

**LUXNET CORPORATION AND SUBSIDIARIES****Consolidated Financial Statements****With Independent Auditors' Review Report  
For the Three Months Ended March 31, 2022 and 2021**

Address: No. 6, Hejiang Road, Zhongli, Taoyuan  
Telephone: (03)452-5188

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

## Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Review Report	3
4. Consolidated Balance Sheets	4
5. Consolidated Statements of Comprehensive Income	5
6. Consolidated Statements of Changes in Equity	6
7. Consolidated Statements of Cash Flows	7
8. Notes to the Consolidated Financial Statements	
(1) Company history	8
(2) Approval date and procedures of the consolidated financial statements	8
(3) New standards, amendments and interpretations adopted	8~9
(4) Summary of significant accounting policies	10
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	11
(6) Explanation of significant accounts	11~30
(7) Related-party transactions	30~31
(8) Pledged assets	32
(9) Commitments and contingencies	32
(10) Losses Due to Major Disasters	32
(11) Subsequent Events	32
(12) Other	33
(13) Other disclosures	
(a) Information on significant transactions	33~34
(b) Information on investees	34
(c) Information on investment in mainland China	34
(d) Major shareholders	35
(14) Segment information	35



安侯建業聯合會計師事務所  
KPMG

台北市110615信義路5段7號68樓(台北101大樓)  
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,  
Xinyi Road, Taipei City 110615, Taiwan (R.O.C.)

電話 Tel + 886 2 8101 6666  
傳真 Fax + 886 2 8101 6667  
網址 Web home.kpmg/tw

## Independent Auditors' Review Report

To the Board of Directors of LuxNet Corporation:

### Introduction

We have reviewed the accompanying consolidated balance sheets of LuxNet Corporation and its subsidiaries as of March 31, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2022 and 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

### Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standard 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of LuxNet Corporation and its subsidiaries as of March 31, 2022 and 2021, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2022 and 2021 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.



The engagement partners on the reviews resulting in this independent auditors' review report are Mei-Pin Wu and Shyh-Gang Horng.

KPMG

Taipei, Taiwan (Republic of China)

May 4, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
**Reviewed only, not audited in accordance with the generally accepted auditing standards as of March 31, 2022 and 2021**

**LUXNET CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets**

March 31, 2022, December 31, 2021, and March 31, 2021

(Expressed in Thousands of New Taiwan Dollars)

		March 31, 2022		December 31, 2021		March 31, 2021				March 31, 2022		December 31, 2021		March 31, 2021	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
<b>Assets</b>															
<b>Current assets:</b>															
1100	Cash and cash equivalents (note 6(a))	\$ 304,477	17	368,725	19	252,656	13	2100	Short-term borrowings (note 6(f))	\$ 75,792	4	88,150	5	254,368	14
1170	Notes and accounts receivable, net (notes 6(c), (o) and 7)	196,995	11	131,627	7	105,013	5	2130	Current contract liabilities (note 6(o))	3,189	-	6,574	-	6,266	-
130X	Inventories (note 6(d))	271,616	15	290,427	15	323,189	16	2170	Accounts payable	113,793	7	130,465	7	89,912	4
1410	Prepaid expenses	5,707	-	4,807	-	9,051	1	2200	Other payables (note 7)	56,170	3	61,255	3	78,751	4
1470	Other current assets	10,074	1	9,285	-	7,298	-	2300	Other current liabilities	5,785	-	6,033	-	6,299	-
		<u>788,869</u>	<u>44</u>	<u>804,871</u>	<u>41</u>	<u>697,207</u>	<u>35</u>			<u>254,729</u>	<u>14</u>	<u>292,477</u>	<u>15</u>	<u>435,596</u>	<u>22</u>
<b>Non-current assets:</b>															
1517	Non-current financial assets at fair value through other comprehensive income (note 6(b))	217,645	12	317,107	16	298,560	15	2540	Long-term borrowings (notes 6(g) and 8)	320,000	18	320,000	16	320,000	16
1600	Property, plant and equipment (notes 6(e) and 8)	799,290	44	824,585	43	985,487	48	2600	Other non-current liabilities	-	-	-	-	278	-
1780	Intangible assets	2,202	-	520	-	2,301	-			<u>320,000</u>	<u>18</u>	<u>320,000</u>	<u>16</u>	<u>320,278</u>	<u>16</u>
1900	Other non-current assets (note 8)	1,962	-	1,895	-	37,169	2		<b>Total liabilities</b>	<u>574,729</u>	<u>32</u>	<u>612,477</u>	<u>31</u>	<u>755,874</u>	<u>38</u>
		<u>1,021,099</u>	<u>56</u>	<u>1,144,107</u>	<u>59</u>	<u>1,323,517</u>	<u>65</u>		<b>Equity attributable to owners of parent:</b>						
								3100	Ordinary shares (note 6(l))	1,324,535	73	1,325,115	68	1,200,363	59
								3200	Capital surplus (note 6(l))	127,783	7	128,386	7	85,667	4
								3350	Accumulated deficit (note 6(l))	(286,996)	(16)	(285,203)	(15)	(160,887)	(8)
								3400	Other equity interest	69,917	4	168,203	9	139,707	7
									<b>Total equity</b>	<u>1,235,239</u>	<u>68</u>	<u>1,336,501</u>	<u>69</u>	<u>1,264,850</u>	<u>62</u>
<b>Total assets</b>		<u>\$ 1,809,968</u>	<u>100</u>	<u>1,948,978</u>	<u>100</u>	<u>2,020,724</u>	<u>100</u>	<b>Total liabilities and equity</b>		<u>\$ 1,809,968</u>	<u>100</u>	<u>1,948,978</u>	<u>100</u>	<u>2,020,724</u>	<u>100</u>

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

**LUXNET CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the three months ended March 31, 2022 and 2021**

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

		For the three months ended			
		March 31			
		2022		2021	
		Amount	%	Amount	%
4000	<b>Operating revenue (notes 6(o) and 7)</b>	\$ 202,759	100	183,606	100
5000	<b>Operating costs (notes 6(d), (i), (j), (m) and 12)</b>	<u>173,580</u>	<u>86</u>	<u>208,128</u>	<u>113</u>
	<b>Gross profit (loss)</b>	<u>29,179</u>	<u>14</u>	<u>(24,522)</u>	<u>(13)</u>
	<b>Operating expenses (notes 6(c), (i), (j), (m), 7 and 12):</b>				
6100	Selling expenses	3,696	2	5,378	3
6200	Administrative expenses	11,069	5	25,556	14
6300	Research and development expenses	18,980	9	21,485	12
6450	Expected credit losses (reversal of expected credit losses)	<u>11</u>	<u>-</u>	<u>(27)</u>	<u>-</u>
		<u>33,756</u>	<u>16</u>	<u>52,392</u>	<u>29</u>
	<b>Net operating loss</b>	<u>(4,577)</u>	<u>(2)</u>	<u>(76,914)</u>	<u>(42)</u>
	<b>Non-operating income and expenses:</b>				
7020	Other gains and losses, net (note 6(q))	3,421	2	4,141	2
7050	Finance costs (note 6(h))	(1,296)	(1)	(1,979)	(1)
7055	Reversal of expected credit losses	<u>659</u>	<u>-</u>	<u>1,318</u>	<u>1</u>
		<u>2,784</u>	<u>1</u>	<u>3,480</u>	<u>2</u>
7900	<b>Loss before income tax</b>	(1,793)	(1)	(73,434)	(40)
7950	Less: income tax expenses (note 6(k))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<b>Loss</b>	<u>(1,793)</u>	<u>(1)</u>	<u>(73,434)</u>	<u>(40)</u>
8300	<b>Other comprehensive loss:</b>				
8310	<b>Items that may not be reclassified subsequently to profit or loss</b>				
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(99,462)	(49)	(56,009)	(31)
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>(99,462)</u>	<u>(49)</u>	<u>(56,009)</u>	<u>(31)</u>
8300	<b>Other comprehensive loss, net</b>	<u>(99,462)</u>	<u>(49)</u>	<u>(56,009)</u>	<u>(31)</u>
8500	<b>Comprehensive loss</b>	<u>\$ (101,255)</u>	<u>(50)</u>	<u>(129,443)</u>	<u>(71)</u>
	<b>Loss per share (note 6(n))</b>				
9750	<b>Basic loss per share (NT dollars)</b>	<u>\$ (0.01)</u>		<u>(0.62)</u>	

See accompanying notes to consolidated financial statements.

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

**LUXNET CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity**  
**For the three months ended March 31, 2022 and 2021**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Ordinary shares	Capital surplus	Accumulated deficit	Total other equity interest Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unearned employee compensation	Total equity
<b>Balance at January 1, 2021</b>	\$ 1,201,243	85,809	(87,453)	208,135	(17,375)	1,390,359
Loss for the three months ended March 31, 2021	-	-	(73,434)	-	-	(73,434)
Other comprehensive loss for the three months ended March 31, 2021	-	-	-	(56,009)	-	(56,009)
Total comprehensive loss for the three months ended March 31, 2021	-	-	(73,434)	(56,009)	-	(129,443)
Amortization of restricted stock	-	-	-	-	3,934	3,934
Retirement of restricted stock	(880)	(142)	-	-	1,022	-
<b>Balance at March 31, 2021</b>	<b>\$ 1,200,363</b>	<b>85,667</b>	<b>(160,887)</b>	<b>152,126</b>	<b>(12,419)</b>	<b>1,264,850</b>
<b>Balance at January 1, 2022</b>	\$ 1,325,115	128,386	(285,203)	170,673	(2,470)	1,336,501
Loss for the three months ended March 31, 2022	-	-	(1,793)	-	-	(1,793)
Other comprehensive loss for the three months ended March 31, 2022	-	-	-	(99,462)	-	(99,462)
Total comprehensive loss for the three months ended March 31, 2022	-	-	(1,793)	(99,462)	-	(101,255)
Amortization of restricted stock	-	-	-	-	(7)	(7)
Retirement of restricted stock	(580)	(603)	-	-	1,183	-
<b>Balance at March 31, 2022</b>	<b>\$ 1,324,535</b>	<b>127,783</b>	<b>(286,996)</b>	<b>71,211</b>	<b>(1,294)</b>	<b>1,235,239</b>

See accompanying notes to consolidated financial statements.

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

**LUXNET CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the three months ended March 31, 2022 and 2021**

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2022	2021
<b>Cash flows from (used in) operating activities:</b>		
Loss before tax	\$ (1,793)	(73,434)
Adjustments:		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation and amortization expenses	28,116	37,306
Reversal of expected credit losses	(648)	(1,345)
Losses related to inventories	2,953	18,849
Gains on disposal of property, plant and equipment	-	(3,665)
Interest expenses	1,296	1,979
Share-based compensation (gains on reversal of share-based compensation)	(7)	3,934
<b>Total adjustments to reconcile profit</b>	<b>31,710</b>	<b>57,058</b>
<b>Changes in operating assets and liabilities:</b>		
Notes and accounts receivable	(65,379)	39,086
Inventories	15,858	(30,673)
Prepaid and other current assets	(1,035)	3,972
<b>Total changes in operating assets</b>	<b>(50,556)</b>	<b>12,385</b>
Accounts payable	(16,672)	(20,385)
Contract liabilities-current	(3,385)	6,166
Other payables	(5,988)	(14,430)
Other current liabilities	(248)	(268)
Other operating liabilities	-	(5)
<b>Total changes in operating liabilities</b>	<b>(26,293)</b>	<b>(28,922)</b>
<b>Total changes in operating assets and liabilities</b>	<b>(76,849)</b>	<b>(16,537)</b>
<b>Total adjustments</b>	<b>(45,139)</b>	<b>40,521</b>
Cash outflow generated from operations	(46,932)	(32,913)
Interest paid	(1,279)	(1,938)
<b>Net cash flows used in operating activities</b>	<b>(48,211)</b>	<b>(34,851)</b>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of property, plant and equipment	(2,909)	(5,266)
Proceeds from disposal of property, plant and equipment	-	138
Increase in other non-current assets	(770)	-
Increase in prepayments for equipment	-	(6,400)
<b>Net cash flows used in investing activities</b>	<b>(3,679)</b>	<b>(11,528)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term borrowings	(12,358)	19,016
Redemption of bonds	-	(12,300)
<b>Net cash flows from (used in) financing activities</b>	<b>(12,358)</b>	<b>6,716</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(64,248)</b>	<b>(39,663)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>368,725</b>	<b>292,319</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 304,477</b>	<b>252,656</b>

See accompanying notes to consolidated financial statements.



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

**LUXNET CORPORATION AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**March 31, 2022 and 2021**

**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

**(1) Company history**

LuxNet Corporation (“the Company”) was incorporated on November 15, 2001, and registered under the Ministry of Economic Affairs, ROC. The address of the Company’s registered office is No. 6, Hejiang Road, Zhongli, Taoyuan.

The major business activities of the Company and subsidiaries (together referred to as “the Group”) were the manufacturing, processing and sale of electronic components and active components for optical communication and the retail sale of electronic materials. Please refer to note 14 for further information.

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

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

These consolidated financial statements were reported for issue by the Board of Directors and issued on May 4, 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, 2022:

- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

(Continued)

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

- (b) 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:

<b>Standards or Interpretations</b>	<b>Content of amendment</b>	<b>Effective date per IASB</b>
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.	January 1, 2023

The 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.

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”

(Continued)

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

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

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Report by Securities Issuers (“ the Regulation” ) and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2021. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2021.

(b) Basis of consolidation

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

Name of investor	Name of subsidiary	Principal activities	Percentage of shareholding		
			March 31, 2022	December 31, 2021	March 31, 2021
The Company	Toplight Corporation (Toplight)	Holding company	100 %	100 %	100 %
Toplight	Toptrans Corporation Limited (Toptrans)	Holding company	100 %	100 %	100 %

(c) Income taxes

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

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

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

(d) Employee benefits

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

(Continued)

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

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

The preparation of the consolidated financial statements in conformity with the regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and endorsed by the FSC) requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2021. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2021.

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

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2021. Please refer to note 6 of the 2021 annual consolidated financial statements.

(a) Cash and cash equivalents

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Cash on hand	\$ 72	55	68
Demand deposits	304,405	368,670	252,588
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 304,477</u>	<u>368,725</u>	<u>252,656</u>

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

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
<b>Equity investments at fair value through other comprehensive income</b>			
Equities unlisted in foreign markets- Toptrans (Suzhou) Corporation Limited	<u>\$ 217,645</u>	<u>317,107</u>	<u>298,560</u>

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

(Continued)

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

(ii) There were no disposals of strategic investments and transfers of any cumulative gain or loss within equity relating to these investments for the three months ended March 31, 2022 and 2021.

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

(c) Notes and accounts receivable

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Notes receivable	\$ -	-	64
Accounts receivable	249,061	183,732	157,035
Accounts receivable – related parties	50	-	-
Less: allowance for impairment	<u>(52,116)</u>	<u>(52,105)</u>	<u>(52,086)</u>
	<u><u>\$ 196,995</u></u>	<u><u>131,627</u></u>	<u><u>105,013</u></u>

(i) The Group applies the simplified approach to provide for its expected credit losses (ECL), the use of lifetime ECL provision for all notes and accounts receivable (including related parties). To measure the ECL, notes and accounts receivable (including related parties) 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:

	<u>March 31, 2022</u>		
	<u>Carrying amounts of accounts receivable (including related parties)</u>	<u>Lifetime weighted- average ECL rate</u>	<u>Loss allowance provision of lifetime ECL</u>
Current	\$ 196,901	0.01%~3%	39
Overdue 1 to 120 days	134	0.01%~3%	1
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	<u>52,076</u>	100.00%	<u>52,076</u>
	<u><u>\$ 249,111</u></u>		<u><u>52,116</u></u>

(Continued)

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

	<b>December 31, 2021</b>		
	<b>Carrying amounts of accounts receivable</b>	<b>Lifetime weighted- average ECL rate</b>	<b>Loss allowance provision of lifetime ECL</b>
Current	\$ 130,898	0.01%~3%	28
Overdue 1 to 120 days	758	0.01%~3%	1
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	52,076	100.00%	52,076
	<b>\$ 183,732</b>		<b>52,105</b>
	<b>March 31, 2021</b>		
	<b>Carrying amounts of notes and accounts receivable</b>	<b>Lifetime weighted- average ECL rate</b>	<b>Loss allowance provision of lifetime ECL</b>
Current	\$ 100,129	0.01%~3%	9
Overdue 1 to 120 days	4,894	0.01%~3%	1
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	52,076	100.00%	52,076
	<b>\$ 157,099</b>		<b>52,086</b>

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

	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
Balance on January 1, 2022 and 2021	\$ 52,105	52,113
Impairment losses recognized (reversed)	11	(27)
Balance on March 31, 2022 and 2021	<b>\$ 52,116</b>	<b>52,086</b>

- (iii) As of March 31, 2022, December 31 and March 31, 2021, the Group did not provide any of the aforementioned financial assets as collateral.

- (d) Inventories

	<b>March 31, 2022</b>	<b>December 31, 2021</b>	<b>March 31, 2021</b>
Raw materials	\$ 103,041	139,111	106,488
Work in process	67,994	41,065	52,734
Finished goods	100,581	110,251	163,967
	<b>\$ 271,616</b>	<b>290,427</b>	<b>323,189</b>

(Continued)

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

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

	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
Losses on inventory valuation and obsolete inventories	\$ 2,953	18,849
Gains on sale of scrap	-	(2,208)
Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity	25,823	30,659
	<b>\$ 28,776</b>	<b>47,300</b>

As of March 31, 2022, December 31 and March 31, 2021, the Group did not provide any of the aforementioned inventory as collateral.

(e) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the three months ended March 31, 2022 and 2021 were as follows:

	<b>Land</b>	<b>Buildings and construction</b>	<b>Machinery and equipment</b>	<b>Office and other equipment</b>	<b>Equipment under acceptance</b>	<b>Total</b>
<b>Cost or deemed cost:</b>						
Balance on January 1, 2022	\$ 247,696	362,779	1,330,373	5,239	27,574	1,973,661
Additions	-	-	-	-	2,245	2,245
Reclassifications	-	-	24,263	-	(24,263)	-
Balance on March 31, 2022	<b>\$ 247,696</b>	<b>362,779</b>	<b>1,354,636</b>	<b>5,239</b>	<b>5,556</b>	<b>1,975,906</b>
Balance on January 1, 2021	\$ 247,696	361,779	1,457,109	5,239	41,940	2,113,763
Additions	-	-	-	-	1,497	1,497
Reclassifications	-	-	15,112	-	(15,112)	-
Disposals	-	-	(24,181)	-	-	(24,181)
Balance on March 31, 2021	<b>\$ 247,696</b>	<b>361,779</b>	<b>1,448,040</b>	<b>5,239</b>	<b>28,325</b>	<b>2,091,079</b>
<b>Accumulated depreciation and impairment:</b>						
Balance on January 1, 2022	\$ -	110,810	1,033,759	4,507	-	1,149,076
Depreciation	-	2,876	24,509	155	-	27,540
Balance on March 31, 2022	<b>\$ -</b>	<b>113,686</b>	<b>1,058,268</b>	<b>4,662</b>	<b>-</b>	<b>1,176,616</b>
Balance on January 1, 2021	\$ -	99,374	989,481	3,887	-	1,092,742
Depreciation	-	2,859	32,850	155	-	35,864
Disposals	-	-	(23,014)	-	-	(23,014)
Balance on March 31, 2021	<b>\$ -</b>	<b>102,233</b>	<b>999,317</b>	<b>4,042</b>	<b>-</b>	<b>1,105,592</b>
<b>Carrying amounts:</b>						
Balance on January 1, 2022	<b>\$ 247,696</b>	<b>251,969</b>	<b>296,614</b>	<b>732</b>	<b>27,574</b>	<b>824,585</b>
Balance on March 31, 2022	<b>\$ 247,696</b>	<b>249,093</b>	<b>296,368</b>	<b>577</b>	<b>5,556</b>	<b>799,290</b>
Balance on January 1, 2021	<b>\$ 247,696</b>	<b>262,405</b>	<b>467,628</b>	<b>1,352</b>	<b>41,940</b>	<b>1,021,021</b>
Balance on March 31, 2021	<b>\$ 247,696</b>	<b>259,546</b>	<b>448,723</b>	<b>1,197</b>	<b>28,325</b>	<b>985,487</b>

(Continued)

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

As of March 31, 2022, December 31 and March 31, 2021, property, plant and equipment of the Group had been pledged as collateral for long-term borrowings and credit lines. Please refer to note 8.

(f) Short-term borrowings

The details were as follows:

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Unsecured bank loans	\$ <u>75,792</u>	<u>88,150</u>	<u>254,368</u>
Unused credit lines	\$ <u>372,087</u>	<u>359,626</u>	<u>186,775</u>
Range of interest rates	<u>1.20%~1.61%</u>	<u>0.93%~1.05%</u>	<u>0.94%~1.42%</u>

(g) Long-term borrowings

The details were as follows:

<u>March 31, 2022</u>				
<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity date</u>	<u>Amount</u>	
Secured bank loans	TWD	1.35%	2023/8	\$ 320,000
Less: current portion				<u>-</u>
Total				<u>\$ 320,000</u>
Unused credit lines				<u>\$ -</u>
<u>December 31, 2021</u>				
<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity date</u>	<u>Amount</u>	
Secured bank loans	TWD	1.35%	2023/8	\$ 320,000
Less: current portion				<u>-</u>
Total				<u>\$ 320,000</u>
Unused credit lines				<u>\$ -</u>
<u>March 31, 2021</u>				
<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity date</u>	<u>Amount</u>	
Secured bank loans	TWD	1.42%	2023/3	\$ 320,000
Less: current portion				<u>-</u>
Total				<u>\$ 320,000</u>
Unused credit lines				<u>\$ -</u>

(Continued)



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

- (i) The Group re-signed a long-term loan contract with CTBC Bank on August 6, 2020, 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.

On August 6, 2020, the Group has to maintain the financial ratios due to its long-term loans 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.

In February and March of 2021, the Group repaid, in advance, its long-term loans which were due in February and March of 2022. In addition, in February and March of 2021, the Group used the revolving credit line of \$320,000 thousand.

On June 30, 2021, the Group obtained the notice of credit line from CTBC Bank to extend the original due date 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.

In August 2021, the Group repaid, in advance, its long-term loans which were due in February and March of 2022. In addition, in August 2021, the Group used the revolving credit line of \$320,000 thousand.

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

- (h) Convertible bonds payable

Except for the following paragraph, there were no significant changes in convertible bonds payable for the three months ended March 31, 2022 and 2021. Please refer to note 6(i) of the consolidated financial statements for the year ended December 31, 2021 for other related information.

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. In addition, 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.

For the three months ended March 31, 2021, the Group recognized the amount of \$41 thousand as interest expense due to its convertible bonds payable.

- (i) 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.

(Continued)

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

The amounts recognized in profit or loss were as follows:

	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
Expenses relating to short-term leases and leases of low-value items	\$ -	401

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

	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
Rental paid in operating activities	\$ -	401

(j) Employee benefits

(i) Defined benefit plans

There was no material volatility of the market, no material reimbursement and settlement or other material one-time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2021 and 2020.

The Group did not report any pension expense for the three months ended March 31, 2022 and 2021.

(ii) Defined contribution plans

The pension costs under defined contribution plans were as follows:

	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
Operating cost	\$ 2,041	2,855
Selling expenses	110	170
Administration expenses	340	695
Research and development expenses	346	478
	<b>\$ 2,837</b>	<b>4,198</b>

(k) Income taxes

(i) For the three months ended March 31, 2022 and 2021, there were no current and deferred tax expenses.

(ii) For the three months ended March 31, 2022 and 2021, there was no income tax recognized in equity.

(Continued)

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

- (iii) For the three months ended March 31, 2022 and 2021, there was no income tax recognized in other comprehensive income.
- (iv) The Company's income tax returns have been examined by the tax authority through the years up to 2020.

(l) Capital and other equity

Except for the following paragraph, there were no significant changes on the capital and other equity for the periods from January 1 to March 31, 2022 and 2021. For related information, please refer to note 6(m) of the consolidated financial statements for the year ended December 31, 2021.

As of March 31, 2022, December 31 and March 31, 2021, the nominal common stock all amounted to \$1,500,000 thousand. Par value of each share is \$10 (dollars). The number of shares includes employee stock options for 8,000 thousand shares. The issued amounts were \$1,324,535 thousand, \$1,325,115 thousand and \$1,200,363 thousand, respectively.

Reconciliation of shares outstanding for the three months ended March 31, 2022 and 2021 was as follows:

	<b>Ordinary shares (in thousands of shares)</b>	
	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
Balance on January 1	132,512	120,125
Retirement of restricted stock (note 6(m))	(58)	(88)
Balance on March 31	<b>132,454</b>	<b>120,037</b>

(i) Capital surplus

The balances of capital surplus were as follows:

	<b>March 31, 2022</b>	<b>December 31, 2021</b>	<b>March 31, 2021</b>
Additional paid-in capital	\$ 122,909	122,879	16,757
Employee stock options	-	-	1,456
Restricted employee stock options	4,874	5,507	18,653
Other	-	-	48,801
	<b>\$ 127,783</b>	<b>128,386</b>	<b>85,667</b>

(Continued)

## LUXNET CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

(ii) Retained earnings

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

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

1) Earnings distribution

Based on the resolution approved in the Board of Directors meeting held on March 17, 2022, the Company would not distribute earnings because of the loss for the year ended December 31, 2021.

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.

(m) Share-based payment

Except for the following paragraph, there were no significant changes in share-based payment for the three months ended March 31, 2022 and 2021. Please refer to note 6(n) to the consolidated financial statement for the year ended December 31, 2021, for further information.

(Continued)

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

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

	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
Outstanding at January 1	502	1,716
Vested during the period	(3)	-
Expired during the period	(51)	(14)
Outstanding at March 31	<b>448</b>	<b>1,702</b>

Compensation costs attributable to share based payment for the three months ended March 31, 2022 and 2021 were \$(7) thousand and \$3,934 thousand, respectively.

- (i) 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.
- (ii) Based on the resolution approved in the Board of Directors meeting held on March 17, 2022, the number of shares was reduced by 58 thousand shares due to the retirement of restricted stock, with March 21, 2022 as the date of capital reduction. The relevant statutory registration procedures were completed.
- (n) Loss per share

The calculation of basic loss per share was as follows:

	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
Loss attributable to common stockholders	\$ (1,793)	(73,434)
Weighted-average number of common shares (thousand shares)	131,996	118,320
Basic loss per share (NT dollars)	\$ (0.01)	(0.62)

Since there were no potential common shares, the Company needs to disclose only the calculation on basic loss per share for the three months ended March 31, 2022 and 2021.

(Continued)

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

(o) Revenue from contracts with customers

(i) Disaggregation of revenue

	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
Primary geographical markets		
Taiwan	\$ 34,765	23,714
China	56,348	57,849
America	105,659	98,805
Other	5,987	3,238
	<b>\$ 202,759</b>	<b>183,606</b>
Major products		
Active components for optical communication and modules	\$ 148,479	153,130
Chips	37,117	12,028
Other	17,163	18,448
	<b>\$ 202,759</b>	<b>183,606</b>

(ii) Contract balances

	<b>March 31, 2022</b>	<b>December 31, 2021</b>	<b>March 31, 2021</b>
Notes and accounts receivable (including related parties)	\$ 249,111	183,732	157,099
Less: allowance for impairment	(52,116)	(52,105)	(52,086)
	<b>\$ 196,995</b>	<b>131,627</b>	<b>105,013</b>
Contract liabilities	<b>\$ 3,189</b>	<b>6,574</b>	<b>6,266</b>

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

The contract liabilities primarily relate to the advance consideration received from customers, for the sales contracts whose revenue is recognized when products are delivered to customers. The amount of revenue recognized for the three months ended March 31, 2022 and 2021, that was included in the contract liability balance at the beginning of the years was \$4,795 thousand and \$2 thousand, respectively.

(Continued)

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

(p) Remuneration to employees, directors and supervisors

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

The Company did not estimate any remuneration to employees, directors and supervisors for the three months ended March 31, 2022 and 2021. If there are any subsequent adjustments to the actual remuneration amounts, the adjustments will be regarded as changes in accounting estimates and will be reflected in profit or loss in the next year.

The Company did not estimate any remuneration to employees, directors and supervisors due to its loss in 2021 and 2020. The amounts as stated in the consolidated financial statements, are identical with those of the actual distributions for 2021 and 2020. Related information would be available at the Market Observation Pose System Website.

(q) Non-operating income and expenses

Other gains and losses were as follows:

	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
Foreign currency exchange gains, net	\$ 3,341	105
Gains on disposal of property, plant and equipment	-	3,665
Other	80	371
	<b>\$ 3,421</b>	<b>4,141</b>

(r) Financial instruments

Except for the following paragraph, there were no significant changes in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. Please refer to note 6(s) of the consolidated financial statements for the year ended December 31, 2021, for further information.

(Continued)

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

(i) Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1~2 years</u>	<u>2~5 years</u>
<b>March 31, 2022</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 75,792	76,063	76,063	-	-
Accounts payable	113,793	113,793	113,793	-	-
Other payables	56,170	56,170	56,170	-	-
Long-term borrowings	<u>320,000</u>	<u>325,989</u>	<u>4,320</u>	<u>321,669</u>	<u>-</u>
	<u><b>\$ 565,755</b></u>	<u><b>572,015</b></u>	<u><b>250,346</b></u>	<u><b>321,669</b></u>	<u><b>-</b></u>
<b>December 31, 2021</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 88,150	88,533	88,533	-	-
Accounts payable	130,465	130,465	130,465	-	-
Other payables	61,255	61,255	61,255	-	-
Long-term borrowings	<u>320,000</u>	<u>327,054</u>	<u>4,320</u>	<u>322,734</u>	<u>-</u>
	<u><b>\$ 599,870</b></u>	<u><b>607,307</b></u>	<u><b>284,573</b></u>	<u><b>322,734</b></u>	<u><b>-</b></u>
<b>March 31, 2021</b>					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 254,368	254,845	254,845	-	-
Accounts payable	89,912	89,912	89,912	-	-
Other payables	74,226	74,226	74,226	-	-
Long-term borrowings	<u>320,000</u>	<u>328,744</u>	<u>4,544</u>	<u>324,200</u>	<u>-</u>
	<u><b>\$ 738,506</b></u>	<u><b>747,727</b></u>	<u><b>423,527</b></u>	<u><b>324,200</b></u>	<u><b>-</b></u>

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

(Continued)



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

(ii) Currency risk

1) Exposure to foreign currency risk

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

	March 31, 2022			December 31, 2021			March 31, 2021		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<b><u>Financial assets</u></b>									
<b><u>Monetary items</u></b>									
USD:NTD	\$ 9,030	28.62	258,439	7,520	27.66	208,003	5,072	28.52	144,653
<b><u>Financial liabilities</u></b>									
<b><u>Monetary items</u></b>									
USD:NTD	4,749	28.62	135,916	5,295	27.66	146,460	2,860	28.52	81,567

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 March 31, 2022 and 2021, would have increased or decreased the net loss before tax by \$6,126 thousand and \$3,154 thousand, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain or loss on monetary items

The information on the amount of the Group's foreign exchange gain or loss on monetary items (including realized and unrealized) translated to the functional currency, and on the exchange rate translated to the functional currency of the parent company (the presentation currency), NTD, was as follows:

	For the three months ended March 31			
	2022		2021	
	Foreign exchange gain or loss	Average exchange rate	Foreign exchange gain or loss	Average exchange rate
NTD	\$ 3,341	1	105	1

(Continued)

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

(iii) Interest rate analysis

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

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

If the interest rate had increased or decreased by 25 basis points, the net loss before tax would have increased or decreased by the amount of \$57 thousand and \$201 thousand for the three months ended March 31, 2022 and 2021 respectively, which would have mainly resulted from bank savings and borrowings with variable interest rates.

(iv) Other market price risk

For the three months ended March 31, 2022 and 2021, the sensitivity analysis for the changes in the securities price at the reporting date were performed using the same basis for profit or loss as illustrated below:

	<b>For the three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
	<b>Other comprehensive income before tax</b>	<b>Other comprehensive income before tax</b>
<b>Prices of securities at the reporting date</b>		
Increasing 10%	\$ <b>21,765</b>	<b>29,856</b>
Decreasing 10%	\$ <b>(21,765)</b>	<b>(29,856)</b>

(Continued)

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

## (v) Fair value

## 1) Kinds of financial instruments and fair value

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

		<b>March 31, 2022</b>				
		<u>Book value</u>	<u>Fair Value</u>			<u>Total</u>
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Financial assets measured at amortized cost</b>						
	Cash and cash equivalents	\$ 304,477				
	Accounts receivable, net	<u>196,995</u>				
	Total	<u>\$ 501,472</u>				
<b>Financial assets at fair value through other comprehensive income— non-current</b>		<u>\$ 217,645</u>	-	-	217,645	217,645
<b>Financial liabilities measured at amortized cost</b>						
	Long-term and short-term borrowings	\$ 395,792				
	Accounts payable	113,793				
	Other payables	<u>56,170</u>				
	Total	<u>\$ 565,755</u>				
		<b>December 31, 2021</b>				
		<u>Book value</u>	<u>Fair Value</u>			<u>Total</u>
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Financial assets measured at amortized cost</b>						
	Cash and cash equivalents	\$ 368,725				
	Accounts receivable, net	<u>131,627</u>				
	Total	<u>\$ 500,352</u>				
<b>Financial assets at fair value through other comprehensive income— non-current</b>		<u>\$ 317,107</u>	-	-	317,107	317,107
<b>Financial liabilities measured at amortized cost</b>						
	Long-term and short-term borrowings	\$ 408,150				
	Accounts payable	130,465				
	Other payables	<u>61,255</u>				
	Total	<u>\$ 599,870</u>				

(Continued)

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

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

2) Fair value valuation technique of financial instruments measured at fair value

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.

3) Changes in Level 3

	<b>Financial assets at fair value through other comprehensive income</b>
<b>Balance on January 1, 2022</b>	\$ 317,107
Recognized in other comprehensive income	<u>(99,462)</u>
<b>Balance on March 31, 2022</b>	<u>\$ 217,645</u>
<b>Balance on January 1, 2021</b>	\$ 354,569
Recognized in other comprehensive income	<u>(56,009)</u>
<b>Balance on March 31, 2021</b>	<u>\$ 298,560</u>

(Continued)

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

- 4) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement.

The Group's financial instrument that use Level 3 inputs to measure fair value is "fair value through other comprehensive income – equity investments".

Quantified information of significant 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"> <li>• Multiplier of price-to-book ratio on March 31, 2022, December 31 and March 31, 2021, were 2.85, 4.10 and 3.29, respectively</li> <li>• Discount for lack of marketability on March 31, 2022, December 31 and March 31, 2021, were 28.80%, 29.86% and 29.25%, respectively</li> </ul>	<ul style="list-style-type: none"> <li>• The fair value would increase if the multiplier was higher</li> <li>• The fair value would decrease if the discount for lack of marketability was higher</li> </ul>

(Continued)

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

- 5) 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>	
<b>March 31, 2022</b>				
Financial assets at fair value through other comprehensive income – equity investments in inactive markets	Multiplier of price-to-book ratio	±10%	\$ <u>21,765</u>	<u>(21,765)</u>
	Discount for lack of marketability	±10%	\$ <u>8,804</u>	<u>(8,804)</u>
<b>December 31, 2021</b>				
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>13,500</u>	<u>(13,500)</u>
<b>March 31, 2021</b>				
Financial assets at fair value through other comprehensive income – equity investments in inactive markets	Multiplier of price-to-book ratio	±10%	\$ <u>29,856</u>	<u>(29,856)</u>
	Discount for lack of marketability	±10%	\$ <u>12,343</u>	<u>(12,343)</u>

- 6) In the three months ended March 31, 2022 and 2021, there were no transfers between levels.

- (s) Financial risk management

The Group's objectives and policies on financial risk management are consistent with note 6(t) to the consolidated financial statements for the year ended December 31, 2021.

(Continued)

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

(t) Capital management

The Group's objectives, policies and process of managing capital are consistent with the consolidated financial statements for the year ended December 31, 2021. The information on capital management items has no significant difference from that of the consolidated financial statements for the year ended December 31, 2021. Please refer to note 6(u) to the consolidated financial statements for the year ended December 31, 2021, for further information.

(u) Supplementary information of cash flow

(i) The Group's cash outflow from acquisition of property, plant and equipment amounted to \$2,909 thousand and \$5,266 thousand, wherein cash payment for payables on equipment amounted to \$664 thousand and \$3,769 thousand for the three months ended March 31, 2022 and 2021, respectively. Please refer to note 6(e).

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

(v) Change in liabilities from financing activities

Reconciliation of liabilities arising from financing activities was as follows:

	January 1, 2022	Cash flows	Non-cash changes Interest expenses	March 31, 2022
Short-term borrowings	\$ 88,150	(12,358)	-	75,792
Long-term borrowings	320,000	-	-	320,000
Total liabilities from financing activities	<u>\$ 408,150</u>	<u>(12,358)</u>	<u>-</u>	<u>395,792</u>

  

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

**(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.

Name of related party	Relationship with the Group
Optoway Technology Incorporation	The entity with significant influence over the Group

(Continued)

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

(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>		
	<u>For the three months ended March 31</u>		<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
	<u>2022</u>	<u>2021</u>			
The entity with significant influence over the Group	\$ <u>448</u>	<u>-</u>	<u>50</u>	<u>-</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) Technical services fees

In March 2022, the Group entered into an agreement with Optoway Technology Incorporation, who would dispatch technical worker to the Group to provide technical services. For the three months ended March 31, 2022, the technical services fee of \$90 thousand which has not yet been paid by the Group recognized as other payables.

(c) Key management personnel compensation

	<u>For the three months ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Short-term employee benefits	\$ 3,378	5,587
Post-employment benefits	127	162
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	<u>55</u>	<u>1,444</u>
	<u>\$ 3,560</u>	<u>7,193</u>

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

(Continued)



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

**(8) Pledged assets:**

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

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>Book value of pledged assets</u>		
		<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Land	Long-term borrowings and credit line collateral	\$ 247,696	247,696	247,696
Buildings and construction	Long-term borrowings and credit line collateral	249,093	251,969	259,546
Refundable deposits	Collateral for court proceedings	-	-	21,740
		<u>\$ 496,789</u>	<u>499,665</u>	<u>528,982</u>

**(9) Commitments and contingencies:**

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Unused letters of credit for purchasing machinery and equipment	\$ -	2,224	2,377

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Guarantee notes issued	US \$ 5,500	5,500	5,500
Guarantee notes issued	NT \$ 990,000	990,000	990,000

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

**(11) Subsequent Events: None**

(Continued)

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

**(12) Other:**

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

By function By item	For the three months ended March 31					
	2022			2021		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	39,481	16,414	55,895	51,733	29,771	81,504
Labor and health insurance	4,336	1,417	5,753	6,146	2,402	8,548
Pension	2,041	796	2,837	2,855	1,343	4,198
Remuneration of directors	-	834	834	-	711	711
Others	2,416	666	3,082	3,434	1,567	5,001
Depreciation	23,814	3,726	27,540	30,595	5,268	35,863
Amortization	143	433	576	579	864	1,443

**(13) Other disclosures:**

## (a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the three months ended March 31, 2022:

## (i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

Number	Name of lender	Name of borrower	Account name	Related party	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	N	3,662	18,156	3,003	2%	Required loans to other parties	-	Operating capital	3,003	None	-	(Note 1)	(Note 1)

Note 1: The amounts loaned to a company from the Company or from subsidiaries shall not exceed 10% of the entity's net worth, \$123,524 thousand, in the latest financial statements. The total amounts loaned to all companies shall not exceed 40% of the Company's net worth, \$494,096 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 March 31, 2022 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	March 31, 2022				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	BANDWIDTH10, INC.	-	Financial assets measured at FVOCI–Non-current	220	-	- %	-	
Toptrans Corporation Limited	Toptrans Suzhou	-	"	-	217,645	9.90 %	217,645	

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

The following is the information on investees for the three months ended March 31, 2022:

Name of investor	Name of investee	Location	Main and Businesses products	Original investment amount		Ending balance			Investee recognize as of March 31, 2022		Note
				March 31, 2022	December 31, 2021	Shares (thousands)	Percentage of ownership (%)	Carrying value	Net income (losses)	Investment income (losses)	
The Company	Toplight Corporation	Seychelles	Holding company	122,980	122,980	4,000	100 %	217,645	-	-	Subsidiary (Note)
Toplight Corporation	Toptrans Corporation Limited	Hong Kong	Holding company	122,980	122,980	4,000	100 %	217,645	-	-	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**  
**Notes to the Consolidated Financial Statements**

(d) Major shareholders:

<b>Shareholder's Name</b>	<b>Shareholding</b>	<b>Shares</b>	<b>Percentage</b>
Optoway Technology Incorporation		16,878,000	12.73 %
TriKnight Capital Corporation		14,680,990	11.07 %

**(14) Segment information:**

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 three months ended March 31, 2022 and 2021 was the same as the Group's consolidated financial statements.