

LuxNet Corporation 2013 Business Report

Due to the global economic sluggish growth and the influence of 4G LTE fiber optics policy, we did not reach business forecast in 2013. Even so, we will continue to stay alert and pursue stability and growth in the face of market changes.

2013 Business Report is as below:

1. Company's operation direction and overall development situation:

We guide all employee continuous growth through the company operation principles of "innovation, teamwork, customer, integrity." We also continuous enhance RD and product quality and the growth of profit .

Due to the clear of high speed fiber optic policies and infrastructure extension, the market of FTTx products came back to normal in the fourth quarter of 2013. It creates high demand for these kinds of high-end products. The cloud computing products will be finished in development and then go to mass production. Now it accounts for a rising proportion of revenue streams. To strive for and create new product revenue, the company increase production lines and use the electronic automation equipments. We also aim to improve yield and train employee because all of they are the key areas for increasing profit growth and enhancing technology in the future.

2. Operation Performance:

Unit: NT\$M

Item \ Year	2013	2012	difference (%)
Net sales	2,151	2,154	0
Gross profit	350	432	-19
Operating income	141	211	-33
Current pre-tax profit	155	214	-28
Current period net income	123	175	-30
Diluted EPS (NT\$)	2.02	3.28	-38

The company's net income in 2013 was NT\$2.151 billion and \$2.154 billion in 2012. Growth was 0%. Profit after tax is estimated to be \$123 million, which is 29.7% less than \$175 million in 2012, and profit per share after tax was \$2.02. This was 38.4% less compared to \$3.28 in 2012. The main reason for the profit decrease in 2013 was the significantly lowered revenue for Fiber to the x (FTTx) EPON products, as well as their continuous price reductions.

3. Analysis of significant financial figures: Short term loans increased significantly from 2012, because of the investment of production and R&D equipments, as well as the fees of plant relocation, in 2013. For an overview of other financial situations, please see the attached financial statements.

4. Overview of R&D: The company total invested amount in R&D is NT\$66 million in 2013, an increase of 29% from \$51 million in 2012. The reasons of increase are that the increasing personnel fees of RD and the project fees in cloud computing.

Important R&D projects are below:

- a. Development of 25G DFB& Pin Chips.
- b. Complete 10G DFB& FP Chip application in high-speed fiber optic communications.
- c. Complete 40G SR4 optical engine & QSFP+ TRX, and develop 40G PSM4 and LR4 optical engine & QSFP+ TRX to meet the needs for high-speed fiber optic communication and cloud computing.

To meet the demand of 4G infrastructure extension and the multiple growth of investment in cloud computing data centers, the mass production of the above mentioned products and continuing to strengthen our R&D team will be the source of growth for our company in 2014.

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