

Stock Code : 4979

LuxNet Corporation
Handbook for
2017 Annual Shareholders' Meeting
(Translation)

Meeting time : 9:00 a.m., May 26, 2017

Place : Hotel Kuva Chateau 3F

**No. 398 Minguan Road, Zhongli District,
Taoyuan City, Taiwan**

The English version is a translation based on the original Chinese version.
Where any discrepancy arises between the two versions, the Chinese version shall prevail.

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LuxNet Corporation

2017 Annual Shareholders' Meeting Procedure

I. Meeting Procedure

- 一. To call the meeting to order**
- 二. Chairperson Remarks**
- 三. Report Items**
- 四. Adoption Matters**
- 五. Discussion Matters**
- 六. Election Matters**
- 七. Other Matters**
- 八. Questions and Motions**
- 九. Meeting Adjourned**

LuxNet Corporation

2017 Annual Shareholders' Meeting Agenda

(Translation)

II. Meeting Agenda

Meeting time : 9:00 a.m., May 26, 2017

Place : Hotel Kuva Chateau 3F

No. 398 Minquan Road, Zhongli District, Taoyuan City, Taiwan

Chairman : Dr. Hsing Hung, Chairman of the Board of Directors.

1. To call the meeting to order

2. Chairman Address

3. Report Items :

- (1). The 2016 Business Report.
- (2). The 2016 Audit Committee Report.
- (3). To report the implementation of Share Buyback Program.
- (4). To report the status of Cash Offering by Private Placement. Approved by 2016 annual shareholders' meeting.

4. Adoption Matters :

- (1). To accept the 2016 Business Report and Financial Statements.
- (2). Adoption of the Proposal for 2016 Deficit Compensation.

5. Discussion Matters :

- (1). To revise the Procedures for Acquisition or Disposal of Assets.
- (2). Proposal for a cash offering by private placement.

6. Directors Election:

- (1). To elect two Independent Directors.

7. Other Matters :

- (1) Proposal for Release the Prohibition on new Directors from Participation in Competitive Business.

8. Questions and Motions :

9. Meeting Adjourned

Report Items

1. To report the Business of 2016

Explanatory Notes : Please refer to Attachment 1.

2. Audit Committee's review report

Explanatory Notes : Please refer to Attachment 2.

3. To report the implementation of Share Buyback Program in 2016

Explanatory Notes :

Implementation of Share Buyback Program

Phase of Buyback	Second (2016 First)
Purpose of the Buyback	Transferred stocks to employee
Buyback Period	2016/5/12 ~ 2016/7/11
Range of buyback price per share	40.00 ~ 80.00
Number of shares bought back	860,000 shares
Change purpose of the Buyback	The Board meeting on September 2, 2016 decided to change the purpose of buyback for the company's credit and the shareholders' interest.
Number of write-down/transferred shares	860,000 shares
Number of repurchased shares as a percentage of total outstanding shares	1.16%
Reason for the implementation yet to complete	The company did not finish the implementation of share buyback program, because of distributed dividends.

4. To report the status of Cash Offering by Private Placement. Approved by 2016 annual shareholders' meeting.

Explanatory Notes : According to capital market status and the expiry period, the board determined to stop this Cash offering by Private placement on April 12, 2017.

Adoption Matters

1. To accept the 2016 Business Report and Financial Statements (Proposed by the Board of Directors)

Explanatory Notes :

(1)LuxNet's 2016 financial statement and comprehensive financial statements (which includes balance sheets, income statements, statement of changes in shareholders' equity, cash flow statement) have been audited by Ms. Mei-Pin Wu and Ms. Yung-Hua Huang from KPMG, and an unqualified opinion has been issued. The report was passed by the Board on March 6, 2017 and has undergone review by the Audit Committee.

(2)Please see "Attachments 1" for the 2016 Business Report, please see "Attachments 3" for the audit report and financial statement.

2. Adoption of the Proposal for 2016 Deficit Compensation. (Proposed by the Board of Directors)

Explanatory Notes :

(1)LuxNet's net loss after the 2016 audit is NT\$114,784,270. Please see "Attachment 4" for the company's deficit compensation table.

(2)The figures of 2016 deficit compensation has undergone review by the Audit Committee.

Discussion Matters

1. To revise the Procedures for Acquisition or Disposal of Assets. Please proceed to discuss. (Proposed by the Board of Directors)

Explanatory Notes :

In order to conform to the needs of commercial practice and amendments to related commercial laws, the company hereby proposes to amend the operational Procedures for Acquisition or Disposal of Assets. Please see "Attachment 5" for details.

2. Proposal for a cash offering by private placement. Please proceed to discuss. (Proposed by the Board of Directors)

Explanatory Notes :

(1)This private offering of Common Stocks is subject to a maximum of issuing 27,000,000 shares, which will be handled by the board of directors authorized by the shareholders meeting based on LuxNet's funding needs or financial market conditions.

(2)Basis and reasonableness of private offering price :

The issue price for the private offering of Common Stocks is set to be not lower than 80% of the formula price referred to in the Directions for Public Companies Conducting Private Placements of Securities. For the actual issue price, the shareholders meeting will be requested to grant the board of directors authority to

set the price according to the law and not below the range approved by the shareholders meeting and depending on current market.

(3) Offeree selection method and its purpose, necessity, and expected benefits :

The offeree selection procedure shall follow the rules under Article 43-6 of the Securities and Exchange Act. The purpose for selecting offerees is to introduce strategic investors. The purpose, necessity, and expected benefits are to meet the demands of LuxNet's operations by having private offering investors provide LuxNet with assistance in enhancing LuxNet competitiveness, improving operational efficiency and long term development.

(4) Reasons of a private offering :

(a) Reasons against a public offering :

The choice of a private offering is in support of LuxNet's future business development and plans to introduce strategic investors and in consideration of convenience and issue cost. In addition, privately offered securities are restricted from free transfer within 3 years under the Securities and Exchange Act, and this rule will ensure a long-term partnership between LuxNet and its strategic investors.

(b) Maximum amount of private offering :

The total shares of privately offered Common Stocks are limited to 27,000,000 shares. The private offering may be embarked on by the Board of Directors within a year from the date the resolution is reached during a shareholders' meeting.

(c) Use of funds and expected benefits :

The raised capital is expected to be used for improving LuxNet competitiveness, enhancing working capital, and enhancing long term development.

The expected benefits include a positive impact on shareholder right, enhanced long term competitiveness, improved financial structure.

(5) The private offering plan includes primarily actual private offering price, private offering shares, amounts, plan items, scheduled progress and expected benefits and other matters potentially related to the issue plan. The shareholders meeting will be requested to authorize the board of directors to make adjustments at its full discretion according to LuxNet's operation needs and financial market condition. The shareholders meeting will also be requested to authorize the board of directions to make modification or correction at its full discretion in response to future changes in legal regulations, order from the competent authority, or changes in market conditions, business assessment, or objective environmental conditions.

(6) In order to complete the private offering of Common Stocks, the shareholders meeting will also be represent to authorize the chairman of the board or a designated person to represent LuxNet in the signing of all relevant contracts and documents and complete all subsequent procedures for LuxNet.

(7) For matters that are not covered herein, the shareholders meeting will be requested

to authorize the chairman of the board to, in accordance with law, proceed at its own discretion.

Directors Election:

1.To elect two Independent Directors. (Proposed by the Board of Directors)

Explanatory Notes :

The Board election proposal has been approved by the meeting of the Board of the company on April 12, 2017. The shareholder's meeting shall elect two independent directors. The Board election will be conducted by the rules for Director Elections.

Other Matters :

1.Proposal for Release the Prohibition on new Directors from Participation in Competitive Business. (Proposed by the Board of Directors)

Questions and Motions

Meeting Adjourned

The English version is a translation based on the original Chinese version.
Where any discrepancy arises between the two versions, the Chinese version shall prevail.

Audit Committee's Review Report

The Board of Directors has prepared and submitted the company's 2016 business report, financial statement (including the comprehensive financial statement), and deficit compensation proposals. The financial statement has been audited by KPMG and an audit report has been submitted. The aforementioned business report, financial statement, and deficit compensation table has been reviewed by our Audit Committee. No discrepancies were found according to Article 14-4 of the Securities and Exchange Act and Article 219 of Company Law.

LuxNet Corporation

審計委員會召集人

劉容生



Chairman of the Audit Committee

Yungs Liu

April 12, 2017

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, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015 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 as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification 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 for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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. Impairment assessment of accounts receivable

Please refer to note 4(g) for accounting policy, note 5 for accounting assumptions and estimation uncertainty, and notes 6(b) and (r) for details on accounts receivable.

Description of key audit matter:

Because the Group has transactions on a credit basis, accounts receivable may be exposed to credit risk from customers. As the economic situation changes, the default risk from customers may become higher, which could lead to impairment on accounts receivable. Besides, the impairment assessment of accounts receivable depends on the subjective judgment of the management. Therefore, it is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the provision policies for doubtful accounts receivable and assessing whether the policies are applied;

Assessing whether overdue accounts receivable or accounts receivable during litigation are set aside appropriately;

Assessing the reasonableness of the evaluation for accounts receivable based on sampling of Discuss subsequent cash collection.

2. Evaluation of inventories

Please refer to note 4(h) for accounting policy, note 5 for assumptions and estimation uncertainty, and note 6(c) 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 one of the key audit matters for our audit.

How the matter was addressed in our audit:

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

3. Impairment assessment of non-financial assets

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

Description of key audit matter:

The Group is involved in a high capital expenditure industry, wherein, purchasing a certain volume of facilities is required. In this period, the price of products constantly drops due to decline in market demands. 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 one of the key audit matters 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; evaluating whether the method of measuring the recoverable amount of assets is reasonable, (including the realization on the financial forecast, the calculation of recoverable amount and the assumptions for the forecast of cash flow, as well as the sensitivity analysis for these important factors); and understanding whether any significant matters occurred after the reporting date that may have an impact on the impairment test.

Other Matter

LuxNet Corporation has prepared its parent-company-only financial statements as of and for the years ended December 31, 2016 and 2015, 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, interpretations as well as related guidance endorsed 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 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 Yung-Hua Huang.

KPMG

Taipei, Taiwan (Republic of China)

March 6, 2017

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

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015		December 31, 2016		December 31, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Assets								
Current assets:								
1100 Cash and cash equivalents (note 6(a))	\$ 559,171	16	612,901	16	2100		22,000	1
1170 Notes and account receivable, net (note 6(b))	340,594	10	1,224,716	31	2170		767,042	19
1180 Accounts receivable from related parties, net (notes 6(b) and 7)	66,603	2	95,503	2	2180		-	-
130X Inventories, net (note 6(c))	783,877	23	621,430	16	2200		2,306	-
1410 Prepaid expenses	6,106	-	4,973	-	2321		377,438	10
1470 Other current assets (note 6(b))	37,580	1	36,926	1	2300		-	-
	<u>1,773,931</u>	<u>52</u>	<u>2,596,449</u>	<u>66</u>			<u>22,992</u>	<u>1</u>
							<u>1,499,814</u>	<u>45</u>
Non-current assets:								
1600 Property, plant and equipment (notes 6(d) & (u) and 8)	1,500,694	44	1,231,564	31	2530		-	-
1780 Intangible assets	15,960	1	25,034	1	2540		250,000	7
1900 Other non-current assets (notes 6(k) & (u))	93,103	3	99,448	2	2600		10,858	-
	<u>1,609,757</u>	<u>48</u>	<u>1,356,046</u>	<u>34</u>			<u>260,858</u>	<u>7</u>
							<u>1,760,672</u>	<u>52</u>
Liabilities and Equity								
Current liabilities:								
Short-term borrowings (notes 6(f))								
Notes and accounts payable								
Accounts payable to related parties (note 7)								
Accrued expenses and other payables								
Bonds payable, current portion (note 6(h))								
Other current liabilities (note 6(h))								
Non-Current liabilities:								
Bonds payable (note 6(h))								
Long-term borrowings (notes 6(g) and 8)								
Other non-current liabilities (notes 6(c), (h), (j) & (k))								
Total liabilities								
Equity attributable to owners of parent:								
Ordinary shares (notes 6(l))					3100		738,577	22
Capital surplus (notes 6(h) & (l))					3200		460,559	13
Retained earnings (notes 6(l))					3300		435,294	13
Other equity interest (note 6(l))					3400		(11,414)	-
Total equity								
Total liabilities and equity								
	<u>\$ 3,383,688</u>	<u>100</u>	<u>3,952,495</u>	<u>100</u>			<u>1,623,016</u>	<u>48</u>
							<u>3,383,688</u>	<u>100</u>

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

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

	2016		2015	
	Amount	%	Amount	%
4000 Operating revenues (notes 6(o) and 7)	\$ 2,518,184	100	4,181,307	100
5000 Operating costs (notes 6(c), (i), (j), (m) & (p), 7 and 12)	2,233,848	89	3,156,749	75
Gross profit	284,336	11	1,024,558	25
Operating expenses (notes 6(b), (i), (j), (m) & (p), 7 and 12):				
6100 Selling expenses	40,473	1	55,774	2
6200 Administrative expenses	146,801	6	218,199	5
6300 Research and development expenses	165,173	7	132,352	3
	352,447	14	406,325	10
Net operating income (loss)	(68,111)	(3)	618,233	15
Non-operating income and expenses:				
7020 Other gains and losses, net (notes 6(e), (h) & (q), and (r))	(23,425)	(1)	49,916	1
7050 Finance costs (note 6(h))	(17,154)	(1)	(9,905)	-
7100 Interest revenue	654	-	338	-
	(39,925)	(2)	40,349	1
7900 Profit (loss) before income tax	(108,036)	(5)	658,582	16
7950 Less: income tax expenses (note 6(k))	6,748	-	116,241	3
Profit (loss)	(114,784)	(5)	542,341	13
8300 Other comprehensive income (loss):				
8310 Items that may not be reclassified subsequently to profit or loss:				
8311 Actuarial losses on defined benefit plans (note 6(j))	(1,248)	-	(88)	-
8349 Income tax expense related to items that may not be reclassified subsequently to profit or loss	-	-	-	-
	(1,248)	-	(88)	-
8360 Items that may be reclassified subsequently to profit or loss:				
8361 Exchange differences on translation of foreign operations' financial statements	(3,997)	-	(472)	-
8399 Income tax expense related to items that may be reclassified subsequently to profit or loss (note 6(k))	679	-	80	-
	(3,318)	-	(392)	-
8300 Other comprehensive loss, net (after tax)	(4,566)	-	(480)	-
Comprehensive income (loss)	\$ (119,350)	(5)	541,861	13
Earnings per share (note 6(n))				
9750 Basic earnings per share (NT dollars)	\$	(1.56)	7.36	
9850 Diluted earnings per share (NT dollars)	\$	(1.56)	7.24	

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

Share capital	Retained earnings			Other equity interest			Total equity
	Ordinary shares	Capital surplus	Legal reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign operation's financial statements	
\$ 672,709	399,789	44,968	350,356	395,324	2,976	(6,809)	1,463,989
-	-	-	542,341	542,341	(88)	(392)	542,341
-	-	-	542,253	542,253	(392)	-	541,861
-	-	21,687	(21,687)	-	-	-	-
67,247	-	-	(134,494)	(134,494)	-	-	(67,247)
4,620	25,021	-	-	-	-	(11,927)	17,714
(857)	(2,257)	-	66	66	-	1,445	(1,603)
-	34,656	-	-	-	-	-	34,656
743,719	457,209	66,655	736,494	803,149	2,584	(17,291)	1,989,370
-	-	-	(114,784)	(114,784)	-	-	(114,784)
-	-	-	(1,248)	(1,248)	(3,318)	-	(4,566)
-	-	-	(116,032)	(116,032)	(3,318)	-	(119,350)
-	-	54,234	(54,234)	-	-	-	-
-	-	-	(223,076)	(223,076)	-	-	(223,076)
3,690	10,184	-	-	-	-	4,951	18,825
(232)	(2,080)	-	103	103	-	-	(549)
-	-	-	-	-	-	-	-
(8,600)	(4,754)	-	(28,850)	(28,850)	-	-	(42,204)
738,577	460,559	120,889	314,405	435,294	(734)	(10,680)	1,623,016

Balance on January 1, 2015

Profit for the year ended December 31, 2015

Other comprehensive loss for the year ended December 31, 2015

Comprehensive income for the year ended December 31, 2015

Appropriation and distribution of retained earnings:

Legal reserve

Cash and stock dividends on ordinary shares

Issuance and amortization of restricted stock

Retirement of restricted stock

Retirement of convertible bonds

Balance on December 31, 2015

Loss for the year ended December 31, 2016

Other comprehensive loss for the year ended December 31, 2016

Comprehensive loss for the year ended December 31, 2016

Appropriation and distribution of retained earnings:

Legal reserve

Cash dividends on ordinary share

Issuance and amortization of restricted stock

Retirement of restricted stocks

Acquisition of treasury shares

Retirement of treasury share

Balance on December 31, 2016

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from (used in) operating activities:		
Profit (loss) before tax	\$ (108,036)	658,582
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization expense	220,176	163,201
Provision for bad debt expense and losses related to inventories	89,711	64,173
Compensation cost of share-based payment	11,445	8,474
Net losses (profit) on financial liabilities at fair value through profit or loss	11,600	(1,408)
Losses on disposal of property, plan and equipment	106	-
Interest expense	17,154	9,905
Interest revenue	(654)	(338)
Other expenses	-	(15)
Total adjustments to reconcile profit	<u>349,538</u>	<u>243,992</u>
Changes in operating assets and liabilities:		
Decrease (increase) in notes and accounts receivable	907,961	(451,323)
Increase in inventories	(249,832)	(49,870)
Decrease in prepaid expenses and other current assets	30,799	11,339
Total changes in operating assets	<u>688,928</u>	<u>(489,854)</u>
Increase (decrease) in notes and accounts payable	(516,800)	206,375
Increase (decrease) in accrued expenses and other financial liabilities	(203,255)	141,780
Increase (decrease) in other operating liabilities	(14,325)	11,700
Total changes in operating liabilities	<u>(734,380)</u>	<u>359,855</u>
Total changes in operating assets and liabilities	<u>(45,452)</u>	<u>(129,999)</u>
Total adjustments	<u>304,086</u>	<u>113,993</u>
Cash inflow generated from operations	196,050	772,575
Interest received	653	338
Interest paid	(2,951)	(9,731)
Income taxes paid	(126,819)	(68,994)
Net cash flows from operating activities	<u>66,933</u>	<u>694,188</u>
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(288,188)	(273,376)
Proceeds from disposal of property, plant and equipment	60	-
Increase in prepayments for equipments	(158,963)	(55,290)
Acquisition of other non-current assets	(19,941)	(49,236)
Other investing activities	-	294
Net cash flows used in investing activities	<u>(467,032)</u>	<u>(377,608)</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	334,000	(360,240)
Increase (decrease) in long-term borrowings	250,000	(180,000)
Issuance of restricted stock	7,380	9,240
Cash dividends paid	(223,076)	(67,247)
Cost of acquisition of treasury shares	(42,204)	-
Issuance of convertible bonds	-	800,000
Other financing activities	(549)	(1,602)
Net cash flows from financing activities	<u>325,551</u>	<u>200,151</u>
Effect of exchange rate changes on cash and cash equivalents	818	96
Net increase (decrease) in cash and cash equivalents	(73,730)	516,827
Cash and cash equivalents at beginning of period	612,901	96,074
Cash and cash equivalents at end of period	<u>\$ 539,171</u>	<u>612,901</u>

See accompanying notes to consolidated financial statements.

LuxNet Corporation
2016 Deficit Compensation Table

Unit: NTS

Item	Amount	
	Subtotal	Total
Beginning retained earnings		459,183,590
Plus: Re-measurement of Defined Benefit Plans adjustment amount	(1,248,000)	
Plus: Cash dividend cancellation of Restrict Employee rights shares adjustment amount	102,436	
Plus: Buyback Treasury Stocks nullified	(28,849,714)	
Plus: 2016 net loss	(114,784,270)	
Undistributed earnings at the end of the period		314,404,042
Note: Because of LuxNet's net loss, the company proposed not to distribute dividends.		

Chairman : Hsing Kung President : James Ni Head of Accounting : Jim Sheu