ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2013 and 2012, and January 1, 2012
(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Directors
Alpha Networks Inc.:

We have audited the accompanying consolidated statements of financial position of Alpha Networks Inc. and subsidiaries as of December 31, 2013 and 2012, and January 1, 2012 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alpha Networks Inc. and subsidiaries as of December 31, 2013 and 2012, and January 1, 2012, and the results of their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2013 and 2012, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China.

In addition, we have audited the parent-company-only financial statements of Alpha Networks Inc. as of and for the years ended December 31, 2013 and 2012, on which we have issued an unqualified opinion.

KPMG

Hsinchu, Taiwan (Republic of China)
March 3, 2014

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

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

ALPHA NETWORKS INC. AND SUBSIDIARIES
Consolidated Statements of Financial Position
December 31, 2013 and 2012, and January 1, 2012
(expressed in thousands of New Taiwan dollars)

Assets		December 31, 2013	December 31, 2012	January 1, 2012
Current assets:				
Cash and cash equivalents (note 6(1))	$	1,542,704	2,002,758	3,266,754
Financial assets measured at fair value through profit or loss – current (note 6(2))		9,285	12,929	10,901
Notes and accounts receivable, net (note 6(3))		3,429,696	3,561,852	3,945,596
Receivables from related parties (note 7)		2,575,087	2,303,383	3,373,778
Inventories (note 6(4))		4,394,209	3,625,215	4,787,314
Other financial assets – current (notes 6(1) & (5))		799,325	373,141	162,040
Other current assets (note 6(6),7)		1,074,672	542,646	320,036
		13,824,978	12,421,924	15,866,419
Non-current assets:				
Available-for-sale financial assets – non-current (note 6(7))		179,668	180,828	201,522
Financial assets carried at cost – non-current (note 6(8))		9,996	9,996	9,996
Investment accounted for using equity method (note 6(9))		124,965	-	-
Property, plant and equipment (note 6(10))		3,479,772	3,567,708	3,428,599
Intangible assets (note 6(11))		220,966	246,264	250,141
Deferred income tax assets (note 6(18))		52,399	94,635	119,447
Prepayments for long-term investments in stocks (note 6(9))		-	78,305	-
Other financial assets – non-current (notes 6(3) & (5) and 8)		56,022	33,786	36,984
Long-term prepaid rents (note 6(16))		79,165	107,895	114,020
Other non-current assets (note 6(6))		21,829	33,488	58,523
		4,224,782	4,352,905	4,219,232
Total assets	$	18,049,760	16,774,829	20,085,651

Liabilities and Equity		December 31, 2013	December 31, 2012	January 1, 2012
Current liabilities:				
Short-term borrowings (note 6(12))	$	597,898	775,806	1,299,455
Financial liabilities measured at fair value through profit or loss – current (note 6(2))		51,487	1,922	12,844
Accounts payable		4,876,948	3,978,703	6,202,891
Payroll and bonus payable		559,155	413,322	693,108
Accrued expenses		536,214	483,011	619,007
Payables to related parties (note 7)		13,218	20,039	24,221
Income tax payable		42,577	124,446	128,402
Provision – current (note 6(15))		235,346	246,685	267,115
Other current liabilities		137,169	215,090	176,886
Long-term liabilities – current portion (note 6(14))		136,797	-	-
		7,186,809	6,259,024	9,423,929
Non-current liabilities				
Financial liabilities measured at fair value through profit or loss – non-current (notes 6(2))		-	964	3,385
Bonds payable (note 6(14))		-	177,081	844,453
Long-term loans (note 6(13))		601,770	293,007	-
Deferred income tax liabilities (note 6(18))		114,448	65,969	81,021
Accrued pension liabilities (note 6(17))		359,210	484,866	384,060
Other non-current liabilities		523	382	648
		1,075,951	1,022,269	1,313,567
Total liabilities		8,262,760	7,281,293	10,737,496
Equity (note 6(19))**:**				
Equity attributable to shareholders of the parent				
Common stock		4,917,727	5,136,764	4,756,784
Advance receipts for common stock		25,714	1,546	28,883
		4,943,441	5,138,310	4,785,667
Capital surplus		2,169,424	2,237,319	1,929,425
Retained earnings:				
Legal reserve		860,001	788,389	693,341
Special reserve		156,201	65,322	102,505
Unappropriated earnings		2,037,327	1,954,547	2,068,256
		3,053,529	2,808,258	2,864,102
Other equity		(196,722)	(321,862)	(230,984)
Treasury stock		(182,672)	(368,489)	-
Total equity attributable to shareholders of the parent		9,787,000	9,493,536	9,348,210
Non-controlling interests		-	-	(55)
Total equity		9,787,000	9,493,536	9,348,155
Total liabilities and equity	$	18,049,760	16,774,829	20,085,651

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2013 and 2012
(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2013	2012
Revenues (notes 6(22) and 7)	$ 24,103,755	24,907,144
Cost of goods sold (notes 6(4) and 7)	20,393,544	21,032,859
Gross profit	3,710,211	3,874,285
Operating expenses (note 7):		
Selling	488,644	593,216
General and administrative	913,453	807,120
Research and development	1,474,036	1,425,480
	2,876,133	2,825,816
Operating income	834,078	1,048,469
Non-operating income and expenses:		
Other income and expenses (note 6(23))	65,858	55,803
Other gains and losses (note 6(24))	111,536	(80,944)
Finance costs (note 6(25))	(40,421)	(65,836)
Share of losses of equity-accounted investees (note 6(9))	(6,529)	-
Total non-operating income and expenses	130,444	(90,977)
Income before tax	964,522	957,492
Income tax expense (note 6(18))	185,005	215,635
Net income	**779,517**	**741,857**
Other comprehensive income (loss):		
Exchange differences on translation of foreign financial statements	153,475	(84,558)
Net unrealized loss on available-for-sale financial assets	(2,245)	(20,694)
Actuarial gain (loss) on defined benefit plans	123,358	(101,561)
Income tax expense (benefit) generated from other comprehensive income (loss) (note 6(18))	(26,090)	14,374
Other comprehensive income (loss) for the year, net of tax	248,498	(192,439)
Total comprehensive income for the year, net of tax	**$ 1,028,015**	**549,418**
Net income attributable to:		
Shareholders of the parent	$ 779,517	741,802
Non-controlling interests	-	55
	$ 779,517	**741,857**
Total comprehensive income attributable to:		
Shareholders of the parent	$ 1,028,015	549,363
Non-controlling interests	-	55
	$ 1,028,015	**549,418**
Earnings per share (in New Taiwan dollars) (note 6(21))		
Basic earnings per share	**$ 1.60**	**1.46**
Diluted earnings per share	**$ 1.55**	**1.41**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Years ended December 31, 2013 and 2012
(expressed in thousands of New Taiwan dollars)

	Equity attributable to shareholders of parent														
	Capital Stock				Retained Earnings				Others						
	Common stock	Advance receipts for common stock	Total	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total	Foreign currency translation adjustment	Net unrealized gain (loss) on available-for-sale financial assets	Total	Treasury stock	Total	Non-controlling interests	Total Equity
Balance at January 1, 2012	$ 4,756,784	28,883	4,785,667	1,929,425	693,341	102,505	2,068,256	2,864,102	-	(230,984)	(230,984)	-	9,348,210	(55)	9,348,155
Net income in 2012	-	-	-	-	-	-	741,802	741,802	-	-	-	-	741,802	55	741,857
Other comprehensive income in 2012, net of income tax	-	-	-	-	-	-	(101,561)	(101,561)	(70,184)	(20,694)	(90,878)	-	(192,439)	-	(192,439)
Total comprehensive income in 2012	-	-	-	-	-	-	640,241	640,241	(70,184)	(20,694)	(90,878)	-	549,363	55	549,418
Appropriation and distribution of retained earnings:															
Legal reserve	-	-	-	-	95,048	-	(95,048)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(37,183)	37,183	-	-	-	-	-	-	-	-
Cash dividend	-	-	-	-	-	-	(690,725)	(690,725)	-	-	-	-	(690,725)	-	(690,725)
Issuance of stock for conversion of bonds	390,385	(27,337)	363,048	311,153	-	-	-	-	-	-	-	-	674,201	-	674,201
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(439,058)	(439,058)	-	(439,058)
Canceled treasury stock	(33,210)	-	(33,210)	(31,999)	-	-	(5,360)	(5,360)	-	-	-	70,569	-	-	-
Issuance of stock for employee stock options exercised	22,805	-	22,805	28,740	-	-	-	-	-	-	-	-	51,545	-	51,545
Balance at December 31, 2012	5,136,764	1,546	5,138,310	2,237,319	788,389	65,322	1,954,547	2,808,258	(70,184)	(251,678)	(321,862)	(368,489)	9,493,536	-	9,493,536
Net income in 2013	-	-	-	-	-	-	779,517	779,517	-	-	-	-	779,517	-	779,517
Other comprehensive income in 2013, net of income tax	-	-	-	-	-	-	123,358	123,358	127,385	(2,245)	125,140	-	248,498	-	248,498
Total comprehensive income in 2013	-	-	-	-	-	-	902,875	902,875	127,385	(2,245)	125,140	-	1,028,015	-	1,028,015
Appropriation and distribution of retained earnings:														-	
Legal reserve	-	-	-	-	71,612	-	(71,612)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	90,879	(90,879)	-	-	-	-	-	-	-	-
Cash dividend	-	-	-	-	-	-	(555,680)	(555,680)	-	-	-	-	(555,680)	-	(555,680)
Issuance of stock for conversion of bonds	1,753	24,168	25,921	18,469	-	-	-	-	-	-	-	-	44,390	-	44,390
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(223,261)	(223,261)	-	(223,261)
Canceled treasury stock	(220,790)	-	(220,790)	(86,364)	-	-	(101,924)	(101,924)	-	-	-	409,078	-	-	-
Balance at December 31, 2013	$ 4,917,727	25,714	4,943,441	2,169,424	860,001	156,201	2,037,327	3,053,529	57,201	(253,923)	(196,722)	182,672	9,787,000	-	9,787,000

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012
(expressed in thousands of New Taiwan dollars)

		2013	2012
Cash flows from operating activities:			
Income before income tax	$	964,522	957,492
Adjustments:			
Non-cash income and expenses items			
Depreciation expenses		472,758	435,869
Amortization expenses		90,260	94,892
Provision for (reversal of) allowance for doubtful accounts		(52,181)	2,101
Effect of valuation of financial assets and liabilities at fair value through profit or loss		42,202	(10,043)
Interest expense		36,373	65,836
Interest income		(21,938)	(24,941)
Dividend income		(9,854)	(10,840)
Share of loss of associates accounted for using equity method		6,529	-
Loss on disposal property, plant and equipment		8,828	2,839
Provision for inventory obsolescence and devaluation loss		34,688	216,066
Amortization of discount on bonds payable		4,048	6,559
Amortization of long-term prepaid rent		2,433	2,866
Impairment loss – intangible assets		-	6,030
Sub-total of non-cash income and expenses		614,146	787,234
Net change in operating assets and liabilities:			
Net change in operating assets:			
Notes and accounts receivable		184,337	381,643
Receivable from related parties		(271,704)	1,070,395
Financial assets at fair value through profit or loss		12,929	10,901
Inventories		(803,682)	934,268
Other current assets		(516,139)	(188,755)
Changing in operating assets		(1,394,259)	2,208,452
Net change in operating liabilities:			
Accounts payable		898,245	(2,224,188)
Financial liabilities at fair value through profit or loss		(2,828)	(15,959)
Other payable to related parties		(6,821)	(4,182)
Other current liabilities		103,230	(405,409)
Accrued pension liabilities		(2,298)	(755)
Change in operating liabilities		989,528	(2,650,493)
Total changes in operating assets and liabilities		(404,731)	(442,041)
Total adjustments		209,415	345,193
Cash inflow generated from operations		1,173,937	1,302,685
Interest received		19,223	21,465
Dividend received		9,854	10,840
Interest paid		(37,634)	(58,435)
Income tax paid		(194,442)	(195,456)
Cash provided by operating activities		970,938	1,081,099
Cash flows from investing activities:			
Acquisition of available-for-sale financial assets		(1,085)	-
Increase in equity-method investments		(53,189)	(78,305)
Acquisition of property, plant and equipment		(292,986)	(669,088)
Proceeds from disposal of equipment and property		48,574	11,924
Decrease (increase) in refundable deposits		(9,498)	3,198
Increase in intangible assets		(63,960)	(97,783)
Increase in other financial assets		(427,697)	(368,000)
Decrease (increase) in other non-current assets		(12,738)	151,555
Cash used in investing activities		(812,579)	(1,046,499)
Cash flows from financing activities:			
Decrease in short-term borrowings		(177,908)	(523,649)
Increase in long-term loans		308,763	293,007
Increase (decrease) in guarantee deposit received		141	(266)
Payments of cash dividends		(555,680)	(690,725)
Cash received from exercise of employee stock options		-	51,545
Purchase of treasury stock		(223,261)	(439,058)
Cash used in financing activities		(647,945)	(1,309,146)
Effect of exchange rate changes on cash and cash equivalents		29,532	10,550
Net decrease in cash and cash equivalents		(460,054)	(1,263,996)
Cash and cash equivalents at beginning of year		2,002,758	3,266,754
Cash and cash equivalents at end of year	$	1,542,704	2,002,758

See accompanying notes to consolidated financial statements.

1. Organization and principal activities

Alpha Networks Inc. (the "Company") was established by a spin-off whereby on August 16, 2003, D-Link Corporation ("D-Link") separated its original design manufacturing and original equipment manufacturing ("ODM/OEM") operations from its D-Link brand business and transferred related operating assets and liabilities to the Company. The Company was incorporated on September 4, 2003, as a company limited by shares under the laws of the Republic of China ("ROC") and the ROC Statute for the Establishment and Administration of the Science-Based Industrial Park. The address of the Group's registered office is No. 8, Li-shing 7th Road, Science-based Industrial Park, Hsinchu, Taiwan (R.O.C.). As of December 31, 2013, the consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group") and the Company's interest in associates.

The Company's main activities include the research, development, design, production and sale of broadband products, computer network systems, wireless local area networks ("LANs"), and relevant spare parts.

2. Approval date of the financial statements

The accompanying consolidated financial statements were approved and authorized for issuance by the board of directors on March 3, 2014.

3. New standards and interpretations not yet adopted

(1) New standards and interpretations endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet effective

The International Accounting Standards Board ("IASB") issued International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"), which was to be effective on January 1, 2013 (in December 2011, the IASB postponed the effective date until January 1, 2015). This standard has been endorsed by the FSC; however, the effective date has not been announced. In accordance with FSC rules, early adoption is not permitted, and companies shall follow the guidance in the 2009 version of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). Upon the adoption of this new standard, it is expected that there will be significant impacts on the classification and measurement of financial instruments in the consolidated financial statements.

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(2) Newly issued, revised, or amended standards and interpretations not yet endorsed by the FSC

Summary of the new standards and amendments issued by the IASB (not yet endorsed by the FSC) that may have an impact on the consolidated financial statements

Issue date	***New standards and amendments***	***Description and impact***	***Effective date per IASB***
May 12, 2011 June 28, 2012	• IFRS 10 *Consolidated Financial Statements* • Amendments to IAS 28 *Investments in Associates and Joint Ventures*	On May 12, 2011, the IASB issued a series of standards and amendments related to consolidation, joint arrangements, and investments. The new standards provide a single model for determining whether an entity has control over an investee. However, the original guidance and method apply to the consolidation process. On June 28, 2012, amendments were issued clarifying the guidance over the transition period.	January 1, 2013
May 12, 2011	• IFRS 13 *Fair Value Measurement*	IFRS 13 replaces fair value measurement guidance in other standards and integrates them as one single guidance. At the adoption of this standard, the Company should analyze the impact on the measurement of assets and liabilities. The amendment could also increase the disclosure of fair value.	January 1, 2013
June 16, 2011	• Amendments to IAS 1 *Presentation of Financial Statements*	Items presented in other comprehensive income shall be expressed based on whether they are potentially re-classifiable to profit or loss subsequently. Upon adoption, this standard could change the disclosure of the other comprehensive income in the statement of profit or loss and other comprehensive income.	July 1, 2012
June 16, 2011	• Amendments to IAS 19 *Employee Benefits*	The amendments eliminate the corridor method and require enterprises to recognize changes in the net defined benefit liability (asset) in profit or loss; in addition, require the immediate recognition of past service cost. Upon adoption, the standard could change the measurement and presentation of the pension liability and actuarial gains or losses.	January 1, 2013

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Issue date	***New standards and amendments***	***Description and impact***	***Effective date per IASB***
November 19, 2013	• Amendments to IFRS 9 *Financial Instruments*	The amendment adopts a more principles-based approach to make hedge accounting more closely focus on risk management and simplifies the hedge accounting model, including more lenient qualifying criteria for applying and discontinuing hedge accounting and expanding the list of eligible items. Upon adoption, the Company may increase transactions applying hedge accounting and change the measurement and disclosure of hedging instruments and hedged items.	Not yet determined; early adoption is permitted.
December 16, 2011	• Amendments to IFRS 7 *Financial Instruments: Disclosures* • Amended IFRS 9 *Financial Instruments*	The effective date was amended so that IFRS 9 and IFRS 7 are required to be applied for annual periods beginning on or after January 1, 2015. The amendments made to IFRS 9 in November 2013 remove the mandatory effective date of January 1, 2015, because that date would not allow sufficient time for entities to prepare to apply the new standard.	Not yet determined; early adoption is permitted.
May 17, 2012	• Amendments to IFRS 1 *First-time Adoption of IFRS* • Amendments to IAS 1 *Presentation of Financial Statements* • Amendments to IAS *16 Property, Plant and Equipment* • Amendments to IAS 32 *Financial Instruments: Presentation* • Amendments to IAS 34 *Interim Financial Statements*	Annual Improvements to IFRSs – 2009-2011 Cycle require the lowest level of disclosure. Upon adoption, the Group will increase the disclosure of comparable financial statement information.	January 1, 2013
December 12, 2013	• Amendments to IAS 24 *Related Party Disclosures*	Clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Upon adoption, the amendment will increase disclosure of information on related parties.	July 1, 2014; early adoption is permitted.

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Summary of significant accounting policies

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position at 1 January 2012 for the purposes of the transition to International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC (hereinafter referred to as the "IFRSs endorsed by the FSC"), unless otherwise indicated.

(1) Statement of compliance

These consolidated annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the "Regulations") and the IFRSs endorsed by the FSC.

These are the Group's first IFRS annual consolidated financial statements, and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRSs endorsed by the FSC has affected the reported financial position, financial performance, and cash flows of the Group is provided in note 14.

(2) Basis of preparation

A. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the statement of financial position:

(a) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments);

(b) Available-for-sale financial assets are measured at fair value.

B. Functional and presentation currency

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

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Basis of consolidation

A. Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise Alpha Networks Inc. and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

B. List of subsidiaries in the consolidated financial statements

The consolidated subsidiaries are summarized as follows:

			Percentage of ownership		
Name of Investor	**Name of Investee**	**Main Business Activities**	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Alpha	Alpha Holdings Inc. (Alpha Holdings)	Investment holding	100%	100%	100%
Alpha	Alpha Solutions Co., Ltd. (Alpha Solutions)	Sale of network equipment and technical services	100%	100%	100%
Alpha	Alpha Networks Inc. (Alpha USA)	Manufacture and sale of network equipment and procurement service	100%	100%	100%
Alpha	Darson Trading Limited (Darson)	Shipping and transportation service; in October 2010, Darson ceased operations; now liquidating	100%	100%	100%
Alpha	Net Mag Technology Corp. (Net Mag)	Testing and maintaining electrical equipment	100%	100%	100%
Alpha	Aescu Technology Inc. (Aescu)	Sale of medical equipment, etc.; on August 27, 2013, it was liquidated	-	91.36%	91.36%
Alpha	Alpha Networks (Hong Kong) Limited (Alpha HK)	Investment holding	100%	100%	100%
Alpha	Alpha Technical Services Inc. (ATS)	Post-sale service	100%	100%	100%
Alpha	Alpha Networks NL B.V. (Alpha NL)	Sale of network equipment	100%	100%	100%

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business Activities	Percentage of ownership December 31, 2013	December 31, 2012	January 1, 2012
Alpha	Global Networks Trading Limited (Global)	Sale of electrical products	100%	100%	100%
Alpha	Alpha Technical Services Japan Inc. (ATSJ)	Post-sale service	100%	100%	100%
Alpha Holdings	D-Link Asia Investment Pte. Ltd. (D-Link Asia)	Investment in manufacturing business	100%	100%	100%
Alpha Holdings	Alpha Networks (Chengdu) Co., Ltd. (Alpha Chengdu)	Research, development, production and sale of network products	100%	100%	100%
Alpha Holdings	Alpha Investment Pte. Ltd. (Alpha Investment)	Investment holding	100%	100%	100%
Alpha Holdings	Universal Networks Trading Limited (Universal)(note 2)	Sale of electrical products	100%	100%	100%
Alpha Investment	Mirac Networks (Dongguan) Co., Ltd. (Mirac)	Production and sale of network products	100%	100%	100%
D-Link Asia	Alpha Networks (Dongguan) Co., Ltd. (Alpha Dongguan) (note 1)	Production and sale of interface cards	100%	100%	100%
Alpha HK	Alpha Networks (Changshu) Co., Ltd. (Alpha Changshu)	Research, development, production and sale of network products	100%	100%	100%
Alpha HK	Maintrend Technical Services (Changshu) Co., Ltd. (Maintrend)	Post-sale service	100%	100%	100%

Note 1： Formerly known as Dongguan Youxun Electronics Co., Ltd.; in 2012, changed its name to Alpha Networks (Dongguan) Co., Ltd.

Note 2： Universal was originally held by Alpha directly. It is now held by Alpha Holdings after Alpha Group’s organization restructuring in 2013.

C. Subsidiaries not included in the consolidated financial statements: None.

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(4) Foreign currency

A. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the available-for-sale financial assets' differences, which are recognized in other comprehensive income arising on the retranslation.

B. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the functional currency at the average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation adjustment in equity.

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

The Group classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

A. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;

B. It holds the asset primarily for the purpose of trading;

C. It expects to realize the asset within twelve months after the reporting period; or

D. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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The Group classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

A. It expects to settle the liability in its normal operating cycle;

B. It holds the liability primarily for the purpose of trading;

C. The liability is due to be settled within twelve months after the reporting period; or

D. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(7) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

A. Financial assets

The Group classifies financial assets into the following categories: financial assets measured at fair value through profit or loss, available-for sale financial assets, and receivables.

(a) Financial assets measured at fair value through profit or loss

A financial asset is classified in this category if it is classified as held for trading or is designated as such on initial recognition. Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than ones classified as held for trading, at fair value through profit or loss at initial recognition under one of the following situations:

i. Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
ii. Performance of the financial asset is evaluated on a fair value basis;
iii. A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expense. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at their cost less any impairment losses, and are included in financial assets carried at cost.

Dividend income is recognized in profit or loss on the date that the Group’s right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in non-operating income and expenses.

(c) Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise notes and accounts receivable and other receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses.

A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

(d) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

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All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for accounts receivable, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the accumulated unrealized gain or loss in equity to profit or loss.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment loss and recoveries of account receivables are recognized in selling expenses.

Impairment losses and recoveries of financial assets, excluding account receivables, are recognized in non-operating income and expenses.

(e) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the assets are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

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On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or losses that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss and included in non-operating income and expenses.

B. Financial liabilities and equity instruments

(a) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received less the direct cost of issuing.

Compound financial instruments issued by the Group comprise convertible notes that can be converted into share capital at the option of the holder, where the number of shares to be issued is fixed.

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

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in non-operating income and expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

(b) Financial liabilities measured at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as such on initial recognition. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling in the short term. The Group designates all other financial liabilities as at fair value through profit or loss on initial recognition under one of the following situations:

(Continued)

i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;

ii. Performance of the financial liabilities is evaluated on a fair value basis; or

iii. A hybrid instrument contains one or more embedded derivatives.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in non-operating income and expenses.

(b) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and accounts payable and other payables, are measured at fair value plus any directly attributable transaction costs at the time of initial recognition.

Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

Interest related to a financial liability is recognized in non-operating income and expenses.

(d) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid is recognized in non-operating income and expenses.

(e) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

C. Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and are included in non-operating income and expenses. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

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Embedded derivatives are separated from the host contract and accounted for separately when the economic characteristics and risk of the host contract and the embedded derivatives are not closely related, and the host contract is not measured at fair value through profit or loss.

(8) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories includes expenditure incurred in acquiring the inventories, conversion costs, and other costs (weighted-average method) incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

(9) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

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

The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align their accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Group and associates are eliminated to the extent of the Group’s interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that underlying asset is impaired.

When the Group’s share of losses exceeds its interest in associates, the carrying amount of that investment, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has a present legal or constructive obligation or has made payments on behalf of the investee.

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(10) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of software is capitalized as part of the equipment if the purchase of the software is necessary for the equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expenses.

B. Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group and the amount can be reliably measured. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

C. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Each significant item of property, plant and equipment shall be depreciated separately if it possesses a different useful life. The depreciation charge for each period shall be recognized as expenses.

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

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

(a) Buildings and improvements: 5 to 49 years

The significant components of buildings and improvements are main buildings; mechanical and electrical engineering; and utilities related engineering, etc. Each part is depreciated based on its useful life of 20 to 49 years, 6 to 10 years, and 5 to 10 years, respectively.

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(b) Machinery and equipment: 3 to 10 years

(c) Transportation equipment: 3 to 10 years

(d) Office and other equipment: 3 to 8 years

Depreciation methods, useful lives, and residual values are reviewed at each fiscal year-end. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

(11) Leases

A. Lessee

Leases are operating leases and are not recognized in the Group's consolidated statement of financial position.

Payments made under an operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

B. Long-term prepaid rents

Long-term prepaid rents are costs of land use rights. The costs of land use rights are amortized using the straight-line method over the lease terms, ranging from 50 to 60 years.

(12) Intangible assets

A. Goodwill

(a) Initial recognition

Goodwill arising on the acquisition of subsidiaries is included in intangible assets. Goodwill represents the excess of the cost of the acquisition over the interest in the fair value of the identifiable assets, liabilities, and contingent liabilities acquired. Goodwill is measured at cost less accumulated impairment losses.

(b) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

B. Research and development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) The intention to complete the intangible asset and use or sell it.

(c) The ability to use or sell the intangible asset.

(d) How the intangible asset will generate probable future economic benefits.

(e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

C. Other intangible assets

Other intangible assets acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

D. Subsequent expenditure

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

E. Amortization

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over 3 to 5 years for intangible assets, from the date that they are available for use.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least at each fiscal year-end. Any change shall be accounted for as a change in accounting estimate.

(13) Impairment of non-financial assets

The Group measures whether impairment occurred in non-financial assets (except for inventories and deferred income tax assets) on every reporting date, and estimates the recoverable amount. If it is not possible to determine the recoverable amount for an individual asset, then the Group will have to determine the recoverable amount for the asset’s cash-generating unit (CGU).

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount as a reversal of a previously recognized impairment loss.

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

Not with standing whether indicators exists, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units.

If the carrying amount of a cash-generating unit exceeds the recoverable amount of the unit, the entity shall recognize an impairment loss, and the impairment loss shall be applied to allocated goodwill first, and then be allocated to reduce the carrying amount of each asset in the unit.

Reversal of an impairment loss for goodwill is prohibited.

(14) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold.

The provision is based on historical warranty data and a weighing of all possible outcomes against their associated probabilities.

(15) Treasury stock

Repurchased shares are recognized under treasury shares based on their repurchase price (including all directly accountable costs), net of tax. Gain on disposal of treasury shares should be recognized under capital surplus – treasury share transactions; losses on disposal of treasury shares should be offset against existing capital surplus arising from similar types of treasury shares. If there are insufficient capital surplus to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

In the cancellation of treasury shares, capital surplus – share premiums and share capital should be debited proportionately. Gain on cancellation of treasury shares should be recognized under existing capital surplus arising from similar types of treasury shares; losses on cancellation of treasury shares should be offset against existing capital surplus arising from similar types of treasury shares. If there are insufficient capital surplus to be offset against, then such losses should be accounted for under retained earnings.

(16) Revenue recognition

A. Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discounts are recognized as a reduction of revenue as the sales are recognized.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For domestic sales, transfer usually occurs when the product is received at the customer’s warehouse; however, for international shipments, transfer occurs upon loading the goods onto the relevant carrier and transfer to the buyer at the port, as in general, the trade term is FOB shipping point.

B. Services

The Group provides technical service to customers and recognizes revenue in profit in proportion to the stage of completion of the transaction at the reporting date. The Group recognizes the costs based on actual costs incurred as a percentage of the expected total costs.

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(17) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the annual reporting date (market yields of government bonds) on bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

All actuarial gains and losses at January 1, 2012, the date of transition to the IFRSs endorsed by the FSC, were recognized in retained earnings. The Group recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost that had not previously been recognized.

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C. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(18) Share-based payment

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

(19) Income tax

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the tax rate and tax laws that have been enacted or substantively enacted at the reporting date, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the exceptions below:

A. Assets and liabilities that are initially recognized but are not related to a business combination and have no effect on net income or taxable gains (losses) during the transaction.

B. Temporary differences arising from equity investment in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

C. Initial recognition of goodwill.

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Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

A. The entity has the legal right to settle current tax assets and current tax liabilities on a net basis; and

B. The taxing of deferred tax assets and liabilities under the same tax authority which fulfills one of the scenarios below:

(a) By the same taxing entity; or
(b) By different taxing entities, but where each such entity intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(20) Business combination

Upon conversion to the IFRSs endorsed by the FSC, the Group can choose to restate all business combinations that occurred after January 1, 2012 (inclusive). For those acquisitions that occurred prior to January 1, 2012, the amount of goodwill is recognized in accordance with the Regulations Governing the Preparation of Financial Reports issued by the Financial Supervisory Commission on January 10, 1999, and the “financial accounting standards and interpretations issued by the Accounting Research and Development Foundation” (refer to “previous GAAP” hereafter).

(21) Earnings per share

The Group discloses basic and diluted earnings per share attributable to ordinary shareholders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as convertible bonds payable, employee stock options, and employees’ bonuses to be settled through the issuance of shares upon approval by shareholders.

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(22) Operating segment information

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

5. Major sources of accounting assumptions, judgments, and estimation uncertainty

The preparation of the consolidated financial statements 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.

Management continues to monitor the accounting assumptions, estimates, and judgments. Management recognizes any changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in note 6(17) regarding measurement of defined benefit obligations.

6. Description of significant accounts

(1) Cash and cash equivalents

		December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	$	6,260	7,802	6,942
Checking and savings accounts		919,717	985,816	1,261,275
Time deposits		329,515	724,063	1,308,955
Cash equivalents – bonds with repurchase agreements		287,212	285,077	689,582
	$	**1,542,704**	**2,002,758**	**3,266,754**

Please refer to note 6(26) for the disclosure of interest rate risk and the sensitivity analysis of the Group's financial assets and liabilities.

As of December 31, 2013 and 2012, and January 1, 2012, deposits with original maturities of more than three months were $795,697, $368,000 and $0, respectively, and were recorded in other financial assets – current.

(2) Financial assets and liabilities at fair value through profit or loss

		December 31, 2013	December 31, 2012	January 1, 2012
Financial assets at fair value through profit or loss – current				
Currency option	$	-	967	9,298
Cross currency swap contract		4,321	11,323	1,588
Forward exchange contract		4,964	639	-
Structured derivative		-	-	15
	$	**9,285**	**12,929**	**10,901**
Financial liabilities at fair value through profit or loss – current				
Forward exchange contract	$	3,893	-	-
Currency option		-	-	4,743
Cross currency swap contract		47,419	1,922	8,101
Call and put option – convertible bonds payable		175	-	-
	$	51,487	1,922	12,844
Financial liabilities at fair value through profit or loss – non-current				
Call and put option – convertible bonds payable	$	-	964	3,385
	$	**51,487**	**2,886**	**16,229**

The Group held derivative instruments to manage foreign currency exchange risk and interest rate risk exposure arising from business operations. The Group held the following derivative instruments that did not qualify for hedge accounting, presented as held-for-trading financial assets or liabilities.

	December 31, 2013		
	Notional amount (in thousands)	**Currency**	**Maturity date**
Cross currency swap contract	USD 143,300	USD/NTD	January 2014~April 2014
Forward exchange contract	USD 18,000	USD/NTD	February 2014~Octorber 2014
Forward exchange contract	USD 13,000	USD/CNY	January 2014~April 2014

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	December 31, 2012			
	Notional amount (in thousands)		Currency	Maturity date
Put option (buy USD)	USD	5,000	USD/NTD	January 2013
Call option (sell USD)	USD	5,000	USD/NTD	January 2013
Put option (sell USD)	USD	5,000	USD/NTD	January 2013
Cross currency swap contract	USD	151,000	USD/NTD	January 2013~April 2013
Forward exchange contract	USD	12,000	USD/CNY	March 2013~September 2013

	January 1, 2012			
	Notional amount (in thousands)		Currency	Maturity date
Put option (buy USD)	USD	75,000	USD/NTD	January 2012~March 2012
Call option (sell USD)	USD	75,000	USD/NTD	January 2012~March 2012
Put option (sell USD)	USD	75,000	USD/NTD	January 2012~March 2012
Put option (sell USD)	USD	2,000	USD/JPY	March 2012
Cross currency swap contract	USD	83,000	USD/NTD	January 2012~April 2012
Structured derivative	USD	2,000	USD/CNY	March 2011~March 2012
Structured derivative	USD	1,000	USD/CNY	January 2012~November 2012

(3) Notes and accounts receivable, and other receivables, net

		December 31, 2013	December 31, 2012	January 1, 2012
Notes receivable	$	27,181	29,920	116,024
Accounts receivable		3,405,387	3,544,203	3,839,211
Less: allowance for doubtful receivables		(2,872)	(12,271)	(9,639)
	$	3,429,696	3,561,852	3,945,596

The overdue accounts receivable were reclassified to overdue receivables under other financial assets – non-current and were fully reserved. The details were as follows:

		December 31, 2013	December 31, 2012	January 1, 2012
Other financial assets – non-current	$	224,699	396,467	396,998
Less: allowance for doubtful accounts		(224,699)	(396,467)	(396,998)
	$	-	-	-

(Continued)

The movement in the allowance for impairment with respect to receivables (including overdue receivables and receivables – related parties) during the year was as follows:

	Individual impairments	Collective impairments	Total
Balance at January 1, 2013	$ 396,467	12,271	408,738
Reversal of impairment loss	(42,782)	(9,399)	(52,181)
Write-offs of uncollectible amounts	(128,986)	-	(128,986)
Balance at December 31, 2013	**$ 224,699**	**2,872**	**227,571**
Balance at January 1, 2012	$ 396,998	9,639	406,637
Provision for (reversal of) impairment loss	(531)	2,632	2,101
Balance at December 31, 2012	**$ 396,467**	**12,271**	**408,738**

Due to the economic downturn, several customers declared bankruptcy or restructured, and the Group expected several customers to be unable to repay the balance of accounts receivable at December 31, 2013. Historical behavior has shown that accounts receivable cannot be collected for balances more than 365 days past due. Therefore, the Group recognized 100% of the balance of accounts receivable which were past due more than 365 days as allowance for doubtful debts. As of December 31, 2013, the balance of accounts receivable that could not be collected was $224,699.

The aging analysis of notes receivable, accounts receivable, and other receivables (including overdue receivables) as of the reporting date was as follows:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Gross amount	Impairment loss	Gross amount	Impairment loss	Gross amount	Impairment loss
Overdue 0~30 days	$ 587,334	-	618,149	-	661,749	-
Overdue 31~120 days	51,820	2,379	51,278	10,430	75,682	6,698
Overdue 121~365 days	397	493	(1,251)	1,841	413	2,941
Overdue more than one year	224,699	224,699	396,467	396,467	396,998	396,998
	$ 864,250	**227,571**	**1,064,643**	**408,738**	**1,134,842**	**406,637**

(4) Inventories

	December 31, 2013	December 31, 2012	January 1, 2012
Raw materials	$ 2,848,108	2,272,111	3,038,426
Work in process	557,905	487,567	705,724
Finished goods	988,196	865,537	1,043,164
	$ 4,394,209	**3,625,215**	**4,787,314**

(Continued)

The reserve for inventory write-downs in the amount of $46,704 was reversed in the cost of sales for the year ended December 31, 2013, when the related inventory items were scrapped or sold. Physical inventory loss and scrap inventory loss were $158 and $81,234, respectively, which were included in cost of goods sold. For the year ended December 31, 2012, the charges for inventories written down to net realizable amounted to $88,117. Physical inventory loss and scrap inventory loss were $528 and $127,421, respectively, which were included in cost of goods sold.

As of December 31, 2013, and 2012, and January 1, 2012, the Group's inventories were not pledged.

(5) Other financial assets – current and non-current

		December 31, 2013	December 31, 2012	January 1, 2012
Current:				
Time deposits	$	795,697	368,000	-
Restricted cash in banks		-	-	151,555
Others		3,628	5,141	10,485
	$	799,325	373,141	162,040
Non-current:				
Restricted cash in banks	$	34,738	22,000	22,000
Refundable deposits		21,284	11,786	14,984
	$	56,022	33,786	36,984

Please refer to note 8 for the restricted cash in banks.

(6) Other current assets and other non-current assets

		December 31, 2013	December 31, 2012	January 1, 2012
Business tax refund receivable	$	874,768	271,690	136,190
Income tax receivable		66,309	66,204	109,150
Excess business tax paid		19,044	102,809	28,896
Prepaid expenses		68,820	46,885	13,947
Others		67,560	88,546	90,376
	$	1,096,501	576,134	378,559

(7) Available-for-sale financial assets – non-current

		December 31, 2013	December 31, 2012	January 1, 2012
Publicly traded stock – D-Link Corp.	$	177,871	180,828	201,522
OTC stock – Skardin Industrial Corp.		1,797	-	-
	$	179,668	180,828	201,522

(Continued)

As of December 31, 2013 and 2012, and January 1, 2012, the Group's financial assets were not pledged.

If the equity market price had changed, the impact on other comprehensive income would have been as follows if calculated on the same basis for both years and assuming that all other variables remain the same:

		For the years ended December 31	
		2013	**2012**
Equity market price at reporting date			
Increase 10%	**$**	**17,967**	**18,083**
Decrease 10%	**$**	**(17,967)**	**(18,083)**

(8) Financial assets carried at cost – non-current

		December 31, 2013	December 31, 2012	January 1, 2012
Stock investment – TGC, Inc.	$	-	-	-
Stock investment – QuieTek		9,996	9,996	9,996
	$	**9,996**	**9,996**	**9,996**

The equity investments held by the Group are measured at amortized cost at reporting date given that the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management determined that the fair value cannot be measured reliably.

The stock of the Group's investees TGC, Inc. and QuieTek Corp. was not traded publicly, and therefore, the cost method was used to measure its value. In addition, TGC Inc. had incurred continuously net losses in the past, and as a result, the Group recognized $16,985 of impairment loss.

(9) Investment accounted for using equity method and prepayments for long-term investments in stocks

		December 31, 2013	December 31, 2012	January 1, 2012
Investment accounted for using equity method:				
Associate	$	124,965	-	-
Prepayments for long-term investments in stocks:				
Associate		-	78,305	-
	$	**124,965**	**78,305**	**-**

(Continued)

The Group invested in Delta Mobile Software, Inc. beginning from December 2012 and will continue investing according to the contract in order to obtain significant influence. The investment was changed from prepayments for long-term investments in stocks to investment accounted for using equity method. The Group did not place the investments in equity-accounted investees as collateral.

Summary of the share of the profit or loss of associates accounted for using the equity method:

	For the year ended December 31, 2013
The Group's share of the net income of an associate	$ (6,529)

Summarized financial information of associates is as follows (without adjustment for the Group's proportionate share):

	December 31, 2013
Total assets	$ 87,423
Total liabilities	$ 2,907

	For the year ended December 31, 2013
Revenue	$ 44,731
Net loss for the period	$ (3,989)

(10) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

	Land	Building and construction	Machinery and equipment	Office, transportation and other facilities	Total
Cost:					
Balance at January 1, 2013	$ 99,805	3,080,998	2,273,344	310,708	5,764,855
Additions	-	6,042	231,953	54,991	292,986
Disposals	(39,110)	(118,015)	(243,002)	(34,958)	(435,085)
Reclassification	-	-	(52,321)	52,321	-
Effects of exchange rate changes	1,714	126,025	108,539	14,499	250,777
Balance at December 31, 2013	$ 62,409	3,095,050	2,318,513	397,561	5,873,533

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		Land	Building and construction	Machinery and equipment	Office, transportation and other facilities	Total
Balance at January 1, 2012	$	102,377	3,057,152	1,896,115	399,198	5,454,842
Additions		-	103,718	527,060	38,310	669,088
Disposals		-	(15,521)	(157,417)	(66,789)	(239,727)
Reclassification		-	-	52,321	(52,321)	-
Effects of exchange rate changes		(2,572)	(64,351)	(44,735)	(7,690)	(119,348)
Balance at December 31, 2012	$	99,805	3,080,998	2,273,344	310,708	5,764,855
Depreciation and impairment loss:						
Balance at January 1, 2013	$	-	958,492	1,069,985	168,670	2,197,147
Depreciation		-	149,291	259,865	63,602	472,758
Disposal		-	(118,021)	(226,315)	(33,347)	(377,683)
Reclassification		-	6	(38,876)	38,870	-
Effects of exchange rate changes		-	42,425	50,075	9,039	101,539
Balance at December 31, 2013	$	-	1,032,193	1,114,734	246,834	2,393,761
Balance at January 1, 2012		-	842,010	967,089	217,144	2,026,243
Depreciation		-	149,602	227,436	58,831	435,869
Disposal		-	(15,355)	(145,020)	(64,589)	(224,964)
Reclassification		-	(6)	38,876	(38,870)	-
Effects of exchange rate changes		-	(17,759)	(18,396)	(3,846)	(40,001)
Balance at December 31, 2012	$	-	958,492	1,069,985	168,670	2,197,147
Book value:						
Balance at December 31, 2013	$	62,409	2,062,857	1,203,779	150,727	3,479,772
Balance at December 31, 2012	$	99,805	2,122,506	1,203,359	142,038	3,567,708
Balance at January 1, 2012	$	102,377	2,215,142	929,026	182,054	3,428,599

As of December 31, 2013 and 2012, and January 1, 2012, the Group’s property, plant and equipment were not pledged.

(11) Intangible assets

The cost, amortization, and impairment of intangible assets of the Group were as follows:

		Goodwill	Trademarks	Core technologies	Software applications and other	Total
Cost						
Balance at January 1, 2013	$	134,883	127	-	355,526	490,536
Additions		-	-	-	63,960	63,960
Effect of exchange rate changes		-	-	-	3,827	3,827
Balance at December 31, 2013	$	134,883	127	-	423,313	558,323
Balance at January 1, 2012	$	140,913	127	57,563	259,580	458,183
Additions		-	-	-	97,783	97,783
Write-off		-	-	(57,563)	-	(57,563)
Impairment		(6,030)	-	-	-	(6,030)
Effect of exchange rate changes		-	-	-	(1,837)	(1,837)
Balance at December 31, 2012	$	134,883	127	-	355,526	490,536

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		Goodwill	Trademarks	Core technologies	Software applications and other	Total
Amortization and impairment:						
Balance at January 1, 2013	$	-	127	-	244,145	244,272
Amortization		-	-	-	90,260	90,260
Effect of exchange rate changes		-	-	-	2,825	2,825
Balance at December 31, 2013	$	-	127	-	337,230	337,357
Balance at January 1, 2012	$	-	-	57,563	150,479	208,042
Amortization		-	127	-	94,765	94,892
Write-off		-	-	(57,563)	-	(57,563)
Effect of exchange rate changes		-	-	-	(1,099)	(1,099)
Balance at December 31, 2012	$	-	127	-	244,145	244,272
Book value:						
Balances at December 31, 2013	$	134,883	-	-	86,083	220,966
Balances at December 31, 2012	$	134,883	-	-	111,381	246,264
Balances at January 1, 2012	$	140,913	127	-	109,101	250,141

A. Amortization

The amortization amounts of intangible assets were included in the statement of comprehensive income as follows:

		2013	2012
Operating costs	$	2,450	2,105
Operating expenses		87,810	92,787
Total	$	90,260	94,892

B. Impairment loss

Aescu Technology Inc. held an extraordinary shareholders' meeting on August 8, 2012, and resolved its dissolution and liquidation. Consequently, as of December 31, 2012, the Group reduced goodwill by $6,030.

C. Guarantees

As of December 31, 2013 and 2012, and January 1, 2012, the Group's intangible assets were not pledged.

(12) Short-term borrowings

		December 31, 2013	December 31, 2012	January 1, 2012
Unsecured borrowings	$	532,260	775,806	1,147,900
Secured borrowings		65,638	-	151,555
	$	597,898	775,806	1,299,455
Range of interest rates		1.03%~ 1.35%	1.49%~ 7.2%	1.00%~ 7.20%
Unused available balance	$	2,030,313	2,433,769	2,743,236

(Continued)

Please refer to note 8 for assets pledged as collateral to secure short-term borrowings.

(13) Long-term loans

	December 31, 2013			
	Currency	**Interest rates**	**Durations**	**Amount**
Secured borrowings	USD	1.78%~1.97%	2015~2016	$ 601,770

	December 31, 2012			
	Currency	**Interest rates**	**Durations**	**Amount**
Secured borrowings	USD	1.97%	2015	$ 293,007

On January 19, 2012, and April 15, 2013, Alpha Changshu entered into an agreement for credit facilities of US$10,000 thousand with Taipei Fubon Bank and Mega Bank, respectively. These credit facilities contained covenants that required the Company, as co-guarantor, on its annual and semiannual consolidated financial statements, to maintain certain financial ratios such as current ratio, debt ratio, and interest coverage ratio as specified in the loan agreement. If the Company does not maintain the financial ratios as specified in the loan agreement, the default will be deemed a breach, and the facilities will be reconsidered by Taipei Fubon Bank and Mega Bank.

The Company was in compliance with the aforementioned financial covenants as of December 31, 2013.

Please refer to note 6(26) for information about exposure to interest rate risk, foreign currency exchange risk, and liquidity risk.

(14) Bonds payable

The second domestic unsecured convertible bonds of the Company were issued on October 14, 2011. The details of convertible bonds as of December 31, 2013 and 2012, and January 1, 2012, are summarized below:

	December 31, 2013	December 31, 2012	January 1, 2012
Convertible bonds payable	$ 1,000,000	1,000,000	1,000,000
Less: Unamortized discount	(8,803)	(15,719)	(96,047)
Converted into common stock	(854,400)	(807,200)	(59,500)
	136,797	**177,081**	**844,453**
Embedded derivative – call option and put option (presented at financial liability at fair value through profit or loss)	**$ 175**	**964**	**3,385**

(Continued)

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		For the years ended December 31	
		2013	2012
Embedded derivative – loss or gain on call option and put option at fair value (presented at other losses)	$	732	2,151
Interest expense	$	4,048	6,559

Terms of conversion are summarized as follows:

A. Issue total amount: Issued maximum total amount is NT$1,000,000 with par value of NT$100, and issued at 100.5% of the par value.

B. Issue period: Five years, from October 14, 2011, to October 13, 2016.

C. Coupon rate: 0% per annum.

D. Conversion period: Bondholders may convert the bonds into the Company's common shares after the bonds have been issued for over 1 month, until 10 days before the end of the issue period.

E. Conversion price and price adjustment:

The basis date for setting the conversion price of the bonds was October 5, 2011. The conversion price was calculated as 120% of the basis price, which was the lowest price among the three arithmetic averages of the Company's closing prices for one, three, and five business days before the base date.

The selected closing price for determining the conversion price should be converted into the ex-dividend price when the ex-dividend date occurs before the basis date.

The conversion price should be adjusted in accordance with the above formula when the ex-dividend date occurs between the date of determining the conversion price and the date of actual issuance.

Using the above approach, the conversion price of the issuance was NT$20.6 dollar per share.

If any securities with common stock conversion rights or warrants for common stock are issued by the Company after the convertible bond is issued, the Company should adjust the bond price based on the formula in the conversion price if the number of its common shares changes after the issuance of the bonds.

As of December 31, 2013, before maturity, the conversion price was NT$18.2 dollar.

(Continued)

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F. Redemption at the option of the Company:

On or at any time after November 14, 2011, and before September 3, 2016, the Company may, having given not less than 30 days' notice to the bondholders, redeem all of the bonds at their principal amount. However, no such redemption may be made unless (i) the closing price of common stock on the TSE for the period of 30 consecutive trading days is more than 30% of the current conversion price or (ii) at least 90% of the aggregate principal amount of bonds issued has already been converted, redeemed, or purchased and cancelled.

G. Redemption at the option of bondholders:

The Company will, at the option of any bondholder, redeem all or part of the bonds held by the bondholder in cash within 5 business days at their principal amount. To exercise such option, the holder must deposit the certificate issued in respect of such bond with the agent together with a duly completed redemption notice not less than 30 days prior to the relevant date.

The Company separated the conversion option from the liability element when the convertible bonds were issued and recorded them as equity and liability, respectively. Details are summarized as follows:

Item	
Total amount of convertible bonds	$ 1,005,000
Fair value of non-equity embedded derivatives	(6,300)
Issue cost	(5,000)
Fair value of convertible bonds	(892,800)
Equity element – conversion options	**$ 100,900**

The above straight bond has an effective interest rate of 2.27%.

Please refer to note 6(19) for information on the second unsecured domestic convertible bonds payable converted into common stock in 2013 and 2012.

(15) Provision

	Warranties
Balance at January 1, 2013	$ 246,685
Provisions made during the year	250,838
Provisions used during the year	(263,800)
Effects of exchange rate changes	1,623
Balance at December 31, 2013	**$ 235,346**
Balance at January 1, 2012	$ 267,115
Provisions made during the year	227,241
Provisions used during the year	(245,653)
Effects of exchange rate changes	(2,018)
Balance at December 31, 2012	**$ 246,685**

(Continued)

The provision for warranties relates mainly to networks products sold during the years ended December 31, 2013 and 2012. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to settle the majority of the liability over the next year.

(16) Operating leases

Lessee

Non-cancellable lease payments as of December 31, 2013 and 2012, and January 1, 2012, were as follows:

		December 31, 2013	December 31, 2012	January 1, 2012
Less than one year	$	25,392	24,138	22,542
Between one and five years		73,745	25,078	26,061
More than five years		32,672	40,345	48,414
	$	**131,809**	**89,561**	**97,017**

The Company leased land from the Science Industrial Park Administration. According to the lease agreement, rent payment was subject to an adjustment as the government adjusts the land values. The Group also entered into other operating lease agreements for office space and employee dormitories.

The Group recognized $64,145 and $69,678 as an expense in profit or loss in respect of operating leases for the years ended December 31, 2013 and 2012, respectively.

The Group is obtained land use rights pursuant to operating lease agreements. The costs of land use rights are amortized using the straight-line method over the lease period. The lease agreements cover a period of 50 to 60 years, and the Group paid all rental amounts in advance. For the years ended December 31, 2013 and 2012, the Group recognized $2,433 and $2,866, respectively, in operating expenses. As of December 31, 2013, and 2012, and January 1, 2012, the unamortized amounts were $79,165, $107,895 and $114,020, respectively, recognized in long-term rental prepayment.

(17) Employee benefits

A. Defined benefit plans

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

		December 31, 2013	December 31, 2012	January 1, 2012
Total present value of obligation	$	530,884	694,107	634,561
Fair value of plan assets		(171,674)	(209,241)	(250,501)
Recognized liabilities for defined benefit obligations	**$**	**359,210**	**484,866**	**384,060**

(Continued)

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

(a) Composition of plan assets

The Group contributes pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. Minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to $169,118 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

(b) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Group were as follows:

		2013	2012
Defined benefit obligation, January 1	$	694,107	634,561
Current service cost and interest		18,009	19,081
Curtailment gains		(56,715)	(58,335)
Actuarial losses (gains)		(124,517)	98,800
Defined benefit obligation, December 31	$	**530,884**	**694,107**

(c) Movements of defined benefit plan assets

The movements in the present value of defined benefit plan assets for the Group were as follows:

		2013	2012
Fair value of plan assets, January 1	$	209,241	250,501
Expected return on plan assets		3,675	5,025
Settlement/Curtailment		(41,582)	(45,023)
Contribution of plan participants		1,499	1,499
Actuarial gains (losses)		(1,159)	(2,761)
Fair value of plan assets, December 31	$	**171,674**	**209,241**

(Continued)

(d) Expenses recognized in profit or loss

The expenses recognized in profit or losses for the Group were as follows:

		2013	2012
Current service cost	$	5,862	6,390
Interest cost		12,147	12,691
Settlement/Curtailment gains		(15,133)	(13,312)
Expected return on plan assets		(3,675)	(5,025)
	$	(799)	744
Actual return on plan assets	$	2,516	(2,264)

(e) Actuarial gains and losses recognized in other comprehensive income

The Group's actuarial gains and losses recognized in other comprehensive income as at for the years ended December 31, 2013 and 2012, were as follows:

		2013	2012
Cumulative at January 1	$	101,561	-
Recognized losses (gains) for the period		(123,358)	101,561
Cumulative amount at December 31	$	(21,797)	101,561

(f) Actuarial assumptions

The Group's principal actuarial assumptions on the financial reporting date were as follows:

i. The present value of the defined benefit obligations:

	December 31, 2013	December 31, 2012
Discount rate	2.00%	1.75%
Expected rate of return on plan assets	2.00%	1.75%
Rate of increase in future compensation levels	3.00%	4.00%

ii. The cost of the defined benefit plan:

	2013	2012
Discount rate	1.75%	1.75%
Expected rate of return on plan assets	1.75%	1.75%
Rate of increase in future compensation levels	4.00%	4.00%

(Continued)

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(g) Experience adjustments based on historical information

		December 31, 2013	December 31, 2012	January 1, 2012
Present value of the defined benefit obligation	$	530,884	694,107	634,561
Fair value of plan assets		(171,674)	(209,241)	(250,501)
Recognized liabilities for defined benefit obligations	$	359,210	484,866	384,060
Experience adjustments arising on the present value of defined benefit plans	$	(1,330)	45,964	-
Experience adjustments arising on the fair value of plan assets	$	1,159	2,761	-

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date is $1,500.

(h) When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions, including employee turnover rates and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

As of December 31, 2013, the Group's accrued pension liabilities were $359,210. If the discount rate (or salary increase rate) had increased or decreased by 0.25%, the Group's accrued pension liabilities would be as follows:

		Change in present value of accrued pension liabilities	
		Increase by 0.25%	Decrease by 0.25%
Actuarial assumptions			
Discount rate	$	(21,797)	22,924
Salary increase rate	$	22,355	(21,397)

B. Defined contribution plans

In accordance with the provisions of the Labor Pension Act, the Group should allocate 6% of its employees' monthly wages to their labor pension personal accounts. Under the defined contribution plans, the Group attributes a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations thereafter.

The Group's pension costs under the defined contribution method were $150,447 and $145,300 for the years ended December 31, 2013 and 2012, respectively.

(Continued)

(18) Income tax

A. Income tax expense

The amount of income tax expense for the years ended December 31, 2013 and 2012, were as follows:

		2013	2012
Current tax expense			
Current period	$	128,762	171,448
Adjustment for prior periods		(9,811)	20,297
		118,951	191,745
Deferred tax expense			
Temporary differences		66,054	23,890
Income tax expense	$	**185,005**	**215,635**

Income tax expense (benefits) recognized directly in other comprehensive income for the years ended December 31, 2013 and 2012, were as follows:

		2013	2012
Foreign currency translation differences for foreign operations	$	**26,090**	**(14,374)**

Reconciliation of income tax and profit before tax for 2013 and 2012 was as follows:

		2013	2012
Income before tax	$	964,522	957,492
Income tax using the Company's domestic tax rate		163,969	162,774
Effect of tax rates in foreign jurisdiction		12,714	22,425
Tax effect of permanent difference		32,925	(1,805)
Tax incentives		(26,747)	(22,557)
Loss (gain) on investments of subsidiaries		(14,161)	23,954
Additional 10% income surtax on undistributed earnings		-	20,189
Other		16,305	10,655
	$	**185,005**	**215,635**

B. Deferred tax assets and liabilities

(a) Unrecognized deferred tax assets

The Group is able to control the timing of the reversal of the temporary differences, and management considered it probable that the temporary differences would not be reversed in the foreseeable future. The deferred tax assets have not been recognized in the respect of the following items:

(Continued)

	December 31, 2013	December 31, 2012	January 1, 2012
Deductible temporary differences	$ 365,488	354,469	363,695
Unused income tax loss carryforwards	104,086	59,569	37,202
Unused investment tax credits	-	-	41,295
	$ 469,574	414,038	442,192

As of December 31, 2013, the unused loss carryforwards and related expiration year of the Group were as follows:

Year of loss	Unused income tax loss carryforwards	Expiration at the year
2011	$ 38,334	2016
2012	24,713	2017
2013 (estimated)	41,039	2018
	$ 104,086	

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2013 and 2012 were as follows:

Deferred tax assets:

	January 1, 2012	Recognized in income statement	Recognized in other comprehensive income	Effect of movements in exchange rate	December 31, 2012	Recognized in income statement	Recognized in other comprehensive income	Effect of movements in exchange rate	December 31, 2013
Provision for inventory devaluation	$ 10,794	6,487	-	-	17,281	(7,982)	-	-	9,299
Provision for warranties	20,923	3,651	-	-	24,574	(865)	-	-	23,709
Accrued pension liability	-	13,095	-	-	13,095	(13,095)	-	-	-
Investment tax credits	43,433	(43,433)	-	-	-	-	-	-	-
Other	44,297	(4,368)	-	(244)	39,685	(21,723)	-	1,429	19,391
	$ 119,447	(24,568)	-	(244)	94,635	(43,665)	-	1,429	52,399

Deferred tax liabilities:

	January 1 , 2012	Recognized in income statement	Recognized in other compre-hensive income	Effect of movements in exchange rate	December 31, 2012	Recognized in income statement	Recognized in other compre-hensive income	Effect of movements in exchange rate	December 31, 2013
Investment accounted for using equity method	$ -	(17,281)	-	-	(17,281)	(957)	-	-	(18,238)
Goodwill	(22,930)	-	-	-	(22,930)	-	-	-	(22,930)
Foreign currency translation differences for foreign operations	(37,747)	-	14,374	-	(23,373)	-	(26,090)	-	(49,463)
Other	(20,344)	17,959	-	-	(2,385)	(21,432)	-	-	(23,817)
	$ (81,021)	678	14,374	-	(65,969)	(22,389)	(26,090)	-	(114,448)

(Continued)

C. As of the December 31, 2013, the Company's income tax returns had been examined by the tax authorities through 2010.

D. Information related to the unappropriated earnings and tax deduction ratios is summarized below:

	December 31, 2013	December 31, 2012	January 1, 2012
Unappropriated earnings of 1998 and after	$ 2,037,327	1,954,547	2,068,256
Balance of deductible tax account	$ 241,698	260,651	231,454

	2013 (estimated)	2012 (actual)
Tax deduction ratio for earnings distribution to ROC residents	13.09%	15.80%

The information related to the unappropriated retained earnings and tax deduction ratio shown in the tables above was prepared in accordance with ruling letter No. 10204562810 issued by the Ministry of Finance, on October 17, 2013.

(19) Capital and other equity

Reconciliations of shares outstanding for 2013 and 2012 were as follows (in thousands of shares):

	Common Stock	
	2013	2012
Balance at January 1	493,676	475,679
Issuance of stock for employee stock options exercised	-	2,280
Issuance of stock for conversion of bonds	175	39,038
Purchase of treasury stock	(11,462)	(23,321)
Balance at December 31	482,389	493,676

As of December 31, 2013 and 2012, and January 1, 2012, the authorized capital of the Company was $6,600,000 (of which $500,000 was reserved for employee stock options), and the issued capital was $4,917,727, $5,136,764, and $4,756,784, respectively.

A. Common stock

In 2013 and 2012, 0 shares and 2,280 shares, respectively, of the Company's employee stock options were exercised, and $0 and $51,545 had been received as of December 31, 2013 and 2012, respectively. The registration procedures related to the capital increase were completed.

The second unsecured convertible bonds amounting to $47,200 and $747,700 were converted into 2,592 shares of common stock in 2013 and 36,305 shares of common stock in 2012, respectively.

(Continued)

As of December 31, 2013 and 2012, the second unsecured convertible bonds amounting to $854,400 and $807,200 had been converted into 41,785 shares and 39,193 shares, respectively, of the Company's common stock. Of those shares, 2,571 shares and 155 shares, respectively, were still in the registration process, and they were recorded under advance receipts for common stock amounting to $25,714 and $1,546, respectively.

B. Capital surplus

The balances of capital surplus as of December 31, 2013 and 2012, and January 1, 2012, were as follows:

		December 31, 2013	December 31, 2012	January 1, 2012
Additional paid-in capital	$	982,821	1,069,225	1,047,398
Conversion options of convertible bonds		14,691	19,453	94,896
Treasury stock		-	-	25,086
Capital surplus – investments under equity method		29	29	29
Conversion premium of convertible bonds		958,632	940,123	628,970
Stock options (note)		198,287	193,525	118,082
Convertible bonds – others		14,964	14,964	14,964
	$	**2,169,424**	**2,237,319**	**1,929,425**

Note: The Company recorded capital surplus – stock option in proportion to the convertible bonds converted into common stock.

Pursuant to the ROC Company Act amended in January 2012, capital surplus should be used to offset a deficit first, and realized capital surplus can be converted into capital and distributed as stock dividends or distributed as cash dividends. The aforementioned realized capital surplus was generated from the excess of the issuance price over the par value of the capital stock and donations received. According to current ROC securities regulations, the total capital surplus capitalized per annum may not exceed 10 percent of the paid-in capital.

C. Legal reserve

Pursuant to the ROC Company Act amended in January 2012, the appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stock for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

(Continued)

D. Special reserve

Pursuant to existing regulations, the Company is required to set aside additional special capital reserve equivalent to the net debit balance of the other components of stockholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other stockholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other stockholders' equity shall qualify for additional distributions.

E. Distribution of earnings and dividend policy

Pursuant to the Company's articles of incorporation amended on June 15, 2012, current year's earnings before tax, if any, shall be distributed in the following order:

(a) payment of all taxes;

(b) offset prior years' operating losses;

(c) set aside 10% of the remaining amount after deducting (a) and (b) as legal reserve;

(d) set aside special reserve in accordance with the Securities and Exchange Act or reverse special reserve previously provided; and

(e) after deducting items (a), (b), (c) and (d) from current year's earnings, the remainder is allocated as follows: 1% as directors' and supervisors' remuneration and 10~22.5% as employee bonuses granted to the Company's employees including employees of affiliates, and

(f) the remainder as distributable earnings as proposed by a resolution of the stockholders' meeting.

The Company's dividend policy is based on the industry environment, business growth characteristics, long-term financial plan, retention of talent, and long-term operation of the business. The Company considers the capital budget to determine the distribution of stock dividends accompanied by cash dividends, which should be no less than 10% of total dividends.

Employee bonuses for 2013 and 2012 were computed at 17%, and remuneration to directors and supervisors was computed at 1%, based on the Company's net income for the years ended December 31, 2013 and 2012, after setting aside 10% as legal reserve and setting aside or reversing any previous special reserve. The employee bonuses for 2013 and 2012 were \$112,377 and \$94,118, respectively and remuneration to directors and supervisors was \$6,610 and \$5,536, respectively.

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The information on dividends per share, employee bonuses, and directors' and supervisors' remuneration allocated from earnings of 2012 and 2011 which were approved by the stockholders' meeting on June 14, 2013, and June 15, 2012, is as follows:

		2013	2012
Dividends distributed to common shareholders:			
Cash (dividends per share were $1.15 and $1.34, respectively)	$	555,680	690,725
Directors' and supervisors' remuneration	$	5,536	8,926
Employee bonuses – cash		94,118	151,747
	$	99,654	160,673

The above earnings distribution had no difference from the resolution of the Company's board of directors in the years 2012 and 2011.

The earnings distribution as employee bonuses and directors' and supervisors' remuneration for 2013 will be subject to the proposal of the board of directors' meeting and a resolution of the stockholders' meeting. Relevant information will be available at the Market Observation Post System website.

F. Treasury stock

The Company repurchased common stock through the Taiwan Stock Exchange Corporation (TWSE) in accordance with the Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies. Details of the treasury stock transactions in 2013 and 2012 were as follows:

		2013			
Purpose		January 1	Increase	Canceled	December 31
To maintain the Company's credit and stockholders' equity	$	20,000	11,462	22,079	9,383

		2012			
Purpose		January 1	Increase	Decrease	December 31
To maintain the Company's credit and stockholders' equity (note)	$	-	23,321	3,321	20,000

Note: On October 22, 2012, the meeting of the board of directors approved the purchase of common stock amounting 3,321 shares and changed the purpose of repurchased common stock from "transferring to employees" to "maintaining the Company's credit and stockholders' equity". Common stock amounting to 3,321 shares was approved to be canceled.

(Continued)

According to the Securities and Exchange Act of the ROC, the total shares of treasury stock shall not exceed 10% of the issued stock, and the disbursement shall not exceed the sum of the retained earnings, additional paid-in capital – premium, and realized capital surplus. In compliance with the Securities and Exchange Act of the ROC, treasury stock should not be pledged, nor is it entitled to voting rights or dividends.

G. Other equity

	Foreign currency translation adjustment	Net unrealized gain (loss) on available-for-sale financial assets
Balance at January 1, 2013	$ (70,184)	(251,678)
Foreign currency translation exchange differences (net of taxes)	127,385	-
Unrealized gains and losses on available-for-sale financial assets	-	(2,245)
Balance at December 31, 2013	**$ 57,201**	**(253,923)**
Balance at January 1, 2012	$ -	(230,984)
Foreign currency translation exchange differences (net of taxes)	(70,184)	-
Unrealized gains and losses on available-for-sale financial assets	-	(20,694)
Balance at December 31, 2012	**$ (70,184)**	**(251,678)**

(20) Share-based payment

The employee stock option plan was fully expired in the 4th quarter 2012. The details of employee stock options were as follows:

Type	Authorization date	Grant date	Vesting period	Issued units in thousands	Exercise price per share ($)	Fair value per share on grant date ($)	Adjusted exercise price per share ($)
2007 First Employee Stock Option Plan	September 4, 2007	October 5, 2007	Service periods between two and four years	15,000	38.50	38.50	28.10
2007 Second Employee Stock Option Plan	October 30, 2007	November 9, 2007	Service periods between two and four years	7,500	32.30	32.30	21.80
2007 Second Employee Stock Option Plan	October 30, 2007	December 6, 2007	Service periods between two and four years	7,500	30.75	30.75	20.90

(Continued)

In 2012, options for 2,280 shares of the Company's stock were exercised, and $51,545 had been received as of December 31, 2012. The registration procedures related to the capital increase were completed.

According to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the compensation cost for the above employee stock options granted before January 1, 2012, did not need to be recalculated retroactively.

	2012	
Employee share options	**Options (thousands)**	**Weighted-average exercise price**
Outstanding at beginning of year	29,608	$ 26.10
Options exercised	(2,280)	22.60
Options expired	(27,328)	25.06
Outstanding at end of year	-	-
Options exercisable at end of year	-	
Weighted-average fair value of employee stock options (dollars)	$ 0.6~10.3	

The weighted-average market price of the Company's common stock was $25.76 for the option exercise dates.

(21) Earnings per share

A. Basic earnings per share

	For the years ended December 31, 2013	2012
Net income attributable to shareholders of the parent	$ 779,517	741,802
Weighted-average number of shares outstanding		
Outstanding common stock, January 1	$ 493,831	478,567
Effect of treasury stock	(7,440)	(4,412)
Effect of conversion of convertible bonds	250	33,191
Effect of employee stock options	-	1,895
	$ 486,641	509,241
Weighted-average number of shares outstanding, December 31		
Basic earnings per share (dollars)	$ 1.60	1.46

(Continued)

B. Diluted earnings per share

		2013	2012
Net income attributable to shareholders of the parent(basic)	$	779,517	741,802
Interest expense after tax of convertible bonds		3,360	5,444
Net income attributable to shareholders of the parent (diluted)	$	782,877	747,246
Weighted-average number of shares outstanding (basic)			
Outstanding common stock, January 1	$	486,641	509,241
Effect of treasury stock		10,342	13,052
Effect of conversion of convertible bonds		-	436
Effect of employee bonus distributed in stock if approved by the stockholders' meeting		7,832	8,565
Weighted-average number of shares outstanding, December 31 (diluted)	$	504,815	531,294
Diluted earnings per share (dollars)	$	1.55	1.41

(22) Revenues

		For the years ended December 31,	
		2013	2012
Sales of goods	$	24,099,689	24,899,908
Services provided		4,066	7,236
	$	24,103,755	24,907,144

(23) Other income and expenses

		For the years ended December 31,	
		2013	2012
Interest income	$	21,938	24,941
Dividend income		9,854	10,840
Other income		34,066	20,022
	$	65,858	55,803

(24) Other gains and losses

Details are as follows:

		For the years ended December 31,	
		2013	2012
Gain (Loss) on valuation of financial assets, net	$	(101,676)	160,443
Impairment loss		-	(6,030)
Gain (Loss) on foreign currency exchange, net		213,212	(235,357)
	$	111,536	(80,944)

(Continued)

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(25) Finance cost

	For the years ended December 31, 2013	For the years ended December 31, 2012
Interest expense of bonds payable	$ 4,048	6,559
Interest expense of borrowings	36,373	59,277
	$ 40,421	**65,836**

(26) Financial instruments

A. Categories of financial instruments

Financial Assets

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets measured at fair value through profit or loss:			
Financial assets designated as at fair value through profit or loss	$ 9,285	12,929	10,901
Available-for-sale financial assets – non-current (including financial assets carried at cost – non-current)	189,664	190,824	211,518
Receivables:			
Cash and cash equivalents	1,542,704	2,002,758	3,266,754
Accounts receivable (including related parties)	6,004,783	5,865,235	7,319,374
Subtotal	7,547,487	7,867,993	10,586,128
Other financial assets – current	799,325	373,141	162,040
Other financial assets – non-current	56,022	33,786	36,984
Total	**$ 8,601,783**	**8,478,673**	**11,007,571**

(Continued)

Financial Liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Financial liabilities designated as at fair value through profit or loss:			
Financial liabilities measured at fair value through profit or loss	$ 51,487	2,886	16,229
Amortized cost:			
Short-term borrowings	597,898	775,806	1,299,455
Accounts payable	4,876,948	3,978,703	6,202,891
Payables to related parties	13,218	20,039	24,221
Accrued expenses	536,214	483,011	619,007
Long-term loans	601,770	293,007	-
Bonds payable (including current portion)	136,797	177,081	844,453
Subtotal	6,762,845	5,727,647	8,990,027
Total	**$ 6,814,332**	**5,730,533**	**9,006,256**

B. Credit risk

(a) Credit risk exposures

As of December 31, 2013 and 2012, and January 1, 2012, the carrying amounts of financial assets represented the Group's maximum exposure to credit risk and amounted to $8,412,119, $8,287,849 and $10,796,053, respectively.

(b) Disclosures of concentration of credit risk

The main customers of the Group were in the networking and related industries. It was a normal practice for the Group to provide customers a credit limit according to their credit evaluations. Therefore, the credit risk of the Group was mainly influenced by the networking industry. As of December 31, 2013 and 2012, 51% and 57%, respectively, of the Group's accounts receivable consisted of seven customers. Although there was a potential for concentration of credit risk, the Group routinely assessed the collectability of the accounts receivable and provided a corresponding allowance for doubtful accounts.

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C. Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Book value	Contractual cash flows	Within 6 months	6~12 months	1~2 years	2~5 years
December 31, 2013						
Non-derivative financial liabilities						
Secured borrowings	$ 667,408	(687,415)	(7,143)	(70,078)	(610,194)	-
Issued unsecured bonds	136,797	(136,797)	-	(136,797)	-	-
Unsecured borrowings	532,260	(534,844)	(534,844)	-	-	-
Accounts payable	4,876,948	(4,876,948)	(4,876,948)	-	-	-
Other payables – related parties	13,218	(13,218)	(13,218)	-	-	-
Accrued expenses	536,214	(536,214)	(536,214)	-	-	-
Derivative financial liabilities						
Financial liabilities measured at fair value through profit or loss – current and non-current	175	(175)	-	(175)	-	-
Cross currency swap contracts:						
Outflows	47,419	(4,241,274)	(4,241,274)	-	-	-
Inflows	(4,321)	4,281,376	4,281,376	-	-	-
Forward exchange contracts:						
Outflows	3,893	(353,852)	(353,852)	-	-	-
Inflows	(4,964)	539,131	539,131	-	-	-
	$ 6,805,047	(6,560,230)	(5,742,986)	(207,050)	(610,194)	-
December 31, 2012						
Non-derivative financial liabilities						
Issued unsecured bonds	$ 177,081	(177,081)	-	-	(177,081)	-
Unsecured borrowings	1,068,813	(1,141,517)	(806,222)	(13,354)	(26,708)	(295,233)
Accounts payable	3,978,703	(3,978,703)	(3,978,703)	-	-	-
Other payables – related parties	20,039	(20,039)	(20,039)	-	-	-
Accrued expenses	483,011	(483,011)	(483,011)	-	-	-
Derivative financial liabilities						
Financial liabilities measured at fair value through profit or loss – current and non-current	964	(964)	-	-	(964)	-
Cross currency swap contracts:						
Outflows	1,922	(4,465,257)	(4,465,257)	-	-	-
Inflows	(11,323)	4,404,182	4,404,182	-	-	-
Forward exchange contracts:						
Outflows	-	(354,604)	(354,604)	-	-	-
Inflows	(639)	353,337	353,337	-	-	-
	$ 5,718,571	(5,863,657)	(5,350,317)	(13,354)	(204,753)	(295,233)
January 1, 2012						
Non-derivative financial liabilities						
Secured borrowings	$ 151,555	(151,555)	(151,555)	-	-	-
Issued unsecured bonds	844,453	(844,453)	(667,372)	-	-	(177,081)
Unsecured borrowings	1,147,900	(1,191,155)	(1,175,960)	(13,024)	(2,171)	-
Accounts payable	6,202,891	(6,202,891)	(6,202,891)	-	-	-
Other payables – related parties	24,221	(24,221)	(24,221)	-	-	-
Accrued expenses	619,007	(619,007)	(619,007)	-	-	-
Derivative financial liabilities				-	-	-
Financial liabilities measured at fair value through profit or loss – current and non-current	8,128	(8,128)	(4,743)	-	-	(3,385)
Cross currency swap contracts:						
Outflows	8,101	(2,441,202)	(2,441,202)	-	-	-
Inflows	(1,588)	2,510,891	2,510,891	-	-	-
	$ 9,004,668	(8,971,721)	(8,776,060)	(13,024)	(2,171)	(180,466)

(Continued)

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

D. Foreign currency exchange risk

(a) Exposure to foreign currency exchange risk

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

	December 31, 2013		
	Foreign currency amount	Exchange rate	NTD
Financial Assets			
Monetary items			
USD	161,584	29.85	4,823,282
JPY	24,765	0.2852	7,063
Financial Liabilities			
Monetary items			
USD	66,589	29.85	1,987,682

	December 31, 2012		
	Foreign currency amount	Exchange rate	NTD
Financial Assets			
Monetary items			
USD	205,296	29.03	5,959,743
JPY	18,471	0.3366	6,217
Financial Liabilities			
Monetary items			
USD	78,597	29.03	2,281,671

	January 1, 2012		
	Foreign currency amount	Exchange rate	NTD
Financial Assets			
Monetary items			
USD	256,342	30.26	7,756,909
JPY	321,778	0.3907	125,719
Financial Liabilities			
Monetary items			
USD	86,118	30.26	2,605,931

(Continued)

(b) Sensitivity analysis

The Group's exposure to foreign currency exchange risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables that are denominated in foreign currency.

A 5% depreciation or appreciation of the NTD against the USD and the JPY at December 31, 2013 and 2012, would have decreased or increased the net profit before tax for the years ended December 31, 2013 and 2012, by $142,133 and $184,214, respectively. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

E. Interest rate analysis

Please refer to the note on liquidity risk management for the interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure to interest rates. For floating-interest-rate debt, the analysis assumes that the liability as of the reporting date is outstanding for the entire year.

If the interest rate had increased or decreased by 0.25%, the Group's net profit before tax would have decreased or increased by $2,999 and $2,672 for the years ended December 31, 2013 and 2012, respectively, with all other variables remaining constant. This is mainly due to the Group's borrowing at floating rates.

F. Fair value

(a) The Group's non-derivative financial assets and liabilities with short maturities include notes and accounts receivable/payable (including related parties), other financial assets – current/non-current, short-term borrowings, and accrued expense whose carrying amounts approximate their fair value due to their short maturities.

(b) Except for the aforementioned financial instruments, the carrying amount and fair value of the financial instruments of the Group as of December 31, 2013 and 2012, and January 1, 2012, were as follows:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Liabilities:						
Long-term borrowings	$ 601,770	601,770	293,007	293,007	-	-
Bonds payable (including current portion)	136,797	168,241	177,081	202,344	844,453	995,049

(Continued)

(c) Methods and assumptions used to estimate fair values of financial instruments:

i. The fair value of convertible bonds payable which are publicly traded in an active market is determined with reference to quoted market prices. When quoted prices are unavailable, the Group will determine the fair value based on an evaluation method, and the estimates and assumptions incorporated in such evaluation are consistent with those used by market participants in their pricing of financial instruments.

ii. The fair value of long-term borrowing bearing a floating rate approximates the carrying value.

(d) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

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

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

		Level 1	Level 2	Level 3	Total
December 31, 2013					
Assets					
Derivative financial assets – current	$	-	9,285	-	9,285
Available-for-sale financial assets – non-current		179,668	-	-	179,668
Liabilities					
Derivative financial liabilities – current and non-current		-	51,487	-	51,487
Bonds payable (including current portion)		168,241	-	-	168,241
December 31, 2012					
Assets					
Derivative financial assets – current	$	-	12,929	-	12,929
Available-for-sale financial assets – non-current		180,828	-	-	180,828

(Continued)

		Level 1	Level 2	Level 3	Total
Liabilities					
Derivative financial liabilities – current and non-current		-	2,886	-	2,886
Bonds payable (including current portion)		202,344	-	-	202,344
January 1, 2012					
Assets					
Derivative financial assets – current	$	-	10,901	-	10,901
Available-for-sale financial assets – non-current		201,522	-	-	201,522
Liabilities					
Derivative financial liabilities – current and non-current		-	16,229	-	16,229
Bonds payable (including current portion)		995,049	-	-	995,049

(27) Financial risk management

A. Overview

The Group is exposed to the following risks due to usage of financial instruments:

(a) Credit risk

(b) Liquidity risk

(c) Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

B. Objectives and policies for managing risk

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. The internal auditors assist the board to develop and monitor the Group's risk management policies. The internal auditors report regularly to the board of directors on their activities.

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

(Continued)

C. Credit risk

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases, bank references. Purchase limits are established for each customer. These limits are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group did not request collateral for accounts receivable and other receivables.

D. Liquidity risk

There was no liquidity risk of being unable to raise capital to settle contractual obligations since the Group has sufficient capital and working capital to settle the contractual obligations.

The Group held foreign currency derivative financial instruments to hedge the foreign currency exchange risk, and there was no significant liquidity risk for the related cash flows. The Group has liquidity risk when investing in financial assets carried at cost that are not publicly traded.

E. Market risk

As the Group's derivative financial instruments were for hedging purposes, the gains or losses due to changes in the foreign exchange rates will be naturally offset by the hedged items. As a result, market price risk was considered low. Publicly traded stocks held by the Group were classified as available-for-sale financial assets. Since these assets were measured at fair value, the Group will be exposed to the risks of equity market price change.

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

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are executed in accordance with the Group's procedures for conducting derivative transactions and are also monitored by the internal audit department.

(a) Foreign currency exchange risk

The Group is exposed to foreign currency exchange risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan dollar (NTD), US dollar (USD), and Chinese yuan (CNY). These transactions are denominated in NTD, EUR, USD and CNY.

Interest is denominated in the currency used in the borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily CNY and USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(b) Interest rate risk

The Group holds variable-rate financial assets and liabilities, and the changes in the effective rate along with the fluctuation of the market interest rate influence the Company's future cash flow.

(c) Price of equity instruments

Please refer to note 6(7) for the equity market price risk analysis.

(d) Other market price risk

The Group does not enter into any commodity contracts other than to meet the Group's expected usage and sales requirements; such contracts are not settled on a net basis.

(28) Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Capital consists of share capital, capital surplus, retained earnings, and non-controlling interests of Group.

In 2013 and 2012, the return on capital was 8.09% and 7.88%, respectively. In comparison the weighted-average interest expense on interest-bearing borrowings was 3.03% and 5.55%, respectively.

The Group's debt-to-adjusted-capital ratio at the end of the reporting period was as follows:

		December 31, 2013	December 31, 2012	January 1, 2012
Total liabilities	$	8,262,760	7,281,293	10,737,496
Less: Cash and cash equivalents		(1,542,704)	(2,002,758)	(3,266,754)
Net debt	$	**6,720,056**	**5,278,535**	**7,470,742**
Total equity	$	**9,787,000**	**9,493,536**	**9,348,155**
Debt-to-capital ratio	$	**68.66%**	**55.60%**	**79.92%**

The main purpose of the Company's repurchase of stock is to maintain the Company's credit and to transfer stock to employees. The repurchasing of stock is handled by the board of directors in accordance with the provisions of the Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies. The Company has not expressly set up a stock repurchase plan.

(Continued)

As of December 31, 2013, the Group had not changed its capital management method.

(29) Non-cash transactions regarding investing and financing activities

The Group's non-cash transactions regarding investing and financing activities for the years ended December 31, 2013 and 2012, were as follows:

Please refer to note 6(19) for the information on convertible bonds converted into common stock.

7. Related-party transactions

(1) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(2) Significant related-party transactions

A. Sales

The Group's significant sales to related parties were as follows:

	2013	2012
Entities with significant influence over the Group	$ 8,906,693	10,151,026
Associates	7,925	-
	$ 8,914,618	10,151,026

The price for sales to the above related parties was determined by market conditions and considering the geographic sales area and sales volumes.

The credit terms for third parties were month-end 30~75 days during 2013 and 2012, while those for related parties were month-end 60~90 days during 2013 and 2012. If necessary, extension is permitted.

B. Receivables from related parties

The receivables from related parties were as follows:

Account	Type of related parties	December 31, 2013	December 31, 2012	January 1, 2012
Receivables – related parties	Entities with significant influence over the Group	$ 2,567,103	2,303,383	3,373,778
Receivables – related parties	Associates	7,984	-	-
		$ 2,575,087	2,303,383	3,373,778

(Continued)

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Notes to Consolidated Financial Statements

C. Rendering of services and other expenses

The Group provided service to related parties, including product warranty and maintenance service, as follows:

	2013	2012
Entities with significant influence over the Group	$ 31,955	43,554

Payables to related parties were as follows:

Account	Type of related party	December 31, 2013	December 31, 2012	January 1, 2012
Payables – related parties	Entities with significant influence over the Group	$ 13,218	19,759	22,689

D. Property, plant and equipment

(a) Acquisition of property, plant and equipment for the years ended December 31, 2013 and 2012, was as follows:

	2013	2012
Entities with significant influence over the Group	$ -	2,646

As of December 31, 2012, the amounts had been paid.

(b) Disposal of property, plant and equipment for the years ended December 31, 2013 and 2012, was as follows:

	2013	2012
Entities with significant influence over the Group	$ -	5

As of December 31, 2012, the amounts had been received.

E. Others

(a) The Group leased buildings from related parties, as follows:

The Company entered into a plant lease agreement with D-Link for the Taipei Neihu office. The rental expenses and payable to the related party were as follows:

	2013	2012
Entities with significant influence over the Group	$ 38	914

(Continued)

Account	Type of related party		December 31, 2013	December 31, 2012	January 1, 2012
Other payables – related parties	Entities with significant influence over the Group	$	-	280	1,532

(3) Compensation to executive officers

Executive officers' compensation comprised:

		2013	2012
Short-term employee benefits	$	46,744	65,103
Post-employment benefits		492	570
	$	47,236	65,673

8. Pledged assets

Pledged assets	Pledged to secure		December 31, 2013	December 31, 2012	January 1, 2012
Time deposit (recorded in other financial assets – noncurrent)	Import guarantee for Customs	$	22,000	22,000	22,000
Time deposit (recorded in other financial assets – current)	Borrowings		-	-	151,555
Time deposit (recorded in other financial assets – noncurrent)	Borrowings		12,738	-	-
		$	34,738	22,000	173,555

9. Commitments and contingencies

(1) The Company entered into royalty agreements with Fine Point and Wind River. Pursuant to the terms of each agreement, the Company was obligated to pay royalties when the Company's products utilized technologies specified in the royalty agreement. The royalty expense was $0 and $11,704 in the years 2013 and 2012, respectively.

(2) Former employees of Alpha USA brought lawsuits claiming that their employment was inappropriately terminated and claiming unpaid wages. Alpha USA hired lawyers to resolve the disputes. Alpha USA estimates that the lawsuits will not significantly impact Alpha USA's operations.

10. Casualty loss: None.

11. Subsequent events: None.

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Notes to Consolidated Financial Statements

12. Other information

The personnel expenses, depreciation, and amortization, by function, were as follows:

	2013			2012		
Account	**Cost of goods sold**	**Operating expense**	**Total**	**Cost of goods sold**	**Operating expense**	**Total**
Personnel expenses:						
Salaries	1,258,085	1,494,025	2,752,110	1,133,533	1,362,299	2,495,832
Labor and health insurance	47,515	112,383	159,898	43,677	95,409	139,086
Pension	60,476	89,172	149,648	60,885	85,159	146,044
Others	39,882	83,665	123,547	26,261	79,682	105,943
Depreciation	237,259	235,499	472,758	214,220	221,649	435,869
Amortization	2,450	87,810	90,260	2,105	92,787	94,892

13. Segment financial information

(1) Operating segment information

The Group operates predominantly in one industry segment, which includes the research, development, design, production, and sale of network products.

The segment financial information can be found in the consolidated financial statements. For sales to external customers and segment profit and loss, please refer to the consolidated statements of comprehensive income. For segment assets, please see the consolidated statements of financial position.

(2) Entity-wide disclosures

A. Product information

Revenue of the Group from external customers was as follows:

Product	**2013**	**2012**
LAN/MAN	$ 11,080,538	12,182,578
Wireless	5,930,312	6,778,936
Digital Home	4,312,034	3,452,945
Broadband	2,611,643	2,086,640
Others	169,228	406,045
	$ 24,103,755	**24,907,144**

B. Geographic information

The Group categorized the net revenue based on the country in which the customer was headquartered. The non-current assets were categorized by the area where the assets were located.

(Continued)

Revenue from external customers:

Area		2013	2012
China	$	6,795,367	7,555,790
United States		6,792,573	6,189,331
Singapore		3,863,158	3,476,397
Taiwan		2,039,973	2,584,797
Japan		987,893	641,131
The Netherlands		821,902	990,491
UK		21,655	892,988
Other countries		2,781,234	2,576,219
	$	24,103,755	24,907,144

Non-current assets:

		2013	2012
China	$	2,703,257	2,753,291
Taiwan		960,410	1,050,239
United States		261,452	225,351
Japan		1,578	4,779
	$	3,926,697	4,033,660

C. Major customer information

Sales to individual customers representing greater than 10% of consolidated revenue were as follows:

		2013	2012
D-Link International	$	6,959,398	8,042,277

14. First-time adoption of IFRSs

The Group’s consolidated financial statements as of December 31, 2012 were previously prepared in accordance with the accounting principles generally accepted in the Republic of China (“the R.O.C GAAP”). As stated in note 4(1), these are the Company’s first annual financial statements prepared in accordance with IFRSs endorsed by FSC, and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

The accounting policies set out in note 4 have been applied in preparing the comparative consolidated financial statements for the year ended December 31, 2012, and in the preparation of the opening IFRS consolidated statement of financial position at January 1, 2012, the transition date.

In preparing the 2012 consolidated financial statements in accordance with IFRSs endorsed by FSC (“IFRSs”), the Group has adjusted amounts reported under previous GAAP. An explanation of how the transition from previous GAAP to IFRSs as endorsed by the FSC has affected the Group’s financial statements is set out in the following tables and the notes that accompany the tables.

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Notes to Consolidated Financial Statements

(1) Reconciliation of statements of financial position

	December 31, 2012			January 1, 2012		
	Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRSs
Assets						
Cash and cash equivalents	$ 2,370,758	(368,000)	2,002,758	3,266,754	-	3,266,754
Financial assets measured at fair value through profit or loss – current	12,929	-	12,929	10,901	-	10,901
Accounts receivable and notes receivable, net (including related parties)	5,865,235	-	5,865,235	7,319,374	-	7,319,374
Inventory	3,625,215	-	3,625,215	4,787,314	-	4,787,314
Other financial assets – current	5,141	368,000	373,141	162,040	-	162,040
Other current assets	591,940	(49,294)	542,646	388,539	(68,503)	320,036
Total current assets	12,471,218	(49,294)	12,421,924	15,934,922	(68,503)	15,866,419
Available-for-sale financial assets – non-current	180,828	-	180,828	201,522	-	201,522
Financial assets at cost – non-current	9,996	-	9,996	9,996	-	9,996
Property, plant and equipment	3,601,196	(33,488)	3,567,708	3,487,122	(58,523)	3,428,599
Intangible assets	242,778	3,486	246,264	255,060	(4,919)	250,141
Deferred tax assets	-	94,635	94,635	-	119,447	119,447
Prepayments for long-term investments in stocks	78,305	-	78,305	-	-	-
Other financial assets – non-current	33,786	-	33,786	36,984	-	36,984
Long-term prepaid rents	-	107,895	107,895	-	114,020	114,020
Other non-current assets	111,381	(77,893)	33,488	109,101	(50,578)	58,523
Total non-current assets	4,258,270	94,635	4,352,905	4,099,785	119,447	4,219,232
Total assets	$ 16,729,488	45,341	16,774,829	20,034,707	50,944	20,085,651
Liabilities						
Short-term borrowings	$ 775,806	-	775,806	1,299,455	-	1,299,455
Financial liabilities measured at fair value through profit or loss – current	1,922	-	1,922	12,844	-	12,844
Accounts payable	3,978,703	-	3,978,703	6,202,891	-	6,202,891
Payroll and bonus payables	327,692	85,630	413,322	614,249	78,859	693,108
Accrued expenses	483,011	-	483,011	619,007	-	619,007
Payable to related parties	20,039	-	20,039	24,221	-	24,221
Current tax liabilities	124,446	-	124,446	128,402	-	128,402
Provisions – current	246,685	-	246,685	267,115	-	267,115
Other current liabilities	215,090	-	215,090	176,886	-	176,886
Total current liabilities	6,173,394	85,630	6,259,024	9,345,070	78,859	9,423,929

(Continued)

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Notes to Consolidated Financial Statements

	December 31, 2012			January 1, 2012		
	Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRSs
Financial liabilities measured at fair value through profit or loss – noncurrent	964	-	964	3,385	-	3,385
Bonds payable	177,081	-	177,081	844,453	-	844,453
Long-term loans	293,007	-	293,007	-	-	-
Deferred tax liabilities	34,496	31,473	65,969	44,759	36,262	81,021
Accrued pension liabilities	186,231	298,635	484,866	153,724	230,336	384,060
Miscellaneous liabilities	382	-	382	648	-	648
Total non-current liabilities	692,161	330,108	1,022,269	1,046,969	266,598	1,313,567
Total liabilities	6,865,555	415,738	7,281,293	10,392,039	345,457	10,737,496
Equity attributable to shareholders of the parent						
Common stock and advance receipts for common stock	5,138,310	-	5,138,310	4,785,667	-	4,785,667
Capital surplus	2,237,319	-	2,237,319	1,929,425	-	1,929,425
Retained earnings	3,012,993	(204,735)	2,808,258	2,992,953	(128,851)	2,864,102
Other equity interest	(156,200)	(165,662)	(321,862)	(65,322)	(165,662)	(230,984)
Treasury stock	(368,489)	-	(368,489)	-	-	-
Subtotal	9,863,933	(370,397)	9,493,536	9,642,723	(294,513)	9,348,210
Non-controlling interests	-	-	-	(55)	-	(55)
Total liabilities and stockholders' equity	$ 16,729,488	45,341	16,774,829	20,034,707	50,944	20,085,651

(2) Reconciliation of comprehensive income

	2012		
	Previous GAAP	Effect of transition to IFRSs	IFRSs
Operating revenue	$ 24,907,144	-	24,907,144
Cost of goods sold	(21,040,596)	7,737	(21,032,859)
Gross profit	3,866,548	7,737	3,874,285
Operating expenses:			
Selling	598,602	(5,386)	593,216
General and administrative	808,819	(1,699)	807,120
Research and development	1,437,149	(11,669)	1,425,480
Total operating expenses	2,844,570	(18,754)	2,825,816
Operating income	1,021,978	26,491	1,048,469
Non-operating income and expenses:			
Other income and expenses	55,803	-	55,803
Other gains and losses	(80,944)	-	(80,944)
Finance cost	(65,836)	-	(65,836)
	(90,977)	-	(90,977)
Income before tax	931,001	26,491	957,492
Income tax expense	214,821	814	215,635
Net income	716,180	25,677	741,857

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2012		
	Previous GAAP	Effect of transition to IFRSs	IFRSs
Other comprehensive income (loss):			
Exchange differences on translation of foreign financial statements	$ -	(84,558)	(84,558)
Net unrealized loss on available-for-sale financial assets	-	(20,694)	(20,694)
Actuarial losses on defined benefit plans	-	(101,561)	(101,561)
Income tax benefit generated from other comprehensive income	-	14,374	14,374
Other comprehensive income, net of tax	-	(192,439)	(192,439)
Total comprehensive income, net of tax	**$ 716,180**	**(166,762)**	**549,418**
Net income attributable to:			
Shareholders of the parent	$ 716,125	25,677	741,802
Non-controlling interests	55	-	55
	$ 716,180	**25,677**	**741,857**
Total comprehensive income attributable to:			
Shareholders of the parent	$ -	549,363	549,363
Non-controlling interests	-	55	55
Total current comprehensive income	**$ -**	**549,418**	**549,418**
Earnings per share			
Basic earnings per share (dollars)	**$ 1.41**	**0.05**	**1.46**
Diluted earnings per share (dollars)	**$ 1.36**	**0.05**	**1.41**

(3) Material adjustments to the statement of cash flows

In accordance with R.O.C. GAAP, time deposits with original maturity over three months amounting to $368,000 were included in the operating cash inflows in the consolidated statements of cash flows for the year ended December 31, 2012, due to the ease of termination. In accordance with the IFRSs endorsed by the FSC, the aforementioned time deposits shall be presented as other current finance assets. Therefore, the Group reclassified the time deposits to cash flows from investing activities.

Except for the aforementioned differences, there are no other material differences between the consolidated statement of cash flows presented under the IFRSs endorsed by the FSC and the consolidated statement of cash flows presented under R.O.C. GAAP.

(4) Notes to the reconciliation

A. The Group had recognized all actuarial gains and losses in other comprehensive income using the IFRSs endorsed by the FSC. Under R.O.C. GAAP, the Group recognized actuarial gains and losses in profit or loss over the employees' remaining service period. At the date of transition, all previously unrecognized cumulative actuarial gains and losses were recognized in retained earnings and reversed in the previous year's statement of comprehensive income.

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The effects of changes are summarized as follows:

		2012
Consolidated Statement of Comprehensive Income		
Cost of goods sold	$	(7,310)
Selling		(5,511)
General and administrative		(3,591)
Research and development		(16,850)
Adjustment before income tax	**$**	**(33,262)**

		December 31, 2012	January 1, 2012
Consolidated Statements of Financial Position			
Accrued pension liabilities	$	(197,074)	(230,336)
Actuarial losses on defined benefit plan		(101,561)	-
Decrease in retained earnings adjustment	**$**	**(298,635)**	**(230,336)**

B. The Group has a present legal or constructive obligation regarding accumulated employee vacation pay as a result of past service provided by employees, and the obligation can be estimated reliably; therefore, in accordance with the IFRSs endorsed by the FSC, the Group has accrued the related costs in the consolidated financial statements.

The effects of the changes are summarized as follows:

		2012
Consolidated Statement of Comprehensive Income		
Cost of goods sold	$	(427)
Selling		125
General and administrative		1,892
Research and development		5,181
Adjustment before income tax	**$**	**6,771**

		December 31, 2012	January 1, 2012
Consolidated Statements of Financial Position			
Paid annual leave	$	(85,630)	(78,859)
Related tax effects		14,822	13,591
Decrease in retained earnings adjustment	**$**	**(70,808)**	**(65,268)**

(Continued)

C. Previous GAAP did not provide guidance on using the buyer's or seller's tax rate in recognizing the Group's deferred tax assets or liabilities related to unrealized profits or losses derived from intra-group transactions. The Group originally adopted the seller's tax rate to recognize deferred tax assets or liabilities. Under the IFRSs endorsed by the FSC, the Group should recognize deferred taxes on temporary differences between the carrying amount of the assets and liabilities in the consolidated statement of financial position and the tax bases. The Group's tax bases are decided by considering each subsidiary's income tax return; therefore, the tax rate for recognizing the Group's deferred tax assets or liabilities should use the buyer's tax rate.

The effects of the changes are summarized as follows:

		December 31, 2012	January 1, 2012
Consolidated Statements of Financial Position			
Related tax effects	$	(954)	1,091
Increase (decrease) in retained earnings adjustment	$	(954)	1,091

D. In accordance with IFRS 1, the Group has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at the date of transition.

The effects of the changes are summarized as follows:

		December 31, 2012	January 1, 2012
Consolidated Statements of Financial Position			
Exchange differences on translation of foreign financial statements	$	165,662	165,662
Increase in retained earnings adjustment	$	165,662	165,662

E. The above changes increased the deferred tax assets (liabilities) as follows:

		December 31, 2012	January 1, 2012
Paid annual leave	$	14,822	13,591
Unrealized sales losses (profits)		(954)	1,091
Increase in deferred tax assets	$	13,868	14,682

The effects of the changes increased tax expenses by $814 in the Statement of Comprehensive Income for the year ended December 31, 2012.

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Under R.O.C. GAAP, a deferred tax asset or liability is classified as either current or non-current according to the classification of the related asset or liability giving rise to the temporary difference; under the IFRSs endorsed by the FSC, a deferred tax asset or liability is classified as non-current in the consolidated statement of financial position. At December 31 and January 1, 2012, the amounts reclassified from deferred income tax assets – current to non-current assets were $49,294 and $68,503, respectively.

R.O.C. GAAP required deferred tax assets and deferred tax liabilities to be offset regardless of whether they were related to income taxes levied by the same taxation authority. According to the IFRSs endorsed by the FCS, deferred tax assets and deferred tax liabilities should only be offset under special circumstances. The above changes increased the deferred tax assets by $29,088 and deferred tax liabilities by $35,682 at December 31 and January 1, 2012, respectively.

F. Under the IFRSs endorsed by the FSC, property, plant and equipment do not have any "prepayment for equipment" accounting category. Therefore the Group reclassified the "prepayment for equipment" to other assets in the amount of $33,488 and $58,523 at December 31 and January 1, 2012, respectively.

G. Under the IFRSs endorsed by the FSC, the cost of land use rights is accounted for as operating leases and amortized over the lease term. Therefore, $107,895 and $114,020 of prepayments were reclassified from the intangible assets – land use rights to long-term prepaid rents at December 31 and January 1, 2012, respectively.

H. Under R.O.C. GAAP, deferred charges are recorded as other assets. Under the IFRSs endorsed by the FSC, deferred charges shall be reclassified to intangible assets according to their nature. The amounts of $111,381 and $109,101 were reclassified to intangible assets at December 31 and January 1, 2012, respectively.

I. Under the IFRSs endorsed by the FSC, the retained earnings increased (decreased) as a result of the aforementioned adjustments as follows:

		December 31, 2012	January 1, 2012
Actuarial gains and losses on defined benefit plan	$	(298,635)	(230,336)
Paid annual leave		(70,808)	(65,268)
Unrealized sales profit		(954)	1,091
Exchange differences on translation of foreign financial statements		165,662	165,662
Decrease in retained earnings	**$**	**(204,735)**	**(128,851)**