

LUXNET CORPORATION AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Report
For the Years Ended December 31, 2021 and 2020**

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

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Representation Letter

The entities that are required to be included in the combined financial statements of LuxNet Corporation as of and for the year ended December 31, 2021 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 “Consolidated Financial Statements” endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, LuxNet Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: LuxNet Corporation
Chairman: Isabella Chien
Date: March 17, 2022



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Independent Auditors' Report

To the Board of Directors of LuxNet Corporation:

Opinion

We have audited the consolidated financial statements of LuxNet Corporation and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2021 and 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated 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 and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standard Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit of the consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Group 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 of 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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

Please refer to note 4(h) for accounting policy, note 5 for assumptions and estimation uncertainty, and note 6(d) for details on inventories.

Description of key audit matter:

The Group'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 the key audit matter 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 of non-financial assets

Please refer to note 4(m) for accounting policy, note 5 for assumptions and estimation uncertainty, and note 6(f) for details on non-financial assets.

Description of key audit matter:

The Group'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 the 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. Valuation of financial assets at fair value through other comprehensive income

Please refer to note 4(g) for accounting policy and note 6(b) for details on financial assets at fair value through other comprehensive income.

Description of key audit matter:

The investment of Toptrans (Suzhou) Corporation Limited was recorded under financial assets at fair value through other comprehensive income and the amounts are significant in the consolidated financial statements. The investment is of such importance that it could have an effect on users' understanding of the financial statements. Therefore, the valuation of financial assets at fair value through other comprehensive income is the key audit matter for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: appointing internal expert to inspect the method of evaluating the fair value and assessing the reasonability of significant assumptions; assessing whether the gain or loss on fair value measurement calculated by management is accurate as well as inspecting the adequacy of disclosures in the consolidated financial statements.

Other Matter

LuxNet Corporation has prepared its parent-company-only financial statements as of and for the years ended December 31, 2021 and 2020, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
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 the Group'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 consolidated 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 the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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 consolidated 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

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

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

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

	2021		2020	
	Amount	%	Amount	%
4000 Operating revenue (notes 6(p) and 7)	\$ 866,016	100	1,166,849	100
5000 Operating costs (notes 6(d), (j), (k), (n) and 12)	<u>883,399</u>	<u>102</u>	<u>1,119,965</u>	<u>96</u>
Gross profit (loss)	<u>(17,383)</u>	<u>(2)</u>	<u>46,884</u>	<u>4</u>
Operating expenses (notes 6(c), (j), (k), (n) and 12):				
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>
Net operating loss	<u>(205,612)</u>	<u>(24)</u>	<u>(168,581)</u>	<u>(14)</u>
Non-operating income and expenses:				
7020 Other gains and losses, net (notes 6(i) and (r))	(6,779)	-	26,388	2
7050 Finance costs (note 6(i))	(7,117)	(1)	(8,713)	(1)
7055 Reversal of expected credit losses (note 7)	4,493	-	3,654	-
7070 Share of loss of associates accounted for using the equity method (note 6(e))	-	-	(6,362)	-
7100 Interest revenue	106	-	81	-
7225 Gains on disposal of investments (note 6(e))	-	-	128,479	11
7673 Impairment loss on property, plant and equipment (note 6(f))	<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 Loss before income tax	(284,964)	(33)	(88,190)	(7)
7950 Less: income tax expenses (note 6(l))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss	<u>(284,964)</u>	<u>(33)</u>	<u>(88,190)</u>	<u>(7)</u>
8300 Other comprehensive income (loss):				
8310 Items that may not be reclassified subsequently to profit or loss				
8311 Gains on remeasurements of defined benefit plans (note 6(k))	1,405	-	737	-
8316 Unrealized gain (loss) from investments in equity instruments measured at fair value through other comprehensive income	(37,462)	(4)	211,086	18
8349 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>
Components of other comprehensive income that will not be reclassified to profit or loss	<u>(36,057)</u>	<u>(4)</u>	<u>211,823</u>	<u>18</u>
8360 Items that may be reclassified subsequently to profit or loss				
8361 Exchange differences on translation of foreign operation's financial statements	-	-	5,569	-
8399 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 Other comprehensive income (loss), net	<u>(36,057)</u>	<u>(4)</u>	<u>217,392</u>	<u>18</u>
8500 Comprehensive income (loss)	<u>\$ (321,021)</u>	<u>(37)</u>	<u>129,202</u>	<u>11</u>
Loss per share (note 6(o))				
9750 Basic loss per share (NT dollars)	<u>\$ (2.22)</u>		<u>(0.75)</u>	

See accompanying notes to consolidated financial statements.

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

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

	Ordinary shares	Capital surplus	Retained earnings Accumulated deficit	Exchange differences on translation of foreign financial statements	Total other equity interest		Total equity
					Unrealized gain (loss) from financial assets measured at fair value through other comprehensive income	Unearned employee compensation	
Balance at January 1, 2020	\$ 1,202,263	350,154	(206,428)	(5,569)	(2,951)	(36,551)	1,300,918
Loss for the 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	-
Balance at December 31, 2021	\$ 1,325,115	128,386	(285,203)	-	170,673	(2,470)	1,336,501

See accompanying notes to consolidated financial statements.

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

LUXNET CORPORATION AND SUBSIDIARIES**Consolidated 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>
Cash flows from (used in) operating activities:		
Loss before tax	\$ (284,964)	(88,190)
Adjustments:		
Adjustments to reconcile profit (loss):		
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)
Shares of loss of associates accounted for using the equity method	-	6,362
Interest expenses	7,117	8,713
Interest income	(106)	(81)
Share-based compensation	2,613	22,561
Gain on disposal of investments	-	(128,479)
Loss on deposit of prepayments for equipment	6,400	-
Losses on redemption of bonds	-	7,995
Total adjustments to reconcile profit	<u>295,623</u>	<u>214,582</u>
Changes in operating assets and liabilities:		
Accounts receivable	12,453	12,884
Inventories	(52,859)	(66,598)
Prepaid and other current assets	9,357	6,462
Total changes in operating assets	<u>(31,049)</u>	<u>(47,252)</u>
Accounts payable	20,168	(74,626)
Contract liabilities-current	6,474	(3)
Other payables	(26,095)	(5,286)
Other current liabilities	(534)	734
Other operating liabilities	(3)	(27)
Total changes in operating liabilities	<u>10</u>	<u>(79,208)</u>
Total changes in operating assets and liabilities	<u>(31,039)</u>	<u>(126,460)</u>
Total adjustments	<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
Net cash flows used in operating activities	<u>(27,455)</u>	<u>(7,364)</u>
Cash flows from (used in) investing activities:		
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)
Net cash flows used in investing activities	<u>(1,187)</u>	<u>(60,398)</u>
Cash flows from (used in) financing activities:		
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	-
Net cash flows from (used in) financing activities	<u>105,048</u>	<u>(184,424)</u>
Net increase (decrease) in cash and cash equivalents	<u>76,406</u>	<u>(252,186)</u>
Cash and cash equivalents at beginning of period	<u>292,319</u>	<u>544,505</u>
Cash and cash equivalents at end of period	<u>\$ 368,725</u>	<u>292,319</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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 and subsidiaries (together referred to as “the Group”) were the manufacturing, processing and sale of electronic components and active components for optical communication and the retail sale of electronic materials. Please refer to note 14 for further information.

The Company’s common shares were listed on the Taipei Exchange (“TPEX”) on December 12, 2011.

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

These consolidated financial statements were reported for issue by the Board of Directors and issued on 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 Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2021:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”
- 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 Group’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 Consolidated 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 Group 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 Group's consolidated 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 Group, have been issued by IASB, but have yet to be endorsed by the FSC:

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	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 Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

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LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 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 consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(a) Statement of compliance

These consolidated annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC (“the IFRSs endorsed by the FSC”).

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated 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 each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated 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 Consolidated Financial Statements

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Profit or loss applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Accounting policies of its subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change and any consideration received or paid are adjusted to equity attributable to stockholders of the Company.

(ii) List of subsidiaries in the consolidated financial statements

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

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

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 Group 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 Group 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.

(e) 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
- (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 Group 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) 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.

(g) 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 Group 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 Group 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:

- 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 Group 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.

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LUXNET CORPORATION AND SUBSIDIARIES
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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 Group's right to receive payment is established.

3) Impairment of financial assets

The Group 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 Group 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 Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group 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 Group's historical experience and informed credit assessment as well as forward-looking information.

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

The Group 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 Group in full.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group 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 Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group 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 Group 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 Group’s procedures for recovery of amounts due.

4) Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 Group 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.

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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

5) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group 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 Group 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 Group 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.

(h) 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.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of those associates, after adjustments to align their accounting policies with those of the Group, from the date on which significant influence commences until the date on which significant influence ceases. The Group recognizes any changes of its proportionate share in the investee within capital surplus, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual proportionate share.

Gains and losses resulting from transactions between the Group and an associate are recognized only to the extent of unrelated Group's interests in the associate.

When the Group's share of losses of an associate equals or exceeds its interests in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

When the Group subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment will differ from the amount of the Group's proportionate interest in the net assets of the associate. The Group records such a difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. The aforesaid adjustment should first be adjusted under capital surplus. If the capital surplus resulting from changes in ownership interest is not sufficient, the remaining difference is debited to retained earnings. If the Group's ownership interest is reduced due to the additional subscription to the shares of the associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate will be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) 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 Group.

(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.

(k) Lease

At inception of a contract, the Group 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 Group 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 Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) 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 Group 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 Group 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.

(m) Impairment of non-financial assets

At each annual reporting date, the Group 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.

For impairment testing, assets are grouped together into the smallest group 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 groups of CGUs that are expected to benefit from the synergies of the combination.

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LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

(n) Revenue recognition

(i) Revenue from contracts with customers

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

1) Sale of goods

The Group 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 Group 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 Group has a right to an amount of consideration that is unconditional.

2) Financing components

The Group 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 Group does not adjust any of the transaction prices for the time value of money.

(o) Government grants

The Group recognizes an unconditional government grant in profit or loss as non-operating income when the grant becomes receivable. Grants that compensate the Group 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) 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 Group'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 any 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 Group, 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 Group 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 Group 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 Group 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 Consolidated Financial Statements

(q) 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 Group is the record date of capital injection approved in the board meeting.

(r) 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 Group 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.

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LUXNET CORPORATION AND SUBSIDIARIES
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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:

- (i) the Group 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.

(s) Earnings per share

The Group 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.

(t) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

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

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The 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 consolidated financial statements.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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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 Group 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(d) 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 Group 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(f) for further description of the key assumptions used to determine the recoverable amount.

The accounting policies and disclosures of the Group include measuring the financial and nonfinancial assets and liabilities at fair value. The Group has established an internal control frame work with respect to the measurement of fair value, which includes organizing the Company's financial instrument valuation group (the valuation group) 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 group 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 Group 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(s) for assumptions used in measuring fair value.

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(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2021	December 31, 2020
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>\$ 368,725</u>	<u>292,319</u>

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

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

	December 31, 2021	December 31, 2020
Equity investments at fair value through other comprehensive income		
Equities unlisted in foreign markets-Toptrans (Suzhou) Corporation Limited	<u>\$ 317,107</u>	<u>354,569</u>

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

(ii) The Group lost its significant influence over Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou) on May 6, 2020. Thereafter, the investment of Toptrans Suzhou was reclassified from investment accounted for using the equity method to financial assets at fair value through other comprehensive income. Please refer to note 6(e).

(iii) There were no disposals of strategic investments and transfers of any cumulative gain or loss within equity relating to these investments for the years ended December 31, 2021 and 2020.

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

(c) Accounts receivable

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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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- (i) The Group 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:

	December 31, 2021		
	Carrying amounts of accounts receivable	Lifetime weighted- average ECL rate	Loss allowance provision of lifetime ECL
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	52,076	100.00%	52,076
	\$ 183,732		52,105
	December 31, 2020		
	Carrying amounts of accounts receivable	Lifetime weighted- average ECL rate	Loss allowance provision of lifetime ECL
Current	\$ 123,950	0.01%~3%	35
Overdue 1 to 120 days	20,159	0.01%~3%	2
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	52,076	100.00%	52,076
	\$ 196,185		52,113

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

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

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

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(d) Inventories

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

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

	<u>For the years ended December 31</u>	
	<u>2021</u>	<u>2020</u>
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	<u>101,291</u>	<u>133,944</u>
	<u>\$ 171,614</u>	<u>211,814</u>

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

(e) Investments accounted for using the equity method

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

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Associates	<u>\$ -</u>	<u>-</u>

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

	<u>For the years ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Attributable to the Group:		
Loss	\$ -	(6,362)
Other comprehensive loss	<u>-</u>	<u>(1,534)</u>
Comprehensive loss	<u>\$ -</u>	<u>(7,896)</u>

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On May 6, 2020, the Board of Director resolved to amend the shareholding structure in the articles of the Toptrans Suzhou. Thereafter, the Group's ownership interest in Toptrans Suzhou decreased from 16.92% to 15.21%, resulting in the capital surplus of the Group to decrease by \$7,100 thousand due to the decrease of the Group's proportionate interest in the net assets. Also, Toptrans Suzhou re-elected its directors at the same day, without the Group appointing any directors to participate in its operational management due to the adjustment made in the investment strategy of the Group. Hence, the Group lost its significant influence over Toptrans Suzhou, resulting in its investment of \$143,483 thousand at fair value to be reclassified to financial assets at fair value through other comprehensive income, which incurred a revaluation gain of \$80,360 thousand. Additionally, the Group reclassified the exchange differences on translation of foreign operation's financial statements of \$(7,103) thousand and capital surplus of \$55,222 thousand to other income. The Group recorded the net gain of its disposals amounting to \$128,479 thousand under gain on disposal of investments.

(f) Property, plant and equipment

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

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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Equipment under acceptance</u>	<u>Total</u>
Carrying amounts:						
Balance on December 31, 2021	\$ 247,696	251,969	296,614	732	27,574	824,585
Balance on December 31, 2020	\$ 247,696	262,405	467,628	1,352	41,940	1,021,021
Balance on January 1, 2020	\$ 247,696	274,426	634,804	1,972	20,735	1,179,633

- (i) Because the Group 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 Group recognized an impairment loss amounting to \$70,055 thousand.
- (ii) Because the Group adjusted its production lines, some of its equipment became idle. According to the external appraisal report, the recoverable amount of the equipment was based on fair value less costs of disposal, and the fair value was evaluated by cost approach. The Group recognized an impairment loss incurred from those equipment amounting to \$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 Group had been pledged as collateral for long-term borrowings and credit lines; please refer to note 8.

(g) Short-term borrowings

The details were as follows:

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

(h) Long-term borrowings

The details were as follows:

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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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December 31, 2020				
	Currency	Annual interest rate	Maturity year	Amount
Secured bank loans	TWD	1.47%	2022	\$ 320,000
Less: current portion				-
Total				\$ 320,000
Unused credit lines				\$ -

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

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

On August 6, 2020, the Group obtained the notice from CTBC Bank for changing the terms of the credit line, the revised restrictions of financial ratios were as follows: (1) a current ratio of not less than 110%; (2) stockholders' equity of not less than \$1,100,000 thousand; (3) a self-owned capital ratio of not less than 50%; (4) according to the contract, the Group should transfer its business transaction cash flow to the CTBC Bank account every half-year, and the cash flow was at least \$250,000 thousand. CTBC Bank would review the cash flow quarterly.

The Group 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 Group 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.

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(i) Convertible bonds payable

The details of unsecured convertible bonds were as follows:

	December 31, 2021	December 31, 2020
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	<u>-</u>	<u>(41)</u>
Ending balance of bonds payable	-	12,259
Less: Bonds payable – current	<u>-</u>	<u>(12,259)</u>
Ending balance of bonds payable – non-current	<u>\$ -</u>	<u>-</u>
Embedded derivative component – the value of redemption at the option of the Company/bondholders	<u>\$ -</u>	<u>-</u>
Equity component (recorded as capital surplus – stock option)	<u>\$ -</u>	<u>581</u>
	For the years ended December 31	
	2021	2020
Embedded derivative component – revaluation loss on redemption at the option of the Company/bond holders (recorded as other gains and losses)	<u>\$ -</u>	<u>(570)</u>
Interest expense (recorded as finance cost)	<u>\$ 41</u>	<u>1,183</u>

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

The second domestic unsecured convertible bonds issued by the Group were matured on March 12, 2021. The residual bonds at par value \$12,300 thousand were redeemed to the holders at par value in March 2021.

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LUXNET CORPORATION AND SUBSIDIARIES
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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 Group may redeem the bonds within 5 trading days after the bonds' recovery reference date with cash at par value at any time from June 12, 2018, to February 2, 2021, if the closing price of the common shares on the TPEX on each trading day during a period of 30 consecutive trading days exceeds 30% of the conversion price or if the amount of unconvertible bonds is less than 10% of the offering amount.
Redemption at the option of the Holder	Each Holder has the right to require the Group to redeem the Holder's bonds on 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 Group reclassified its long-term bonds to current portion. The bond holders have the optional rights to require the Group to redeem the bonds.

(j) Lease liabilities

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

The amounts recognized in profit or loss were as follows:

	<u>For the 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 Group 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>

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LUXNET CORPORATION AND SUBSIDIARIES
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(k) 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 Group were as follows:

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

The Group 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 Group 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 Group'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 Group for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
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	<u>(1,349)</u>	<u>(588)</u>
Defined benefit obligation at December 31	<u><u>\$ 3,029</u></u>	<u><u>4,358</u></u>

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LUXNET CORPORATION AND SUBSIDIARIES
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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 Group 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>\$ 4,154</u>	<u>4,075</u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group 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>\$ 2</u>	<u>12</u>

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

The Group'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>\$ 4,683</u>	<u>3,278</u>

6) Actuarial assumptions

The following are the Group's principal actuarial assumptions:

	<u>December 31, 2021</u>	<u>December 31, 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 Group 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.

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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:

	Influence of defined benefit obligations	
	Increased 0.25%	Decreased 0.25%
December 31, 2021:		
Discount rate	(79)	82
Future salary increase rate	80	(77)
	Influence of defined benefit obligations	
	Increased 0.25%	Decreased 0.25%
December 31, 2020:		
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 Group 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 Group allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The Group 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.

(l) 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.

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- (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	<u>466</u>	<u>(2,725)</u>
	<u>\$ -</u>	<u>-</u>

- (v) Deferred tax assets and liabilities

- 1) Unrecognized deferred tax assets

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

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

After evaluating the amount of its future income tax, the Group 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 Group 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 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)	<u>338,143</u>	2031
	<u>\$ 1,697,062</u>	

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2) Recognized deferred tax assets and liabilities

The Group 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.

(m) 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:

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

(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.

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LUXNET CORPORATION AND SUBSIDIARIES
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(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2021	December 31, 2020
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
	<u>\$ 128,386</u>	<u>85,809</u>

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

(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
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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.

(n) 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:

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

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

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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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The related information on restricted stock of the Company was as follows:

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

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.

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LUXNET CORPORATION AND SUBSIDIARIES
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(o) Loss per share

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

	2021	2020
Loss attributable to common stockholders	\$ (284,964)	(88,190)
Weighted-average number of common shares (thousand shares)	128,361	117,889
Basic loss per share (NT dollars)	\$ (2.22)	(0.75)
Weighted-average number of common shares		(thousand shares)
	2021	2020
Ordinary shares at January 1	118,321	117,581
Effect of shares issued	9,750	-
Effect of restricted stock	290	308
Ordinary shares at December 31	128,361	117,889

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.

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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	For the years ended December 31		
	2021	2020	
Major products			
Active components for optical communication and modules	\$ 714,016	987,264	
Chips	75,527	100,865	
Other	<u>76,473</u>	<u>78,720</u>	
	<u>\$ 866,016</u>	<u>1,166,849</u>	
 (ii) Contract balances			
	December 31,	December 31,	January 1,
	2021	2020	2020
Accounts receivable	\$ 183,732	196,185	224,176
Less: allowance for impairment	<u>(52,105)</u>	<u>(52,113)</u>	<u>(52,136)</u>
	<u>\$ 131,627</u>	<u>144,072</u>	<u>172,040</u>
Contract liabilities	<u>\$ 6,574</u>	<u>100</u>	<u>103</u>

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

The contract liabilities primarily relate to the advance consideration received from customers, for the sales contracts whose revenue is recognized when products are delivered to customers. The amount of revenue recognized for the 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.

(q) 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 pervading target given via shares or cash includes the employees of the Company's subsidiaries or affiliated companies under certain requirements.

The Company did not estimate any remuneration to employees, directors and supervisors for the 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.

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LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Non-operating income and expenses

Other gains and losses were as follows:

	For the years ended December 31	
	2021	2020
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
	\$ (6,779)	26,388

(s) 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 Group 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(c).

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LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1~2 years</u>	<u>2~5 years</u>
December 31, 2021					
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	<u>320,000</u>	<u>327,054</u>	<u>4,320</u>	<u>322,734</u>	<u>-</u>
	<u>\$ 599,870</u>	<u>607,307</u>	<u>284,573</u>	<u>322,734</u>	<u>-</u>
December 31, 2020					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 235,352	236,001	236,001	-	-
Convertible bonds	12,259	12,300	12,300	-	-
Accounts payable	110,297	110,297	110,297	-	-
Other payables	90,580	90,580	90,580	-	-
Long-term borrowings	<u>320,000</u>	<u>325,516</u>	<u>4,704</u>	<u>320,812</u>	<u>-</u>
	<u>\$ 768,488</u>	<u>774,694</u>	<u>453,882</u>	<u>320,812</u>	<u>-</u>

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, short-term and long-term borrowings, accounts payable, and 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 Group's foreign exchange gain or loss on monetary items (including realized and unrealized) translated to the functional currency, and on the exchange rate translated to the functional currency of the parent company (the presentation currency), NTD, was as follows:

	2021		2020	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
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 Group are valued at amortized cost. Since the change in market interest rate at the end of each reporting period had no impact on profit and loss, disclosure of the sensitivity to changes in fair value is not necessary.

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LUXNET CORPORATION AND SUBSIDIARIES
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- 2) Valuation techniques to measure fair value of financial instruments not measured at fair value

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

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

- a) Non-derivative financial instruments

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

- b) Derivative financial instruments

Valuation of derivative financial instruments of the Group is based on a valuation model widely used by market participants, such as the discounted cash flow method and the Black-Scholes Option Pricing Model.

- 4) Changes in Level 3

	Financial assets (liabilities) at fair value through profit or loss	Financial assets at fair value through other comprehensive income
Balance on January 1, 2021	\$ -	354,569
Recognized in other comprehensive income	-	(37,462)
Balance on December 31, 2021	<u>\$ -</u>	<u>317,107</u>
Balance on January 1, 2020	\$ (89)	-
Recognized in profit or loss	(570)	-
Recognized in other comprehensive income	-	211,086
Disposal / pay-off	659	-
Reclassification	-	143,483
Balance on December 31, 2020	<u>\$ -</u>	<u>354,569</u>

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

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LUXNET CORPORATION AND SUBSIDIARIES
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5) Fair value measurements using significant unobservable inputs (Level 3)

The fair value measurements of the Group which are categorized into Level 3 are classified as financial assets and liabilities at fair value through profit or loss – derivative financial instruments and financial assets at fair value through other comprehensive income – equity securities. The derivative financial instruments are redemption rights of embedded convertible bonds which use the Binomial Tree Model to decide the fair value. After evaluation, these derivative financial instruments have no significant influence on the Group’s financial report. Therefore, the quantify information and sensitivity analysis related to fair value measurements using significant unobservable inputs are not disclosed.

Significant quantitative information about unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationships between significant unobservable inputs and fair value</u>
Financial assets at fair value through other comprehensive income – equity investments in inactive markets	Market comparable listed company approach	<ul style="list-style-type: none"> • Multiplier of price-to-book ratio on December 31, 2021 and 2020, were 4.10 and 3.94, respectively • Discount for lack of marketability on December 31, 2021 and 2020, were 29.86% and 28.63%, respectively 	<ul style="list-style-type: none"> • The fair value would increase if the multiplier was higher • The fair value would decrease if the discount for lack of marketability was higher

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

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

	<u>Inputs</u>	<u>Increase or decrease</u>	<u>Effects of changes in fair value on other comprehensive income and loss</u>	
December 31, 2021				
Financial assets at fair value through other comprehensive income – equity investments in inactive markets	Multiplier of price-to-book ratio	±10%	\$ <u>31,711</u>	<u>(31,711)</u>
	Discount for lack of marketability	±10%	\$ <u>31,711</u>	<u>(31,711)</u>
December 31, 2020				
Financial assets at fair value through other comprehensive income – equity investments in inactive markets	Multiplier of price-to-book ratio	±10%	\$ <u>35,457</u>	<u>(35,457)</u>
	Discount for lack of marketability	±10%	\$ <u>35,457</u>	<u>(35,457)</u>

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

(t) Financial risk management

(i) Overview

The Group 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.

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LUXNET CORPORATION AND SUBSIDIARIES
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(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 Group.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, 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 Group's activities. The Group, 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 Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. 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 Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, which arises principally from the Group's cash and cash equivalents; accounts, and other receivables; and derivative instruments.

1) Cash and cash equivalents

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

2) Accounts and other receivables

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

3) Derivative instruments

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

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LUXNET CORPORATION AND SUBSIDIARIES
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4) Guarantees

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

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group'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 Group's reputation.

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group 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 Group'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 Group is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities. These transactions are denominated in USD.

2) Interest rate risk

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

(u) 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 Group's debt-to-equity ratio as of December 31, 2021 and 2020, were 18% and 35%, respectively.

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LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) 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(f).
- (ii) The Group'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(f).
- (iii) For retirement of restricted stock, please refer to note 6(n).

(w) Change in liabilities from financing activities

Reconciliation of liabilities arising from financing activities was as follows:

	January 1, 2021	Cash flows	Non-cash changes			December 31, 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	<u>\$ 567,611</u>	<u>(159,502)</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>408,150</u>

	January 1, 2020	Cash flows	Non-cash changes			December 31, 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	<u>\$ 742,197</u>	<u>(184,424)</u>	<u>1,184</u>	<u>659</u>	<u>7,995</u>	<u>567,611</u>

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LUXNET CORPORATION AND SUBSIDIARIES
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(7) Related-party transactions:

(a) Name and relationship with related parties

The followings are entities that have had transactions with the related party during the periods covered in the consolidated financial statements.

<u>Name of related party</u>	<u>Relationship with the Group</u>
Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou)	An associate of the Group (note)
Optoway Technology Incorporation	The entity with significant influence over the Group

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

(b) Significant transactions with related parties

(i) Operating revenue

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

	<u>Sales</u>	<u>Accounts receivable</u>
	For the years ended December 31, 2021	December 31, 2021
The entity with significant influence over the Group	\$ <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 Group to reclassify its accounts receivable to loans.

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

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LUXNET CORPORATION AND SUBSIDIARIES
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(c) Key management personnel compensation

	For the years ended December 31	
	2021	2020
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
	\$ 23,446	29,179

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

(8) Pledged assets:

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

Pledged assets	Pledged to secure	Book value of pledged assets	
		December 31, 2021	December 31, 2020
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
		\$ 499,665	531,841

(9) Commitments and contingencies:

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

	December 31, 2021	December 31, 2020
Unused letters of credit for purchasing machinery and equipment	\$ 2,224	3,837

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

	December 31, 2021	December 31, 2020
Guarantee notes issued	US \$ 5,500	5,500
Guarantee notes issued	NT \$ 990,000	990,000

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(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	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

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the 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.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Share/Units (thousands)	Percentage of ownership (%)	
The Company	BANDWIDT H10, INC.	-	Financial assets measured at FVOCI-Non-current	220	-	- %	-	220	4.43 %	
Toptrons Corporation Limited	Toptrons Suzhou	-	"	-	317,107	9.90 %	317,107	-	9.90 %	

- (iv) Individual securities acquired or disposed of with an accumulated amount exceeding the lower of \$300 million or 20% of the capital stock: None.
- (v) Acquisition of individual real estate with an amount exceeding the lower of \$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with an amount exceeding the lower of \$300 million or 20% of the capital stock: None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of \$100 million or 20% of the capital stock: None.
- (viii) Receivables from related parties with amounts exceeding the lower of \$100 million or 20% of the capital stock: None.
- (ix) Trading in derivative instruments: None.
- (x) Business relationships and significant intercompany transactions: None.

- (b) Information on investees:

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

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

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

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

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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(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:

(a) General information

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

(b) Entity-wide information

(i) Product and service information

The Group's product and service revenues from exterior clients were as follows:

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

(ii) Geographic information

In presenting information on the basis of geography, revenue is based on the geographical location of customers, and non current assets are based on the geographical location of the assets. Details were as follows:

<u>Geographic Information</u>	<u>For the years ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Revenues from external customers:		
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>\$ 866,016</u>	<u>1,166,849</u>

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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Non-current assets:

	December 31, 2021	December 31, 2020
Taiwan	<u>\$ 825,875</u>	<u>1,049,163</u>

(iii) Major customer information

The information on major customers that accounted for more than 10% of revenue in the consolidated statements of comprehensive income in 2021 and 2020 is as follows:

	2021		2020	
	<u>Net sales</u>	<u>Percentage of net sales</u>	<u>Net sales</u>	<u>Percentage of net sales</u>
Company LC01082	\$ 470,179	54	698,708	60
Company LC01055	<u>158,604</u>	<u>18</u>	<u>84,607</u>	<u>7</u>
	<u>\$ 628,783</u>	<u>72</u>	<u>783,315</u>	<u>67</u>