

**ALPHA NETWORKS INC. AND SUBSIDIARIES**  
**Consolidated Financial Statements**  
**December 31, 2014 and 2013**  
**(With Independent Auditors' Report Thereon)**



安侯建業聯合會計師事務所

KPMG

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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, 2014 and 2013 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2014 and 2013. 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, 2014 and 2013, and the results of their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, on which we have issued an unqualified opinion.

Hsinchu, Taiwan (Republic of China)  
March 16, 2015

The accompanying consolidated financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such 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, 2014 and 2013**  
**(expressed in thousands of New Taiwan dollars)**

	<u>December 31, 2014</u>	<u>December 31, 2013</u>		<u>December 31, 2013</u>
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents (note 6(1))	\$ 2,281,025	1,542,704		597,898
Financial assets measured at fair value through profit or loss – current (note 6(2))	690	9,285		51,487
Notes and accounts receivable, net (note 6(3))	2,848,315	3,429,696		4,876,948
Receivables from related parties (note 7)	2,600,755	2,575,087		539,155
Inventories (note 6(4))	4,014,506	4,394,209		536,214
Other financial assets – current (notes 6(1) and (5))	361,719	799,325		13,218
Other current assets (notes 6(6) and 7)	515,851	1,074,672		42,577
	<u>12,622,861</u>	<u>13,824,978</u>		<u>235,346</u>
<b>Non-current assets:</b>				
Available-for-sale financial assets – non-current (note 6(7))	186,957	179,668		137,169
Financial assets carried at cost – non-current (note 6(8))	9,996	9,996		-
Investment accounted for using equity method (note 6(9))	100,965	124,965		601,770
Property, plant and equipment (note 6(10))	3,335,529	3,479,772		114,448
Intangible assets (note 6(11))	219,877	220,966		359,210
Deferred income tax assets (note 6(18))	81,076	52,399		523
Other financial assets – non-current (notes 6(3), (5) and 8)	53,618	56,022		1,075,951
Long-term prepaid rents (note 6(16))	80,067	79,165		-
Other non-current assets (note 6(6))	34,576	21,829		8,262,760
	<u>4,102,661</u>	<u>4,224,782</u>		<u>4,917,727</u>
				<u>25,714</u>
				<u>4,943,441</u>
				<u>2,169,424</u>
				860,001
				156,201
				2,037,327
				3,053,529
				(196,722)
				(182,672)
				9,787,000
<b>Total assets</b>	\$ <u>16,725,522</u>	<u>18,049,760</u>		<u>18,049,760</u>
				\$
<b>Liabilities and Equity</b>				
<b>Current liabilities:</b>				
Short-term borrowings (note 6(12))				309,899
Financial liabilities measured at fair value through profit or loss – current (notes 6(2) and (14))				131,889
Accounts payable				3,830,819
Payroll and bonus payable				553,221
Accrued expenses				504,009
Payables to related parties (note 7)				9,624
Income tax payable				92,626
Provision – current (note 6(15))				241,947
Other current liabilities				228,889
Bonds payable – current portion (note 6(14))				-
Long – term loans payable – current portion (note 6(13))				312,026
				<u>6,214,949</u>
				312,026
				149,818
				364,958
				673
				827,475
				<u>7,042,424</u>
				4,971,271
				-
				4,971,271
				2,205,729
				937,953
				196,722
				1,739,138
				2,873,813
				(110,280)
				(257,435)
				9,683,098
				<u>16,725,522</u>
				\$
<b>Non-current liabilities</b>				
Long-term loans (note 6(13))				601,770
Deferred income tax liabilities (note 6(18))				114,448
Accrued pension liabilities (note 6(17))				359,210
Other non-current liabilities				523
				1,075,951
				8,262,760
<b>Total liabilities</b>				
<b>Equity (note 6(19)):</b>				
Common stock				4,917,727
Advance receipts for common stock				25,714
				4,943,441
				2,169,424
				860,001
				156,201
				2,037,327
				3,053,529
				(196,722)
				(182,672)
				9,787,000
				<u>18,049,760</u>
				\$
Capital surplus				860,001
Retained earnings:				156,201
Legal reserve				2,037,327
Special reserve				3,053,529
Unappropriated earnings				(196,722)
Other equity				(182,672)
Treasury stock				9,787,000
<b>Total equity</b>				<u>18,049,760</u>
<b>Total liabilities and equity</b>				<u>18,049,760</u>

See accompanying notes to consolidated financial statements.

**ALPHA NETWORKS INC. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**Years ended December 31, 2014 and 2013**

**(expressed in thousands of New Taiwan dollars, except for earnings per share)**

	<u>2014</u>	<u>2013</u>
<b>Revenues</b> (notes 6(21) and 7)	\$ 23,277,512	24,103,755
<b>Cost of goods sold</b> (notes 6(4) and 7)	<u>20,012,133</u>	<u>20,393,544</u>
<b>Gross profit</b>	<u>3,265,379</u>	<u>3,710,211</u>
<b>Operating expenses</b> (note 7):		
Selling	572,513	488,644
General and administrative	833,668	913,453
Research and development	<u>1,390,036</u>	<u>1,474,036</u>
<b>Total operating expenses</b>	<u>2,796,217</u>	<u>2,876,133</u>
<b>Operating income</b>	<u>469,162</u>	<u>834,078</u>
<b>Non-operating income and expenses:</b>		
Other income and expenses (note 6(22))	139,594	65,858
Other gains and losses (note 6(23))	106,252	111,536
Finance costs (note 6(24))	(32,965)	(40,421)
Share of losses of equity-accounted investees (note 6(9))	<u>(24,000)</u>	<u>(6,529)</u>
	<u>188,881</u>	<u>130,444</u>
<b>Income before tax</b>	658,043	964,522
<b>Income tax expense</b> (note 6(18))	<u>122,270</u>	<u>185,005</u>
<b>Net income</b>	<u>535,773</u>	<u>779,517</u>
<b>Other comprehensive income (loss):</b>		
Exchange differences on translation of foreign financial statements	94,058	153,475
Net unrealized gain (loss) on available-for-sale financial assets	8,374	(2,245)
Actuarial gain on defined benefit plans (note 6(17))	4,021	123,358
Income tax benefit generated from other comprehensive income (loss) (note 6(18))	<u>(15,990)</u>	<u>(26,090)</u>
<b>Other comprehensive income for the year, net of tax</b>	<u>90,463</u>	<u>248,498</u>
<b>Total comprehensive income for the year, net of tax</b>	<u>\$ 626,236</u>	<u>1,028,015</u>
<b>Earnings per share (in New Taiwan dollars)</b> (note 6(20))		
Basic earnings per share	<u>\$ 1.10</u>	<u>1.60</u>
Diluted earnings per share	<u>\$ 1.08</u>	<u>1.55</u>

See accompanying notes to consolidated financial statements.

**ALPHA NETWORKS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity**  
**Years ended December 31, 2014 and 2013**  
**(expressed in thousands of New Taiwan dollars)**

	Capital Stock			Retained Earnings					Other equity			Total
	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	Treasury stock	
Balance at January 1, 2013	\$ 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)	(368,489)	9,493,536
Net income in 2013	-	-	-	-	-	-	779,517	779,517	-	-	-	779,517
Other comprehensive income in 2013, net of income tax	-	-	-	-	-	-	123,358	123,358	-	(2,245)	-	125,140
Total comprehensive income in 2013	-	-	-	-	-	-	902,875	902,875	127,385	(2,245)	-	248,498
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)
Issuance of stock for conversion of bonds	1,753	24,168	25,921	18,469	-	-	-	-	-	-	-	44,390
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(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)	182,672	9,787,000
Net income in 2014	-	-	-	-	-	-	535,773	535,773	-	-	-	535,773
Other comprehensive income in 2014, net of income tax	-	-	-	-	-	-	4,021	4,021	78,068	8,374	-	90,463
Total comprehensive income in 2014	-	-	-	-	-	-	539,794	539,794	78,068	8,374	-	626,236
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	-	-	71,952	-	(71,952)	-	-	-	-	-
Special reserve	-	-	-	-	-	40,521	(40,521)	-	-	-	-	-
Cash dividend	-	-	-	-	-	-	(663,265)	(663,265)	-	-	-	(663,265)
Issuance of stock for conversion of bonds	105,714	(25,714)	80,000	57,399	-	-	-	-	-	-	(204,272)	137,999
Purchase of treasury stock	(52,170)	-	(52,170)	(21,094)	-	-	(56,245)	(56,245)	-	-	129,509	(204,272)
Canceled treasury stock	-	-	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2014	\$ 4,971,271	-	4,971,271	2,205,729	937,953	196,722	1,739,138	2,873,813	135,269	(245,549)	(257,455)	9,683,098

See accompanying notes to consolidated financial statements.

# ALPHA NETWORKS INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013  
(expressed in thousands of New Taiwan dollars)

	2014	2013
<b>Cash flows from operating activities:</b>		
Income before income tax	\$ 658,043	964,522
Adjustments:		
Non-cash income and expenses items		
Depreciation expenses	478,998	472,758
Amortization expenses	86,039	90,260
Provision for (reversal of) allowance for doubtful accounts	7,271	(52,181)
Effect of valuation of financial assets and liabilities at fair value through profit or loss	131,199	42,202
Interest expense	32,538	36,373
Interest income	(50,834)	(21,938)
Dividend income	(9,899)	(9,854)
Share of loss of equity-accounted investees	24,000	6,529
Loss on disposal property, plant and equipment	3,819	8,828
Provision for inventory obsolescence and devaluation loss	145,358	34,688
Amortization of discount on bonds payable	427	4,048
Amortization of long-term prepaid rent	1,740	2,433
Gain on disposal of available-for-sale financial assets	(910)	-
Sub-total of non-cash income and expenses	849,746	614,146
Net change in operating assets and liabilities:		
Net change in operating assets:		
Notes and accounts receivable	574,044	184,337
Receivable from related parties	(25,668)	(271,704)
Financial assets at fair value through profit or loss	9,285	12,929
Inventories	234,345	(803,682)
Other current assets	561,152	(516,139)
<b>Changing in operating assets</b>	1,353,158	(1,394,259)
Net change in operating liabilities:		
Accounts payable	(1,046,129)	898,245
Financial liabilities at fair value through profit or loss	(51,312)	(2,828)
Other payable to related parties	(3,594)	(6,821)
Other current liabilities	61,825	103,230
Accrued pension liabilities	9,769	(2,298)
<b>Change in operating liabilities</b>	(1,029,441)	989,528
<b>Total changes in operating assets and liabilities</b>	323,717	(404,731)
<b>Total adjustments</b>	1,173,463	209,415
Cash inflow generated from operations	1,831,506	1,173,937
Interest received	48,696	19,223
Dividend received	9,899	9,854
Interest paid	(31,608)	(37,634)
Income tax paid	(68,145)	(194,442)
<b>Cash provided by operating activities</b>	1,790,348	970,938
<b>Cash flows from investing activities:</b>		
Acquisition of available-for-sale financial assets	-	(1,085)
Proceeds from disposal of available-for-sale financial assets	1,995	-
Increase in equity-method investments	-	(53,189)
Acquisition of property, plant and equipment	(248,418)	(305,724)
Proceeds from disposal of property, plant and equipment	13,360	48,574
Increase in refundable deposits	(24,783)	(9,498)
Increase in intangible assets	(80,298)	(63,960)
Decrease (increase) in other financial assets	464,859	(427,697)
<b>Cash provided by (used in) investing activities</b>	126,715	(812,579)
<b>Cash flows from financing activities:</b>		
Decrease in short-term borrowings	(287,999)	(177,908)
Increase in long-term loans	-	308,763
Increase in guarantee deposit received	194	141
Payments of cash dividends	(663,265)	(555,680)
Purchase of treasury stock	(204,272)	(223,261)
<b>Cash used in financing activities</b>	(1,155,342)	(647,945)
Effect of exchange rate changes on cash and cash equivalents	(23,400)	29,532
Net increase (decrease) in cash and cash equivalents	738,321	(460,054)
Cash and cash equivalents at beginning of year	1,542,704	2,002,758
Cash and cash equivalents at end of year	\$ 2,281,025	1,542,704

See accompanying notes to consolidated financial statements.

## Alpha Networks Inc. and Subsidiaries

### Notes to consolidated financial statements

For the years ended December 31, 2014 and 2013  
(amounts expressed in thousands of New Taiwan dollars, unless otherwise noted)

#### 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, 2014, 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 16, 2015.

#### 3. Adoption of new standards and interpretations

- (1) The 2013 version of the International Financial Reporting Standards (IFRS) endorsed by the Financial Supervisory Commissions R.O.C. ("FSC") but not yet adopted

According to FSC No.1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the Taiwan Stock Exchange (TWSE) or traded on the Taipei Exchange or Emerging Stock Market shall adopt the 2013 version of the IFRS (not including IFRS 9 "Financial Instruments") as endorsed by the FSC, in preparing the consolidated financial statements. The related new standards, interpretations and amendments are listed below:

<i>New, Revised Standards, Amendments and Interpretations</i>	<i>Effective date per IASB</i>
Amendment to IFRS 1 " <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> "	July 1, 2010
Amendment to IFRS 1 " <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> "	July 1, 2011
Amendment to IFRS 1 " <i>Government Loans</i> "	January 1, 2013

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## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

<i>New, Revised Standards, Amendments and Interpretations</i>	<i>Effective date per IASB</i>
Amendment to IFRS 7 " <i>Disclosure - Transfer of Financial Assets</i> "	July 7, 2011
Amendment to IFRS 7 " <i>Disclosure - Offsetting Financial Assets and Financial Liabilities</i> "	January 1, 2013
IFRS 10 " <i>Consolidated Financial Statements</i> "	January 1, 2013 (With January 1, 2014 as the effective date for investment entities)
IFRS 11 " <i>Joint Arrangements</i> "	January 1, 2013
IFRS 12 " <i>Disclosure of Interests in Other Entities</i> "	January 1, 2013
IFRS 13 " <i>Fair Value Measurement</i> "	January 1, 2013
Amendment to IAS 1 " <i>Presentation of Items of Other Comprehensive Income</i> "	July 1, 2012
Amendment to IAS 12 " <i>Deferred Tax: Recovery of Underlying Assets</i> "	January 1, 2012
Amendment to IAS 19 " <i>Employee Benefits</i> "	January 1, 2013
Amendment to IAS 27 " <i>Separate Financial Statements</i> "	January 1, 2013
Amendment to IAS 32 " <i>Offsetting Financial Assets and Financial Liabilities</i> "	January 1, 2014
IFRIC 20 " <i>Stripping Costs in Production Phase of a Surface Mine</i> "	January 1, 2013

The Group had assessed that the 2013 version of the IFRS endorsed by the FSC may not have any significant impact on its consolidated financial statements except for the following:

A. IAS 1 "*Presentation of financial statements*"

The primary amendment of IAS 1 requires profit or loss and other comprehensive income to be presented together. It also requires entities to group items presented in other comprehensive income based on whether they are potentially reclassified to profit or loss subsequently, as well as all tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items. The Group will follow the amendment of IAS 1 to present its consolidated comprehensive income statement.

B. IFRS 13 "*Fair Value Measurement*"

IFRS 13 defines the meaning of fair value and sets the method of calculation and the presentation of measurement of fair value. After assessing the standard, the Group does not expect any significant influence on its financial condition and performance, and will follow IFRS 13 to additionally disclose the information on measurement of fair value.

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## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (2) Impact of the new standards and interpretations announced by IASB but not yet endorsed by the FSC.

A summary of the new standards and amendments to IFRSs issued by the IASB that has not yet approved by the FSC are as following:

<u><i>New, Revised Standards, Amendments and Interpretations</i></u>	<u><i>Effective date per IASB</i></u>
IFRS 9 <i>"Financial Instruments"</i>	January 1, 2018
Amendments to IFRS 10 and IAS 28 <i>"Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture"</i>	January 1, 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 <i>"Individual Investment: Applying the Consolidation Exception"</i>	January 1, 2016
Amendment to IFRS 11 <i>"Acquisitions of Interests in Joint Operations"</i>	January 1, 2016
IFRS 14 <i>"Regulatory Deferral Accounts"</i>	January 1, 2016
IFRS 15 <i>"Revenue from Contracts with Customers"</i>	January 1, 2017
Amendment to IAS 1 <i>"Disclosure Plans"</i>	January 1, 2016
Amendment to IAS 16 and IAS 38 <i>"Clarification of Acceptable Methods of Depreciation and Amortization"</i>	January 1, 2016
Amendments to IAS 16 and IAS 41 <i>"Agriculture: Bearer Plants"</i>	January 1, 2016
Amendment to IAS 19 <i>"Defined Benefit Plans: Employee Contributions"</i>	July 1, 2014
Amendment to IAS 27 <i>"Equity method in Separate Financial Statements"</i>	January 1, 2016
Amendment to IAS 36 <i>"Recoverable Amount Disclosures for Non-financial Assets"</i>	January 1, 2014
Amendment to IAS 39 <i>"Novation of Derivatives and Continuation of Hedge Accounting"</i>	January 1, 2014
IFRIC 21 <i>"Levies"</i>	January 1, 2014

The Group is assessing the impact on the financial condition and performance of the above standards and interpretations. The Group will disclose the related results when the assessment is finalized.

#### 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 consolidated financial statements, the Chinese version shall prevail.

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**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The significant accounting policies are set out below. Except for those described individually, the significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

**(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”), the IFRSs endorsed by the FSC, International Accounting Standards (IAS) and Interpretations (hereinafter referred to as the “the IFRSs endorsed by the FSC”).

**(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.

**(3) Basis of consolidation****A. Principles of preparation of the consolidated financial statements**

The consolidated financial statements comprise the Company 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.

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## ALPHA NETWORKS INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### B. List of subsidiaries in the consolidated financial statements

The consolidated subsidiaries are summarized as follows:

Name of Investor	Name of Investee	Main Business Activities	Percentage of ownership	
			December 31, 2014	December 31, 2013
Alpha	Alpha Holdings Inc. (Alpha Holdings)	Investment holding	100%	100%
Alpha	Alpha Solutions Co., Ltd. (Alpha Solutions)	Sale of network equipment and technical services	100%	100%
Alpha	Alpha Networks Inc. (Alpha USA)	Manufacture and sale of network equipment and procurement service	100%	100%
Alpha	Darson Trading Limited (Darson)	Shipping and transportation service; in October 2010, Darson ceased operations; then on April 25, 2014, complete dissolution and liquidation procedures.	-	100%
Alpha	Net Mag Technology Corp. (Net Mag)	Testing and maintaining electrical equipment	100%	100%
Alpha	Alpha Networks (Hong Kong) Limited (Alpha HK)	Investment holding	100%	100%
Alpha	Alpha Technical Services Inc. (ATS)	Post-sale service	100%	100%
Alpha	Alpha Networks NL B.V. (Alpha NL)	Sale of network equipment	100%	100%
Alpha	Global Networks Trading Limited (Global)	Sale of electrical products	100%	100%
Alpha	Alpha Technical Services Japan Inc. (ATSJ) (note 2)	Post-sale service	100%	100%
Alpha Holdings	D-Link Asia Investment Pte. Ltd. (D-Link Asia)	Investment in manufacturing business	100%	100%
Alpha Holdings	Alpha Networks (Chengdu) Co., Ltd. (Alpha Chengdu)	Research, development, production and sale of network products	100%	100%
Alpha Holdings	Alpha Investment Pte. Ltd. (Alpha Investment)	Investment holding	100%	100%
Alpha Holdings	Universal Networks Trading Limited (Universal) (note 1)	Sale of electrical products	100%	100%
Alpha Investment	Mirac Networks (Dongguan) Co., Ltd. (Mirac)	Production and sale of network products	100%	100%
D-Link Asia	Alpha Networks (Dongguan) Co., Ltd. (Alpha Dongguan)	Production and sale of network products	100%	100%
Alpha HK	Alpha Networks (Changshu) Co., Ltd. (Alpha Changshu)	Research, development, production and sale of network products	100%	100%

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business Activities	Percentage of ownership	
			December 31, 2014	December 31, 2013
Alpha HK	Maintrend Technical Services (Changshu) Co., Ltd. (Maintrend)	Post-sale service	100%	100%
Mirac	JUST3C Corporation (JUST3C)	Sale of network products	100%	-

Note 1 : Universal was originally held by Alpha directly. It is now held by Alpha Holdings after Alpha Group's organization restructuring in 2013.

Note 2 : The Group's interim shareholders' meeting approved the liquidation and the dissolution of ATSJ. The Group estimated that no impairment would generate from the liquidation and the dissolution of ATSJ. Relevant legal procedure was still in progress as of December 31 2014.

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

## (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 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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(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.

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 balances and bank deposits that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

**(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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(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.

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 measured at amortized cost, and are included in financial assets measured at cost.

**(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 and dividend income are recognized in other comprehensive income and presented under 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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(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.

Objective evidence that financial assets are impaired includes delinquency or default (such as unpaid or delayed payment of interest or principal) by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an available-for-sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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.

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.

(Continued)



**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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. The Group designates its financial liabilities as fair value through profit or loss on initial recognition under one of the following situations:

- 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.

(c) 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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(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.

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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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.

**(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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****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.

- (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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (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.

Development expenditures of capitalization are measured at cost, less, accumulated amortization and any accumulated impairment losses.

## C. Other intangible assets

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

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****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 determined, net of depreciation or amortization, if no impairment loss had been recognized.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Notwithstanding whether indicators exist, 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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(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.

**(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.

(Continued)



**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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.

**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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(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.

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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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) 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.

**(21) 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 judgments, estimation, and assumptions uncertainty**

The consolidated financial statements are prepared in conformity with the IFRS endorsed by the FSC, under which, the management makes judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in 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 are included in note 6(4) evaluation of inventories and note 6(17) regarding measurement of defined benefit obligations.

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 6. Description of significant accounts

## (1) Cash and cash equivalents

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Cash on hand	\$ 5,790	6,260
Checking and savings accounts	1,407,626	919,717
Time deposits	159,761	329,515
Cash equivalents – bonds with repurchase agreements	<u>707,848</u>	<u>287,212</u>
Cash and cash equivalents reported in the Statements of Cash flows	<u>\$ 2,281,025</u>	<u>1,542,704</u>

Please refer to note 6(25) for the disclosure of interest rate risk and the sensitivity analysis of the Group's financial assets and liabilities.

As of December 31, 2014 and 2013, deposits with original maturities of more than three months were \$292,445 and \$795,697, respectively, and were recorded in other financial assets – current.

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Financial assets at fair value through profit or loss – current		
Currency option	\$ 2	-
Cross currency swap contract	688	4,321
Forward exchange contract	<u>-</u>	<u>4,964</u>
	<u>\$ 690</u>	<u>9,285</u>
Financial liabilities at fair value through profit or loss – current		
Forward exchange contract	\$ -	3,893
Currency option	21,860	-
Cross currency swap contract	109,288	47,419
Structured derivative products	741	-
Call and put option – convertible bonds payable	<u>-</u>	<u>175</u>
	<u>\$ 131,889</u>	<u>51,487</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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.

<b>December 31, 2014</b>			
	<b>Notional amount (in thousands)</b>	<b>Currency</b>	<b>Maturity date</b>
Buy USD put options	USD 20,000	USD/NTD	January 2015
Sell USD call options	USD 20,000	USD/NTD	January 2015
Sell USD put options	USD 20,000	USD/NTD	January 2015
Cross currency swap contract	USD 100,500	USD/NTD	January 2015 ~ March 2015
Structured derivatives	USD 1,000	USD/CNY	January 2015

  

<b>December 31, 2013</b>			
	<b>Notional amount (in thousands)</b>	<b>Currency</b>	<b>Maturity date</b>
Cross currency swap contract	USD 143,300	USD/NTD	January 2014 ~ April 2014
Forward exchange contract	USD 12,000	USD/NTD	February 2014 ~ March 2014
Forward exchange contract	USD 19,000	USD/CNY	January 2014 ~ October 2014

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Notes receivable	\$ 46,783	27,181
Accounts receivable	2,811,741	3,405,387
Less: allowance for doubtful receivables	<u>(10,209)</u>	<u>(2,872)</u>
	<b><u>\$ 2,848,315</u></b>	<b><u>3,429,696</u></b>

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Other financial assets – non-current	\$ 224,633	224,699
Less: allowance for doubtful accounts	<u>(224,633)</u>	<u>(224,699)</u>
	<b><u>\$ -</u></b>	<b><u>-</u></b>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

	<u>Individual impairments</u>	<u>Collective impairments</u>	<u>Total</u>
Balance at January 1, 2014	\$ 224,699	2,872	227,571
Provision for (Reversal of) impairment loss	<u>(66)</u>	<u>7,337</u>	<u>7,271</u>
Balance at December 31, 2014	<u>\$ 224,633</u>	<u>10,209</u>	<u>234,842</u>
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	<u>(128,986)</u>	<u>-</u>	<u>(128,986)</u>
Balance at December 31, 2013	<u>\$ 224,699</u>	<u>2,872</u>	<u>227,571</u>

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, 2014. 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, 2014, the balance of accounts receivable that could not be collected was \$224,633.

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

	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
	<u>Gross amount</u>	<u>Impairment loss</u>	<u>Gross amount</u>	<u>Impairment loss</u>
Overdue 0~30 days	\$ 412,178	-	572,221	-
Overdue 31~120 days	63,293	1,955	66,233	2,379
Overdue 121~365 days	11,010	8,254	632	493
Overdue more than one year	<u>224,633</u>	<u>224,633</u>	<u>224,699</u>	<u>224,699</u>
	<u>\$ 711,114</u>	<u>234,842</u>	<u>863,785</u>	<u>227,571</u>

## (4) Inventories

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Raw materials	\$ 2,471,502	2,848,108
Work in process and semi-finished products	416,768	557,905
Finished goods	<u>1,126,236</u>	<u>988,196</u>
	<u>\$ 4,014,506</u>	<u>4,394,209</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013, the cost of goods sold and expenses of inventory were \$19,866,775 and \$20,358,856, respectively.

The total amount of the gain from reversal of inventory write-downs allowance, physical inventory loss and scrap inventory loss amounted to \$145,358, which were included in cost of goods sold in 2014. The total amount of the changes for inventories written down to net realizable value, physical inventory loss and scrap inventory loss amounted to \$34,688 in 2013.

As of December 31, 2014 and 2013, the Group's inventories were not pledged.

The Group's inventory is measured by the lower of cost and net realizable value, which is based on judgment and estimate of net realizable value at the reporting date, due to rapid technological changes that may cause great changes in net realizable value.

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Current:		
Time deposits	\$ 292,445	795,697
Others	<u>69,274</u>	<u>3,628</u>
	<u>\$ 361,719</u>	<u>799,325</u>
Non-current:		
Restricted cash in banks	\$ 7,551	34,738
Refundable deposits	<u>46,067</u>	<u>21,284</u>
	<u>\$ 53,618</u>	<u>56,022</u>

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

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Business tax refund receivable	\$ 389,053	904,806
Income tax receivable	65,825	66,309
Prepaid expenses	39,553	38,782
Prepayment for equipments	34,576	21,636
Others	<u>21,420</u>	<u>64,968</u>
	<u>\$ 550,427</u>	<u>1,096,501</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Publicly traded stock – D-Link Corp.	\$ 186,957	177,871
TPEX stock – Skardin Industrial Corp.	-	1,797
	<u>\$ 186,957</u>	<u>179,668</u>

As of December 31, 2014 and 2013, 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:

	<u>For the years ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
<b>Equity market price at reporting date</b>		
Increase 10%	\$ <u>18,696</u>	<u>17,967</u>
Decrease 10%	\$ <u>(18,696)</u>	<u>(17,967)</u>

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Stock investment – TGC, Inc.	\$ -	-
Stock investment – Quietek	9,996	9,996
	<u>\$ 9,996</u>	<u>9,996</u>

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.

(Continued)



## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (9) Investment accounted for using the equity method

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Associate	\$ <u>100,965</u>	<u>124,965</u>

The Group invested in Delta Mobile Software, Inc. in the beginning of December 2012 and will continue to invest according to the contract in order to obtain significant influence. The investment is accounted for using the equity method.

The Group did not place any investment accounted for using equity method as collateral.

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

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
The Group's share of the net loss of an associate	\$ <u>(24,000)</u>	<u>(6,529)</u>

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Total assets	\$ <u>104,417</u>	<u>87,423</u>
Total liabilities	\$ <u>4,952</u>	<u>2,907</u>

  

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Revenue	\$ <u>49,377</u>	<u>44,731</u>
Net income (loss)	\$ <u>7,261</u>	<u>(3,989)</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (10) Property, plant and equipment

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

	<u>Land</u>	<u>Building and construction</u>	<u>Machinery and equipment</u>	<u>Office, transportation and other facilities</u>	<u>Total</u>
Cost:					
Balance at January 1, 2014	\$ 62,409	3,095,050	2,318,513	397,561	5,873,533
Additions	-	57,479	156,621	50,819	264,919
Disposals	-	(20,030)	(123,411)	(34,148)	(177,589)
Reclassification	-	-	-	(482)	(482)
Effects of exchange rate changes	3,701	82,920	72,744	10,195	169,560
Balance at December 31, 2014	<u>\$ 66,110</u>	<u>3,215,419</u>	<u>2,424,467</u>	<u>423,945</u>	<u>6,129,941</u>
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	<u>\$ 62,409</u>	<u>3,095,050</u>	<u>2,318,513</u>	<u>397,561</u>	<u>5,873,533</u>
Depreciation and impairment loss:					
Balance at January 1, 2014	\$ -	1,032,193	1,114,734	246,834	2,393,761
Depreciation	-	150,906	273,572	54,520	478,998
Disposal	-	(20,030)	(107,180)	(33,200)	(160,410)
Reclassification	-	-	-	(250)	(250)
Effects of exchange rate changes	-	33,901	41,347	7,065	82,313
Balance at December 31, 2014	<u>\$ -</u>	<u>1,196,970</u>	<u>1,322,473</u>	<u>274,969</u>	<u>2,794,412</u>
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	<u>\$ -</u>	<u>1,032,193</u>	<u>1,114,734</u>	<u>246,834</u>	<u>2,393,761</u>
Book value:					
Balance at December 31, 2014	<u>\$ 66,110</u>	<u>2,018,449</u>	<u>1,101,994</u>	<u>148,976</u>	<u>3,335,529</u>
Balance at December 31, 2013	<u>\$ 62,409</u>	<u>2,062,857</u>	<u>1,203,779</u>	<u>150,727</u>	<u>3,479,772</u>
Balance at January 1, 2013	<u>\$ 99,805</u>	<u>2,122,506</u>	<u>1,203,359</u>	<u>142,038</u>	<u>3,567,708</u>

As of December 31, 2014 and 2013, the Group's property, plant and equipment were not pledged.

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (11) Intangible assets

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

	Goodwill	Trademarks	Software applications and other	Total
Cost				
Balance at January 1, 2014	\$ 134,883	127	423,313	558,323
Additions	-	-	84,198	84,198
Disposal	-	-	(12,087)	(12,087)
Reclassification	-	-	482	482
Effect of exchange rate changes	-	-	2,450	2,450
Balance at December 31, 2014	<u>\$ 134,883</u>	<u>127</u>	<u>498,356</u>	<u>633,366</u>
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	<u>\$ 134,883</u>	<u>127</u>	<u>423,313</u>	<u>558,323</u>
Amortization and impairment:				
Balance at January 1, 2014	\$ -	127	337,230	337,357
Amortization	-	-	86,039	86,039
Disposal	-	-	(12,087)	(12,087)
Reclassification	-	-	250	250
Effect of exchange rate changes	-	-	1,930	1,930
Balance at December 31, 2014	<u>\$ -</u>	<u>127</u>	<u>413,362</u>	<u>413,489</u>
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	<u>\$ -</u>	<u>127</u>	<u>337,230</u>	<u>337,357</u>
Book value:				
Balances at December 31, 2014	<u>\$ 134,883</u>	<u>-</u>	<u>84,994</u>	<u>219,877</u>
Balances at December 31, 2013	<u>\$ 134,883</u>	<u>-</u>	<u>86,083</u>	<u>220,966</u>

## A. Amortization

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

	For the years ended	
	December 31,	
	2014	2013
Operating costs	\$ 2,658	2,450
Operating expenses	83,381	87,810
Total	<u>\$ 86,039</u>	<u>90,260</u>

## B. Guarantees

As of December 31, 2014 and 2013, the Group's intangible assets were not pledged.

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (12) Short-term borrowings

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Unsecured borrowings	\$ -	532,260
Secured borrowings	<u>309,899</u>	<u>65,638</u>
	<u>\$ 309,899</u>	<u>597,898</u>
Range of interest rates	<u>1.53%~</u>	<u>1.03%~</u>
	<u>1.58%</u>	<u>1.35%</u>
Unused available balance	<u>\$ 3,303,120</u>	<u>2,030,313</u>

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

## (13) Long-term loans

	<u>December 31, 2014</u>			
	<u>Currency</u>	<u>Interest rates</u>	<u>Durations</u>	<u>Amount</u>
Secured borrowings	USD	1.70%~1.75%	2015~2016	\$ 624,052
Less: Due within one year				<u>(312,026)</u>
				<u>\$ 312,026</u>
	<u>December 31, 2013</u>			
	<u>Currency</u>	<u>Interest rates</u>	<u>Durations</u>	<u>Amount</u>
Secured borrowings	USD	1.78%~1.97%	2015~2016	<u>\$ 601,770</u>

On January 19, 2012, and April 15, 2013, Alpha Changshu entered into agreements 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, 2014.

Please refer to note 6(25) for information about exposure to interest rate risk, foreign currency exchange risk and liquidity risk.

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (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, 2014 and 2013, were summarized below:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Convertible payable	\$ 1,000,000	1,000,000
Less: Unamortized discount	-	(8,803)
Converted into common stock	<u>(1,000,000)</u>	<u>(854,400)</u>
	<u>\$ -</u>	<u>136,797</u>
Embedded derivative – call option and put option (presented at financial liability at fair value through profit or loss)	<u>\$ -</u>	<u>175</u>
	<b>For the years ended</b>	
	<b>December 31,</b>	
	<u>2014</u>	<u>2013</u>
Embedded derivative – loss or gain on call option and put option at fair value (presented at other losses)	<u>\$ -</u>	<u>732</u>
Interest expense	<u>\$ 427</u>	<u>4,048</u>

Terms of conversion were 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.

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The conversion price should be adjusted in accordance with the identified 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, 2014, bonds payable were fully completed conversion.

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 were summarized as follows:

<u>Item</u>	
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	<u>(892,800)</u>
Equity element – conversion options	<u>\$ 100,900</u>

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 2014 and 2013.

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (15) Provision

	<u>Warranties</u>
Balance at January 1, 2014	\$ 235,346
Provisions made during the year	262,846
Provisions used during the year	(257,263)
Effects of exchange rate changes	1,018
Balance at December 31, 2014	<u>\$ 241,947</u>
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	<u>\$ 235,346</u>

The provision for warranties relates mainly to networks products sold during the years ended December 31, 2014 and 2013. 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, 2014 and 2013, were as follows:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Less than one year	\$ 35,439	25,392
Between one and five years	88,598	73,745
More than five years	42,239	32,672
	<u>\$ 166,276</u>	<u>131,809</u>

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 \$61,083 and \$64,145 as an expense in profit or loss in respect of operating leases for the years ended December 31, 2014 and 2013, respectively.

The Group was 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, 2014 and 2013, the Group recognized \$1,740 and \$2,433, respectively, in operating expenses. As of December 31, 2014 and 2013, the unamortized amounts were \$80,067 and \$79,165, respectively, recognized in long-term rental prepayment.

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (17) Employee benefits

## A. Defined benefit plans

The recognized liabilities of the defined benefit obligations were consisted of as follows:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Total present value of obligation	\$ 540,887	530,884
Fair value of plan assets	<u>(175,929)</u>	<u>(171,674)</u>
Recognized liabilities for defined benefit obligations	<u>\$ 364,958</u>	<u>359,210</u>

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 allocates its pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of Labor Retirement Fund, and such funds are managed by the Bureau of Labor Fund, Ministry of Labor. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year term deposits with interest rates offered by the local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$175,929 at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Fund.

## (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:

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Defined benefit obligation as of January 1	\$ 530,884	694,107
Current service cost and interest	14,710	18,009
Curtailement gains	-	(56,715)
Pension payments	(1,506)	-
Actuarial gains	<u>(3,201)</u>	<u>(124,517)</u>
Defined benefit obligation as of December 31	<u>\$ 540,887</u>	<u>530,884</u>

(Continued)



## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (c) Movements of defined benefit plan assets

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

	For the years ended	
	December 31,	
	<u>2014</u>	<u>2013</u>
Fair value of plan assets as of January 1	\$ 171,674	209,241
Expected return on plan assets	3,441	3,675
Settlement/Curtailment	-	(41,582)
Pension payments	(1,506)	-
Contribution of plan participants	1,500	1,499
Actuarial gains (losses)	820	(1,159)
Fair value of plan assets as of December 31	<u>\$ 175,929</u>	<u>171,674</u>

## (d) Expenses recognized in profit or loss

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

	For the years ended	
	December 31,	
	<u>2014</u>	<u>2013</u>
Current service cost	\$ 4,100	5,862
Interest cost	10,610	12,147
Settlement/Curtailment gains	-	(15,133)
Expected return on plan assets	(3,441)	(3,675)
	<u>11,269</u>	<u>(799)</u>
Actual return on plan assets	<u>\$ 4,261</u>	<u>2,516</u>

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

The actuarial gains and losses recognized in other comprehensive income were as follows:

	For the years ended	
	December 31,	
	<u>2014</u>	<u>2013</u>
Cumulative amount as of January 1	\$ (21,797)	101,561
Recognized gains for the period	(4,021)	(123,358)
Cumulative amount as of December 31	<u>\$ (25,818)</u>	<u>(21,797)</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (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:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%
Rate of increase in future compensation levels	3.00%	3.00%

## ii. The cost of the defined benefit plan:

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
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%

## (g) Experience adjustments based on historical information

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 01,</u> <u>2012</u>
Present value of the defined benefit obligation	\$ 540,887	530,884	694,107	634,561
Fair value of plan assets	(175,929)	(171,674)	(209,241)	(250,501)
Recognized liabilities for defined benefit obligations	<u>\$ 364,958</u>	<u>359,210</u>	<u>484,866</u>	<u>384,060</u>
Experience adjustments arising on the present value of defined benefit plans	<u>\$ (3,201)</u>	<u>(1,330)</u>	<u>45,964</u>	<u>-</u>
Experience adjustments arising on the fair value of plan assets	<u>\$ (820)</u>	<u>1,159</u>	<u>2,761</u>	<u>-</u>

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

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (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 rate of increase in future compensation levels, 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, 2014, the Group's accrued pension liabilities amounted to \$364,958. If the discount rate (or rate of increase in future compensation levels) 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%
<b>Actuarial assumptions</b>		
Discount rate	\$ <u>(21,157)</u>	<u>22,143</u>
Rate of increase in future compensation levels	\$ <u>21,581</u>	<u>(20,738)</u>

## 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, Ministry of Labor without any additional legal or constructive obligations thereafter.

The Group's pension costs under the defined contribution method were \$163,395 and \$150,447 for the years ended December 31, 2014 and 2013, respectively.

## (18) Income tax

## A. Income tax expense

The amount of income tax expense for the years ended December 31, 2014 and 2013, were as follows:

	For the years ended	
	December 31,	
	2014	2013
Current tax expense		
Current period	\$ 132,998	128,762
Adjustment for prior periods	<u>(2,661)</u>	<u>(9,811)</u>
	<u>130,337</u>	<u>118,951</u>
Deferred tax expense		
Temporary differences	<u>(8,067)</u>	<u>66,054</u>
Income tax expense	\$ <u>122,270</u>	<u>185,005</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Income tax expense recognized directly in other comprehensive income for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Foreign currency translation differences for foreign operations	\$ <u>15,990</u>	<u>26,090</u>

Reconciliation of income tax and profit before tax for the years ended December 31, 2014 and 2013 were as follows:

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Income before tax	\$ <u>658,043</u>	<u>964,522</u>
Income tax using the Company's domestic tax rate	111,867	163,969
Effect of tax rates in foreign jurisdiction	27,454	12,714
Tax effect of permanent difference	12,873	32,925
Tax incentives	(42,824)	(26,747)
Loss on investments of subsidiaries	(19,205)	(14,161)
Additional 10% income surtax on undistributed earnings	12,114	-
Other	19,991	16,305
	<u>\$ 122,270</u>	<u>185,005</u>

## 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:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
Deductible temporary differences	\$ 361,553	365,488
Unused income tax loss carryforwards	<u>94,045</u>	<u>104,086</u>
	<u>\$ 455,598</u>	<u>469,574</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of December 31, 2014, the unused loss carryforwards and related expiration year of the Group were as follows:

<u>Year of loss</u>	<u>Unused income tax loss carryforwards</u>	<u>Expiration at the year</u>
2010	\$ 98,459	2015
2011	62,380	2016
2012	25,636	2017
2013	17,631	2018
2014 (estimated)	<u>172,074</u>	2019
	<u>\$ 376,180</u>	

## (b) Recognized deferred tax assets and liabilities

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

Deferred tax assets:

	January 1, 2013	Recognized in income statement	Recognized in other comprehensive income	Effect of movements in exchange rate	December 31, 2013	Recognized in income statement	Recognized in other comprehensive income	Effect of movements in exchange rate	December 31, 2014
Provision for inventory devaluation	\$ 17,281	(7,982)	-	-	9,299	1,553	-	-	10,852
Provision for warranties	24,574	(865)	-	-	23,709	266	-	-	23,975
Accrued pension liability	13,095	(13,095)	-	-	-	-	-	-	-
Other	39,685	(21,723)	-	1,429	19,391	25,628	-	1,230	46,249
	<u>\$ 94,635</u>	<u>(43,665)</u>	<u>-</u>	<u>1,429</u>	<u>\$2,399</u>	<u>27,447</u>	<u>-</u>	<u>1,230</u>	<u>\$1,076</u>

Deferred tax liabilities:

	January 1, 2013	Recognized in income statement	Recognized in other comprehensive income	Effect of movements in exchange rate	December 31, 2013	Recognized in income statement	Recognized in other comprehensive income	Effect of movements in exchange rate	December 31, 2014
Investment accounted for using equity method	\$ (17,281)	(957)	-	-	(18,238)	(1,764)	-	-	(20,002)
Goodwill	(22,930)	-	-	-	(22,930)	-	-	-	(22,930)
Foreign currency translation adjustment	(23,373)	-	(26,090)	-	(49,463)	-	(15,990)	-	(65,453)
Other	(2,385)	(21,432)	-	-	(23,817)	(17,616)	-	-	(41,433)
	<u>\$ (65,969)</u>	<u>(22,389)</u>	<u>(26,090)</u>	<u>-</u>	<u>(114,448)</u>	<u>(19,380)</u>	<u>(15,990)</u>	<u>-</u>	<u>(149,818)</u>

C. As of the December 31, 2014, the Company's income tax returns had been examined by the tax authorities through 2012.

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- D. Information related to the unappropriated earnings and tax deduction ratio were summarized below:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Unappropriated earnings of 1998 and after	\$ <u>1,739,138</u>	<u>2,037,327</u>
Balance of deductible tax account	\$ <u>205,007</u>	<u>252,282</u>
	<u>2014</u>	<u>2013</u>
	<u>(estimated)</u>	<u>(actual)</u>
Tax deduction ratio for earnings distribution to ROC residents	<u>15.09%</u>	<u>13.07%</u>

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 R.O.C., on October 17, 2013.

As of December 31, 2014 the balance of imputation credit account (ICA) was prepared in accordance with ruling No. 10300053470 issued by the Ministry of Finance on August 22, 2014. Pursuant to the ruling, the Company's losses, resulting from nullifying its treasury stock and offsetting its additional paid in capital and retained earnings in 1998 and after, will not be required to be deducted from the ICA.

## (19) Capital and other equity

Reconciliations of shares outstanding were as follows (in thousands of shares):

	<u>Common Stock</u>	
	<u>2014</u>	<u>2013</u>
Balance at January 1	484,961	493,831
Issuance of stock for conversion of bonds	8,000	2,592
Purchase of treasury stock	<u>(9,824)</u>	<u>(11,462)</u>
Balance at December 31	<u>483,137</u>	<u>484,961</u>

As of December 31, 2014 and 2013, 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 \$4,971,271 and \$4,917,727, respectively.

## A. Common stock

The second unsecured convertible bonds amounting to \$145,600 and \$47,200 were converted into 8,000 shares of common stock in 2014 and 2,592 shares of common stock in 2013, respectively.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

As of December 31, 2014 and 2013, the second unsecured convertible bonds amounting to \$1,000,000 and \$854,400 had been converted into 49,785 shares and 41,785 shares, respectively, of the Company's common stock. Of those shares, 0 shares and 2,571 shares, respectively, were still in the registration process, and they were recorded under advance receipts for common stock amounting to \$0 and \$25,714, respectively.

**B. Capital surplus**

The balances of capital surplus as of December 31, 2014 and 2013, were as follows:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Additional paid-in capital	\$ 961,727	982,821
Conversion options of convertible bonds	-	14,691
Capital surplus – investments under equity method	29	29
Conversion premium of convertible bonds	1,016,032	958,632
Stock options (note)	212,977	198,287
Convertible bonds – others	<u>14,964</u>	<u>14,964</u>
	<u>\$ 2,205,729</u>	<u>2,169,424</u>

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

According to the ROC Company Act, capital surplus should be used to offset a deficit first, then the realized capital surplus can be converted into capital or distributed as stock or 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 the Securities Offering and Issuance Guidelines, the total capital surplus capitalized per annum shall not exceed 10 percent of the paid-in capital.

**C. Legal reserve**

According to the ROC Company Act, 10% of the Company's annual profit is to be set aside as legal reserve until such retention 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.

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**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****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, 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.

The employee bonuses for 2014 and 2013 were \$96,668 and \$112,377, respectively and remuneration to directors and supervisors was \$5,686 and \$6,610, respectively.

(Continued)



## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The information on dividends per share, employee bonuses, and directors' and supervisors' remuneration allocated from earnings of 2013 and 2012 which were approved by the stockholders' meeting on June 20, 2014, and June 14, 2013, were as follows:

	<u>2013</u>	<u>2012</u>
Dividends distributed to common shareholders:		
Cash (dividends per share were \$1.36 and \$1.15, respectively)	\$ <u>663,265</u>	<u>555,680</u>
Employee bonuses – cash	\$ 112,377	94,118
Directors' remuneration	<u>6,610</u>	<u>5,536</u>
	<u>\$ 118,987</u>	<u>99,654</u>

The above earnings distribution had no difference from the resolution of the Company's board of directors in the years 2013 and 2012.

The earnings distribution as employee bonuses and directors' remuneration for 2014 were subject to the proposal of the board of directors' meeting on March 16, 2015. Dividends per share was \$1.2, employee bonuses and directors' remuneration were 96,668 and 5,686, respectively. Relevant information is available on the Market Observation Post System website.

## F. Treasury stock

The Company repurchased common stock through TWSE. Details of the treasury stock transactions in 2014 and 2013 were as follows:

Purpose	<u>2014</u>			
	<u>January 1</u>	<u>Increase</u>	<u>Canceled</u>	<u>December 31</u>
Transfer to employee	9,383	-	-	9,383
To maintain the Company's credit and stockholders' equity	-	<u>9,824</u>	<u>5,217</u>	<u>4,607</u>
Total	<u>9,383</u>	<u>9,824</u>	<u>5,217</u>	<u>13,990</u>

Purpose	<u>2013</u>			
	<u>January 1</u>	<u>Increase</u>	<u>Canceled</u>	<u>December 31</u>
Transfer to employee	-	9,383	-	9,383
To maintain the Company's credit and stockholders' equity	<u>20,000</u>	<u>2,079</u>	<u>22,079</u>	-
Total	<u>20,000</u>	<u>11,462</u>	<u>22,079</u>	<u>9,383</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

According to the Securities and Exchange Act, 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, treasury stock should not be pledged, nor be 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, 2014	\$ 57,201	(253,923)
Foreign currency translation exchange differences (net of taxes)	78,068	-
Unrealized gains and losses on available-for-sale financial assets	-	8,374
Balance at December 31, 2014	<u>\$ 135,269</u>	<u>(245,549)</u>
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	<u>\$ 57,201</u>	<u>(253,923)</u>

## (20) Earnings per share

## A. Basic earnings per share

	For the years ended December 31,	
	2014	2013
Net income attributable to ordinary shareholders of the Company	<u>\$ 535,773</u>	<u>779,517</u>
Weighted-average number of shares outstanding		
Outstanding common stock, January 1	484,961	493,831
Effect of treasury stock	(4,725)	(7,440)
Effect of conversion of convertible bonds	7,567	250
Weighted-average number of shares outstanding, December 31	<u>487,803</u>	<u>486,641</u>
Basic earnings per share (dollars)	<u>\$ 1.10</u>	<u>1.60</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## B. Diluted earnings per share

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<u>2014</u>	<u>2013</u>
Net income attributable to ordinary shareholders of the Company (basic)	\$ 535,773	779,517
Interest expense after tax of convertible bonds	<u>355</u>	<u>3,360</u>
Net income attributable to ordinary shareholders of the Company (diluted)	<u>\$ 536,128</u>	<u>782,877</u>
Weighted-average number of shares outstanding (basic)	\$ 487,803	486,641
Effect of conversion of convertible bonds	433	10,342
Effect of employee bonus distributed in stock if approved by the stockholders' meeting	<u>8,218</u>	<u>7,832</u>
Weighted-average number of shares outstanding, December 31 (diluted)	<u>\$ 496,454</u>	<u>504,815</u>
Diluted earnings per share (dollars)	<u>\$ 1.08</u>	<u>1.55</u>

## (21) Revenues

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<u>2014</u>	<u>2013</u>
Sales of goods	\$ 23,277,186	24,099,689
Services provided	<u>326</u>	<u>4,066</u>
	<u>\$ 23,277,512</u>	<u>24,103,755</u>

## (22) Other income and expenses

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<u>2014</u>	<u>2013</u>
Interest income	\$ 50,834	21,938
Dividend income	9,899	9,854
Other income	<u>78,861</u>	<u>34,066</u>
	<u>\$ 139,594</u>	<u>65,858</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (23) Other gains and losses

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Loss on valuation of financial assets, net	\$ (290,831)	(101,676)
Gain on foreign currency exchange, net	397,083	213,212
	<u>\$ 106,252</u>	<u>111,536</u>

## (24) Finance cost

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Interest expense of bonds payable	\$ 427	4,048
Interest expense of borrowings	32,538	36,373
	<u>\$ 32,965</u>	<u>40,421</u>

## (25) Financial instruments

## A. Categories of financial instruments

## Financial Assets

	<b>December 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
Financial assets measured at fair value through profit or loss:		
Financial assets designated as at fair value through profit or loss	\$ 690	9,285
Available-for-sale financial assets – non-current (including financial assets carried at cost – non-current)	196,953	189,664
Receivables:		
Cash and cash equivalents	2,281,025	1,542,704
Accounts receivable (including related parties)	5,449,070	6,004,783
Subtotal	<u>7,730,095</u>	<u>7,547,487</u>
Other financial assets – current	361,719	799,325
Other financial assets – non-current	53,618	56,022
Total	<u>\$ 8,343,075</u>	<u>8,601,783</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## Financial Liabilities

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Financial liabilities measured at fair value through profit or loss:		
Financial liabilities designated as at fair value through profit or loss	\$ <u>131,889</u>	<u>51,487</u>
Financial liabilities measured at amortized cost:		
Short-term borrowings	309,899	597,898
Accounts payable	3,830,819	4,876,948
Payables to related parties	9,624	13,218
Accrued expenses	504,009	536,214
Long-term loans (including current portion)	624,052	601,770
Bonds payable (including current portion)	<u>-</u>	<u>136,797</u>
Subtotal	<u>5,278,403</u>	<u>6,762,845</u>
Total	<u>\$ 5,410,292</u>	<u>6,814,332</u>

## B. Credit risk

## (a) Credit risk exposures

As of December 31, 2014 and 2013, the carrying amounts of financial assets represented the Group's maximum exposure to credit risk and amounted to \$8,146,122 and \$8,412,119, 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, 2014 and 2013, 69% and 51%, 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.

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## C. Liquidity risk

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

	<u>Book value</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>
<b>December 31, 2014</b>						
Non-derivative financial liabilities						
Secured borrowings	\$ 933,951	(941,166)	(314,940)	(312,629)	(313,597)	-
Accounts payable	3,830,819	(3,830,819)	(3,830,819)	-	-	-
Other payables – related parties	9,624	(9,624)	(9,624)	-	-	-
Accrued expenses	504,009	(504,009)	(504,009)	-	-	-
Derivative financial liabilities						
Cross currency swap contracts:						
Outflows	109,288	(3,075,807)	(3,075,807)	-	-	-
Inflows	(688)	3,183,254	3,183,254	-	-	-
Forward exchange contracts:						
Outflows	21,860	(1,823,400)	(1,823,400)	-	-	-
Inflows	(2)	1,897,200	1,897,200	-	-	-
Structured derivative contracts:						
Outflows	741	(30,879)	(30,879)	-	-	-
Inflows	-	-	-	-	-	-
	<u>\$ 5,409,602</u>	<u>(5,135,250)</u>	<u>(4,509,024)</u>	<u>(312,629)</u>	<u>(313,597)</u>	<u>-</u>
<b>December 31, 2013</b>						
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	-	-	-
	<u>\$ 6,805,047</u>	<u>(6,560,230)</u>	<u>(5,742,986)</u>	<u>(207,050)</u>	<u>(610,194)</u>	<u>-</u>

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

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 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:

<b>December 31, 2014</b>			
	<b>Foreign currency amount</b>	<b>Exchange rate</b>	<b>NTD</b>
<u>Financial Assets</u>			
<u>Monetary items</u>			
USD	\$ 62,042	31.62	1,961,768
CNY	64,220	5.0993	327,477
JPY	1,957	0.2653	519
<u>Financial Liabilities</u>			
<u>Monetary items</u>			
USD	66,054	31.62	2,088,627
<b>December 31, 2013</b>			
	<b>Foreign currency amount</b>	<b>Exchange rate</b>	<b>NTD</b>
<u>Financial Assets</u>			
<u>Monetary items</u>			
USD	\$ 161,584	29.85	4,823,282
CNY	14,570	4.9306	71,839
JPY	24,765	0.2852	7,063
<u>Financial Liabilities</u>			
<u>Monetary items</u>			
USD	66,589	29.85	1,987,682

## (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, CNY and the JPY at December 31, 2014 and 2013, would have decreased or increased the net profit before tax for the years ended December 31, 2014 and 2013, by \$10,056 and \$142,133, 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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**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 \$2,335 and \$2,999 for the years ended December 31, 2014 and 2013, 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 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 were as follows:

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities:				
Long-term borrowings	\$ 624,052	624,052	601,770	601,770
Bonds payable (including current portion)	-	-	136,797	168,241

- (c) Methods and assumptions used to estimate fair values of financial instruments were as follows:
- 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.

(Continued)



## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (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).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2014</b>				
Assets				
Derivative financial assets – current	\$ -	690	-	690
Available-for-sale financial assets – non-current	186,957	-	-	186,957
Liabilities				
Derivative financial liabilities – current and non-current	-	131,889	-	131,889
<b>December 31, 2013</b>				
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

## (26) 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

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(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.

**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.

(Continued)

**ALPHA NETWORKS INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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 which were approved by the Board of Directors.

(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, YEN, 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 this case, provide economic hedging without signed agreement in derivative instruments, therefore does not used hedge accounting.

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.

(27) 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.

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

In 2014 and 2013, the return on capital was 5.50% and 8.09%, respectively. In comparison the weighted-average interest expense on interest-bearing borrowings was 3.48% and 3.03%, respectively.

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Total liabilities	\$ 7,042,424	8,262,760
Less: Cash and cash equivalents	<u>(2,281,025)</u>	<u>(1,542,704)</u>
Net debt	<u>\$ 4,761,399</u>	<u>6,720,056</u>
Total equity	<u>\$ 9,683,098</u>	<u>9,787,000</u>
Debt-to-capital ratio	<u>\$ 49.17%</u>	<u>68.66%</u>

The main purpose of the Group's repurchase of stock is to maintain the Group'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 TPEX-Listed Companies. The Group has not expressly set up a stock repurchase plan.

As of December 31, 2014, the Group had not changed its capital management method.

## (28) 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, 2014 and 2013, 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:

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Entities with significant influence over the Group	\$ 8,891,634	8,906,693
Associates	<u>2,979</u>	<u>7,925</u>
	<u>\$ 8,894,613</u>	<u>8,914,618</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The collection terms for third parties were 30 to 75 days, while those for related parties were 90 days.

## B. Receivables from related parties

The receivables from related parties were as follows:

<u>Account</u>	<u>Category of related parties</u>	<u>December 31, December 31,</u>	
		<u>2014</u>	<u>2013</u>
Receivables – related parties	Entities with significant influence over the Group	\$ 2,599,192	2,567,103
Receivables – related parties	Associates	<u>1,563</u>	<u>7,984</u>
		<u>\$ 2,600,755</u>	<u>2,575,087</u>

## C. Rendering of services and other expenses

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

	<u>For the years ended</u>	
	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Entities with significant influence over the Group	\$ <u>30,368</u>	<u>31,955</u>

Payables to related parties were as follows:

<u>Account</u>	<u>Category of related party</u>	<u>December 31, December 31,</u>	
		<u>2014</u>	<u>2013</u>
Payables – related parties	Entities with significant influence over the Group	\$ <u>8,383</u>	<u>13,218</u>

## D. Transaction of property, plant and equipment

Acquisition of property, plant and equipment for the years ended December 31, 2014 and 2013, was as follows:

	<u>For the years ended</u>	
	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Entities with significant influence over the Group	\$ <u>998</u>	<u>-</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Payables to related parties were as follows:

<u>Account</u>	<u>Category of related party</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Payables – related parties	Entities with significant influence over the Group	\$ <u>877</u>	<u>-</u>

## E. Payments on behalf others

As of December 31, 2014 and 2013, Payments on behalf others between the related parties but had not been paid under payables – related parties were as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Entities with significant influence over the Group	\$ <u>364</u>	<u>-</u>

## F. Others

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:

	<u>For the years ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Entities with significant influence over the Group	\$ <u>-</u>	<u>38</u>

As of December 31, 2014 and 2013, the amounts had been paid.

## (3) Compensation to executive officers

	<u>For the years ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Short-term employee benefits	\$ 44,228	46,744
Post-employment benefits	397	492
	<u>\$ 44,625</u>	<u>47,236</u>

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 8. Pledged assets

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Time deposit (recorded in other financial assets – noncurrent)	Import guarantee for Customs	\$ 7,500	22,000
Time deposit (recorded in other financial assets – noncurrent)	Guarantee letter for customs' tax exemption	51	-
Time deposit (recorded in other financial assets – noncurrent)	Borrowings	-	12,738
		<u>\$ 7,551</u>	<u>34,738</u>

## 9. Commitments and contingencies

- (1) Former employees of Alpha USA brought lawsuits claiming that their employment was inappropriately terminated and their wages were unpaid. Alpha USA hired lawyers to resolve the disputes. Alpha USA estimates that the lawsuits will not have a significant impact on the Group's operations.
- (2) As of December 31, 2014 and 2013, The Group deposited notes in the bank in order to obtain the transaction credits of bank financing and foreign exchange amounting to 4,515,490 and 4,091,846, respectively.

## 10. Casualty loss: None.

## 11. Subsequent events: None.

## 12. Other information

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

<u>Account</u>	<u>For the years ended</u> <u>December 31, 2014</u>			<u>For the years ended</u> <u>December 31, 2013</u>		
	<u>Cost of</u> <u>goods sold</u>	<u>Operating</u> <u>expense</u>	<u>Total</u>	<u>Cost of</u> <u>goods sold</u>	<u>Operating</u> <u>expense</u>	<u>Total</u>
Personnel expenses:						
Salaries	1,289,324	1,407,096	2,696,420	1,258,085	1,494,025	2,752,110
Labor and health insurance	62,359	104,423	166,782	47,515	112,383	159,898
Pension	78,849	95,815	174,664	60,476	89,172	149,648
Others	34,986	82,935	117,921	39,882	83,665	123,547
Depreciation	252,598	226,400	478,998	237,259	235,499	472,758
Amortization	2,658	83,381	86,039	2,450	87,810	90,260

(Continued)

## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 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:

<u>Product</u>	<u>For the years ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
LAN/MAN	\$ 11,626,309	11,080,538
Wireless	6,525,294	5,930,312
Digital Multimedia	3,092,421	4,312,034
Mobile and Broadband	1,873,189	2,611,643
Others	160,299	169,228
	<u>\$ 23,277,512</u>	<u>24,103,755</u>

## 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.

Revenue from external customers:

<u>Area</u>	<u>For the years ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
United States	\$ 7,189,440	6,792,573
China	4,530,100	6,795,367
Singapore	953,816	3,863,158
Other countries	10,604,156	6,652,657
	<u>\$ 23,277,512</u>	<u>24,103,755</u>

(Continued)



## ALPHA NETWORKS INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Non-current assets:

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<u>2014</u>	<u>2013</u>
China	\$ 2,603,614	2,703,257
Taiwan	1,035,202	960,410
United States	131,336	261,452
Japan	862	1,385
	<u>\$ 3,771,014</u>	<u>3,926,504</u>

Noncurrent assets include property, plant, and equipment, Intangible asset and other assets, not including financial instruments and deferred tax assets.

C. Major customer information

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

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<u>2014</u>	<u>2013</u>
D-Link International	<u>\$ 7,686,306</u>	<u>6,959,398</u>

