ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report- Translation Version Conducted By Company)

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, 2015 and 2014 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2015 and 2014. 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 consolidated 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 consolidated 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 consolidated financial position of Alpha Networks Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2015 and 2014, in conformity with the Regulations 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, 2015 and 2014, on which we have issued an unqualified opinion.

Hsinchu, Taiwan (Republic of China)
March 14, 2016

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 consolidated 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, 2015 and 2014
(expressed in thousands of New Taiwan dollars)

Assets		December 31, 2015	December 31, 2014
Current assets:			
Cash and cash equivalents (note 6(1))	$	2,453,944	2,281,025
Financial assets measured at fair value through profit or loss – current (note 6(2))		1,811	690
Notes and accounts receivable, net (note 6(3))		2,300,640	2,848,315
Receivables from related parties (note 7)		1,603,299	2,600,755
Inventories (note 6(4))		3,787,607	4,014,506
Other financial assets – current (notes 6(1) and (5))		392,201	361,719
Other current assets		229,184	515,851
		10,768,686	12,622,861
Non-current assets:			
Available-for-sale financial assets – non-current (note 6(6))		108,706	186,957
Financial assets carried at cost – non-current (note 6(7))		-	9,996
Investments in debt instrument without active market – non-current (note 6(8))		77,925	-
Investment accounted for using equity method (note 6(9))		76,965	100,965
Property, plant and equipment (note 6(10))		2,896,490	3,335,529
Intangible assets (note 6(11))		227,900	219,877
Deferred income tax assets (note 6(18))		55,365	81,076
Other financial assets – non-current (notes 6(3), (5) and 8)		19,896	53,618
Long-term prepaid rents (note 6(16))		76,706	80,067
Other non-current assets		5,275	34,576
		3,545,228	4,102,661
Total assets	$	14,313,914	16,725,522

Liabilities and Equity		December 31, 2015	December 31, 2014
Current liabilities:			
Short-term borrowings (note 6(12))	$	-	309,899
Financial liabilities measured at fair value through profit or loss – current (notes 6(2))		24,317	131,889
Accounts payable		3,307,636	3,830,819
Payroll and bonus payable		482,445	553,221
Accrued expenses		490,557	504,009
Payables to related parties (note 7)		6,123	9,624
Income tax payable		7,663	92,626
Provision – current (note 6(15))		242,638	241,947
Other current liabilities		222,113	228,889
Long – term loans payable – current portion (note 6(13))		-	312,026
		4,783,492	6,214,949
Non-current liabilities			
Long-term loans (note 6(13))		624,550	312,026
Deferred income tax liabilities (note 6(18))		105,344	149,818
Net defined benefit liabilities (note 6(17))		388,830	364,958
Other non-current liabilities (note 6(7))		610	673
		1,119,334	827,475
Total liabilities		5,902,826	7,042,424
Equity (note 6(19))**:**			
Common stock		4,429,144	4,971,271
Capital surplus		2,185,837	2,205,729
Retained earnings:			
Legal reserve		991,530	937,953
Special reserve		110,280	196,722
Unappropriated earnings		826,483	1,739,138
		1,928,293	2,873,813
Other equity		44,599	(110,280)
Treasury stock		(176,785)	(257,435)
Total equity		8,411,088	9,683,098
Total liabilities and equity	$	14,313,914	16,725,522

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014
(expressed in thousands of New Taiwan dollars, except for earnings per share)

		2015	2014
Net operating revenues (notes 6(21) and 7)	$	22,995,238	23,277,512
Operating costs (notes 6(4) and 7)		20,095,471	20,012,133
Gross profit		2,899,767	3,265,379
Operating expenses (note 7):			
Selling		610,686	572,513
General and administrative		771,064	833,668
Research and development		1,419,586	1,390,036
Total operating expenses		2,801,336	2,796,217
Operating income		98,431	469,162
Non-operating income and expenses:			
Other income (note 6(23))		61,568	139,594
Other gains and losses, net (note 6(24))		(384,156)	106,252
Finance costs (note 6(25))		(12,934)	(32,965)
Share of profit of associates accounted for using equity method (note 6(9))		(24,000)	(24,000)
Total non-operating income and expenses		(359,522)	188,881
Income (loss) before income tax		(261,091)	658,043
Income tax expense (note 6(18))		79,017	122,270
Net income (loss)		**(340,108)**	**535,773**
Other comprehensive income (loss):			
Items that may not be reclassified subsequently to profit or loss:			
Remeasurement of the defined benefit plans		(13,942)	4,021
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign financial statements		(115,345)	94,058
Unrealized gains on available-for-sale financial assets (note 6(26))		250,615	8,374
Income tax benefit (expense) related to items that may be reclassified subsequently (note 6(18))		19,609	(15,990)
		154,879	86,442
Other comprehensive income for the year, net of income tax		140,937	90,463
Total comprehensive income for the year, net of income tax	$	**(199,171)**	**626,236**
Earnings per share (in New Taiwan dollars) (note 6(20))			
Basic earnings per share	**$**	**(0.74)**	**1.10**
Diluted earnings per share			**$ 1.08**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Years ended December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars)

	Capital Stock				Retained Earnings				Other equity				
	Common stock	Advance receipts for common stock	Total	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for -sale financial assets	Total	Treasury stock	Total equity
Balance at January 1, 2014	**$ 4,917,727**	**25,714**	**4,943,441**	**2,169,424**	**860,001**	**156,201**	**2,037,327**	**3,053,529**	**57,201**	**(253,923)**	**(196,722)**	**182,672**	**9,787,000**
Net income in 2014	-	-	-	-	-	-	535,773	535,773	-	-	-	-	535,773
Other comprehensive income in 2014, net of income tax	-	-	-	-	-	-	4,021	4,0241	78,068	8,374	86,442	-	90,463
Total comprehensive income in 2014	-	-	-	-	-	-	539,794	539,794	78,068	8,374	86,442	-	626,236
Appropriation and distribution of retained earnings:													
Legal reserve	-	-	-	-	77,952	-	(77,952)	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	137,399
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(204,272)	(204,272)
Retirement of treasury stock	(52,170)	-	(52,170)	(21,094)	-	-	(56,245)	(56,245)	-	-	-	129,509	-
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)**	**(110,280)**	**(257,435)**	**9,683,098**
Net loss in 2015	-	-	-	-	-	-	(340,108)	(340,108)	-	-	-	-	(340,108)
Other comprehensive income in 2015, net of income tax	-	-	-	-	-	-	(13,942)	(13,942)	(95,736)	250,615	154,879	-	140,937
Total comprehensive income in 2015	-	-	-	-	-	-	(354,050)	(354,050)	(95,736)	250,615	154,879	-	(199,171
Appropriation and distribution of retained earnings:													
Legal reserve	-	-	-	-	53,577	-	(53,577)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(86,442)	86,442	-	-	-	-	-	-
Cash dividend	-	-	-	-	-	-	(579,293)	(579,293)	-	-	-	-	(579,293)
Capital Reduction	(492,127)	-	(492,127)						-	-	-	9,383	(482,744)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(10,802)	(10,802)
Retirement of treasury stock	(50,000)	-	(50,000)	(19,892)	-	-	(12,177)	(12,177)	-	-	-	82,069	-
Balance at December 31, 2015	**$ 4,429,144**	**-**	**4,429,144**	**2,185,837**	**991,530**	**110,280**	**826,483**	**1,928,293**	**39,533**	**5,066**	**44,599**	**(176,785)**	**8,411,088**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014
(expressed in thousands of New Taiwan dollars)

		2015	2014
Cash flows from operating activities:			
Income (loss) before income tax	$	(261,091)	658,043
Adjustments:			
Non-cash related profit and loss items			
Depreciation expense		487,442	478,998
Amortization expense		72,941	86,039
Provision for (reversal of) allowance for doubtful accounts		(7,224)	7,271
Effect of valuation of financial assets and liabilities at fair value through profit or loss		22,506	131,199
Interest expense		12,934	32,538
Interest income		(30,353)	(50,834)
Dividend income		-	(9,899)
Share of loss of associates accounted for using equity method		24,000	24,000
Loss on disposal property, plant and equipment		15,961	3,819
Amortization of discount on bonds payable		-	427
Gain on disposal of available-for-sale financial assets		-	(910)
Loss on disposal of financial asset carried at cost		2,050	-
Impairment loss on financial asset		328,866	-
Impairment loss on non-financial asset		40,071	-
Provision for inventory obsolescence and devaluation loss		92,317	145,358
Amortization of long-term prepaid rent		1,780	1,740
Adjustments for other non-cash- related loss		1,097	-
Sub-total of non-cash income and expenses		1,064,388	849,746
Net change in operating assets and liabilities:			
Net change in operating assets:			
Notes and accounts receivable		554,875	574,044
Receivable from related parties		997,456	(25,668)
Financial assets measured at fair value through profit or loss		690	9,285
Inventories		134,582	234,345
Other current assets		290,597	561,152
Changing in operating assets		1,978,200	1,353,158
Net change in operating liabilities:			
Accounts payable		(523,183)	(1,046,129)
Financial liabilities measured at fair value through profit or loss		(131,889)	(51,312)
Other payable to related parties		(3,501)	(3,594)
Other current liabilities		(103,838)	61,825
Net defined benefit liabilities		9,930	9,769
Change in operating liabilities		(752,481)	(1,029,441)
Total changes in operating assets and liabilities		1,225,719	323,717
Total adjustments		2,290,107	1,173,463
Cash inflow generated from operations		2,029,016	1,831,506
Interest received		26,423	48,696
Dividend received		-	9,899
Interest paid		(15,320)	(31,608)
Income tax paid		(166,217)	(68,145)
Cash provided by operating activities		1,873,902	1,790,348
Cash flows from investing activities:			
Proceeds from disposal of available-for-sale financial assets		-	1,995
Acquisition of investment in debt instrument without active market		(77,925)	-
Proceeds from disposal of financial assets carried at cost		7,946	-
Acquisition of property, plant and equipment		(131,700)	(248,418)
Proceeds from disposal of property, plant and equipment		9,272	13,360
Decrease (increase) in refundable deposits		33,671	(24,783)
Increase in intangible assets		(76,900)	(80,298)
Decrease (increase) in other financial assets		(30,407)	464,859
Cash provided by (used in) investing activities		(266,043)	126,715

See accompanying notes to consolidated financial statements.

Cash flows from financing activities:	2015	2014
Decrease in short-term borrowings	(309,899)	(287,999)
Proceed from long-term loans	300,000	-
Repayment of long-term loans	(325,300)	-
Increase in guarantee deposit received	(63)	194
Payments of cash dividends	(579,293)	(663,265)
Capital reduction payment to shareholders	(482,744)	-
Purchase of treasury stock	(10,802)	(204,272)
Cash used in financing activities	(1,408,101)	(1,155,342)
Effect of exchange rate changes on cash and cash equivalents	(26,839)	(23,400)
Net increase (decrease) in cash and cash equivalents	172,919	738,321
Cash and cash equivalents at beginning of year	2,281,025	1,542,704
Cash and cash equivalents at end of year	$ **2,453,944**	**2,281,025**

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 ("R.O.C.") and the ROC Statute for the Ministry of Science and Technology, the Hsinchu Science Park Bureau (HSPB). 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, 2015, 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 and procedures of the financial statements

The consolidated financial statements were approved and authorized for issuance by the board of directors on March 14, 2016.

3. New standards, amendments and interpretations adopted

(1) The Impact of the new standards and interpretations endorsed by the Financial Supervisory Commission, R.O.C. ("FSC")

The Group adopted the 2013 version of IFRS (excluding IFRS 9 Financial Instruments) endorsed by the FSC beginning in 2015. The new standards, amendments and interpretations announced by the International Accounting Standards Board ("IASB") are as follows:

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

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

A. IAS 1 *"Presentation of financial statements*

The other comprehensive income section is required to present line items which are classified by their nature, and grouped between those items that will or will not be reclassified to profit and loss in subsequent periods. Allocation of income tax to two groups of items of other comprehensive is also required. The Group changes the presentation of statements of comprehensive income in accordance with the standard; previous corresponding period is also disclosed.

B. IFRS 13 *"Fair Value Measurement"*

The standard defines fair value, establishes a framework for measuring fair value and requires disclosures on fair value measurement. There is no significant impact in the Group's financial position and results of operations after the evaluation. Under this standard, the Group has increased its disclosures on the fair value measurement.

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) The new standards and interpretations announced by the IASB but not yet endorsed by the FSC

The new standards, interpretations and amendments issued by the IASB at the end of the reporting period (hereinafter referred to as the reporting date) of the prior fiscal year, but not yet endorsed by the FSC until the reporting date of the financial statements are summarized as below:

New, Revised Standards, Amendments and Interpretations	***Effective date per IASB***
IFRS 9 *"Financial Instruments"*	January 1, 2018
Amendments to IFRS 10 and IAS 28 *"Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture"*	Effective date to be determined by IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 *"Investment Entities: Applying the Consolidation Exception"*	January 1, 2016
Amendment to IFRS 11 *"Acquisitions of Interests in Joint Operations"*	January 1, 2016
IFRS 14 *"Regulatory Deferral Accounts"*	January 1, 2016
IFRS 15 *"Revenue from Contracts with Customers"*	January 1, 2018
IFRS 16 *"Leases"*	January 1, 2019
Amendments to IAS 1 *"Disclosure Initiative"*	January 1, 2016
Amendments to IAS 7 *"Disclosure Initiative"*	January 1, 2017
Amendments to IAS 12 *"Recognition of Deferred Tax Assets for Unrealized Losses"*	January 1, 2017
Amendment to IAS 16 and IAS 38 *"Clarification of Acceptable Methods of Depreciation and Amortization"*	January 1, 2016
Amendments to IAS 16 and IAS 41 *"Bearer Plants"*	January 1, 2016
Amendment to IAS 19 *"Defined Benefit Plans: Employee Contributions"*	July 1, 2014
Amendment to IAS 27 *"Equity method in Separate Financial Statements"*	January 1, 2016
Amendment to IAS 36 *"Recoverable Amount Disclosures for Non-financial Assets"*	January 1, 2014
Amendment to IAS 39 *"Novation of Derivatives and Continuation of Hedge Accounting"*	January 1, 2014
Annual Improvements to IFRSs 2010-2012 and 2011-2013 Cycles	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 *"Levies"*	January 1, 2014

(Continued)

The Group is in the process of assessing the impact on financial position and results of operations of the above standards and interpretations. The Group will disclose the related results when the assessment is finalized.

4. Summary of significant accounting policies

The consolidated financial statements and these notes 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 consolidated financial statements, the Chinese version shall prevail.

The significant accounting policies applied in the preparation of these consolidated financial statements are summarized as follows. 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

The consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" (hereinafter referred to as the Regulations) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC (hereinafter referred to as the IFRSs endorsed by the FSC).

(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 Group 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

(Continued)

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.

(Continued)

B. List of subsidiaries in the consolidated financial statements

Name of Investor	Name of Investee	Main Business Activities	Percentage of ownership December 31, 2015	Percentage of ownership December 31, 2014
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	Net Mag Technology Corp. (Net Mag) (note 1)	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) (note 2)	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 3)	Post-sale service	-	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)	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%
Alpha HK	Maintrend Technical Services (Changshu) Co., Ltd. (Maintrend)	Post-sale service	100%	100%
Mirac	JUST3C Corporation (JUST3C)	Sale of network products	100%	100%

(Continued)

Note 1：The Group's Board meeting had approved the dissolution and liquidation of Net Mag on October 30, 2015. The Group estimated that no impairment would generate from the dissolution and liquidation of Net Mag. Relevant legal procedure was still in progress as of December 31 2015.

Note 2：The Group's interim shareholders' meeting approved the dissolution and liquidation of Alpha NL. on October 22, 2015. The Group estimated that no impairment would generate from the dissolution and liquidation of Alpha NL. Relevant legal procedure was still in progress as of December 31 2015.

Note 3：The Group's interim shareholders' meeting approved the dissolution and liquidation of ATSJ, and the relevant legal procedure was completed on October 15, 2015.

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 functional currencies 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 period adjusted for the effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

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.

B. Foreign operations

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

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

(Continued)

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. Terms of the liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash comprise cash and cash in bank. Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and which 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.

(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 those classified as held for trading, as 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 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 in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets is 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 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)

(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, other receivables and investments in debt instrument without active market. 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 considered 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)

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

Financial assets are derecognized 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 is 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, when the number of shares to be issued is fixed.

(Continued)

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 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)

(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 (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and included 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 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 of 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 or joint control, over their financial and operating polices.

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)

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, including any long-term interests that form part thereof, 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. The cost of a self-constructed asset comprises material, labor, and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of software is capitalized as part of the equipment if the purchase of the software is necessary for the equipment to be capable of operating.

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

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

B. Subsequent cost

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

C. Depreciation

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

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: 1 to 10 years

(c) Transportation equipment: 3 to 10 years

(d) Office and other equipment: 2 to 8 years

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in accounting estimate.

(11) Leases

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.

(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.

(Continued)

(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 that are acquired by the Group are measured at cost, less accumulated amortization and any accumulated impairment losses.

(Continued)

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, 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 annually at each reporting date. 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 an improvement in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount as a reversal of a previously recognized impairment loss.

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

(Continued)

Not with standing whether indicators exists, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is 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 each of the 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.

During 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.

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(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.

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The calculation is performed annually by a qualified actuary using the projected unit credit method. If 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 calculating 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.

If the benefit of plan is improved, the portion of the increased benefit relating to the past services by employees is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability, which comprise (1) actuarial gains and losses (2) the return on plan assets (excluding interest) and (3) the effect of asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income; wherein the Group recognized them under retained earnings.

The Group recognizes the gains or losses on the curtailment or settlement of the defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of the plan assets and in the present value of the defined benefit obligation.

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 grant-date fair value of share-based payment awards to employees is recognized as employee expenses 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.

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(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 statutory tax rate on the reporting date or the actual legislative tax rate, 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 are recognized except for the 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, which are normally the 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) Levied by the same taxing authority; or
(b) Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

(20) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. The calculation of basic earnings per share is calculated as the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. Diluted earnings per share is calculated as 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 potentially dilutive ordinary shares, such as convertible bonds payable, employee stock options and employee bonus 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 preparation of the consolidated financial statements in conformity with the IFRS endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The 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 in the year ending December 31, 2016 is included in note 6(4) evaluation of inventories.

The Group's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss.

The Group's financial instruments valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial

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instruments valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value. The Group strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

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 (ie as prices) or indirectly (ie derived from prices).

Level 3: inputs for the assets or liabilities that are not based on observable market data

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to note 6(27) of the financial instruments.

6. Explanation of significant accounts

(1) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	$ 3,721	5,790
Checking and savings accounts	879,367	1,407,626
Time deposits	785,433	159,761
Cash equivalents – bonds with repurchase agreements	785,423	707,848
Cash and cash equivalents in the consolidated statements of Cash flows	$ 2,453,944	2,281,025

Please refer to note 6(27) for the disclosure of interest rate risk and the sensitivity analysis of the Group's financial assets and liabilities.

As of December 31, 2015 and 2014, deposits with original maturities of more than three months were $309,876 and $292,445, respectively, and were recorded in other financial assets – current.

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

	December 31, 2015	December 31, 2014
Financial assets measured at fair value through profit or loss – current		
Currency option contracts	$ 1,811	2
Cross currency swap contracts	-	688
	$ 1,811	690

(Continued)

	December 31, 2015	December 31, 2014
Financial liabilities measured at fair value through profit or loss – current		
Forward exchange contracts	$ 12,345	-
Currency option contracts	4,333	21,860
Cross currency swap contracts	7,639	109,288
Structured derivative products	-	741
	$ 24,317	131,889

The Group uses derivative financial instruments to hedge the certain foreign exchange and interest risk the Group is exposed to, arising from its operating activities. The Group holds the following derivative financial instruments that did not qualify for hedge accounting, presented as held-for-trading financial assets or liabilities.

	December 31, 2015		
	Notional amount (in thousands)	Currency	Maturity date
Buy USD put options	USD 23,000	USD/NTD	January 2016 ~ February 2016
Sell USD call options	USD 23,000	USD/NTD	January 2016 ~ February 2016
Sell USD put options	USD 23,000	USD/NTD	January 2016 ~ February 2016
Cross currency swap contracts	USD 30,000	USD/NTD	January 2016 ~ March 2016
Forward exchange contracts	USD 50,000	USD/NTD	January 2016 ~ March 2016

	December 31, 2014		
	Notional amount (in thousands)	Currency	Maturity date
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 contracts	USD 100,500	USD/NTD	January 2015 ~ March 2015
Structured derivatives products	USD 1,000	USD/CNY	January 2015

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

	December 31, 2015	December 31, 2014
Notes receivable	$ 60,092	46,783
Accounts receivable	2,243,557	2,811,741
Less: allowance for doubtful accounts	(3,009)	(10,209)
	$ 2,300,640	2,848,315

(Continued)

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

	December 31, 2015	December 31, 2014
Other financial assets – non-current	$ 224,609	224,633
Less: allowance for doubtful accounts	(224,609)	(224,633)
	$ -	-

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

	Individual impairments	Collective impairments	Total
Balance at January 1, 2015	$ 224,633	10,209	234,842
Reversal of impairment loss	(24)	(7,200)	(7,224)
Balance at December 31, 2015	$ 224,609	3,009	227,618
Balance at January 1, 2014	$ 224,699	2,872	227,571
Provision for (Reversal of) impairment loss	(66)	7,337	7,271
Balance at December 31, 2014	$ 224,633	10,209	234,842

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

	December 31, 2015		December 31, 2014	
	Gross amount	Impairment loss	Gross amount	Impairment loss
Overdue 0~30 days	$ 609,465	-	412,178	-
Overdue 31~120 days	55,420	3,009	63,293	1,955
Overdue 121~365 days	-	-	11,010	8,254
Overdue more than one year	224,609	224,609	224,633	224,633
	$ 889,494	227,618	711,114	234,842

(Continued)

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Notes to Consolidated Financial Statements

(4) Inventories

	December 31, 2015	December 31, 2014
Raw materials	$ 2,111,014	2,471,502
Work in process and semi-finished products	293,010	416,768
Finished goods	1,383,583	1,126,236
	$ **3,787,607**	**4,014,506**

For the years ended December 31, 2015 and 2014, the cost of goods sold of inventory were $20,003,154 and $19,866,775, respectively.

For the years ended December 31, 2015 and 2014, the total amount of the gain from reversal of inventory write-downs allowance, physical inventory loss and scrap inventory loss amounted to $92,317 and $145,358, respectively, which were included in cost of goods sold.

As of December 31, 2015 and 2014, 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

	December 31, 2015	December 31, 2014
Current:		
Time deposits	$ 309,876	292,445
Restricted cash in banks	14,994	-
Other receivables	67,331	69,274
	$ **392,201**	**361,719**
Non-current:		
Restricted cash in banks	$ 7,500	7,551
Refundable deposits	12,396	46,067
	$ **19,896**	**53,618**

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

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

	December 31, 2015	December 31, 2014
Publicly traded stock – D-Link Corp.	$ 108,706	186,957

Due to the fair value of available-for-sale financial assets fell and there may be risk of permanent decline, the company recognized $328,866 impairment loss on available-for-sale financial assets, under other gains and losses. Please refer to note 6(24) for information.

As of December 31, 2015 and 2014, the Group's financial assets were not pledged.

If the equity market price changes, the impact to other comprehensive income, using the sensitivity analysis based on the same variables except for the price index for both periods, will be as follows:

	For the years ended December 31,	
	2015	2014
Equity market price at reporting date		
Increase 10%	$ 10,871	18,696
Decrease 10%	$ (10,871)	(18,696)

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

	December 31, 2015	December 31, 2014
Stock investment – TGC, Inc.	$ -	-
Stock investment – QuieTek	-	9,996
	$ -	9,996

The equity investments held by the Group are measured at amortized cost at reporting date given that the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management determined that the fair value cannot be measured reliably. In addition, TGC Inc. had incurred continuously net losses in the past, and as a result, the Group recognized $16,985 of impairment loss.

The Group had disposed all stock investment of QuieTek in March, 2015, and recognized $2,050 loss on disposal of financial asset carried at cost, under other gains and losses. Please refer to note 6(24) for information.

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(8) Investments in debt instrument without active market – non-current

	December 31, 2015	December 31, 2014
Corporate bond－Platina Systems Corporation	$ 77,925	-

As a result of new product development strategy, the Group invested corporate bond of Platina Systems Corporation $77,925 with effective interest rate 3.69% in April, 2015.

(9) Investment accounted for using the equity method

Aggregate information of associates which is accounted for using equity method, that are not individually material to the Group which included in the consolidated financial statements of the Group was as follows:

	December 31, 2015	December 31, 2014
Associate	$ 76,965	100,965

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.

In 2015 and 2014, the Group's share of the net income of associates was as follows:

	For the years ended December 31,	
	2015	2014
Loss from continuing operations attributable to the Group	$ (24,000)	(24,000)

As at reporting date, the summary of Group's equity investment in foreign currency was as follows:

(Continued)

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	December 31, 2015		
	Foreign currency amount	Exchange rate	NTD
Non-monetary item			
USD	$ 4,499	32.81	147,612

	December 31, 2014		
	Foreign currency amount	Exchange rate	NTD
Non-monetary item			
USD	$ 4,499	31.62	142,258

As of December 31, 2015 and 2014, the Group did not provide any investment accounted for using equity method as collateral.

(Continued)

(10) Property, plant and equipment

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

	Land	Building and construction	Machinery and equipment	Office, transportation and other facilities	Total
Cost:					
Balance at January 1, 2015	$ 66,110	3,215,419	2,424,467	423,945	6,129,941
Additions	-	26,915	55,667	81,374	163,956
Disposals	-	(12,393)	(194,775)	(60,921)	(268,089)
Effects of exchange rate changes	2,488	(50,789)	(37,684)	(5,836)	(91,830)
Balance at December 31, 2015	**$ 68,598**	**3,179,143**	**2,247,675**	**438,562**	**5,933,978**
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	**$ 66,110**	**3,215,419**	**2,424,467**	**423,945**	**6,129,941**
Depreciation and impairment loss:					
Balance at January 1, 2015	$ -	1,196,970	1,322,473	274,969	2,794,412
Depreciation	-	156,855	268,944	61,643	487,442
Impairment loss	-	-	-	40,071	40,071
Disposal	-	(10,996)	(176,361)	(54,676)	(242,033)
Effects of exchange rate changes	-	(18,535)	(19,827)	(4,042)	(42,404)
Balance at December 31, 2015	**$ -**	**1,324,294**	**1,395,229**	**317,965**	**2,037,488**
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	**$ -**	**1,196,970**	**1,322,473**	**274,969**	**2,794,412**
Book value:					
Balance at December 31, 2015	**$ 68,598**	**1,854,849**	**852,446**	**120,597**	**2,896,490**
Balance at December 31, 2014	**$ 66,110**	**2,018,449**	**1,101,994**	**148,976**	**3,335,529**
Balance at January 1, 2014	**$ 62,409**	**2,062,857**	**1,203,779**	**150,707**	**3,479,772**

The Group processed Group’s resource integration in September, 2015, and recognized $40,071impairment loss, under other gains and losses. Please refer to note 6(24) for information.

As of December 31, 2015 and 2014, the Group’s property, plant and equipment were not pledged.

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(11) Intangible assets

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

		Goodwill	Software applications and other	Total
Cost				
Balance at January 1, 2015	$	134,883	498,483	633,366
Additions		-	81,262	81,262
Effect of exchange rate changes		-	(1,493)	(1,493)
Balance at December 31, 2015	$	134,883	578,252	713,135
Balance at January 1, 2014	$	134,883	423,440	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	$	134,883	498,483	633,366
Amortization and impairment:				
Balance at January 1, 2015	$	-	413,489	413,489
Amortization		-	72,941	72,941
Effect of exchange rate changes		-	(1,195)	(1,195)
Balance at December 31, 2015	$	-	485,235	485,235
Balance at January 1, 2014	$	-	337,357	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	$	-	413,489	413,489
Book value:				
Balances at December 31, 2015	$	134,883	93,017	227,900
Balances at December 31, 2014	$	134,883	84,994	219,877
Balances at January 1, 2014	$	134,883	86,083	220,966

A. Amortization

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

		For the years ended December 31,	
		2015	2014
Operating costs	$	4,092	2,658
Operating expenses		68,849	83,381
Total	$	72,941	86,039

B. Guarantees

As of December 31, 2015 and 2014, the Group's intangible assets were not pledged.

(Continued)

(12) Short-term borrowings

	December 31, 2015	December 31, 2014
Secured bank loans	$ -	309,899
Range of interest rates	-	1.53%~1.58%
Unused short-term credit lines	$ 2,596,700	3,303,120

For the collateral for short-term borrowings, please refer to note 13.

(13) Long-term loans

	December 31, 2015			
	Currency	Interest rates	Maturity Date	Amount
Secured bank loans	USD	1.47%~1.63%	2018.1.18	$ 324,550
Unsecured bank loans	TWD	1.80%	2019.1.15	300,000
Less: current portion				-
				$ 642,550
Unused long-term credit lines				$ 600,000

	December 31, 2014			
	Currency	Interest rates	Maturity Date	Amount
Secured bank loans	USD	1.70%~1.75%	2015.1.18 ~ 2016.4.14	$ 624,052
Less: current portion				(312,026)
				$ 312,026
Unused long-term credit lines				$ -

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, 2015.

Please refer to note 6(27) for information about exposure to interest rate risk, foreign currency exchange risk and liquidity risk.

(Continued)

(14) Bonds payable

The second domestic unsecured convertible bonds of the Company were issued on October 14, 2011. The details of convertible bonds were summarized below:

	December 31, 2014
Convertible payable	$ 1,000,000
Less: Unamortized discount	-
Cumulative converted amount	(1,000,000)
	$ -

	For the year ending, 2014
Interest expense	$ 427

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.

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:

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

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

Please refer to note 6(19) for information on the second unsecured domestic convertible bonds payable converted into common stock in 2014.

(Continued)

(15) Provision

	Warranties
Balance at January 1, 2015	$ 241,947
Provisions made during the year	292,910
Provisions used during the year	(291,603)
Effects of exchange rate changes	(616)
Balance at December 31, 2015	**$ 242,638**
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	**$ 241,947**

The provision for warranties relates mainly to networks products sold during the years ended December 31, 2015 and 2014. 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

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.

Non-cancellable lease rental payables as of December 31, 2015 and 2014, were as follows:

	December 31, 2015	December 31, 2014
Less than one year	$ 12,782	35,439
Between one and five years	52,250	88,598
More than five years	24,528	42,239
	$ 89,560	**166,276**

The Group recognized $46,952 and $61,083 as an expense in profit or loss in respect of operating leases for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, the Group recognized $1,780 and $1,740, respectively, in operating expenses. As of December 31, 2015 and 2014, the unamortized amounts were $76,706 and $80,067, respectively, recognized in long-term rental prepayment.

(Continued)

(17) Employee benefits

A. Defined benefit plans

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

	December 31, 2015	December 31, 2014
Present value of the defined benefit obligation	$ 509,565	540,887
Fair value of plan assets	(120,735)	(175,929)
Net defined benefit liabilities	$ 388,830	364,958

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits 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 the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable 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 $120,735 as of December 31, 2015. 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, Ministry of Labor.

(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:

	For the years ended December 31, 2015	2014
Defined benefit obligation as of January 1	$ 540,887	530,884
Benefits paid from the plan assets	(61,256)	(1,506)
Current service cost and interest	14,953	14,710
Remeasurements of the net defined benefit liabilities		
Actuarial loss (gain) arising from experience adjustments	5,038	(3,201)
Actuarial loss (gain) arising from changes in financial assumptions	9,943	-
Defined benefit obligation as of December 31	$ 509,565	540,887

(Continued)

(c) Movements in the fair value of the 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,	
	2015	**2014**
Fair value of plan assets as of January 1	$ 175,929	171,674
Benefits paid from the plan assets	(61,256)	(1,506)
Remeasurements of the net defined benefit liabilities		
Return on plan assets (excluding current interest)	1,039	820
Contribution of plan participants	1,500	1,500
Expected return on plan assets	3,523	3,441
Fair value of plan assets as of December 31	$ 120,735	175,929

(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,	
	2015	**2014**
Current service cost	$ 4,146	4,100
Net interest of net liabilities for defined benefit obligation	10,807	10,610
Expected return on plan assets	(3,523)	(3,441)
	11,430	11,269
Operating cost	$ 6,243	2,815
Selling expense	1,103	1,827
General and administrative expense	645	1,313
Research and development expense	3,439	5,314
	$ 11,430	11,269
Actual return on plan assets	$ 4,562	4,261

(e) Remeasurements of the net defined benefit liability (assets) recognized in other comprehensive income

The Group’s remeasurements of the net defined benefit liability (assets) recognized in other comprehensive income for the years ended December 31, 2015 and 2014 were as follows:

	For the years ended December 31,	
	2015	**2014**
Accumulated amount as of January 1	$ (25,818)	(21,797)
Recognized during the period	13,942	(4,021)
Accumulated amount as of December 31	$ (11,876)	(25,818)

(Continued)

(f) Actuarial assumptions

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

i. The present value of the defined benefit obligations:

	December 31, 2015	December 31, 2014
Discount rate	1.875%	2.00%
Future salary increase rate	3.00%	3.00%

ii. The cost of the defined benefit plan:

	For the years ended December 31,	
	2015	2014
Discount rate	2.00%	2.00%
Future salary increase rate	3.00%	3.00%

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

(g) Sensitivity analysis

When calculating the present value of the defined benefit obligation, the Company uses judgments and estimations to determine the actuarial assumptions, including the discount rate and future salary changes as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Impact on the defined benefit obligations	
	Increase by 0.25%	Decrease by 0.25%
December 31, 2015		
Discount rate	$ (19,658)	20,599
Future salary increase rate	$ 20,027	(19,258)

Impact on the defined

(Continued)

	benefit obligation	
	Increase by 0.25%	**Decrease by 0.25%**
December 31, 2014		
Discount rate	$ **(21,157)**	**22,143**
Future salary increase rate	$ **21,581**	**(20,738)**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets. There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2015 and 2014.

B. Defined contribution plans

The Company allocates 6% of each employees' monthly wages to the labor pension personal accounts in accordance with the provisions of the Labor Pension Act. Under the defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations. The pension costs of the Group's overseas subsidiaries under their respective defined contribution plan are recognized in accordance with their local regulations.

The Group's pension costs incurred from the contributions to the Bureau of the Labor Insurance amounted to $173,341 and $163,395 for the years ended December 31, 2015 and 2014, respectively.

(18) Income tax

A. Income tax expense

The components of income tax expense in the years 2015 and 2014, were as follows:

	For the years ended December 31,	
	2015	**2014**
Current tax expense		
Current period	$ 56,651	132,998
Adjustment for prior periods	22,368	(2,661)
	79,019	130,337
Deferred tax expense (income)		
Temporary differences	(2)	(8,067)
Income tax expense	**$ 79,017**	**122,270**

The amount of income tax recognized in other comprehensive income for the years ended December 31, 2015 and 2014, were as follows:

(Continued)

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		For the years ended December 31, 2015	2014
Exchange differences on translation of foreign financial statements	$	(19,609)	15,990

Reconciliation of income tax and profit before tax for the years ended December 31, 2015 and 2014 were as follows:

		For the years ended December 31, 2015	2014
Income (loss) before tax	$	(261,091)	658,043
Income tax using the Company's domestic tax rate		(44,385)	111,867
Effect of tax rates in foreign jurisdiction		45,957	8,249
Tax effect of permanent difference		80,469	12,873
Tax incentives		(17,349)	(42,824)
Tax effect of unrecognized deferred tax assets/liabilities		65,064	70,989
Additional 10% income surtax on undistributed earnings		-	12,114
Other		(50,739)	(50,998)
	$	79,017	122,270

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 considers it probable that the temporary differences will not be reversed in the foreseeable future. The deferred tax assets have not been recognized in the respect of the following items:

		December 31, 2015	December 31, 2014
Tax effect of deductible temporary differences	$	442,688	361,553
The carryforwards of unused tax loss		151,307	94,045
	$	593,995	455,598

(Continued)

As of December 31, 2015, the unused loss carryforwards and related expiration year of the Group are as follows:

Year of loss	Unused income tax loss carryforwards	Expiration at the year
2011	$ 176,853	2016
2012	73,126	2017
2013	58,929	2018
2014	63,239	2019
2015 (estimated)	233,080	2020
	$ 605,227	

(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, 2014	Recognized in income statement	Recognized in other comprehensive income	Effect of movements in exchange rate	December 31, 2014	Recognized in income statement	Recognized in other comprehensive income	Effect of movements in exchange rate	December 31, 2015
Provision for inventory devaluation	$ 9,299	1,553	-	-	10,852	(3,028)	-	-	7,824
Provision for warranties	23,709	266	-	-	23,975	(92)	-	-	23,883
Other	19,391	25,628	-	1,230	46,249	(21,743)	-	(848)	23,658
	$ 52,399	27,447	-	1,230	81,076	(24,863)	-	(848)	55,365

Deferred tax liabilities:

	January 1, 2014	Recognized in income statement	Recognized in other compre-hensive income	Effect of movements in exchange rate	December 31, 2014	Recognized in income statement	Recognized in other compre-hensive income	Effect of movements in exchange rate	December 31, 2015
Investment accounted for using equity method	$ (18,238)	(1,764)	-	-	(20,002)	(434)	-	-	(20,436)
Goodwill	(22,930)	-	-	-	(22,930)	-	-	-	(22,930)
Foreign currency translation adjustment	(49,463)	-	(15,990)	-	(65,453)	-	19,609	-	(45,844)
Other	(23,817)	(17,616)	-	-	(41,433)	25,299	-	-	(16,134)
	$ (114,448)	(19,380)	(15,990)	-	(149,818)	24,865	19,609	-	(105,344)

C. As of the December 31, 2015, the Company’s tax returns for the years through 2013 were examined and approved by the tax authorities.

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D. Information related to the imputation credit account is summarized as below:

	December 31, 2015	December 31, 2014
Unappropriated earnings of 1998 and after	$ 826,483	1,739,138
Balance of imputation credit account	$ 210,414	205,007

	2015 (estimated)	2014 (actual)
Creditable ratio for earnings distribution to ROC residents	25.46%	15.44%

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance, R.O.C. on October 17, 2013. Effective January 1, 2015, the tax deduction ratio for individual shareholder residing in the R.O.C. will be reduced by half for dividend distribution according to the revised Article 66-6 of the Income Tax Act.

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):

	Common Stock	
	2015	2014
Balance at January 1	483,137	484,961
Conversion of convertible bonds	-	8,000
Purchase of treasury stock	(603)	(9,824)
Capital reduction (including retirement of treasury stock due to capital reduction)	(48,275)	-
Balance at December 31	434,259	483,137

Pursuant to a shareholders’ resolution on June 18, 2015, the Company approved capital reduction payment to shareholders by $492,127, and canceled 49,213 thousand shares (including 938 thousand treasury stock shares). The effective date of the capital reduction payment was August 11, 2015, which has already been registered and approved by the government authorities on July 22, 2015.

As of December 31, 2015 and 2014, the total value of authorized ordinary shares of the Company were amounted to $6,600,000 (of which $500,000 was reserved for employee stock options), and the issued capital were $4,429,144 and $4,971,271, respectively.

(Continued)

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A. Common stock

The second unsecured convertible bonds amounting to $145,600 were converted into 8,000 thousand shares of common stock in 2014. As of December 31, 2014, the second unsecured convertible bonds amounting to $1,000,000 had been converted into 49,785 thousand shares of the Company's common stock.

B. Capital surplus

The balances of capital surplus as of December 31, 2015 and 2014, were as follows:

	December 31, 2015	December 31, 2014
Additional paid-in capital	$ 941,835	961,727
Capital surplus – investments under equity method	29	29
Conversion premium of convertible bonds	1,016,032	1,016,032
Stock options (note)	212,977	212,977
Convertible bonds – others	14,964	14,964
	$ 2,185,837	2,205,729

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 can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

C. Retained earnings

Based on 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: 1% as directors' and supervisors' remuneration and 10%~22.5% as employee bonuses granted to the Company's employees including employees of affiliates, and

(Continued)

(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.

In accordance with the amendments to the Company Act in May 2015, employees bonuses and directors' and supervisors' remuneration are not included in the distribution of retained earnings. The Company will amend the Company's Articles of Incorporation before the deadline which was set by the authorities.

The employee bonuses for 2014 were $96,668, and remuneration to directors and supervisors was $5,686. The Company estimated the amounts by taking 90% of the balance of the net income for each accounting period and multiplied by the proposed percentage stated under the Company's proposed Article of Incorporation. Shares distributed to employees as employees' bonuses are calculated based on the closing price of the Company's shares on the day before the shareholders' meeting, and the ex-rights and ex-dividend effects should be taken into consideration. These remunerations were expensed under operating costs or expenses in each period. If the amounts are modified by the shareholders, the adjustment will be regarded as a change in accounting estimate and will be reflected in profit or loss in the following year.

(1) Legal reserve

According to the R.O.C. Company Act, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

(2) 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.

(3) Earnings distribution

The information on dividends per share, employee bonuses, and directors' and supervisors' remuneration allocated from earnings of 2014 and 2013 which were approved by the stockholders' meeting on June 18, 2015, and June 20, 2014, were as follows:

(Continued)

	2014	2013
Dividends distributed to common shareholders:		
Cash (dividends per share were $1.2 and $1.36, respectively)	$ 579,293	663,265
Employee bonuses – cash	$ 96,668	112,377
Directors' remuneration	5,686	6,610
	$ 102,354	118,987

The above earnings distribution had no difference from the resolution of the Company's board of directors in the years 2014 and 2013.

For the year ended December 31, 2015, the appropriation of retained earnings were subject to the proposal of the board of directors' meeting on March 14, 2016. Dividends per share was $0.5, and to be approved in annual shareholders' meeting. Relevant information is available on the Market Observation Post System website.

(4) Treasury stock

The Company repurchased common stock through TWSE. Details of the treasury stock transactions in 2015 and 2014 were as follows:

	2015			
Purpose	**January 1**	**Increase**	**Canceled**	**December 31**
Transfer to employee	9,383	-	938	8,445
To maintain the Company's credit and stockholders' equity	4,607	603	5,000	210
Total	13,990	603	5,938	8,655

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

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

(Continued)

compliance with the Securities and Exchange Act, treasury stock should not be pledged, nor be entitled to voting rights or dividends.

(5) Other equity

		Exchange differences on translation of foreign financial statements	Unrealized gain (loss) on available-for-sale financial assets
Balance at January 1, 2015	$	135,269	(245,549)
Exchange differences on foreign operation (net of taxes)		(101,859)	-
Gains (losses) on disposal of net investments in foreign operations to be reclassified to profit and loss		6,123	-
Unrealized gains and losses on available-for-sale financial assets		-	(78,251)
Reclassification of impairment loss on available-for sale financial asset		-	328,866
Balance at December 31, 2015	$	39,533	5,066
Balance at January 1, 2014	$	57,201	(253,923)
Exchange differences on foreign operation (net of taxes)		78,068	-
Unrealized gains and losses on available-for-sale financial assets		-	8,374
Balance at December 31, 2014	$	135,269	(245,549)

(20) Earnings per share

A. Basic earnings per share

		For the years ended December 31, 2015	2014
Net income attributable to ordinary shareholders of the Company	$	(340,108)	535,773
Weighted-average number of shares outstanding			
Outstanding common stock, January 1		483,137	484,961
Effect of treasury shares held		(411)	(4,725)
Effect of conversion of convertible bonds		-	7,567
Effect of capital reduction payments to shareholders		(20,114)	-
Weighted-average number of shares outstanding		462,612	487,803
Basic earnings per share (dollars)	$	(0.74)	1.10

B. Diluted earnings per share

	For the year ended December 31, 2014
Net income attributable to ordinary shareholders of the Company (basic)	$ 535,773
Interest expense on convertible bonds, net of tax	355
Net income attributable to ordinary shareholders of the Company (diluted)	$ 536,128
Weighted-average number of shares outstanding (basic)	$ 487,803
Effect of conversion of convertible bonds	433
Effect of employee bonus distributed in stock if approved by the stockholders' meeting	8,218
Weighted-average number of shares outstanding, December 31 (diluted)	$ 496,454
Diluted earnings per share (dollars)	$ 1.08

Due to the anti-dilution arising from net loss, diluted earnings per share for the year 2015 is not disclosed.

(21) Revenues

	For the years ended December 31, 2015	2014
Sales of goods and rendering of services	$ 22,995,238	23,277,512

(22) Employees compensation and directors' and supervisors' remuneration

There was no employees compensation and directors' and supervisors' remuneration accrued in 2015 due to net loss. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholder' meeting, the adjustment will be regarded as changes in accounting estimate and will be recognized in profit or loss in the following year.

(23) Other income

	For the years ended December 31, 2015	2014
Interest income	$ 30,353	50,834
Dividend income	-	9,899
Other income	31,215	78,861
	$ 61,568	139,594

(Continued)

(24) Other gains and losses

	For the years ended December 31, 2015	2014
Loss on valuation of financial assets, net	$ (101,463)	(290,831)
Impairment loss on non-financial assets	(40,071)	
Impairment loss on available –for-sale financial assets	(328,866)	
Gain on foreign currency exchange, net	137,148	397,083
Loss on disposal of financial assets carried at cost	(2,050)	
Other loss	(48,854)	-
	$ 384,156	106,252

(25) Finance costs

	For the years ended December 31, 2015	2014
Interest expense of bonds payable	$ -	427
Interest expense of borrowings	12,934	32,538
	$ 12,934	32,965

(26) Reclassification of other comprehensive income

	For the years ended December 31, 2015	2014
Available-for-sale financial assets		
Net change in fair value	$ (78,251)	8,374
Net change in fair value reclassified to profit and loss	328,866	-
	$ 250,615	8,374

(27) Financial instruments

A. Credit risk

(a) Credit risk exposures

As of December 31, 2015 and 2014, the carrying amounts of financial assets represented the Group’s maximum exposure to credit risk were amounted to $6,771,791 and $8,146,122, respectively.

(Continued)

(b) 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, 2015 and 2014, 70% and 69%, 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.

B. Liquidity risk

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

	Book value	Contractual cash flows	Within 6 months	6~12 months	1~2 years	2~5 years
December 31, 2015						
Non-derivative financial liabilities						
Secured borrowings	$ 324,550	(335,006)	(2,541)	(2,569)	(5,095)	(324,801)
Unsecured borrowings	300,000	(319,011)	(2,693)	(2,722)	(5,415)	(308,181)
Accounts payable	3,307,636	(3,307,636)	(3,307,636)	-	-	-
Other payables – related parties	6,123	(6,123)	(6,123)	-	-	-
Accrued expenses	490,557	(490,557)	(490,557)	-	-	-
Derivative financial liabilities						
Forward exchange contracts:						
Outflows	12,345	(1,640,500)	(1,640,500)	-	-	-
Inflows	-	1,635,408	1,635,408	-	-	-
Cross currency swap contracts:						
Outflows	7,639	(985,556)	(985,556)	-	-	-
Inflows	-	981,796	981,796	-	-	-
Currency option contracts:						
Outflows	4,333	(2,263,890)	(2,263,890)	-	-	-
Inflows	(1,811)	2,260,340	2,260,340	-	-	-
	$ 4,451,372	(4,470,735)	(3,821,952)	(5,291)	(10,510)	(632,982)
December 31, 2014						
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						
Structured derivative contracts:						
Outflows	741	(30,879)	(30,879)	-	-	-
Cross currency swap contracts:						
Outflows	109,288	(3,075,807)	(3,075,807)	-	-	-
Inflows	(688)	3,183,254	3,183,254	-	-	-
Currency option contracts:						
Outflows	21,860	(1,823,400)	(1,823,400)	-	-	-
Inflows	(2)	1,897,200	1,897,200	-	-	-
	$ 5,409,602	(5,135,250)	(4,509,024)	(312,629)	(313,597)	-

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

(Continued)

C. Currency risk

(a) Exposure to currency risk

The Group's financial assets and liabilities exposed to exchange rate risk were as follows:

	December 31, 2015		
	Foreign currency amount	Exchange rate	NTD
Financial Assets			
Monetary items			
USD	$ 115,979	32.81	3,805,271
CNY	64,562	4.9980	322,681
Financial Liabilities			
Monetary items			
USD	23,735	32.81	778,745

	December 31, 2014		
	Foreign currency amount	Exchange rate	NTD
Financial Assets			
Monetary items			
USD	$ 139,998	31.62	4,426,737
CNY	64,220	5.0993	327,477
Financial Liabilities			
Monetary items			
USD	66,054	31.62	2,088,627

(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 strengthening (weakening) of 5% of the NTD against the USD, CNY and the JPY at December 31, 2015 and 2014, would have decreased or increased the net profit before tax for the years ended December 31, 2015 and 2014, by $167,288 and $133,306, 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.

(c) Foreign exchange gains (losses) on monetary items

Due to the variety of the functional currencies of the Group's entities, the Group's foreign

(Continued)

exchange gains (losses) on monetary items amounting to $137,148 and $397,083 for the years ended December 2015 and 2014, respectively

D. 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 was outstanding throughout the year.

If the interest rate had increased or decreased by 0.25%, the Group’s net income before tax would have decreased or increased by $1,561 and $2,335 for the years ended December 31, 2015 and 2014, respectively, with all other variable factors remaining constant. This is mainly due to the Group’s borrowing at floating rates.

E. Fair value

(a) Categories of financial instruments and fair value

The Group’s carrying amount and the fair value of financial assets and liabilities (including information for fair value hierarchy, but excluding financial instruments whose fair values approximate the carrying amounts and equity investments which cannot be estimated reliably in an active market) were as follows:

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	2015.12.31				
		Fair value			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Derivative financial assets – current	$ 1,811	-	1,811	-	1,811
Available-for-sale financial assets					
Domestic listed shares	$ 108,706	108,706	-	-	108,706
Loans and receivables					
Cash and cash equivalents	$ 2,453,944	-	-	-	-
Notes and accounts receivable (including related parties)	3,903,939	-	-	-	-
Other financial assets- current and non-current	412,097	-	-	-	-
Investments in debt instrument without active Market- non-current	77,925	-	-	-	-
	$ 6,847,905	-	-	-	-
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	$ 24,317	-	24,317	-	24,317
Financial liabilities measured at amortized cost					
Notes and accounts payable	$ 3,307,636	-	-	-	-
Other payable- related parties	6,123	-	-	-	-
Bank loan	624,550	-	-	-	-
	$ 3,938,309	-	-	-	-

(Continued)

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	2014.12.31				
		Fair value			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Derivative financial instruments	$ 690	-	690	-	690
Available-for-sale financial assets					
Domestic listed shares	$ 186,957	186,957	-	-	186,957
Financial assets carried at cost – non-current	9,996	-	-	-	-
	$ 196,953	186,957	-	-	186,957
Loans and receivables					
Cash and cash equivalents	$ 2,281,025	-	-	-	-
Notes and accounts receivable (including related parties)	5,449,070	-	-	-	-
Other financial assets- current and non-current	415,337	-	-	-	-
	$ 8,145,432	-	-	-	-
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	$ 131,889	-	131,889	-	131,889
Financial liabilities measured at amortized cost					
Notes and accounts payable	$ 3,830,819	-	-	-	-
Other payable- related parties	9,624	-	-	-	-
Bank loan	933,951	-	-	-	-
	$ 4,774,394	-	-	-	-

(Continued)

(b) Valuation techniques for financial instruments not measured at fair value

Investments in debt instrument without active Market
The fair value of debt instruments which are traded in market is determined with reference to quoted market prices. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument.

(c) Valuation techniques for financial instruments that are measured at fair value

i. Non derivative financial instruments
The fair value of listed stocks 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. Derivative financial instruments
Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants such as the discounted cash flow or option pricing models. Foreign currency forward contract is measured based on the current forward exchange rate. Structured derivative products are measured based on appropriate option pricing model (for example, Black-Scholes model).

There is no transfer between the levels for the years ended December 31, 2015 and 2014.

(28) Financial risk management

A. Overview

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

(a) Credit risk

(b) Liquidity risk

(c) Market risk

The following likewise discusses the Group's objectives, policies and processes for measuring and managing the above mentioned risks.

B. Structure of risk management

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.

C. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group' s accounts receivables and debt securities.

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 does not require any collateral for accounts receivable and other receivables.

D. Liquidity risk

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

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

E. Market risk

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

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

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are executed in accordance with the Group's procedures for conducting derivative transactions which were approved by the Board of Directors.

(a) Currency 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

(Continued)

currencies of the Group's entities. These transactions are denominated in New Taiwan dollar (NTD), US dollar (USD), EURO (EUR) and Chinese yuan (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 NTD, 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(6) 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.

(29) Capital management

The Group's objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, to maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabilities.

The Group and other entities in the same industry use the debt-to-equity ratio to manage capital. This ratio is the total net debt divided by the total capital. The net debt form the balances sheet is derived from the total liabilities less cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, and other equity plus net debt.

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

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	December 31, 2015	December 31, 2014
Total liabilities	$ 5,902,826	7,042,424
Less: Cash and cash equivalents	(2,453,944)	(2,281,025)
Net debt	$ 3,448,882	4,761,399
Total equity	$ 8,411,088	9,683,098
Debt-to-equity ratio	$ 41.00%	49.17%

As of December 31, 2015, the debt-to-adjusted-capital ratio decrease due to the Group's decrease in account payables and short-term borrowings.

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, 2015, the Group had not changed its capital management method.

(30) Investing and financing activities

The Group's investing and financing activities which did not affect the current cash flow in the years ended December 31, 2015 and 2014, 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:

	For the years ended December 31, 2015	For the years ended December 31, 2014
Entities with significant influence over the Group	$ 6,600,482	8,891,634
Associates	8,106	2,979
	$ 6,608,588	8,894,613

The price for sales to the above related parties was determined by market conditions and

(Continued)

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:

Account	Category of related parties	December 31, 2015	December 31, 2014
Receivables – related parties	Entities with significant influence over the Group	$ 1,600,285	2,599,192
Receivables – related parties	Associates	3,014	1,563
		$ 1,603,299	2,600,755

C. Rendering of services and other expenses

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

	For the years ended December 31, 2015	For the years ended December 31, 2014
Entities with significant influence over the Group	$ 27,748	30,368

Payables to related parties were as follows:

Account	Category of related party	December 31, 2015	December 31, 2014
Payables – related parties	Entities with significant influence over the Group	$ 6,123	8,383

(Continued)

D. Transaction of property, plant and equipment

Acquisition of property, plant and equipment for the years ended December 31, 2015 and 2014, was as follows:

	For the years ended December 31, 2015	For the years ended December 31, 2014
Entities with significant influence over the Group	$ -	998

Payables to related parties were as follows:

Account	Category of related party	December 31, 2015	December 31, 2014
Payables – related parties	Entities with significant influence over the Group	$ -	877

E. Payments on behalf others

As of December 31, 2015 and 2014, Payments on behalf others between the related parties but had not been paid under payables – related parties were as follows:

	December 31, 2015	December 31, 2014
Entities with significant influence over the Group	$ -	364

(3) Key management personnel compensation

	For the years ended December 31, 2015	For the years ended December 31, 2014
Short-term employee benefits	$ 34,552	44,228
Post-employment benefits	281	397
	$ 34,833	44,625

(Continued)

8. Pledged assets

Pledged assets	Pledged to secure	December 31, 2015	December 31, 2014
Time deposit (recorded in other financial assets –current)	Deposit for forward current exchange	$ 14,994	-
Time deposit (recorded in other financial assets – noncurrent)	Import guarantee for Customs	7,500	7,500
Time deposit (recorded in other financial assets – noncurrent)	Guarantee letter for customs' tax exemption	-	51
		$ 22,494	7,551

9. Significant commitments and contingencies

As of December 31, 2015 and 2014, The Group deposited notes in the bank in order to obtain the transaction credits of bank financing and foreign exchange amounting to 4,596,320 and 4,515,490, respectively.

10. Losses due to major disaster: None.

11. Subsequent events: None.

12. Other information

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

	For the years ended December 31, 2015			For the years ended December 31, 2014		
Account	Operating Costs	Operating expense	Total	Operating Costs	Operating expense	Total
Employee benefits:						
Salaries	1,252,857	1,419,002	2,671,859	1,289,324	1,407,096	2,696,420
Labor and health insurance	62,342	114,545	177,887	62,359	104,423	166,782
Pension	89,001	95,770	184,771	78,849	95,815	174,664
Others	73,398	96,079	169,477	34,986	82,935	117,921
Depreciation	262,426	225,016	487,442	252,598	226,400	478,998
Amortization	4,092	68,849	72,941	2,658	83,381	86,039

(Continued)

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) Products and services information

Revenue of the Group from external customers was as follows:

	For the years ended December 31,	
Product	**2015**	**2014**
LAN/MAN	$ 12,421,391	11,626,309
Wireless	5,131,517	6,525,294
Digital Multimedia	3,705,620	3,092,421
Mobile and Broadband	1,722,716	1,873,189
Others	13,994	160,299
	$ 22,995,238	23,277,512

(3) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

Revenue from external customers:

	For the years ended December 31,	
Area	**2015**	**2014**
United States	$ 6,994,735	7,189,440
China	4,712,171	4,530,100
Other countries	11,288,332	11,557,972
	$ 22,995,238	23,277,512

(Continued)

Non-current assets:

	For the years ended December 31, 2015	2014
China	$ 2,094,273	2,603,614
Taiwan	985,647	934,237
Others	203,416	233,163
	$ 3,283,336	**3,771,014**

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

(4) Major customer information

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

	For the years ended December 31, 2015	2014
D-Link International	**$ 5,891,883**	**7,686,306**