNet Corporation's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

### **Notes to Readers**

The accompanying financial statements are intended only to present the 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 audit such financial statements are those generally accepted and applied in the Republic of China.

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4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on LuxNet Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause LuxNet Corporation to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements (including the Notes) and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investee companies accounted for using the equity method, to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)  
March 17, 2022

#### **Notes to Readers**

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(English Translation of Financial Statements Originally Issued in Chinese)  
LUXNET CORPORATION

Statements of Comprehensive Income

For the years ended December 31, 2021 and 2020

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

|      |  | <u>2021</u>         |             | <u>2020</u>      |             |
|------|--|---------------------|-------------|------------------|-------------|
|      |  | Amount              | %           | Amount           | %           |
| 4000 | <b>Operating revenue (notes 6(o) and 7)</b>  | \$ 866,016          | 100         | 1,166,849        | 100         |
| 5000 | <b>Operating costs (notes 6(c), (i), (j), (m) and 12)</b>  | <u>883,399</u>      | <u>102</u>  | <u>1,119,965</u> | <u>96</u>   |
|      | <b>Gross profit (loss)</b>   | <u>(17,383)</u>     | <u>(2)</u>  | <u>46,884</u>    | <u>4</u>    |
|      | <b>Operating expenses (notes 6(b), (i), (j), (m) and 12):</b>  |                     |             |                  |             |
| 6100 | Selling expenses   | 18,098              | 2           | 15,908           | 1           |
| 6200 | Administrative expenses  | 90,783              | 11          | 103,915          | 9           |
| 6300 | Research and development expenses  | 79,356              | 9           | 95,665           | 8           |
| 6450 | Reversal of expected credit losses   | <u>(8)</u>          | <u>-</u>    | <u>(23)</u>      | <u>-</u>    |
|      |  | <u>188,229</u>      | <u>22</u>   | <u>215,465</u>   | <u>18</u>   |
|      | <b>Net operating loss</b>  | <u>(205,612)</u>    | <u>(24)</u> | <u>(168,581)</u> | <u>(14)</u> |
|      | <b>Non-operating income and expenses:</b>  |                     |             |                  |             |
| 7020 | Other gains and losses, net (notes 6(h) and (q))   | (6,779)             | -           | 26,388           | 2           |
| 7050 | Finance costs (note 6(h))  | (7,117)             | (1)         | (8,713)          | (1)         |
| 7055 | Reversal of expected credit losses (note 7)  | 4,493               | -           | 3,654            | -           |
| 7070 | Share of gains of subsidiaries accounted for using equity method (note 6(d))   | -                   | -           | 122,117          | 11          |
| 7100 | Interest revenue   | 106                 | -           | 81               | -           |
| 7673 | Impairment loss on property, plant and equipment (note 6(e))   | <u>(70,055)</u>     | <u>(8)</u>  | <u>(63,136)</u>  | <u>(5)</u>  |
|      |  | <u>(79,352)</u>     | <u>(9)</u>  | <u>80,391</u>    | <u>7</u>    |
| 7900 | <b>Loss before income tax</b>  | <u>(284,964)</u>    | <u>(33)</u> | <u>(88,190)</u>  | <u>(7)</u>  |
|      | Less: income tax expenses (note 6(k))  | <u>-</u>            | <u>-</u>    | <u>-</u>         | <u>-</u>    |
|      | <b>Loss</b>  | <u>(284,964)</u>    | <u>(33)</u> | <u>(88,190)</u>  | <u>(7)</u>  |
| 8300 | <b>Other comprehensive income (loss):</b>  |                     |             |                  |             |
| 8310 | <b>Items that may not be reclassified subsequently to profit or loss</b>   |                     |             |                  |             |
| 8311 | Gains on remeasurements of defined benefit plans (note 6(j))   | 1,40                | -           | 737              | -           |
| 8330 | Share of other comprehensive income of subsidiaries accounted for using equity method                                | (37,462)            | (4)         | 211,086          | 18          |
| 8349 | Less: income tax related to components of other comprehensive income that will not be reclassified to profit or loss | <u>-</u>            | <u>-</u>    | <u>-</u>         | <u>-</u>    |
|      |  | <u>(36,057)</u>     | <u>(4)</u>  | <u>211,823</u>   | <u>18</u>   |
| 8360 | <b>Items that may be reclassified subsequently to profit or loss</b>   |                     |             |                  |             |
| 8361 | Exchange differences on translation of foreign operation's financial statements                                      | -                   | -           | 5,569            | -           |
| 8399 | Less: income tax expense related to items that may be reclassified subsequently to profit or loss                    | <u>-</u>            | <u>-</u>    | <u>-</u>         | <u>-</u>    |
|      | Components of other comprehensive income that will be reclassified to profit or loss                                 | <u>-</u>            | <u>-</u>    | <u>5,569</u>     | <u>-</u>    |
| 8300 | <b>Other comprehensive income (loss), net</b>  | <u>(36,057)</u>     | <u>(4)</u>  | <u>217,392</u>   | <u>18</u>   |
| 8500 | <b>Comprehensive income (loss)</b>   | <u>\$ (321,021)</u> | <u>(37)</u> | <u>129,202</u>   | <u>11</u>   |
|      | <b>Loss per share (note 6(n))</b>  |                     |             |                  |             |
| 9750 | <b>Basic loss per share (NT dollars)</b>   | <u>\$ (2.22)</u>    |             | <u>(0.75)</u>    |             |

See accompanying notes to parent company only financial statements.



(English Translation of Financial Statements Originally Issued in Chinese)

**LUXNET CORPORATION****Statements of Changes in Equity****For the years ended December 31, 2021 and 2020****(Expressed in Thousands of New Taiwan Dollars)**

|   | Ordinary<br>shares  | Capital surplus | Retained<br>earnings<br>Accumulated<br>deficit | Exchange<br>differences on<br>translation of<br>foreign financial<br>statements | Total other equity interest   |                                      | Total equity     |
|---|---------------------|-----------------|--|---|---|--------------------------------------|------------------|
|   |                     |                 |  |   | Unrealized gain<br>(loss) from<br>financial assets<br>measured at fair<br>value through<br>other<br>comprehensive<br>income | Unearned<br>employee<br>compensation |                  |
| <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 year ended December 31, 2020   | -                   | -               | (88,190)                                       | -   | -   | -                                    | (88,190)         |
| Other comprehensive income for the year ended December 31, 2020                     | -                   | -               | 737  | 5,569   | 211,086   | -                                    | 217,392          |
| Total comprehensive income (loss) for the year ended December 31, 2020              | -                   | -               | (87,453)                                       | 5,569   | 211,086   | -                                    | 129,202          |
| 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  | -                   | -               | -  | -   | -   | 22,561                               | 22,561           |
| Retirement of restricted stock  | (4,560)             | (692)           | -  | -   | -   | 5,252                                | -                |
| Changes in ownership interests of investments accounted for using the equity method | -                   | (7,100)         | -  | -   | -   | -                                    | (7,100)          |
| Disposal of investments accounted for using the equity method                       | -                   | (55,222)        | -  | -   | -   | -                                    | (55,222)         |
| Balance at December 31, 2020  | 1,201,243           | 85,809          | (87,453)                                       | -   | 208,135   | (17,375)                             | 1,390,359        |
| Loss for the year ended December 31, 2021   | -                   | -               | (284,964)                                      | -   | -   | -                                    | (284,964)        |
| Other comprehensive income (loss) for the year ended December 31, 2021              | -                   | -               | 1,405  | -   | (37,462)  | -                                    | (36,057)         |
| Total comprehensive loss for the year ended December 31, 2021                       | -                   | -               | (283,559)                                      | -   | (37,462)  | -                                    | (321,021)        |
| Issue of ordinary shares  | 130,000             | 134,550         | -  | -   | -   | -                                    | 264,550          |
| Capital surplus used to offset accumulated deficits                                 | -                   | (85,809)        | 85,809   | -   | -   | -                                    | -                |
| Amortization of restricted stock  | -                   | -               | -  | -   | -   | 2,613                                | 2,613            |
| Retirement of restricted stock  | (6,128)             | (6,164)         | -  | -   | -   | 12,292                               | -                |
| <b>Balance at December 31, 2021</b>   | <b>\$ 1,325,115</b> | <b>128,386</b>  | <b>(285,203)</b>                               | <b>-</b>  | <b>170,673</b>  | <b>(2,470)</b>                       | <b>1,336,501</b> |

See accompanying notes to parent company only financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

**LUXNET CORPORATION****Statements of Cash Flows****For the years ended December 31, 2021 and 2020****(Expressed in Thousands of New Taiwan Dollars)**

|   | <u>2021</u>       | <u>2020</u>      |
|---|-------------------|------------------|
| <b>Cash flows from (used in) operating activities:</b>              |                   |                  |
| Loss before tax   | \$ (284,964)      | (88,190)         |
| <b>Adjustments:</b>   |                   |                  |
| <b>Adjustments to reconcile profit (loss):</b>                      |                   |                  |
| Depreciation and amortization expenses                              | 141,093           | 168,604          |
| Reversal of expected credit losses                                  | (4,501)           | (3,677)          |
| Losses related to inventories                                       | 73,797            | 80,090           |
| Net losses on financial assets at fair value through profit or loss | -                 | 570              |
| Impairment losses on property, plant and equipment                  | 70,055            | 63,136           |
| Gains on disposal of property, plant and equipment                  | (845)             | (11,212)         |
| Interest expenses   | 7,117             | 8,713            |
| Interest income   | (106)             | (81)             |
| Share-based compensation  | 2,613             | 22,561           |
| Investments accounted for using the equity method                   | -                 | (122,117)        |
| Loss on deposit of prepayments for equipment                        | 6,400             | -                |
| Losses on redemption of bonds                                       | -                 | 7,995            |
| <b>Total adjustments to reconcile profit</b>                        | <u>295,623</u>    | <u>214,582</u>   |
| <b>Changes in operating assets and liabilities:</b>                 |                   |                  |
| Accounts receivable   | 12,453            | 12,884           |
| Inventories   | (52,859)          | (66,598)         |
| Prepaid and other current assets                                    | 9,357             | 6,462            |
| <b>Total changes in operating assets</b>                            | <u>(31,049)</u>   | <u>(47,252)</u>  |
| Accounts payable  | 20,168            | (74,626)         |
| Contract liabilities-current  | 6,474             | (3)              |
| Accrued expenses and other payables                                 | (26,095)          | (5,286)          |
| Other current liabilities   | (534)             | 734              |
| Other operating liabilities   | (3)               | (27)             |
| <b>Total changes in operating liabilities</b>                       | <u>10</u>         | <u>(79,208)</u>  |
| <b>Total changes in operating assets and liabilities</b>            | <u>(31,039)</u>   | <u>(126,460)</u> |
| <b>Total adjustments</b>  | <u>264,584</u>    | <u>88,122</u>    |
| Cash outflow generated from operations                              | (20,380)          | (68)             |
| Interest received   | 106               | 81               |
| Interest paid   | (7,228)           | (7,433)          |
| Tax refund received   | 47                | 56               |
| <b>Net cash flows used in operating activities</b>                  | <u>(27,455)</u>   | <u>(7,364)</u>   |
| <b>Cash flows from (used in) investing activities:</b>              |                   |                  |
| Acquisition of property, plant and equipment                        | (13,521)          | (76,349)         |
| Proceeds from disposal of property, plant and equipment             | 4,894             | 22,148           |
| Acquisition of intangible assets                                    | (2,506)           | -                |
| Increase in other non-current assets                                | (5,514)           | (5,397)          |
| Decrease in refundable deposits                                     | 21,860            | -                |
| Increase in prepayments for equipment                               | (6,400)           | (800)            |
| <b>Net cash flows used in investing activities</b>                  | <u>(1,187)</u>    | <u>(60,398)</u>  |
| <b>Cash flows from (used in) financing activities:</b>              |                   |                  |
| Increase (decrease) in short-term borrowings                        | (147,202)         | 105,352          |
| Redemption of bonds   | (12,300)          | (289,776)        |
| Proceeds from issuance of ordinary shares                           | 264,550           | -                |
| <b>Net cash flows from (used in) financing activities</b>           | <u>105,048</u>    | <u>(184,424)</u> |
| <b>Net increase (decrease) in cash and cash equivalents</b>         | <u>76,406</u>     | <u>(252,186)</u> |
| <b>Cash and cash equivalents at beginning of period</b>             | <u>292,319</u>    | <u>544,505</u>   |
| <b>Cash and cash equivalents at end of period</b>                   | <u>\$ 368,725</u> | <u>292,319</u>   |

See accompanying notes to parent company only financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

**LUXNET CORPORATION**

**Notes to the Parent Company Only Financial Statements**

**For the years ended December 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 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 parent company only financial statements:**

These parent company only financial statements were reported for issue by the Board of Directors and issued on March 17, 2022.

**(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 Company has initially adopted the following new amendments, which do not have a significant impact on its parent company only 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”
- Amendments to IFRS 16 “Covid-19-Related Rent Concessions beyond June 30, 2021”

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

The Company’s adoption of the new amendments, effective for annual period beginning on January 1, 2022, are expected to have the following impacts:

- (i) Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”

The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to ensure if it is functioning properly). The proceeds from selling such samples, together with the costs of producing them, shall be recognized in profit or loss.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

The amendments also clarify that testing whether an item of PPE is functioning properly means assessing its technical and physical performance rather than assessing its financial performance – e.g. assessing whether the PPE has achieved a certain level of operating margin.

The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after January 1, 2021. The Company will continue to assess the impacts of this amendment on its consolidated financial position and financial performance.

(ii) Other amendments

The following amendments are not expected to have a significant impact on the parent company only financial statements.

- 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”

(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 Company, have been issued by IASB, but have yet to be endorsed by the FSC:

| <b>Standards or Interpretations</b>   | <b>Content of amendment</b>   | <b>Effective date per IASB</b> |
|---|---|--------------------------------|
| 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. | January 1, 2023                |

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its parent company only financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

(Continued)

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

The Company 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 parent company only 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 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

**(4) Summary of significant accounting policies:**

The significant accounting policies presented in the parent company only financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the parent company only financial statements.

**(a) Statement of compliance**

These parent company only annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”).

**(b) Basis of preparation****(i) Basis of measurement**

Except for the following significant accounts, the parent company only financial statements have been prepared on a historical cost basis:

- 1) Financial instruments at fair value through profit or loss (including derivative financial instruments) are measured at fair value;
- 2) Fair value through other comprehensive income are measured at fair value;
- 3) The net defined benefit liabilities (or assets) are measured at fair value of the plan assets, less the present value of the defined benefit obligation.

**(ii) Functional and presentation currency**

The functional currency of the Company entity is determined based on the primary economic environment in which the entity operates. The parent company only financial statements are presented in New Taiwan dollars, which is the Company’s functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

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## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

(c) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Company entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for the differences relating to an investment in equity securities designated as at fair value through other comprehensive income, which are recognized in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into New Taiwan dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into New Taiwan dollars at the average rate. Exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to be realized in the foreseeable future. Exchange differences arising thereon, form part of the net investment in the foreign operation and are recognized in other comprehensive income, and presented in the exchange differences on translation of foreign financial statement in equity.

(d) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It expects to realize the asset or intends to sell or consume it in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

- (iv) The asset is cash or a cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period, or there are other restrictions.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents consist of highly liquid investments that are readily convertible to known amounts of cash and will mature within a short period so that interest rate fluctuations have little effect on their values. Time deposits meet the aforementioned definition and are used for the purpose of meeting short-term commitments are included in cash equivalents.

(f) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value, plus, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost and fair value through other comprehensive income (FVOCI) – equity investment. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

#### 2) Fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Company's right to receive payment is established.

#### 3) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, trade receivable, other receivables and guarantee deposit paid).

The Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- Bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

(Continued)



## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment as well as forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 4 months past due.

The Company considers a financial asset to be in default when the financial asset is more than 12 months past due or the borrower is unlikely to pay its credit obligations to the Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 12 months past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization;  
or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

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## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

#### 4) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

#### (ii) Financial liabilities and equity instruments

##### 1) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### 2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

##### 3) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible bonds denominated in NTD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

#### 4) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

#### 5) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

#### 6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

#### (iii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

#### (g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

#### (h) Investment in subsidiaries

In the parent only financial statements, a subsidiary is an entity that is controlled by the Company, and the investment is accounted using the equity method. Under the equity method, the net income and other comprehensive income in the parent company only financial statements shall be same as the net income and other comprehensive attributable to the Company in the Consolidated financial statements. The total equity in the parent company only financial statements shall be also same as the equity attributable to the Company in the Consolidated financial statements.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions.

#### (i) Property, plant and equipment

##### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

##### (ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

##### (iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straightline basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

- 1) Buildings: 10~50 years
- 2) Machinery: 3 ~10 years
- 3) Leasehold improvements: 10 years
- 4) Other equipment: 3 ~ 5 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

(j) Lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of vehicles and warehouses that have a short-term leases and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(k) Intangible assets

(i) Recognition and measurement

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete the development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

- |                      |           |
|----------------------|-----------|
| 1) Computer software | 3~5 years |
|----------------------|-----------|

Amortization methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(l) Impairment of non-financial assets

At each annual reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

For impairment testing, assets are grouped together into the smallest company of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or companies of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is accounted for as an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Revenue recognition

(i) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good to a customer. The accounting policies for the Company's main types of revenue are explained below:

1) Sale of goods

The Company recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Company has a right to an amount of consideration that is unconditional.

2) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES****Notes to the Financial Statements****(n) Government grants**

The Company recognizes an unconditional government grant in profit or loss as non-operating income when the grant becomes receivable. Grants that compensate the Company for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

**(o) Employee benefits****(i) Defined contribution plans**

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

**(ii) Defined benefit plans**

The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability (asset), which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

**(iii) Short-term employee benefits**

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

(o) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between the expected and the actual outcomes.

The grant-date of the Company is the record date of capital injection approved in the board meeting.

(p) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and its probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

(Continued)



## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

- (i) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - 1) the same taxable entity; or
  - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(r) Earnings per share

The Company discloses the basic and diluted earnings per share attributable to ordinary stockholders of the Company. The basic earnings per share are calculated as the profit attributable to the ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding. The diluted earnings per share are calculated as the profit attributable to ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee restricted stock and convertible bonds.

(s) Operating segments

The Company discloses its segment reporting in the consolidated financial statements. Therefore, the Company does not disclose segment information in the parent company only financial statements.

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

The preparation of the parent company only financial statements in conformity with the Regulations 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 management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments made in applying accounting policies that have significant effect on amounts recognized in the parent company only financial statements.

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## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows. Those assumptions and estimation have been updated to reflect the impact of COVID-19 pandemic:

(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Please refer to note 6(c) for further description of the valuation of inventories.

(b) Impairment of property, plant and equipment

In the process of evaluating the potential impairment of tangible assets, the Company makes subjective judgments on the recoverable amount of cash generating unit based on the opinion of external experts. Any changes in these estimates caused by the changes in economic conditions or model for evaluating could result in significant impairment charges or reversal in future years. Please refer to note 6(e) for further description of the key assumptions used to determine the recoverable amount.

The accounting policies and disclosures of the Company include measuring the financial and nonfinancial assets and liabilities at fair value. The Company has established an internal control frame work with respect to the measurement of fair value, which includes organizing the Company's financial instrument valuation Company (the valuation Company) to review all material measurement by using the fair value (such as level 3 fair value) and to submit the report to the Chief Financial Officer (CFO). The valuation group regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure the fair value, then the valuation Company shall assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date.

please refer to note 6(r) for assumptions used in measuring fair value.

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to the Financial Statements**

**(6) Explanation of significant accounts:**

(a) Cash and cash equivalents

|  | <b>December 31,<br/>2021</b> | <b>December 31,<br/>2020</b> |
|--|------------------------------|------------------------------|
| Cash on hand   | \$ 55                        | 74                           |
| Demand deposits  | <u>368,670</u>               | <u>292,245</u>               |
| Cash and cash equivalents in consolidated statements of cash flows | <u><b>\$ 368,725</b></u>     | <u><b>292,319</b></u>        |

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

(b) Accounts receivable

|                                | <b>December 31,<br/>2021</b> | <b>December 31,<br/>2020</b> |
|--------------------------------|------------------------------|------------------------------|
| Accounts receivable            | \$ 183,732                   | 196,185                      |
| Less: allowance for impairment | <u>(52,105)</u>              | <u>(52,113)</u>              |
|                                | <u><b>\$ 131,627</b></u>     | <u><b>144,072</b></u>        |

- (i) The Company applies the simplified approach to provide for its expected credit losses (ECL), the use of lifetime ECL provision for all accounts receivable. To measure the ECL, 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, including macroeconomic and relevant industry information. The ECL allowance provision analysis was as follows:

|                             | <b>December 31, 2021</b>                                   |  |   |
|-----------------------------|--|--|---|
|                             | <b>Carrying<br/>amounts of<br/>accounts<br/>receivable</b> | <b>Lifetime<br/>weighted-avera<br/>ge<br/>ECL rate</b> | <b>Loss allowance<br/>provision of<br/>lifetime ECL</b> |
| Current                     | \$ 130,898   | 0.01%~3%   | 28  |
| Overdue 1 to 120 days       | 758  | 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><b>\$ 183,732</b></u>                                   |  | <u><b>52,105</b></u>                                    |

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to the Financial Statements**

|                             | <b>December 31, 2020</b>                                   |  |   |
|-----------------------------|--|--|---|
|                             | <b>Carrying<br/>amounts of<br/>accounts<br/>receivable</b> | <b>Lifetime<br/>weighted-avera<br/>ge<br/>ECL rate</b> | <b>Loss allowance<br/>provision of<br/>lifetime ECL</b> |
| 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  |
|                             | <b>\$ 196,185</b>  |  | <b>52,113</b>   |

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

|                                       | <b>For the years ended December 31</b> |               |
|---------------------------------------|--|---------------|
|                                       | <b>2021</b>                            | <b>2020</b>   |
| Balance on January 1, 2021 and 2020   | \$ 52,113                              | 52,136        |
| Impairment losses reversed            | (8)                                    | (23)          |
| Balance on December 31, 2021 and 2020 | <b>\$ 52,105</b>                       | <b>52,113</b> |

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

(c) Inventories

|                 | <b>December 31,<br/>2021</b> | <b>December 31,<br/>2020</b> |
|-----------------|------------------------------|------------------------------|
| Raw materials   | \$ 139,111                   | 101,826                      |
| Work in process | 41,065                       | 51,633                       |
| Finished goods  | 110,251                      | 157,906                      |
|                 | <b>\$ 290,427</b>            | <b>311,365</b>               |

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

|  | <b>For the years ended December 31</b> |                |
|--|--|----------------|
|  | <b>2021</b>                            | <b>2020</b>    |
| Losses (gains) on inventory valuation and obsolete inventories   | \$ (60,268)                            | 74,052         |
| Loss on physical inventories   | -                                      | 2              |
| Losses on disposal of inventories  | 134,065                                | 6,036          |
| Gains on sale of scrap   | (3,474)                                | (2,220)        |
| Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity | 101,291                                | 133,944        |
|  | <b>\$ 171,614</b>                      | <b>211,814</b> |

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

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

(d) Investments accounted for using the equity method

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

|              | December 31,<br>2021 | December 31,<br>2020 |
|--------------|----------------------|----------------------|
| Subsidiaries | \$ 317,107           | \$ 354,569           |

- (i) For information relevant to investments in subsidiaries, please refer to the consolidated financial report for the year ended December 31, 2021.
- (ii) Toptrans (Suzhou) Corporation Limited (“Toptrans Suzhou”) was an investee company accounted for by Toptrans Corporation Limited (“Toptrans”), a subsidiary of LuxNet Corporation, using the equity method. Toptrans Suzhou modified the ownership structure indicated in the articles of incorporation based on the resolution made at the board meeting on May 6, 2020. After the modification, the ratio of the shares of Toptrans Suzhou possessed by Toptrans was reduced from 16.92% to 15.21% and capital surplus was reduced by NT\$7,100 thousand due to decrease in net investment interests. Toptrans Suzhou also re-elected directors on the date of the meeting. LuxNet Corporation adjusted its investment management policy, so it did not appoint directors to participate in business management of Toptrans Suzhou. Based on evaluation, Toptrans had no material influence over Toptrans Suzhou, so the investment in equity of Toptrans Suzhou evaluated at fair value on the date of meeting, NT\$143,483 thousand, was transferred to financial assets at FVOCI, and the remeasurement gain NT\$80,360 thousand was recognized. Besides, the exchange differences on translation of foreign financial statements (NT\$7,103) thousand and the capital surplus NT\$55,222 thousand of Toptrans were transferred to other incomes. Gains on disposals of investments totaled NT\$128,479 thousand and were listed to its share of subsidiaries’ profits accounted for using the equity method. For details, please refer to Note 6 (e) to the consolidated financial statements for the year dated December 31, 2021.
- (iii) As of December 31, 2021 and 2020, the Company did not provide any investment accounted for using the equity method as collateral.

(e) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Company for the years ended December 31, 2021 and 2020 were as follows:

|                              | Land       | Buildings<br>and<br>construction | Machinery<br>and<br>equipment | Office and<br>other<br>equipment | Equipment<br>under<br>acceptance | Total     |
|------------------------------|------------|----------------------------------|-------------------------------|----------------------------------|----------------------------------|-----------|
| <b>Cost or deemed cost:</b>  |            |                                  |                               |                                  |                                  |           |
| Balance on January 1, 2021   | \$ 247,696 | 361,779                          | 1,457,109                     | 5,239                            | 41,940                           | 2,113,763 |
| Additions                    | -          | -                                | -                             | -                                | 9,673                            | 9,673     |
| Reclassifications            | -          | 1,000                            | 32,579                        | -                                | (24,039)                         | 9,540     |
| Disposals                    | -          | -                                | (159,315)                     | -                                | -                                | (159,315) |
| Balance on December 31, 2021 | \$ 247,696 | 362,779                          | 1,330,373                     | 5,239                            | 27,574                           | 1,973,661 |

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

|   | <u>Land</u>       | <u>Buildings<br/>and<br/>construction</u> | <u>Machinery<br/>and<br/>equipment</u> | <u>Office and<br/>other<br/>equipment</u> | <u>Equipment<br/>under<br/>acceptance</u> | <u>Total</u>     |
|---|-------------------|---|--|---|---|------------------|
| Balance on January 1, 2020                      | \$ 247,696        | 361,779                                   | 1,502,702                              | 5,239                                     | 20,735                                    | 2,138,151        |
| Additions                                       | -                 | -   | -                                      | -   | 72,094                                    | 72,094           |
| Reclassifications                               | -                 | -   | 50,889                                 | -   | (50,889)                                  | -                |
| Disposals                                       | -                 | -   | (96,482)                               | -   | -   | (96,482)         |
| Balance on December 31, 2020                    | <u>\$ 247,696</u> | <u>361,779</u>                            | <u>1,457,109</u>                       | <u>5,239</u>                              | <u>41,940</u>                             | <u>2,113,763</u> |
| <b>Accumulated depreciation and impairment:</b> |                   |   |  |   |   |                  |
| Balance on January 1, 2021                      | \$ -              | 99,374                                    | 989,481                                | 3,887                                     | -   | 1,092,742        |
| Depreciation                                    | -                 | 11,436                                    | 124,795                                | 620                                       | -   | 136,851          |
| Impairment loss                                 | -                 | -   | 70,055                                 | -   | -   | 70,055           |
| Disposals                                       | -                 | -   | (150,572)                              | -   | -   | (150,572)        |
| Balance on December 31, 2021                    | <u>\$ -</u>       | <u>110,810</u>                            | <u>1,033,759</u>                       | <u>4,507</u>                              | <u>-</u>                                  | <u>1,149,076</u> |
| Balance on January 1, 2020                      | \$ -              | 87,353                                    | 867,898                                | 3,267                                     | -   | 958,518          |
| Depreciation                                    | -                 | 12,021                                    | 148,687                                | 620                                       | -   | 161,328          |
| Impairment loss                                 | -                 | -   | 63,136                                 | -   | -   | 63,136           |
| Disposals                                       | -                 | -   | (90,240)                               | -   | -   | (90,240)         |
| Balance on December 31, 2020                    | <u>\$ -</u>       | <u>99,374</u>                             | <u>989,481</u>                         | <u>3,887</u>                              | <u>-</u>                                  | <u>1,092,742</u> |
| <b>Carrying amounts:</b>                        |                   |   |  |   |   |                  |
| Balance on December 31, 2021                    | <u>\$ 247,696</u> | <u>251,969</u>                            | <u>296,614</u>                         | <u>732</u>                                | <u>27,574</u>                             | <u>824,585</u>   |
| Balance on December 31, 2020                    | <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 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> |

- (i) Because the Company adjusted its production lines, according to the external appraisal report, the recoverable amount of the equipment was estimated based on value in use, and the estimate of value in use was determined using a pre-tax discount rate of 11.2624% percent. The Company recognized an impairment loss amounting to \$70,055 thousand.
- (ii) Because the Company 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 Company recognized an impairment loss incurred from those equipment amounting to \$63,136 thousand.
- (iii) Impairment losses were accounted for as impairment loss on property, plant and equipment, for the years ended December 31, 2021 and 2020.
- (iv) As of December 31, 2021 and 2020, property, plant and equipment of the Company had been pledged as collateral for long-term borrowings and credit lines; please refer to note 8.

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to the Financial Statements**

(f) Short-term borrowings

The details were as follows:

|   | December 31,<br>2021 | December 31,<br>2020 |
|---|----------------------|----------------------|
| Unsecured bank loans                            | <b>\$ 88,150</b>     | <b>235,352</b>       |
| Unused credit lines                             | <b>\$ 359,626</b>    | <b>203,902</b>       |
| Range of interest rates as of December 31, 2021 | <b>0.93%~1.05%</b>   | <b>0.99%~1.42%</b>   |

(g) Long-term borrowings

The details were as follows:

| December 31, 2021     |          |                         |                  |                   |
|-----------------------|----------|-------------------------|------------------|-------------------|
|                       | Currency | Annual<br>interest rate | Maturity<br>year | Amount            |
| Secured bank loans    | TWD      | 1.35%                   | 2023             | \$ 320,000        |
| Less: current portion |          |                         |                  | -                 |
| Total                 |          |                         |                  | <b>\$ 320,000</b> |
| Unused credit lines   |          |                         |                  | <b>\$ -</b>       |

  

| December 31, 2020     |          |                         |                  |                   |
|-----------------------|----------|-------------------------|------------------|-------------------|
|                       | Currency | Annual<br>interest rate | Maturity<br>year | Amount            |
| Secured bank loans    | TWD      | 1.47%                   | 2022             | \$ 320,000        |
| Less: current portion |          |                         |                  | -                 |
| Total                 |          |                         |                  | <b>\$ 320,000</b> |
| Unused credit lines   |          |                         |                  | <b>\$ -</b>       |

- (i) The Company signed a long-term loan contract with CTBC Bank in July 2018, with the credit line of \$320,000 thousand. The contract period of the loan expires two years after its first application. The principal is to be repaid on the expiration date.

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

On August 6, 2020, the Company 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; (3) a self-owned capital ratio of not less than 50%; (4) according to the contract, the Company should transfer its business transaction cash flow to the CTBC Bank account every half-year, and the cash flow was at least \$250,000 thousand. CTBC Bank would review the cash flow quarterly.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

The Company re-signed a long-term loan contract with CTBC Bank in August, 2021, to extend the original maturity year of long-term loan from February 2022 to August 2023.

On June 30, 2021, the Company obtained the notice of credit line from CTBC Bank to extend the original due date of credit line to June 30, 2022. The credit lines were \$420,000 thousand for long-term borrowings, \$165,000 thousand for short-term borrowings, and the total credit limit is up to \$450,000 thousand. Furthermore, all of the restrictions of financial ratios under the original contract were canceled.

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

(h) Convertible bonds payable

The details of unsecured convertible bonds were as follows:

|   | <b>December 31,<br/>2021</b>           | <b>December 31,<br/>2020</b> |
|---|--|------------------------------|
| Aggregate principal amount  | \$ 1,100,000                           | 1,100,000                    |
| Accumulated redeemed amount   | (1,099,200)                            | (1,086,900)                  |
| Accumulated converted amount  | (800)                                  | (800)                        |
| Unamortized discount  | -                                      | (41)                         |
| Ending balance of bonds payable   | -                                      | 12,259                       |
| Less: Bonds payable – current   | -                                      | (12,259)                     |
| Ending balance of bonds payable – non-current   | <b>\$ -</b>                            | <b>-</b>                     |
| Embedded derivative component – the value of redemption at the option of the Company/bondholders  | <b>\$ -</b>                            | <b>-</b>                     |
| Equity component (recorded as capital surplus – stock option)   | <b>\$ -</b>                            | <b>581</b>                   |
|   | <b>For the years ended December 31</b> | <b>2021</b>                  |
|   | <b>2021</b>                            | <b>2020</b>                  |
| Embedded derivative component – revaluation loss on redemption at the option of the Company/bond holders (recorded as other gains and losses) | <b>\$ -</b>                            | <b>(570)</b>                 |
| Interest expense (recorded as finance cost)   | <b>\$ 41</b>                           | <b>1,183</b>                 |

On March 17, 2020, as the holders of the second domestic unsecured convertible bonds issued by the Company exercised the redemption rights, the Company 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 Company 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.

(Continued)



## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

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

|   | <u>2nd domestic unsecured convertible bonds</u>   |
|---|---|
| Offering amount                         | NT\$300,000 thousand  |
| Issue date                              | March 12, 2018  |
| Issuance price                          | At par value  |
| Face interest rate                      | 0%  |
| Issue period                            | March 12, 2018, to March 12, 2021   |
| Redemption at the option of the Company | The Company may redeem the bonds within 5 trading days after the bonds' recovery reference date with cash at par value at any time from June 12, 2018, to February 2, 2021, if the closing price of the common shares on the TPEX on each trading day during a period of 30 consecutive trading days exceeds 30% of the conversion price or if the amount of unconvertible bonds is less than 10% of the offering amount. |
| Redemption at the option of the Holder  | Each Holder has the right to require the Company 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 June 12, 2018, to the maturity date of the bond, to convert their bonds.  |

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

(i) Lease liabilities

The Company leases vehicles and warehouses. The leases typically run for a period of one year. These leases are short-term or leases of low-value items. The Company 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 years ended December 31</u> |              |
|--|--|--------------|
|  | <u>2021</u>                            | <u>2020</u>  |
| Expenses relating to short-term leases and leases of low-value items | <u>\$ 1,254</u>                        | <u>2,159</u> |

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

|                                     | <u>For the years ended December 31</u> |              |
|-------------------------------------|--|--------------|
|                                     | <u>2021</u>                            | <u>2020</u>  |
| Rental paid in operating activities | <u>\$ 1,254</u>                        | <u>2,159</u> |

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

(j) Employee benefits

(i) Defined benefit plans

The present value of the defined benefit obligations and the fair value adjustments of the plan assets of the Company were as follows:

|  | <b>December 31,<br/>2021</b> | <b>December 31,<br/>2020</b> |
|--|------------------------------|------------------------------|
| Present value of defined benefit obligations | \$ 3,029                     | 4,358                        |
| Fair value of plan assets                    | 4,154                        | 4,075                        |
| Net defined benefit liability (asset)        | <b><u>\$ (1,125)</u></b>     | <b><u>283</u></b>            |

The Company makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive payments based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Company contributes pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$4,154 thousand at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations for the Company for the years ended December 31, 2021 and 2020, were as follows:

|   | <b>2021</b>            | <b>2020</b>         |
|---|------------------------|---------------------|
| Defined benefit obligation at January 1   | \$ 4,358               | 4,920               |
| Benefits paid by the plan                 | -                      | (27)                |
| Current service costs and interest        | 20                     | 53                  |
| Remeasurement of net defined liability    | (1,349)                | (588)               |
| Defined benefit obligation at December 31 | <b><u>\$ 3,029</u></b> | <b><u>4,358</u></b> |

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

3) Movements in the fair value of defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the Company for the years ended December 31, 2021 and 2020, were as follows:

|  | <u>2021</u>            | <u>2020</u>         |
|--|------------------------|---------------------|
| Fair value of plan assets at January 1   | \$ 4,075               | 3,873               |
| Contributions paid by the employer       | 5                      | 12                  |
| Interest income                          | 18                     | 41                  |
| Remeasurement of net defined liability   | <u>56</u>              | <u>149</u>          |
| Fair value of plan assets at December 31 | <u><u>\$ 4,154</u></u> | <u><u>4,075</u></u> |

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company for the years ended December 31, 2021 and 2020, were as follows:

|  | <u>2021</u>        | <u>2020</u>      |
|--|--------------------|------------------|
| Net interest of net defined benefit liability (assets) (recoded under administrative expenses) | <u><u>\$ 2</u></u> | <u><u>12</u></u> |

5) Remeasurement of the net defined benefit liabilities (asset) recognized in other comprehensive income

The Company's remeasurement of the net defined benefit liabilities (asset) recognized in other comprehensive income was as follows:

|                                   | <u>2021</u>            | <u>2020</u>         |
|-----------------------------------|------------------------|---------------------|
| Accumulated amount at January 1   | \$ 3,278               | 2,541               |
| Recognized during the period      | <u>1,405</u>           | <u>737</u>          |
| Accumulated amount at December 31 | <u><u>\$ 4,683</u></u> | <u><u>3,278</u></u> |

6) Actuarial assumptions

The following are the Company's principal actuarial assumptions:

|                             | <u>December 31,<br/>2021</u> | <u>December 31,<br/>2020</u> |
|-----------------------------|------------------------------|------------------------------|
| Discount rate               | 0.90%                        | 0.45%                        |
| Future salary increase rate | 2.00%                        | 2.00%                        |

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date was \$5 thousand.

The weighted-average lifetime of the defined benefit plans is 17 years.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligations as of December 31, 2021 and 2020 would have been as follows:

|                             | <b>Influence of defined benefit obligations</b> |                        |
|-----------------------------|---|------------------------|
|                             | <b>Increased 0.25%</b>                          | <b>Decreased 0.25%</b> |
| <b>December 31, 2021:</b>   |   |                        |
| Discount rate               | (79)  | 82                     |
| Future salary increase rate | 80  | (77)                   |

|                             | <b>Influence of defined benefit obligations</b> |                        |
|-----------------------------|---|------------------------|
|                             | <b>Increased 0.25%</b>                          | <b>Decreased 0.25%</b> |
| <b>December 31, 2020:</b>   |   |                        |
| Discount rate               | (119)   | 123                    |
| Future salary increase rate | 119   | (115)                  |

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. Many assumption changes may affect each other in practice. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There was no change in the method and assumptions used in the preparation of the sensitivity analysis for 2021 and 2020.

(ii) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The Company recognized pension costs under the defined contribution method amounted to \$14,715 thousand and \$16,600 thousand for the years ended December 31, 2021 and 2020, respectively.

(k) Income taxes

- (i) For the years ended December 31, 2021 and 2020, there were no current and deferred tax expenses.
- (ii) For the years ended December 31, 2021 and 2020, there was no income tax recognized in equity.
- (iii) For the years ended December 31, 2021 and 2020, there was no income tax recognized in other comprehensive income.

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to the Financial Statements**

- (iv) Reconciliation of income tax and loss before tax for the years ended December 31, 2021 and 2020 was as follows:

|  | <u>2021</u>  | <u>2020</u> |
|--|--------------|-------------|
| Loss excluding income tax                        | \$ (284,964) | (88,190)    |
| Income tax using the Company's domestic tax rate | (56,993)     | (17,638)    |
| Non-deductible expenses                          | 35           | (5,714)     |
| Change in unrecognized temporary differences     | 56,492       | 26,077      |
| Adjustment for prior year's tax expense          | 466          | (2,725)     |
|  | <u>\$ -</u>  | <u>-</u>    |

- (v) Deferred tax assets and liabilities

- 1) Unrecognized deferred tax assets

The Company's unrecognized deferred tax assets were deductible temporary differences, listed as follows:

|                                  | <u>December 31,<br/>2021</u> | <u>December 31,<br/>2020</u> |
|----------------------------------|------------------------------|------------------------------|
| Tax losses                       | \$ 339,412                   | 272,249                      |
| Deductible temporary differences | 77,822                       | 88,493                       |
|                                  | <u>\$ 417,234</u>            | <u>360,742</u>               |

After evaluating the amount of its future income tax, the Company deemed its deductible items may not be realized. Therefore, they were not recognized as deferred tax assets.

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

As of December 31, 2021, the expiry date of the tax losses not recognized as deferred tax assets by the Company is as following:

| <u>Year of loss</u> | <u>Unused tax<br/>losses</u> | <u>Expiry date</u> |
|---------------------|------------------------------|--------------------|
| 2016 (examined)     | \$ 1,373                     | 2026               |
| 2017 (examined)     | 487,107                      | 2027               |
| 2018 (examined)     | 433,701                      | 2028               |
| 2019 (examined)     | 306,436                      | 2029               |
| 2020 (filed)        | 130,302                      | 2030               |
| 2021 (estimated)    | 338,143                      | 2031               |
|                     | <u>\$ 1,697,062</u>          |                    |

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

2) Recognized deferred tax assets and liabilities

The Company did not recognize any deferred tax assets or liabilities for the years ended December 31, 2021 and 2020.

(vi) The Company's income tax returns have been examined by the tax authority through the years up to 2019.

(l) Capital and other equity

As of December 31, 2021 and 2020, the Company's authorized common stock both 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 \$1,325,115 thousand and \$1,201,243 thousand, respectively.

Reconciliation of shares outstanding for the years ended December 31, 2021 and 2020 was as follows:

|  | <b>Ordinary shares</b>                 |                |
|--|--|----------------|
|  | <b>(in thousands of shares)</b>        |                |
|  | <b>For the years ended December 31</b> |                |
|  | <b>2021</b>                            | <b>2020</b>    |
| Balance on January 1                       | 120,125                                | 120,227        |
| Issuance of ordinary shares                | 13,000                                 | -              |
| Issuance of restricted stock (note 6(m))   | -                                      | 354            |
| Retirement of restricted stock (note 6(m)) | (613)                                  | (456)          |
| Balance on December 31                     | <b>132,512</b>                         | <b>120,125</b> |

(i) Common stock

Based on the resolution approved in the stockholders' meeting held on June 16, 2020, the Board of Directors was authorized to undertake cash offering through private placement within one year, with less than 13,000 thousand stocks to be issued. On April 12, 2021, the Board of Directors resolved to issue 13,000 thousand new common stocks amounting to \$264,550 thousand at \$20.35 per share, with a par value of \$10 per share and April 14, 2021 was set as the date of capital increase. The relevant statutory registration procedures had been completed.

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

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

(ii) Capital surplus

The balances of capital surplus were as follows:

|   | <b>December 31,<br/>2021</b> | <b>December 31,<br/>2020</b> |
|---|------------------------------|------------------------------|
| Additional paid-in capital              | \$ 122,879                   | 16,757                       |
| Employee stock options                  | -                            | 1,456                        |
| Conversion options of convertible bonds | -                            | 581                          |
| Restricted employee stock options       | 5,507                        | 18,795                       |
| Other                                   | -                            | 48,220                       |
|   | <b><u>\$ 128,386</u></b>     | <b><u>85,809</u></b>         |

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

(iii) Retained earnings

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

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

1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

2) Based on the resolution approved in the stockholders' meeting held on July 7, 2021, the Company offset accumulated deficits by capital surplus of \$85,809 thousand.

3) 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.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

4) Earnings distribution

Based on the resolution approved in the stockholders' meeting held on July 7, 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.

(m) Share-based payment

(i) 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. Based on the resolution approved in the Board of Directors' meeting held on May 5, 2020 and August 1, 2019, the Company resolved to issue 354 thousand and 2,646 thousand new shares of restricted stock, respectively. The actual numbers of shares issued were same as those approved during the board meeting.

(ii) As of December 31, 2021, the outstanding restricted stock of the Company was as follows:

|                                      | <b>Plan 5-2</b>     | <b>Plan 5-1</b>     |
|--------------------------------------|---------------------|---------------------|
| 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<br>(note) | 1~3 years<br>(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.

(Continued)



## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

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

|                            | <b>2021</b> | <b>2020</b>  |
|----------------------------|-------------|--------------|
| Outstanding at January 1   | 1,716       | 2,400        |
| Granted during the year    | -           | 354          |
| Vested during the year     | (676)       | (740)        |
| Expired during the period  | (538)       | (298)        |
| Outstanding at December 31 | <b>502</b>  | <b>1,716</b> |

Compensation costs attributable to share based payment for the years ended December 31, 2021 and 2020 were \$2,613 thousand and \$22,561 thousand, respectively.

- (iii) 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.
- (iv) 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.
- (v) 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.
- (vi) 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.
- (vii) Based on the resolution approved in the Board of Directors meeting held on May 6, 2021, the number of shares was reduced by 106 thousand shares due to the retirement of restricted stock, with May 7, 2021 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 5, 2021, the number of shares was reduced by 204 thousand shares due to the retirement of restricted stock, with August 6, 2021 as the date of capital reduction. The relevant statutory registration procedures were completed.
- (ix) Based on the resolution approved in the Board of Directors meeting held on November 4, 2021, the number of shares was reduced by 215 thousand shares due to the retirement of restricted stock, with November 5, 2021 as the date of capital reduction. The relevant statutory registration procedures were completed.

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to the Financial Statements**

(n) Loss per share

The calculation of basic loss per share for the years ended December 31, 2021 and 2020 was based on the loss attributable to ordinary stockholders of the Company and the weighted-average number of common shares outstanding. Relevant calculations are as follows:

|  | <b>2021</b>                | <b>2020</b>            |
|--|----------------------------|------------------------|
| Loss attributable to common stockholders                   | <u><u>\$ (284,964)</u></u> | <u><u>(88,190)</u></u> |
| Weighted-average number of common shares (thousand shares) | <u><u>128,361</u></u>      | <u><u>117,889</u></u>  |
| Basic loss per share (NT dollars)                          | <u><u>\$ (2.22)</u></u>    | <u><u>(0.75)</u></u>   |
| Weighted-average number of common shares                   |                            |                        |

(thousand shares)

|                                | <b>2021</b>           | <b>2020</b>           |
|--------------------------------|-----------------------|-----------------------|
| Ordinary shares at January 1   | 118,321               | 117,581               |
| Effect of shares issued        | 9,750                 | -                     |
| Effect of restricted stock     | <u>290</u>            | <u>308</u>            |
| Ordinary shares at December 31 | <u><u>128,361</u></u> | <u><u>117,889</u></u> |

Since the potential common shares have no dilutive effect, the Company need to disclose only the calculation on basic loss per share for the years ended December 31, 2021 and 2020.

(o) Revenue from contracts with customers

(i) Disaggregation of revenue

|                              | <b>For the years ended December 31</b> |                         |
|------------------------------|--|-------------------------|
|                              | <b>2021</b>                            | <b>2020</b>             |
| Primary geographical markets |  |                         |
| Taiwan                       | \$ 97,243                              | 140,118                 |
| China                        | 272,617                                | 244,435                 |
| America                      | 475,655                                | 776,741                 |
| Other                        | <u>20,501</u>                          | <u>5,555</u>            |
|                              | <u><u>\$ 866,016</u></u>               | <u><u>1,166,849</u></u> |

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to the Financial Statements**

|   | <b>For the years ended December 31</b> |                  |
|---|--|------------------|
|   | <b>2021</b>                            | <b>2020</b>      |
| Major products  |  |                  |
| Active components for optical communication and modules | \$ 714,016                             | 987,264          |
| Chips   | 75,527                                 | 100,865          |
| Other   | 76,473                                 | 78,720           |
|   | <b>\$ 866,016</b>                      | <b>1,166,849</b> |

(ii) Contract balances

|                                | <b>December 31,<br/>2021</b> | <b>December 31,<br/>2020</b> | <b>January 1,<br/>2020</b> |
|--------------------------------|------------------------------|------------------------------|----------------------------|
| Accounts receivable            | \$ 183,732                   | 196,185                      | 224,176                    |
| Less: allowance for impairment | (52,105)                     | (52,113)                     | (52,136)                   |
|                                | <b>\$ 131,627</b>            | <b>144,072</b>               | <b>172,040</b>             |
| Contract liabilities           | <b>\$ 6,574</b>              | <b>100</b>                   | <b>103</b>                 |

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

The contract liabilities primarily relate to the advance consideration received from customers, for the sales contracts whose revenue is recognized when products are delivered to customers. The amount of revenue recognized for the years ended December 31, 2021 and 2020, that was included in the contract liability balance at the beginning of the years was \$100 thousand and \$103 thousand, respectively.

(p) Remuneration to employees, directors and supervisors

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 prevailing 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 years ended December 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. Related information would be available at the Market Observation Post System website.

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to the Financial Statements**

(q) Non-operating income and expenses

Other gains and losses were as follows:

|  | <b>For the years ended December 31</b> |               |
|--|--|---------------|
|  | <b>2021</b>                            | <b>2020</b>   |
| Foreign currency exchange losses   | \$ (329)                               | (7,313)       |
| Net losses on financial assets measured at fair value through profit or loss | -                                      | (570)         |
| Loss on deposit of prepayments for equipment                                 | (6,400)                                | -             |
| Gains on disposal of property, plant and equipment                           | 845                                    | 11,212        |
| Losses on redemption of bonds  | -                                      | (7,995)       |
| Government grants  | 388                                    | 30,325        |
| Other  | (1,283)                                | 729           |
|  | <b>\$ (6,779)</b>                      | <b>26,388</b> |

(r) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

Sales to individual customers constituting over 10% of total revenue for the years ended December 31, 2021 and 2020, totaled 72% and 60%, respectively. As of December 31, 2021 and 2020, 45% and 49%, respectively, of the ending balance of accounts receivable were accounted for by those customers. The Company periodically evaluates these customers' financial position and the possibility of recovery of related accounts receivable to lower credit risk.

3) Credit risk of accounts receivable

For details on credit risk exposure of accounts receivable, please refer to note 6(b).

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

#### (ii) Liquidity risk

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

|                                       | Carrying<br>amount | Contractual<br>cash flows | Within 1<br>year | 1~2 years      | 2~5 years |
|---------------------------------------|--------------------|---------------------------|------------------|----------------|-----------|
| <b>December 31, 2021</b>              |                    |                           |                  |                |           |
| Non-derivative financial liabilities: |                    |                           |                  |                |           |
| Short-term borrowings                 | \$ 88,150          | 88,533                    | 88,533           | -              | -         |
| Accounts payable                      | 130,465            | 130,465                   | 130,465          | -              | -         |
| Other payables                        | 61,255             | 61,255                    | 61,255           | -              | -         |
| Long-term borrowings                  | 320,000            | 327,054                   | 4,320            | 322,734        | -         |
|                                       | <b>\$ 599,870</b>  | <b>607,307</b>            | <b>284,573</b>   | <b>322,734</b> | <b>-</b>  |
| <b>December 31, 2020</b>              |                    |                           |                  |                |           |
| 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          | -              | -         |
| Other payables                        | 90,580             | 90,580                    | 90,580           | -              | -         |
| Long-term borrowings                  | 320,000            | 325,516                   | 4,704            | 320,812        | -         |
|                                       | <b>\$ 768,488</b>  | <b>774,694</b>            | <b>453,882</b>   | <b>320,812</b> | <b>-</b>  |

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

#### (iii) Currency risk

##### 1) Exposure to foreign currency risk

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

|                              | December 31, 2021   |                  |         | December 31, 2020   |                  |         |
|------------------------------|---------------------|------------------|---------|---------------------|------------------|---------|
|                              | Foreign<br>currency | Exchange<br>rate | NTD     | Foreign<br>currency | Exchange<br>rate | NTD     |
| <b>Financial assets</b>      |                     |                  |         |                     |                  |         |
| <b>Monetary items</b>        |                     |                  |         |                     |                  |         |
| USD:NTD                      | \$ 7,520            | 27.66            | 208,003 | 5,657               | 28.09            | 158,905 |
| <b>Financial liabilities</b> |                     |                  |         |                     |                  |         |
| <b>Monetary items</b>        |                     |                  |         |                     |                  |         |
| USD:NTD                      | 5,295               | 27.66            | 146,460 | 3,135               | 28.09            | 88,062  |

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

2) Sensitivity analysis

The Company'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 other payables that are denominated in foreign currency.

A strengthening (weakening) of 5% of the NTD against the USD as of December 31, 2021 and 2020, would have increased or decreased the net loss before tax by \$3,077 thousand and \$3,542 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 Company'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:

| <u>Functional currency</u> | 2021   |                                      | 2020   |                                      |
|----------------------------|--|--------------------------------------|--|--------------------------------------|
|                            | <u>Foreign<br/>exchange<br/>gain or loss</u> | <u>Average<br/>exchange<br/>rate</u> | <u>Foreign<br/>exchange<br/>gain or loss</u> | <u>Average<br/>exchange<br/>rate</u> |
| NTD                        | \$ (329)                                     | 1.000                                | (7,313)                                      | 1.000                                |

(iv) 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 \$99 thousand and \$658 thousand for the years ended December 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 Company 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.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

(v) Fair value

1) Kinds of financial instruments and fair value

The carrying amount and fair value of the Company'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:

|   | December 31, 2021 |            |         |         |        |
|---|-------------------|------------|---------|---------|--------|
|   | Book value        | Fair Value |         |         | Total  |
|   |                   | Level 1    | Level 2 | Level 3 |        |
| <b>Financial assets measured at amortized cost</b>      |                   |            |         |         |        |
| Cash and cash equivalents                               | \$ 368,725        |            |         |         |        |
| Accounts receivable, net                                | 131,627           |            |         |         |        |
| Total   | <u>\$ 500,352</u> |            |         |         |        |
| <b>Financial liabilities measured at amortized cost</b> |                   |            |         |         |        |
| Long-term and short-term borrowings                     | \$ 408,150        |            |         |         |        |
| Accounts payable  | 130,465           |            |         |         |        |
| Other payables  | 61,255            |            |         |         |        |
| Total   | <u>\$ 599,870</u> |            |         |         |        |
|   |                   |            |         |         |        |
|   | December 31, 2020 |            |         |         |        |
|   | Book value        | Fair Value |         |         | Total  |
|   |                   | Level 1    | Level 2 | Level 3 |        |
| <b>Financial assets measured at amortized cost</b>      |                   |            |         |         |        |
| Cash and cash equivalents                               | \$ 292,319        |            |         |         |        |
| Accounts receivable, net                                | 144,072           |            |         |         |        |
| Refundable deposits                                     | 21,860            |            |         |         |        |
| Total   | <u>\$ 458,251</u> |            |         |         |        |
| Long-term and short-term borrowings                     | \$ 555,352        |            |         |         |        |
| Accounts payable  | 110,297           |            |         |         |        |
| Convertible bonds                                       | 12,259            | -          | 12,267  | -       | 12,267 |
| Other payables  | 90,580            |            |         |         |        |
| Total   | <u>\$ 768,488</u> |            |         |         |        |

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

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

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

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

Valuation of derivative financial instruments of the Company 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<br/>(liabilities) at fair<br/>value through<br/>profit or loss</b> |
|-------------------------------------|--|
| <b>Balance on January 1, 2021</b>   | \$ -   |
| Recognized in profit or loss        | -  |
| Disposal / pay-off                  | -  |
| <b>Balance on December 31, 2021</b> | <u><u>\$ -</u></u>   |
| <b>Balance on January 1, 2020</b>   | \$ (89)  |
| Recognized in profit or loss        | (570)  |
| Disposal / pay-off                  | 659  |
| <b>Balance on December 31, 2020</b> | <u><u>\$ -</u></u>   |

The aforementioned total gains and losses were recognized in “other gains and losses”. As of December 31, 2021 and 2020, the Company did not hold any financial assets (liabilities) at fair value through profit or loss.

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

The fair value measurements of the Company which are categorized into Level 3 are redemption rights of embedded convertible bonds which use the Binomial Tree Model to decide the fair value. After evaluation, these derivative financial instruments have no significant influence on the Company’s financial report. Therefore, the quantify information and sensitivity analysis related to fair value measurements using significant unobservable inputs are not disclosed.

- 6) In the years ended December 31, 2021 and 2020, there were no transfers between levels.

(Continued)



## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

(s) Financial risk management

(i) Overview

The Company is exposed to the following risks arising from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

This note presents information on exposure to each of the above risks and on the objectives, policies, and processes for measuring and managing risk. For detailed information, please refer to the related notes on each risk.

(ii) Structure of risk management

The Board of Directors is responsible for the establishment and oversight of risk management and for developing and controlling the risk management policy of the Company.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect any changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee monitors the management to ensure compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The audit committee and the Board of Directors are assisted in their oversight role by internal auditor. Internal auditor undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee and Board of Directors.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, which arises principally from the Company's cash and cash equivalents; accounts, and other receivables; and derivative instruments.

1) Cash and cash equivalents

The Company deposited cash in reputable and creditworthy financial institutions. The Company believes that the risk that these financial institutions may default is very low and anticipates no significant credit loss. The Company also deals with numerous financial institutions to disperse the risk, thus the Company will not suffer any significant loss if the abovementioned institutions default.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

2) Accounts and other receivables

The Company has established a credit policy. The Company uses external credit rating systems and previous transaction records to assess the credit quality and set the credit limits for the customer. The Company constantly supervises credit exposures and credit limits of transaction partners, and controls credit exposures through setting the credit limits.

3) Derivative instruments

The Company entered into derivative instrument contracts with reputable and creditworthy financial institutions. The Company believes that the risk that these financial institutions may default on these contracts is very low and anticipates no significant credit loss.

4) Guarantees

The Company has established a credit policy under that the Company can only provide guarantees to 100%-held subsidiaries. As of December 31, 2021 and 2020, the Company did not provide any guarantee.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Company had unused bank facilities of \$359,626 thousand and \$203,902 thousand as of December 31, 2021 and 2020, respectively.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Company is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Company's entities. These transactions are denominated in USD.

2) Interest rate risk

The Company's main assets and liabilities with a floating-interest-rate basis are deposits and borrowings. The Company believes that cash flow risk arising from interest rate fluctuation is insignificant.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

(t) Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings. The Company's debt-to-equity ratio as of December 31, 2021 and 2020, were 18% and 35%, respectively.

(u) Supplementary information of cash flow

(i) For the years ended December 31, 2021 and 2020, the increase in property, plant and equipment from the transfer of prepayment for equipment and deferred expenses were \$9,540 thousand and \$0 thousand, respectively. Please refer to note 6(e).

(ii) The Company's cash outflow from acquisition of property, plant and equipment amounted to \$13,521 thousand and \$76,349 thousand, wherein the increase in payables on equipment and cash payment for payables on equipment amounted to \$3,848 thousand and \$4,255 thousand for the years ended December 31, 2021 and 2020, respectively. Please refer to note 6(e).

(iii) For retirement of restricted stock, please refer to note 6(m).

(v) Change in liabilities from financing activities

Reconciliation of liabilities arising from financing activities was as follows:

|   | January 1,<br>2021 | Cash flows       | Non-cash changes  |                                  |                      | December 31,<br>2021 |
|---|--------------------|------------------|-------------------|----------------------------------|----------------------|----------------------|
|   |                    |                  | Interest expenses | Effects of changes in fair value | Losses on redemption |                      |
| Short-term borrowings                       | \$ 235,352         | (147,202)        | -                 | -                                | -                    | 88,150               |
| Long-term borrowings                        | 320,000            | -                | -                 | -                                | -                    | 320,000              |
| Bonds payables                              | 12,259             | (12,300)         | 41                | -                                | -                    | -                    |
| Total liabilities from financing activities | <b>\$ 567,611</b>  | <b>(159,502)</b> | <b>41</b>         | <b>-</b>                         | <b>-</b>             | <b>408,150</b>       |

|   | January 1,<br>2020 | Cash flows       | Non-cash changes  |                                  |                      | December 31,<br>2020 |
|---|--------------------|------------------|-------------------|----------------------------------|----------------------|----------------------|
|   |                    |                  | Interest expenses | Effects of changes in fair value | Losses on redemption |                      |
| Short-term borrowings                       | \$ 130,000         | 105,352          | -                 | -                                | -                    | 235,352              |
| Long-term borrowings                        | 320,000            | -                | -                 | -                                | -                    | 320,000              |
| Bonds payables                              | 292,197            | (289,776)        | 1,184             | 659                              | 7,995                | 12,259               |
| Total liabilities from financing activities | <b>\$ 742,197</b>  | <b>(184,424)</b> | <b>1,184</b>      | <b>659</b>                       | <b>7,995</b>         | <b>567,611</b>       |

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

#### (7) Related-party transactions:

##### (a) Name and relationship with related parties

The followings are entities that have had transactions with the company during the periods covered in financial statements and its subsidiaries.

| <u>Name of related party</u>                            | <u>Relationship with the Company</u>                   |
|---|--|
| Toplight Corporation (Toplight)                         | The subsidiary   |
| Toplight Corporation Limited (Toptrans)                 | The subsidiary   |
| Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou) | Associates (Note)                                      |
| Optoway Technology Incorporation                        | The entity with significant influence over the Company |

Note: The Company 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

###### (i) Operating revenue

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

|  | <u>Sales</u>                                 | <u>Accounts receivable</u> |
|--|--|----------------------------|
|  | <u>For the years ended December 31, 2021</u> | <u>December 31, 2021</u>   |
| The entity with significant influence over the Company | <u>\$ 48</u>                                 | <u>-</u>                   |

There were no significant differences in the selling prices and trading terms between related parties and other customers. The transaction terms with related parties were about 30 days, whereas the terms with other customers were 30 to 105 days.

###### (ii) Loans to related parties

The loans to Toptran Suzhou were 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 Company to reclassify its accounts receivable to loans.

From January 1, 2020 to May 6, 2020, the Company recognized expected credit gains of \$1,198 thousand as other gains and losses due to collections from the loans. Since May 6, 2020, Toptrans Suzhou was no longer a related party of the Company. Therefore, all loans related to Toptrans Suzhou need not be disclosed thereafter.

(Continued)

**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to the Financial Statements**

(c) Key management personnel compensation

|                              | <b>For the years ended December 31</b> |                      |
|------------------------------|--|----------------------|
|                              | <b>2021</b>                            | <b>2020</b>          |
| Short-term employee benefits | \$ 19,105                              | 22,712               |
| Post-employment benefits     | 1,825                                  | 704                  |
| Termination benefits         | -                                      | -                    |
| Other long-term benefits     | -                                      | -                    |
| Share-based payments         | 2,516                                  | 5,763                |
|                              | <b><u>\$ 23,446</u></b>                | <b><u>29,179</u></b> |

Please refer to note 6(m) for further explanations related to the share-based payment transactions.

**(8) Pledged assets:**

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

| <b>Pledged assets</b>      | <b>Pledged to secure</b>                        | <b>Book value of pledged assets</b> |                              |
|----------------------------|---|-------------------------------------|------------------------------|
|                            |   | <b>December 31,<br/>2021</b>        | <b>December 31,<br/>2020</b> |
| Land                       | Long-term borrowings and credit line collateral | \$ 247,696                          | 247,696                      |
| Buildings and construction | Long-term borrowings and credit line collateral | 251,969                             | 262,405                      |
| Refundable deposits        | Collateral for court proceedings                | -                                   | 21,740                       |
|                            |   | <b><u>\$ 499,665</u></b>            | <b><u>531,841</u></b>        |

**(9) Commitments and contingencies:**

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

|   | <b>December 31,<br/>2021</b> | <b>December 31,<br/>2020</b> |
|---|------------------------------|------------------------------|
| Unused letters of credit for purchasing machinery and equipment | <b><u>\$ 2,224</u></b>       | <b><u>3,837</u></b>          |

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

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

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

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

(11) **Subsequent Events: None**

(12) **Other:**

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

| By function<br><br>By item | For the years ended December 31 |                    |         |                |                    |         |
|----------------------------|---------------------------------|--------------------|---------|----------------|--------------------|---------|
|                            | 2021                            |                    |         | 2020           |                    |         |
|                            | Operating cost                  | Operating expenses | Total   | Operating cost | Operating expenses | Total   |
| Employee benefit expenses  |                                 |                    |         |                |                    |         |
| Salaries                   | 177,867                         | 106,076            | 283,943 | 225,078        | 114,440            | 339,518 |
| Labor and health insurance | 20,676                          | 9,043              | 29,719  | 22,470         | 9,337              | 31,807  |
| Pension                    | 9,622                           | 5,095              | 14,717  | 11,213         | 5,399              | 16,612  |
| Remuneration of directors  | -                               | 2,745              | 2,745   | -              | 2,466              | 2,466   |
| Others                     | 11,959                          | 4,642              | 16,601  | 14,340         | 4,908              | 19,248  |
| Depreciation               | 118,005                         | 18,846             | 136,851 | 139,817        | 21,511             | 161,328 |
| Amortization               | 1,439                           | 2,803              | 4,242   | 3,376          | 3,900              | 7,276   |

As of December 31, 2022 and 2020, the additional information for employee numbers and employee benefits were as follows:

|  | <u>2021</u>   | <u>2020</u> |
|--|---------------|-------------|
| Number of employees                          | <u>485</u>    | <u>634</u>  |
| Non-employee directors                       | <u>8</u>      | <u>7</u>    |
| Average employee benefits                    | <u>\$ 723</u> | <u>649</u>  |
| Average employee salaries                    | <u>\$ 595</u> | <u>541</u>  |
| Average adjustment rate of employee salaries | <u>9.98%</u>  |             |
| Supervisor's remuneration                    | <u>\$ -</u>   | <u>-</u>    |

The information of the Company's policy of wages and remunerations (to directors, managers and employees) is stated as follows:

Directors of the Company are entitled to receive travel allowances, salaries and other regular remunerations no matter whether the Company has profit or loss. The board of directors is authorized to determine the amount based on the level of the director's participation in business operation and the value of the director's contribution after taking into account the remuneration levels in domestic and foreign industries. Salaries and remunerations received by independent directors are determined in the regulations for management of directors' remuneration and remuneration levels in the industry are reviewed by the remuneration committee periodically.

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Financial Statements

Remunerations to managers are reviewed by the remuneration committee and then resolved by the board of directors based on the duties, contribution and performance of each manager and taking the future risks of the Company into account.

An employee's salary includes a fixed salary and changeable rewards. The fixed salary is the base salary of the employee while the changeable rewards depend on business operation and profitability of the Company.

#### (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 Company for the year ended December 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         | 3,662                                 | 2%  | Required loans to other parties             | -   | Operating capital                | 3,662                  | 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, \$133,650 thousand, in the latest financial statements. The total amounts loaned to all companies shall not exceed 40% of the Company's net worth, \$534,600 thousand.

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

##### (iii) Securities held as of December 31, 2021 (excluding investment in subsidiaries, associates and joint ventures):

| Name of holder               | Category and name of security | Relationship with company | Account title                                  | December 31, 2021        |                |                         |            | Note |
|------------------------------|-------------------------------|---------------------------|--|--------------------------|----------------|-------------------------|------------|------|
|                              |                               |                           |  | Shares/Units (thousands) | Carrying value | Percentage of ownership | Fair value |      |
| The Company                  | BANDWIDTH 10, INC.            | -                         | Financial assets measured at FVOCI-Non-current | 220                      | -              | -%                      | -          | -    |
| Toptrons Corporation Limited | Toptrons Suzhou               | -                         | "  | -                        | 317,107        | 9.90%                   | 317,107    | -    |

##### (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.

(Continued)

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

(ix) Trading in derivative instruments:None.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2021:

| Name of investor     | Name of investee             | Location   | Main and Business products | Original investment amount |                   | Ending balance     |                             |                | Investee recognize as of December 31, 2021 |                            | Note       |
|----------------------|------------------------------|------------|----------------------------|----------------------------|-------------------|--------------------|-----------------------------|----------------|--|----------------------------|------------|
|                      |                              |            |                            | December 31, 2021          | December 31, 2020 | Shares (thousands) | Percentage of ownership (%) | Carrying value | Net income (losses)                        | Investment income (losses) |            |
| The Company          | Toplight Corporation         | Seychelles | Holding company            | 122,980                    | 122,980           | 4,000              | 100%                        | 317,107        | -  | -                          | Subsidiary |
| Toplight Corporation | Toptrans Corporation Limited | Hong Kong  | Holding company            | 122,980                    | 122,980           | 4,000              | 100%                        | 317,107        | -  | -                          | Subsidiary |

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

(d) Major shareholders:

| Shareholder's Name               | Shareholding | Shares     | Percentage |
|----------------------------------|--------------|------------|------------|
| Optoway Technology Incorporation |              | 16,878,000 | 12.73%     |
| TriKnight Capital Corporation    |              | 14,680,990 | 11.07%     |

**(14) Segment information:**

Please refer to the consolidated financial report for the year ended December 31,2021.

(Continued)



**LUXNET CORPORATION**  
**Statement of cash and cash equivalents**  
**December 31,2021**  
**(Expressed in thousands of New Taiwan Dollars ;**  
**in dollars of Foreign Currency )**

| <u>Item</u>     | <u>Description</u>                                  | <u>Amount</u>     |
|-----------------|---|-------------------|
| Cash on hand    |   | \$ 55             |
| Demand deposits | TWD   | 286,312           |
|                 | Foreign currency – US\$2,800 / Exchange rate 27.660 | 77,442            |
|                 | Foreign currency – CNY1,132 / Exchange rate 4.343   | 4,916             |
| 合 計             |   | <u>\$ 368,725</u> |

**Statement of accounts receivable**

| <u>Item</u>  | <u>Description</u>               | <u>Amount</u>     |
|--|----------------------------------|-------------------|
| Accounts receivable :  |                                  |                   |
| Client LC01082   | Revenue from non-related parties | \$ 62,032         |
| Client LC20176   | "                                | 47,399            |
| Client LC20188   | "                                | 22,974            |
| Client LC01055   | "                                | 21,107            |
| Client LC81106   | "                                | 12,899            |
| Other (Each amount is less than 5% of<br>accounts receivable ) | "                                | 17,321            |
|  |                                  | 183,732           |
| Less: loss allowance   |                                  | (52,105)          |
| Total  |                                  | <u>\$ 131,627</u> |

**LUXNET CORPORATION**  
**Statement of inventories**  
**For the year ended December 31,2021**  
**(Expressed in thousands of New Taiwan Dollars)**

| <u>Item</u>              | <u>Cost</u>       | <u>Net<br/>realizable<br/>value</u> |
|--------------------------|-------------------|-------------------------------------|
| Finished good            | \$ 287,106        |                                     |
| Less: Allowance for loss | <u>(176,855)</u>  |                                     |
|                          | 110,251           | 110,491                             |
| Work in progress         | 42,608            |                                     |
| Less: Allowance for loss | <u>(1,543)</u>    |                                     |
|                          | 41,065            | 41,065                              |
| Raw materials            | 188,243           |                                     |
| Less: Allowance for loss | <u>(49,132)</u>   |                                     |
|                          | 139,111           | 144,641                             |
|                          | <u>\$ 290,427</u> | <u>296,197</u>                      |

**LUXNET CORPORATION**  
**Statement of prepaid expenses**  
**For the year ended December 31,2021**  
**(Expressed in thousands of New Taiwan Dollars)**

| <u>Item</u>   | <u>Description</u>  | <u>Amount</u>          |
|---|---|------------------------|
| Prepayment for purchases                                | Prepayment for the purchases from suppliers               | \$ 1,879               |
| Prepayment for repairs                                  | Prepayment for repairs of equipment                       | 1,311                  |
| Prepayment for acquisition of property                  | Prepayment for tools, computer peripheral equipment, etc. | 829                    |
| Prepayment for professional services fees               | Prepayment for legal advice                               | 323                    |
| Other (Each amount is less than 5% of prepaid expenses) |   | <u>465</u>             |
| Total   |   | <u><u>\$ 4,807</u></u> |

**Statement of other current assets**

| <u>Item</u>   | <u>Description</u>   | <u>Amount</u>          |
|---|--|------------------------|
| Refund receivable   | Business tax and profit-seeking enterprise income tax refunds receivable | \$ 6,126               |
| Overpaid sales tax  | Business tax overpaid retained for offsetting the future tax             | 2,239                  |
| Office supplies   | Supplies received  | 809                    |
| Other (Each amount is less than 5% of other current assets) |  | <u>111</u>             |
| Total   |  | <u><u>\$ 9,285</u></u> |

**LUXNET CORPORATION**

**Statement of change in investments accounted for using the equity method**

**For the year ended December 31,2021**

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

| <u>Investee<br/>Company</u> | <u>Beginning balance</u>            |                  | <u>Additions</u>                    |               | <u>Disposal</u>                     |               | <u>Other changes</u> |                 | <u>Ending Balance</u>               |  |                | <u>Market Value<br/>or Net Assets<br/>Value</u> |                          | <u>Collateral</u> |
|-----------------------------|-------------------------------------|------------------|-------------------------------------|---------------|-------------------------------------|---------------|----------------------|-----------------|-------------------------------------|--|----------------|---|--------------------------|-------------------|
|                             | <u>Shares<br/>(in<br/>thousand)</u> | <u>Amount</u>    | <u>Shares<br/>(in<br/>thousand)</u> | <u>Amount</u> | <u>Shares<br/>(in<br/>thousand)</u> | <u>Amount</u> | <u>Collateral</u>    | <u>Amount</u>   | <u>Shares<br/>(in<br/>thousand)</u> | <u>Percentage<br/>of<br/>ownership</u> | <u>Amount</u>  | <u>Unit<br/>price</u>                           | <u>Total<br/>amounts</u> |                   |
| Toplight<br>Corporation     | 4,000                               | <u>\$354,569</u> | -                                   | <u>-</u>      | -                                   | <u>-</u>      | -                    | <u>(37,462)</u> | 4,000                               | 100.00%                                | <u>317,107</u> | -   | <u>317,107</u>           | None              |

Note: Other comprehensive income (loss) recognized by using the equity method.

**LUXNET CORPORATION**  
**Statement of change in property, plant and equipment**  
**For the year ended December 31,2021**  
**(Expressed in thousands of New Taiwan Dollars )**

For information of property, plant and equipment, please refer to Note (e).

**Statement of change in intangible assets**

| <u>Item</u>       | <u>Beginning<br/>balance</u> | <u>Additions</u> | <u>Amortization</u> | <u>Ending<br/>Balance</u> |
|-------------------|------------------------------|------------------|---------------------|---------------------------|
| Computer software | <u>\$ 513</u>                | <u>2,506</u>     | <u>2,499</u>        | <u>520</u>                |

**LUXNET CORPORATION**

**Statement of non-current assets**

**For the year ended December 31,2021**

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

| <u>Item</u>                | <u>Ending Balance</u> |
|----------------------------|-----------------------|
| Net defined benefit assets | \$ 1,125              |
| Long-term prepaid expenses | 770                   |
| Total                      | <u>\$ 1,895</u>       |

**Statement of short-term borrowings**

| <u>Description</u>                               | <u>Categories</u> | <u>End of<br/>Term<br/>Amount</u> | <u>Contract</u>  | <u>Interest<br/>Rate</u> | <u>Credit<br/>lines</u> | <u>Collateral</u> |
|--|-------------------|-----------------------------------|------------------|--------------------------|-------------------------|-------------------|
| Taipei Fubon<br>Commercial Bank<br>Co.,Ltd       | Credit<br>loans   | \$ 45,000                         | Within<br>a year | 1.05%                    | 45,000                  | None              |
| Mega International<br>Commercial Bank<br>Co.,Ltd | Credit<br>loans   | <u>43,150</u>                     | "                | 0.93%~0.95%              | 50,000                  | "                 |
|  |                   | <u><b>\$ 88,150</b></u>           |                  |                          |                         |                   |

**LUXNET CORPORATION**  
**Statement of accounts payable**  
**For the year ended December 31,2021**  
**(Expressed in thousands of New Taiwan Dollars )**

| <u>Name of Customer</u>                                   | <u>Description</u>                          | <u>Amount</u>            |
|---|---|--------------------------|
| LV221309 supplier   | Processing, purchase and operating expenses | \$ 54,133                |
| LV221076 supplier   | "   | 14,178                   |
| LV000704 supplier   | "   | 8,536                    |
| Others ( Each amount is less than 5% of accounts payable) |   | <u>53,618</u>            |
| Total   |   | <u><u>\$ 130,465</u></u> |

**Statement of other payables**

| <u>Item</u>  | <u>Description</u>       | <u>Amount</u>           |
|--|--------------------------|-------------------------|
| Accrued payroll  |                          | \$ 19,319               |
| Expenses payable to suppliers                          |                          | 16,284                  |
| Bonuses payable  |                          | 15,557                  |
| Insurance premium payable                              |                          | 4,884                   |
| Pensions payable                                       |                          | 3,126                   |
| Others (Each amount is less than 5% of other payables) | Various expenses payable | <u>2,085</u>            |
| Total  |                          | <u><u>\$ 61,255</u></u> |

**LUXNET CORPORATION**  
**Statement of long-term borrowings**  
**For the year ended December 31,2021**  
**(Expressed in thousands of New Taiwan Dollars )**

| <u>Creditor</u>               | <u>Description</u> | <u>Amount</u>                                |   | <u>Period</u>     | <u>Interest Rate</u> | <u>Collateral</u>                 |
|-------------------------------|--------------------|--|---|-------------------|----------------------|-----------------------------------|
|                               |                    | <u>Current Amount Expired within on year</u> | <u>Non - current Amount Expired after on year</u> |                   |                      |                                   |
| CTBC Commercial Bank Co., Ltd | Medium-term loan   | <u>\$ -</u>                                  | <u>320,000</u>                                    | 110/8/19~112/8/19 | 1.35%                | Land 、 Buildings and construction |

**Statement of operating revenues**  
**For the year ended December 31,2021**

| <u>Item</u>   | <u>Quantity</u> | <u>Amount</u>            |
|---|-----------------|--------------------------|
| Active components for optical communication and modules | 3,386,018 PCS   | \$ 715,127               |
| Chips   | 4,341,347 PCS   | 75,903                   |
| Other operating revenues                                |                 | <u>76,473</u>            |
|   |                 | 867,503                  |
| Less : Sales returns and allowances                     |                 | <u>(1,487)</u>           |
| Net operating revenues                                  |                 | <u><u>\$ 866,016</u></u> |



## LUXNET CORPORATION

### Statement of operating costs

For the year ended December 31,2021

(Expressed in thousands of New Taiwan Dollars )

| Item   | <u>Amount</u>     |
|--|-------------------|
| Raw materials:   |                   |
| Beginning balance of raw materials   | \$ 176,673        |
| Add: Purchases   | 679,284           |
| Less: Ending balance of raw materials  | (188,243)         |
| Cost of selling raw materials  | (9,835)           |
| Expenses transferred and others  | (17,656)          |
| Cost of raw materials disposed   | (25,019)          |
| Raw materials Consumption  | 615,204           |
| Direct labor   | 156,095           |
| Manufacturing overhead   | 180,000           |
| Service cost transferred   | (31,546)          |
| Manufacturing cost   | 919,753           |
| Add: Beginning balance of Work-in-process inventory  | 61,152            |
| Less: Ending balance of Work-in-process inventory  | (42,608)          |
| Expenses transferred and others  | (7,081)           |
| Cost of goods manufactured   | 931,216           |
| Add: Beginning balance of finished goods   | 361,338           |
| Purchases  | -                 |
| Less: Ending balance of finished goods   | (287,106)         |
| Cost of selling finished goods   | (12)              |
| Expenses transferred and others  | (231,507)         |
| Cost of finished goods disposed  | (109,046)         |
| Cost of finished goods sold  | 664,883           |
| Cost of selling raw materials and finished goods   | 9,847             |
| Cost of sold in triangular trade   | 5,509             |
| Gains on inventory valuation and obsolete inventories  | (60,268)          |
| Losses on disposal of inventories  | 134,065           |
| Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity | 101,291           |
| Service cost   | 31,546            |
| Less: Gains on sale of scrap   | (3,474)           |
| Operating costs  | <b>\$ 883,399</b> |

**LUXNET CORPORATION**  
**Statement of selling expenses 、 administrative expenses**  
**and research and development expenses**  
**For the year ended December 31,2021**  
**(Expressed in thousands of New Taiwan Dollars )**

| <u>Item</u>  | <u>Selling</u><br><u>expenses</u> | <u>Administrative</u><br><u>expenses</u> | <u>Research</u><br><u>and</u><br><u>development</u><br><u>expenses</u> |
|--|-----------------------------------|--|--|
| Salary expenses  | \$ 12,762                         | 58,675                                   | 37,384   |
| Depreciation expenses  | 251                               | 5,144                                    | 13,451   |
| Labor and health insurance                                       | 948                               | 4,617                                    | 3,478  |
| Professional services fees                                       | -                                 | 6,306                                    | 318  |
| Indirect material  | -                                 | -  | 8,790  |
| Testing fee  | -                                 | -  | 5,639  |
| Sample fee   | 1,345                             | -  | -  |
| Other expense (Each amount is less than 5%<br>of other payables) | <u>2,792</u>                      | <u>16,041</u>                            | <u>10,296</u>  |
|  | <u><b>\$ 18,098</b></u>           | <u><b>90,783</b></u>                     | <u><b>79,356</b></u>   |