Stock Code:3380

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ALPHA NETWORKS INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)

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Representation Letter

The entities that are required to be included in the combined financial statements of Alpha Networks Inc. as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Alpha Networks Inc. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Alpha Networks Inc.
Chairman: 李中旺
Date: March 16, 2017

Independent Auditors' Report

To the Board of Directors of Alpha Networks Inc.:

Opinion

We have audited the consolidated financial statements of Alpha Networks Inc. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2016and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016and 2015, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2016and 2015 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue recognition

   Please refer to note 4 (16) and note 6 (20) for accounting policy and summary of revenue, respectively.

   In explanation of key audit matters:

   Operation was initiated from sales transaction and the Group's major revenue was product sales. The revenue recognition is relies on the management's estimation and timing of product sales, i.e. when persuasive evidences of transferring of risk and reward existed, and the timing was varied on each individual contract with customers. These factors expose the Group to material risk of revenue recognition. Therefore, the revenue recognition was considered to be one of the key areas in our audit.

How the matter was addressed in our audit

Our audit procedures included: understanding and testing the Group's internal controls surrounding the revenue process and cash transaction process; realizing the terms and types of the major sales transactions and understanding whether they were recorded in the proper period; selecting samples and inspecting customer orders, bills of landing, e-commerce transactions raw data, and outsourced transportation delivery orders to assess the adequacy of the Group's timing on revenue recognition; understanding whether or not there were transactions with large scale fluctuation before and after year-end. Inspecting customer orders, bill of landing or outsourcing transportation, and assessing whether or not they are recorded in proper period.

2. Impairment of goodwill

   Please refer to note 4(12) for accounting policy, note 5(2) for significant accounting assumptions and judgments, and note 6(11) for major sources of estimation uncertainty and the summary of the impairment of goodwill.

   In explanation of key audit matters:

   The Group operates in an industry in which the operations are easily influenced by various external factors, such as supply and demand of the market. Therefore, the assessment of impairment of goodwill is one of the key areas in our audit. The aforementioned mentioned assessment procedures, including identification of cash-generating units, valuation models, selection of key assumptions and calculations of recoverable cash inflows, depend on the management's subjective judgments, which contained uncertainty on accounting estimations. Consequently, this is one of the key areas in our audit.

   How the matter was addressed in our audit

   Our audit procedures included: assessing whether there is any indication that a cash-generating unit may be impaired, including all the tests conducted for impairment of goodwill, ; assessing whether the assumptions used for evaluating the recoverable amount are reasonable; verifying the accuracy of the forecast;, inspecting the balance of recoverable amount to ensure it is the same as the final computation; assessing the assumption used for recoverable cash amount and forecast on cash flows including the estimations of revenue, cost and expense; inquiring with the management and inspecting the supporting documents to identify whether there is any indication of impairment, that occurred after the reporting-date.

3. Valuation of inventories

   Please refer to the note 4(8) for the accounting policy, note 5(1) for significant accounting assumptions and judgments, and note 6(4) for major sources of estimation uncertainty, and summary of inventory.

   In explanation of key audit matters:

   The inventories are measured at the lower of cost or net realizable value at the reporting date. With the rapid development of technology and introduction of new products, these may significantly market demand, as well as the products themselves, which can lead to product obsolescence that may result in the cost of inventory to be higher than the net realizable value. Therefore, the impairment of inventory is one of the key areas in our audit.

How the matter was addressed in our audit

Our audit procedures included: evaluating the reasonableness of the assessment policy a including data basis, assumption, function, and verifying whether it is properly applied; inspecting the assessment on supporting documentation whether the estimation of provision for inventory obsolescence and devaluation loss is accurate; using sampling skill to verify inventory aging or testing system report; assessing whether the inventory allowance rate is reasonable and accurate.

Other Matter

Alpha Networks Inc. has additionally prepared its parent-company-only financial statement as of and for the years ended December 31, 2016 and 2015, on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Wan-Yuan Yu and Cheng-Chine Chen.

Translated By KPMG

Taipei, Taiwan (Republic of China)
March 16, 2017

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its 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 consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2016		December 31, 2015	
	Assets	**Amount**	**%**	**Amount**	**%**
	Current assets:				
1100	Cash and cash equivalents (note 6(1))	$ 1,889,957	13	2,453,944	17
1110	Financial asset measured at fair value through profit or loss (note 6(2))	1,165	-	1,811	-
1170	Notes and accounts receivable, net (note 6(3))	2,328,645	17	2,300,640	16
1180	Accounts receivable from related parties (note 7)	1,320,624	9	1,603,299	11
130x	Inventories (note 6(4))	3,129,995	22	3,787,607	26
1476	Other financial assets - current (note 6(1)and (5))	2,414,585	17	392,201	3
1479	Other current assets	298,833	2	229,184	2
		11,383,804	80	10,768,686	75
	Non-current assets:				
1523	Available-for-sale financial assets - non-current (note 6(6))	113,456	1	108,706	1
1546	Investments in debt instrument without active market- non-current (note 6(8))	62,340	-	77,925	1
1550	Investment accounted for using equity method (note 6(9))	-	-	76,965	1
1600	Property, plant and equipment (note 6(10))	2,358,829	17	2,896,490	20
1780	Intangible assets (note 6(11))	194,291	2	227,900	2
1840	Deferred income tax assets (note 6(17))	62,658	-	55,365	-
1980	Other financial assets - non-current (notes 6(3), (5) and 8)	13,301	-	19,896	-
1985	Long-term prepaid rents (note 6(15))	69,253	-	76,706	-
1990	Other non-current assets	3,492	-	5,275	-
		2,877,620	20	3,545,228	25
	Total assets	**$ 14,261,424**	**100**	**14,313,914**	**100**

		December 31, 2016		December 31, 2015	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
	Current liabilities:				
2120	Financial liability measured at fair value through profit or loss (note 6(2))	$ 18,187	-	24,317	-
2170	Accounts payable	3,709,862	26	3,307,636	23
2201	Payroll and bonus payable	583,172	4	482,445	3
2209	Accrued expenses	434,031	3	490,557	3
2220	Payables to related parties (note 7)	7,010	-	6,123	-
2230	Current tax liabilities	128,771	1	7,663	-
2250	Provision - current (note 6(14))	261,240	2	242,638	2
2300	Other current liabilities	155,213	1	222,113	2
		5,297,486	37	4,783,492	33
	Non-Current liabilities:				
2540	Long-term loans (note 6(13))	-	-	624,550	4
2570	Deferred income tax liabilities (note 6(17))	50,973	-	105,344	1
2640	Net defined benefit liabilities (note 6(16))	393,681	3	388,830	3
2670	Other non-current liabilities	628	-	610	-
		445,282	3	1,119,334	8
	Total liabilities	5,742,768	40	5,902,826	41
	Equity (note 6(18)**:**				
3110	Ordinary share capital	4,344,697	31	4,429,144	31
3200	Capital surplus	2,144,447	15	2,185,837	15
	Retained earnings:				
3310	Legal reserve	991,530	7	991,530	7
3320	Special reserve	-	-	110,280	1
3350	Unappropriated retained earnings	1,284,276	9	826,483	6
		2,275,806	16	1,928,293	14
3400	Other equity	(242,798)	(2)	44,599	-
3500	Treasury shares	(3,496)	-	(176,785)	(1)
	Total equity	8,518,656	60	8,411,088	59
	Total liabilities and equity	**$ 14,261,424**	**100**	**14,313,914**	**100**

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

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

		2016		2015	
		Amount	**%**	**Amount**	**%**
4100	**Net operating revenues** (notes 6(20) and 7)	$ 21,830,730	100	22,995,238	100
5000	**Operating costs** (notes 6(4) and 7)	18,647,259	85	20,095,471	87
	Gross profit	3,183,471	15	2,899,767	13
	Operating expenses (note 7)**:**				
6100	Selling	476,182	2	610,686	3
6200	General and administrative	679,225	3	771,064	3
6300	Research and development	1,379,072	7	1,419,586	6
	Total operating expenses	2,534,479	12	2,801,336	12
	Net operating income	648,992	3	98,431	1
	Non-operating income and expenses:				
7010	Other income (note 6(22))	89,281	1	61,568	-
7020	Other gains and losses, net (notes 6(23))	73,924	-	(384,156)	(2)
7050	Finance costs (note 6(24))	(8,624)	-	(12,934)	-
7060	Share of loss of associates accounted for using equity method (note 6(9))	-	-	(24,000)	-
	Total non-operating income and expenses	154,581	1	(359,522)	(2)
	Income (loss) before income tax	803,573	4	(261,091)	(1)
7950	**Income tax expense** (note 6(17))	195,534	1	79,017	-
	Net income (loss)	608,039	3	(340,108)	(1)
8300	**Other comprehensive income:**				
8310	**Items that will not be reclassified subsequently to profit or loss**				
8311	Remeasurement of defined benefit plan	4,056	-	(13,942)	-
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences on translation of foreign financial statements	(351,984)	(1)	(115,345)	(1)
8362	Unrealized gains on available-for-sale financial assets	4,750	-	250,615	1
8399	Income tax relating to items that may be reclassified subsequently (note 6(17))	59,837	-	19,609	-
		(287,397)	(1)	154,879	-
8300	**Other comprehensive income (loss)**	(283,341)	(1)	140,937	-
	Total comprehensive income (loss)	**$ 324,698**	**2**	**(199,171)**	**(1)**
	Earnings per share (New Taiwan dollars) (note 6(19))				
	Basic earnings per share	**$ 1.40**		**(0.74)**	
	Diluted earnings per share	**$ 1.38**			

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										
			Retained earnings				Other equity				
	Ordinary share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained 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, 2015	$ 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 for the period	-	-	-	-	(340,108)	(340,108)	-	-	-	-	(340,108)
Other comprehensive income for the period	-	-	-	-	(13,942)	(13,942)	(95,736)	250,615	154,879	-	140,937
Total comprehensive income for the period	-	-	-	-	(354,050)	(354,050)	(95,736)	250,615	154,879	-	(199,171)
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	53,577	-	(53,577)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(86,442)	86,442	-	-	-	-	-	-
Cash dividend	-	-	-	-	(579,293)	(579,293)	-	-	-	-	(579,293)
Capital reduction	(492,127)	-	-	-	-	-	-	-	-	9,383	(482,744)
Purchase of treasury share	-	-	-	-	-	-	-	-	-	(10,802)	(10,802)
Retirement of treasury share	(50,000)	(19,892)	-	-	(12,177)	(12,177)	-	-	-	82,069	-
Balance on December 31, 2015	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
Net income for the period	-	-	-	-	608,039	608,039	-	-	-	-	608,039
Other comprehensive income for the period	-	-	-	-	4,056	4,056	(292,147)	4,750	(287,397)	-	(283,341)
Total comprehensive income for the period	-	-	-	-	612,095	612,095	(292,147)	4,750	(287,397)	-	324,698
Appropriation and distribution of retained earnings:											
Reversal of special reserve	-	-	-	(110,280)	110,280	-	-	-	-	-	-
Cash dividend	-	-	-	-	(217,130)	(217,130)	-	-	-	-	(217,130)
Retirement of treasury share	(84,447)	(41,390)	-	-	(47,452)	(47,452)	-	-	-	173,289	-
Balance on December 31, 2016	**$ 4,344,697**	**2,144,447**	**991,530**	**-**	**1,284,276**	**2,275,806**	**(252,614)**	**9,816**	**(242,798)**	**(3,496)**	**8,518,656**

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ALPHA NETWORKS INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

		2016	2015
Cash flows from operating activities:			
Net income (loss) before tax	$	803,573	(261,091)
Adjustments:			
Adjustments to reconcile profit (loss):			
Depreciation expense		416,415	487,442
Amortization expense		74,810	72,941
Reversal of doubtful accounts		(1,878)	(7,224)
Effect of valuation of financial assets and liabilities at fair value through profit or loss		17,022	22,506
Interest expense		8,624	12,934
Interest income		(29,407)	(30,353)
Dividend income		(3,166)	-
Share of loss of associates accounted for using equity method		-	24,000
Loss on disposal of property, plant and equipment		3,978	15,961
Provision for inventory obsolescence and devaluation loss		105,626	92,317
Gain on disposal of investment accounted for using equity method		(113,961)	-
Gain on disposal of investments in debt instrument without active market		(580)	-
Loss on disposal of financial asset carried at cost		-	2,050
Impairment loss on financial assets		-	328,866
Impairment loss on non-financial assets		-	40,071
Amortization of long-term prepaid rent		1,711	1,780
Adjustments for other non-cash related loss		-	1,097
Total adjustments to reconcile profit (loss)		479,194	1,064,388
Changes in operating assets and liabilities			
Net changes in operating assets:			
Notes and accounts receivable		(25,815)	554,875
Receivable from related parties		282,675	997,456
Financial assets measured at fair value through profit or loss		1,811	690
Inventories		551,986	134,582
Other current assets		(68,528)	290,597
Changing in operating assets		742,129	1,978,200
Net change in operating liabilities:			
Accounts payable		402,226	(523,183)
Financial liabilities measured at fair value through profit or loss		(24,317)	(131,889)
Other payable to related parties		887	(3,501)
Other current liabilities		(65,440)	(103,838)
Net defined benefit liabilities		8,907	9,930
Change in operating liabilities		322,263	(752,481)
Total changes in operating assets and liabilities		1,064,392	1,225,719
Total adjustments		1,543,586	2,290,107

(Continued)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continue)

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash inflow from operations	$ 2,347,159	2,029,016
Interest income	28,286	26,423
Dividend received	3,166	-
Interest paid	(7,807)	(15,320)
Income tax paid	(73,937)	(166,217)
Net cash flows from operating activities	2,296,867	1,873,902
Cash flows from investing activities:		
Acquisition of investments in debt instrument without active market	-	(77,925)
Proceeds from disposal of investments in debt instrument without active market	16,165	-
Proceeds from disposal of financial assets carried at cost	-	7,946
Proceeds from disposal of investment accounted for using equity method	192,026	-
Acquisition of property, plant and equipment	(29,431)	(131,700)
Proceeds from disposal of property, plant and equipment	10,710	9,272
Decrease in refundable deposits	6,595	33,671
Acquisition of intangible assets	(42,504)	(76,900)
Proceeds from disposal of intangible assets	560	-
Increase in other financial assets	(2,022,696)	(30,407)
Net cash used in investing activities	(1,868,575)	(266,043)
Cash flows from financing activities:		
Decrease in short-term borrowings	-	(309,899)
Proceed from long-term loans	-	300,000
Repayments of long-term loans	(624,550)	(325,300)
Increase (decrease) in guarantee deposit received	18	(63)
Payments of cash dividends	(217,130)	(579,293)
Capital reduction payment to shareholders	-	(482,744)
Purchase of treasury stock	-	(10,802)
Net cash used in financing activities	(841,662)	(1,408,101)
Effect of exchange rate changes on cash and cash equivalents	(150,617)	(26,839)
Net increase (decrease) in cash and cash equivalents	(563,987)	172,919
Cash and cash equivalents at beginning of year	2,453,944	2,281,025
Cash and cash equivalents at end of year	$ 1,889,957	2,453,944

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2016 and 2015
(amounts expressed in thousands of New Taiwan dollars, except for per share information and unless otherwise noted)

1. Company history and organization

Alpha Networks Inc. (“Alpha”) 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 Alpha. Alpha 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, 2016, the consolidated financial statements comprise Alpha and its subsidiaries (together referred to as the “Group”) and Alpha’s interest in associates.

The Group’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 consolidated financial statements

These consolidated financial statements were authorized for issuance by the board of directors on March 16, 2017.

3. New Standards and Interpretations Adopted

(1) Impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect.

According to Ruling No.1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, amendments and interpretations are as follow:

New Standards, Amendments and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "*Investment Entities: Applying the Consolidation Exception*"	January 1, 2016
Amendments to IFRS 11 "*Accounting for Acquisitions of Interests in Joint Operations*"	January 1, 2016
IFRS 14 "*Regulatory Deferral Accounts*"	January 1, 2016
Amendment to IAS 1 "*Disclosure Initiative*"	January 1, 2016

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

New Standards, Amendments and Interpretations	Effective date per IASB
Amendments to IAS 16 and IAS 38 "*Clarification of Acceptable Methods of Depreciation and Amortization*"	January 1, 2016
Amendments to IAS 16 and IAS 41 "*Agriculture: Bearer Plants*"	January 1, 2016
Amendments to IAS 19 "*Defined Benefit Plans: Employee Contributions*"	July 1, 2014
Amendment to IAS 27 "*Equity Method in Separate Financial Statements*"	January 1, 2016
Amendments to IAS 36 "*Recoverable Amount Disclosures for Non-Financial Assets*"	January 1, 2014
Amendments to IAS 39 "*Novation of Derivatives and Continuation of Hedge Accounting*"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "*Levies*"	January 1, 2014

The initial application of the above IFRSs would not have any material impact on its consolidated financial statements.

(2) Newly released or amended standards and interpretations not yet endorsed by the FSC

New standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group's financial statements were authorized for issue, the FSC has yet announced the effective dates of the other IFRSs.

New Standard, 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
IFRS 15 "*Revenue from Contracts with Customers*"	January 1, 2018
IFRS 16 "*Leases*"	January 1, 2019
Amendment to IFRS 2 "*Clarifications of Classification and Measurement of Share-based Payment Transactions*"	January 1, 2018
Amendment to IFRS 15 "*Clarifications of IFRS 15*"	January 1, 2018
Amendment to IAS 7 "*Disclosure Initiative*"	January 1, 2017

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New Standard, Amendments and Interpretations	Effective date per IASB
Amendment to IAS 12 "*Recognition of Deferred Tax Assets for Unrealized Losses*"	January 1, 2017
Amendments to IFRS 4 " *Insurance Contracts"*(“*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*”)	January 1, 2018
Annual Improvements cycle 2014–2016:	
IFRS 12 "*Disclosure of Interests in Other Entities*"	January 1, 2017
IFRS 1 "*First-time Adoption of International Financial Reporting Standards*" *and IAS 28 "Investments in Associates and Joint Ventures"*	January 1, 2018
IFRIC 22 "*Foreign Currency Transactions and Advance Consideration*"	January 1, 2018
Amendments to IAS 40 “*Investment Property*”	January 1, 2018

The standards which are relevant to the Group are listed below:

Issue Dates	New Standards and Amendment	Content of Amendment
May 28, 2014 April 12, 2016	IFRS 15 "*Revenue from Contracts with Customers*"	The new standard provides a single model for determining whether an entity recognizes revenue in accordance with the method, timing and amount by applying the five-step model. IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts, and the relevant interpretations. On April 12, 2016, the amendments clarify how to identify performance obligations in a contract; determine whether a company is a principal or an agent; and determine whether the revenue from granting a license should be recognized at a point in time or over time.

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Issue Dates	New Standards and Amendment	Content of Amendment
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The new standard will replace IAS 39 "*Financial Instruments: Recognition and Measurement*". The main amendments are as follows: • Clarification and measurement: The financial asset is driven by the entity's business model and the contractual cash flow characteristics, which would be classified as financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income (OCI), and financial assets at fair value through profit or loss. The financial liabilities measured at fair value through profit or loss that have changes in fair value related to the changes in its credit risk are recognized in OCI. • Impairment: The new expected credit loss model is to replace the current incurred loss model. • Hedge accounting: More principle-based regulations are adopted to correspond hedge accounting with risk management. Such regulations include the revisions on the requirements of adoption, continuation, and discontinuation of hedge accounting, allowing more categories of risk exposure to conform with the hedged items.
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and lease liability on the balance sheet. During the lease term, the lease payment shall include the measurement of the depreciation on the right-of-use asset and the interest expense on the lease liability. • A lessor shall classify a lease as either finance lease or operating lease. The accounting treatment remains similar in accordance with IAS 17 Leases.

(Continued)

The Group assessed that the application of the IFRS 15 "*Revenue from Contracts with Customers*" and IFRS 9 "*Financial Instruments*" would not have any material impact on its financial position and financial performance. The Group continues evaluation the impact of the initial adoption of the IFRS 16 "*Leases*" on its financial position and financial performance. The results thereof will be disclosed when the Group completes its evaluation.

4. Summary of Significant Accounting Policies

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 the consolidated financial statements.

(1) Statement of compliance

These 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 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 balance sheet:

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

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

(c) The net defined benefit liability is recognized as the fair value of the plan assets, less the present value of the defined benefit obligation.

B. Functional and presentation currency

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

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Basis of consolidation

A. Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise Alpha and its subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, income and expenses are eliminated in the consolidated financial statements. Total comprehensive income (loss) in a subsidiary is allocated to the shareholders of Alpha and the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Subsidiaries' financial statements are adjusted to align the accounting policies with those of the Group.

Changes in the Group's ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between such adjustment and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of Alpha.

B. List of subsidiaries in the consolidated financial statements

			Percentage of ownership	
Name of Investor	**Name of Investee**	**Main Business Activities**	**December 31, 2016**	**December 31, 2015**
Alpha	Alpha Holdings Inc. (Alpha Holdings)	Investment holding	100.00%	100.00%
Alpha	Alpha Solutions Co., Ltd. (Alpha Solutions)	Sale of network equipment and technical services	100.00%	100.00%
Alpha	Alpha Networks Inc. (Alpha USA)	Manufacture and sale of network equipment and procurement service	100.00%	100.00%
Alpha	Net Mag Technology Corp. (Net Mag)(note 1)	Testing and maintaining electrical equipment	-	100.00%
Alpha	Alpha Networks (Hong Kong) Limited (Alpha HK)	Investment holding	100.00%	100.00%
Alpha	Alpha Technical Services Inc. (ATS)	Post-sale service	100.00%	100.00%

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business Activities	Percentage of ownership December 31, 2016	Percentage of ownership December 31, 2015
Alpha	Alpha Networks NL B.V. (Alpha NL) (note 2)	Sale of network equipment	100.00%	100.00%
Alpha	Global Networks Trading Limited (Global)	Sale of electrical products	100.00%	100.00%
Alpha Holdings	D-Link Asia Investment Pte. Ltd. (D-Link Asia)	Investment in manufacturing business	100.00%	100.00%
Alpha Holdings	Alpha Networks (Chengdu) Co., Ltd. (Alpha Chengdu)	Research, development, production and sale of network products	100.00%	100.00%
Alpha Holdings	Alpha Investment Pte, Ltd. (Alpha Investment)	Investment holding	100.00%	100.00%
Alpha Holdings	Universal Networks Trading Limited (Universal)	Sale of electrical products	100.00%	100.00%
Alpha Investment	Mirac Networks (Dongguan) Co., Ltd. (Mirac)	Production and sale of network products	100.00%	100.00%
D-Link Asia	Alpha Networks (Dongguan) Co., Ltd. (Alpha Dongguan)	Production and sale of network products	100.00%	100.00%
Alpha HK	Alpha Networks (Changshu) Co., Ltd. (Alpha Changshu)	Research, development, production and sale of network products	100.00%	100.00%
Alpha HK	Maintrend Technical Services (Changshu) Co., Ltd. (Maintrend) (note3)	Post-sale service	100.00%	100.00%
Mirac	JUST3C Corporation (JUST3C)(note4)	Sale of network products	100.00%	100.00%

Note 1: The Group’s Board meeting had approved the dissolution and liquidation of Net Mag on October 30, 2015. The dissolution and liquidation of Net Mag. Relevant legal procedure was completed as of June 1, 2016.

(Continued)

Note 2: Alpha NL shareholders' meeting approved the dissolution and liquidation 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 2016.

Note 3: Maintrend shareholders' meeting approved the dissolution and liquidation on January 12, 2016. The Group recognized the related impairment loss and estimated that no impairment would generate from the dissolution and liquidation of Maintrend. Relevant legal procedure was still in progress as of December 31 2016.

Note4: The Board meeting had approved the dissolution and liquidation of JUST3C on October 26, 2016. The dissolution and liquidation of JUST3C. Relevant legal procedure was completed as of February 10, 2017.

C. Subsidiaries excluded from the consolidated financial statements: None.

(4) Foreign currencies

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 end of reporting period (hereinafter referred to as 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 when 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 the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss except for those differences of available-for-sale financial assets, 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 reporting currency at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated at the average exchange rate. Translation differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

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

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

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

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

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

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

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

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

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

D. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a 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 held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash equivalents.

(Continued)

(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

Financial assets are classified into the following categories: financial assets measured at fair value through profit or loss, available-for-sale financial assets.

(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 presented under non-operating income and expense. 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 measured at cost.

(Continued)

(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 within equity in unrealized gains (losses) on available for-sale financial assets. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and presented under 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 carried at their cost less any impairment losses and presented under the heading of financial assets carried at cast.

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 presented under the non-operating income and expenses.

(c) Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise notes and accounts receivable, 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 is recognized and derecognized, as applicable, using trade-date accounting.

Interest income is presented under non-operating income and expense.

(d) Impairment of financial assets

Financial assets not measured at fair value through profit or loss are assessed at each reporting date for indicators of impairment. Financial assets are considered to be impaired if an objective evidence indicates that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of those assets have been negatively impacted.

(Continued)

Objective evidence that financial assets are impaired includes default or delinquency (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 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 may cause the actual losses are likely to be greater or less than the those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

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 a receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying cumulative gains or losses previously recognized in other comprehensive income to profit or loss.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

(Continued)

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, then 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 are recognized in profit or loss, except for account receivables.

(e) Derecognition of financial assets

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

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 instrument 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.

Interest related to the financial liability is recognized in profit or loss, and presented under non-operating income and expenses.

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

(b) Financial liabilities 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.

(Continued)

The Group designates financial liabilities, 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. 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 thereon 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 presented under non-operating income and expenses.

(c) Other financial liabilities

Financial liabilities not classified as held for trading, or not designated as measured at fair value through profit or loss (including loans and borrowings, trade 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 expense not capitalized as an asset cost is recognized in profit or loss, and presented under non-operating income and expenses.

(d) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged cancelled, or expired. The difference between the carrying amount removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and presented under non-operating income or 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.

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Notes to Consolidated Financial Statements

C. Derivative financial instruments, including hedge accounting

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 presented under 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 the power to exercise significant influence, but not control or joint control, over their financial and operating policies.

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, which is arising from the acquisition, less any accumulated impairment losses.

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

Unrealized profits resulting from transactions between the Group and an associate 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 the underlying asset is impaired.

(Continued)

When the Group's share of losses exceeds its interests in an associate, the carrying amount of the 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 the Group has an obligation or has made payments on behalf of the associate.

(10) Property, plant and equipment

A. Recognition and measurement

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

When part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and the useful life or the depreciation method of the significant part is different from another significant part of that same item, it is accounted for as a separate item (significant component) of property, plant and equipment.

The gain or loss arising from the derecognition of an item of property, plant and equipment is 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 future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts of fixed assets that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

C. Depreciation

Depreciation is provided over the estimated useful lives of the respective assets, considering significant components of an individual asset, on a straight-line basis less any residual value. If a component has an useful life that is different from the remainder of that asset, that component is depreciated separately. The depreciation charge is 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

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

(11) Lessee

Leases are operating leases and are not recognized in the Group's consolidated statement of financial position. Payments made under an operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(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.

(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.

(Continued)

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.

Capitalized development expenditure is 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.

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 impairment of non-financial asset, including goodwill, intangible assets with uncertain useful life and unavailable, should be tested on regular basis for each year, no matter it has any indication.

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. In measuring value in use, the discount rate use should be the pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the asset. 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.

(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.

The provision is based on historical warranty data.

(Continued)

(15) Treasury shares

Repurchased shares are recognized under treasury shares based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares should be recognized under “capital reserve — treasury share transactions”. Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves 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 reserve — share premiums” and “share capital” should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; losses on cancellation of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

(16) Revenue

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 a discount will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

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.

(Continued)

(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 fair value of any plan assets are deducted. The discount rate is the yield at the annual reporting date (market yields of government bonds) on bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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

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

Re-measurements 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) 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.

(Continued)

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.

(19) Earnings per share

The Group discloses Alpha's basic and diluted earnings per share attributable to ordinary shareholders of the Alpha. The calculation of basic earnings per share is calculated as the profit attributable to the ordinary shareholders of the Alpha 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 Alpha, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares.

(20) Operating segment

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.

Estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(Continued)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(1) Valuation of inventories

Inventories are stated at the lower of cost or net realizable value, the Group uses judgments and estimates to determine the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. However, due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6(4) for further description of the valuation of inventories.

(2) Impairment of goodwill

The assessment of impairment of goodwill requires the Group to make subjective judgments to identify cash-generating units, allocate the goodwill to relevant cash-generating units, and estimate the recoverable amount of relevant cash-generating units. Refer to note 6(11) for further description of the impairment of goodwill.

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 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 (i.e. as prices) or indirectly (i.e. derived from prices).

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

Please refer to note 6(26) of the financial instruments.

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6. Explanation of significant accounts

(1) Cash and cash equivalents

		December 31, 2016	December 31, 2015
Cash on hand	$	2,249	3,721
Checking and savings accounts		1,070,589	879,367
Time deposits		498,064	785,433
Cash equivalents – bonds with repurchase agreements		319,055	785,423
Cash and cash equivalents in the consolidated statement of cash flows	$	1,889,957	2,453,944

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

As of December 31, 2016 and 2015, deposits with original maturities of more than three months were $2,353,000 and $309,876, respectively, and were recorded in other financial assets – current.

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

		December 31, 2016	December 31, 2015
Financial assets measured at fair value through profit or loss – current			
Currency option contracts	$	843	1,811
Forward exchange contracts		322	-
	$	1,165	1,811

		December 31, 2016	December 31, 2015
Financial liabilities measured at fair value through profit or loss – current			
Forward exchange contracts	$	6,828	12,345
Currency option contracts		7,501	4,333
Cross currency swap contracts		3,858	7,639
	$	18,187	24,317

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

(Continued)

	December 31, 2016		
	Notional amount (in thousands)	**Currency**	**Maturity date**
Buy USD put options	USD 16,000	USD to NTD	January 2017 ~ February 2017
Sell USD call options	USD 16,000	USD to NTD	January 2017 ~ February 2017
Sell USD put options	USD 16,000	USD to NTD	January 2017 ~ February 2017
Cross currency swap contracts	USD 6,000	USD to NTD	January 2017
Forward exchange contracts	USD 25,000	USD to NTD	January 2017 ~ March 2017

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

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

		December 31, 2016	December 31, 2015
Notes receivable	$	-	60,092
Accounts receivable		2,329,464	2,243,557
Less: Allowance for doubtful accounts		(819)	(3,009)
	$	2,328,645	2,300,640

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, 2016	December 31, 2015
Other financial assets – non-current	$	224,921	224,609
Less: allowance for doubtful accounts		(224,921)	(224,609)
	$	-	-

(Continued)

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

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at 1 January, 2016	$ 224,609	3,009	227,618
Impairment loss recognized (reversed)	312	(2,190)	(1,878)
Balance at 31 December, 2016	**$ 224,921**	**819**	**225,740**
Balance at 1 January, 2015	$ 224,633	10,209	234,842
Impairment loss reversed	(24)	(7,200)	(7,224)
Balance at 31 December, 2015	**$ 224,609**	**3,009**	**227,618**

The aging analysis of notes and receivables (including related parties) and overdue receivable which were past due but not impaired was as follows:

	December 31, 2016		December 31, 2015	
	Gross amount	Impairment loss	Gross amount	Impairment loss
Overdue 0 to 30 days	$ 399,398	-	609,465	-
Overdue 31 to 120 days	15,739	819	55,420	3,009
Overdue 121 to 365 days	25	-	-	-
Overdue more than one year	225,145	224,921	224,609	224,609
	$ 640,307	**225,740**	**889,494**	**227,618**

(4) Inventories

	December 31, 2016	December 31, 2015
Raw materials	$ 1,942,885	2,111,014
Work in progress and semi-finished products	241,482	293,010
Finished goods	945,628	1,383,583
	$ 3,129,995	**3,787,607**

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Component of operating cost were as below:

	For the years ended December 31, 2016	2015
Cost of goods sold	$ 18,541,633	20,003,154
Provision for inventory and devaluation loss	105,626	92,317
	$ 18,647,259	**20,095,471**

As of December 31, 2016 and 2015, the Group's inventories were not pledged.

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

The detail of other financial asset was as bellow:

	December 31, 2016	December 31, 2015
Current:		
Time deposits	$ 2,353,000	309,876
Restricted cash in banks	-	14,994
Other receivables	61,585	67,331
	$ 2,414,585	**392,201**

	December 31, 2016	December 31, 2015
Non-current:		
Restricted cash in banks	$ 7,500	7,500
Refundable deposits	5,801	12,396
	$ 13,301	**19,896**

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

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

	December 31, 2016	December 31, 2015
Publicly traded stock – D-Link	**$ 113,456**	**108,706**

In September 2015, due to the continuing fair value decline of available-for-sale financial assets, the Group had assessed it was a risk of permanent decline, therefore, the Group recognized $328,866 impairment loss on available-for-sale financial assets, and booked under other gains and losses. Please refer to note 6(23) for information.

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As of December 31, 2016 and 2015, 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 expect for the price index for both periods will be as follows:

	For the years ended December 31,	
	2016	**2015**
Equity market price at reporting date		
Increase 10%	$ 11,346	10,871
Decrease 10%	$ (11,346)	(10,871)

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

The Group's investment of TGC Inc. 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 had determined that the fair value cannot be measured reliably. In addition, TGC Inc. had incurred continued net losses in the past, and as a result, the Group recognized $16,985 of impairment loss.

The Group had disposed of all stock 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(23).

(8) Bond investments without an active market

	December 31, 2016	**December 31, 2015**
Corporate bond－Platina Systems Corporation	$ 62,340	77,925

In April, 2015 due to new product development strategy, the Group invested Platina Systems Corporation bond amounting $77,925 with the term of effective interest rate 2.72% and can be returned USD500 if no conversion right exercised after one year. In April 2016, after the term's termination, the Group received USD 500 thousand (equal $16,165).

(9) Investment accounted for using the equity method

The Group's financial information for investments accounted for using the equity method that are individually insignificant was as follows:

	December 31, 2016	**December 31, 2015**
Carrying amount of individually insignificant associates' equity	$ -	76,965

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In June, 2016 the Group disposed of 30.44% investment of Delta Mobile Software, Inc.'s and the proceeds was $192,026 and the recognized gain of disposal amounting to $113,961 after deducting relevant cost and was recognized in profit or loss, under other gains and losses in the comprehensive income. Please refer to note 6(23).

	For the years ended December 31, 2016	For the years ended December 31, 2015
Attributable to the Group:		
Loss from Continuing Operations	$ -	(24,000)
Income (Loss) from Discontinued Operations	-	-
Other comprehensive income	-	-
Total comprehensive income	**$ -**	**(24,000)**

The Group's investment accounted for using the equity method were not pledged.

(10) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the years ended December 31, 2016 and 2015, were as follows:

	Land	Building	Machinery and equipment	Office, transportation and other facilities	Total
Cost:					
Balance at January 1, 2016	$ 68,598	3,179,143	2,247,675	438,562	5,933,978
Additions	-	561	18,787	11,828	31,176
Disposals	-	(6,685)	(114,805)	(87,699)	(209,189)
Effect of movement in exchange rates	(1,171)	(175,902)	(136,462)	(20,686)	(334,221)
Balance at December 31, 2016	**$ 67,427**	**2,997,117**	**2,015,195**	**342,005**	**5,421,744**
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)
Effect of movement in exchange rates	2,488	(50,798)	(37,684)	(5,836)	(91,830)
Balance at December 31, 2015	**$ 68,598**	**3,179,143**	**2,247,675**	**438,562**	**5,933,978**

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Land	Building	Machinery and equipment	Office, transportation and other facilities	Total
Depreciation and impairment loss:					
Balance at January 1, 2016	$ -	1,324,294	1,395,229	317,965	3,037,488
Depreciation	-	142,905	231,111	42,399	416,415
Disposal	-	(6,685)	(104,187)	(83,629)	(194,501)
Effect of movement in exchange rates	-	(86,623)	(93,068)	(16,796)	(196,487)
Balance at December 31, 2016	$ -	1,373,891	1,429,085	259,939	3,062,915
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)
Effect of movements in exchange rates	-	(18,535)	(19,827)	(4,042)	(42,404)
Balance at December 31, 2015	$ -	1,324,294	1,395,229	317,965	3,037,488
Carrying amounts:					
Balance at December 31, 2016	$ 67,427	1,623,226	586,110	82,066	2,358,829
Balance at December 31, 2015	$ 68,598	1,854,849	852,446	120,597	2,896,490
Balance at January 1, 2015	$ 66,110	2,018,449	1,101,994	148,976	3,335,529

The Group implemented group resource integration plan and recognized $40,071 impairment loss in September, 2015, under other gains and losses. Please refer to note 6(23).

As of December 31, 2016 and 2015, the Group’s property, plant and equipment were not pledged.

(11) Intangible asset

The cost, amortization, and impairment of intangible assets of the Group for the years ended December 31, 2016 and 2015 were as follows:

	Goodwill	Software application and other	Total
Cost:			
Balance at January 1, 2016	$ 134,883	578,252	713,135
Addition	-	42,504	42,504
Disposal	-	(961)	(961)
Derecognition	-	(205,127)	(205,127)
Effect of movement in exchange rates	-	(5,997)	(5,997)
Balance at December 31, 2016	$ 134,883	408,671	543,554

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Goodwill	Software application and other	Total
Balance at January 1, 2015	$ 134,883	498,483	633,366
Addition	-	81,262	81,262
Effect of movement in exchange rates	-	(1,493)	(1,493)
Balance at December 31, 2015	**$ 134,883**	**578,252**	**713,135**
Amortization and impairment:			
Balance at January 1, 2016	$ -	485,235	485,235
Amortization	-	74,810	74,810
Disposal	-	(401)	(401)
Derecognition	-	(205,127)	(205,127)
Effect of movement in exchange rates	-	(5,254)	(5,254)
Balance at December 31, 2016	**$ -**	**349,263**	**349,263**
Balance at January 1, 2015	$ -	413,489	413,489
Amortization	-	72,941	72,941
Effect of changes in foreign exchange rates	-	(1,195)	(1,195)
Balance at 31 December 2015	**$ -**	**485,235**	**485,235**
Carrying amount			
Balance at 31 December 2016	**$ 134,883**	**59,408**	**194,291**
Balance at 31 December 2015	**$ 134,883**	**93,017**	**227,900**
Balance at 1 January 2015	**$ 134,883**	**84,994**	**219,877**

i. For the years ended December 31, 2016 and 2015, the amortization of intangible assets are included in the statement of comprehensive income are as follows:

	For the years ended December 31, 2016	2015
Operating cost	$ 3,268	4,092
Operating expense	71,542	68,849
Total	**$ 74,810**	**72,941**

ii. To assess the impairment, goodwill must be allocated to IP Camera CGU. As of December 31, 2016 and 2015, the recoverable amount of IP Camera CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The carrying amount of the CGU was determined to be higher than its recoverable amount .Therefore there was no impairment loss shall be recognized as of December 31, 2016 and 2015.

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The key assumptions used in the estimation of value in use were as follows:

	December 31, 2016	December 31, 2015
Discount rate	8.42%	8.88%
Terminal value growth rate	(3.00)%	5.00%

The discount rate was a pre-tax measure based on the rate of 10-year government bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific CGU.

Cash flow projection was based on a five-year financial projection which was approved by the management.

As of December 31, 2016 and 2015, the Group's intangible assets were not pledged.

(12) Short-term borrowings

	December 31, 2016	December 31, 2015
Unused short-term credit lines	$ 2,460,750	2,596,700

(13) Long-term borrowings

	December 31, 2015			
	Currency	Rate	Maturity date	Amount
Secured bank loans	USD	1.47%~1.63%	2018.1.18	$ 324,550
Unsecured bank loans	NTD	1.80%	2019.1.15	300,000
				$ 624,550
Unused long-term credit lines				$ 600,000

Alpha's agreement with Mega Bank for credit facilities amounting to $300,000 was early repaid in October 2016 and Alpha Changshu's agreement with Taipei Fubon Bank for credit facilities amounting to US$10,000 was also early repaid in November, 2016. These credit facilities contained covenants that required the Alpha, 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 Alpha does not maintain the certain financial ratios which were specified in the loan agreement, the default will be deemed a breach, and the facilities will be reviewed by Taipei Fubon Bank and Mega Bank. Please refer to note 13 for Alpha endorsement status report. As of December 31, 2016 unused long-term credit lines was $600,000.

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

(14) Provisions

		Warranties
Balance at 1 January 2016	$	242,638
Provisions made during the year		242,208
Provisions used during the year		(220,878)
Effect of changes in foreign exchange rates		(2,728)
Balance at 31 December 2016	$	261,240
Balance at 1 January 2015	$	241,947
Provisions made during the year		292,910
Provisions used during the year		(291,603)
Effect of changes in foreign exchange rates		(616)
Balance at 31 December 2015	$	242,638

The provision for warranties relates mainly to network product sold during the years ended 31 December 2016 and 2015. 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.

(15) Operating lease

Leases as lessee

Alpha 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 were as follows:

		December 31, 2016	December 31, 2015
Less than one year	$	13,304	12,782
Between one and five years		51,756	52,250
Over five years		20,973	24,528
	$	86,033	89,560

The Group recognized $30,921 and $46,952 as an expense in profit or loss in respect of operating leases for the years ended December 31, 2016 and 2015, respectively.

(Continued)

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The Group was obtained land use rights pursuant to operating lease agreements. 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, 2016 and 2015, the Group recognized $1,711 and $1,780, respectively, in operating expenses. As of December 31, 2016 and 2015, the unamortized amounts were $69,253 and $76,706, respectively, recognized in long-term rental prepayment.

(16) Employee benefits

A. Defined benefit plans

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

	December 31, 2016	December 31, 2015
Present value of the defined benefit obligations	$ 456,003	509,565
Fair value of plan assets	(62,322)	(120,735)
Net defined benefit liabilities	**$ 393,681**	**388,830**

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 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 time deposits with interest rates offered by the local banks.

The Group’s Bank of Taiwan labor pension reserve account balance amounted to $62,322 as of December 31, 2016. 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.

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

		2016	2015
Defined benefit obligations at January 1	$	509,565	540,887
Benefits paid from the plan assets		(60,573)	(61,256)
Current service costs and interest cost		12,659	14,953
Re-measurements of net defined benefit liabilities (asset):			
- Actuarial loss (gain) arising from demographic assumptions		(39,195)	5,038
- Actuarial loss arising from financial assumptions		33,547	9,943
Defined benefit obligation as of December 31	**$**	**456,003**	**509,565**

(c) Movements in the fair value of the defined benefit plan assets

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

		2016	2015
Fair value of plan assets as of January 1	$	120,735	175,929
Benefits paid from the plan assets		(60,573)	(61,256)
Re-measurements of the net defined benefit liabilities (asset)			
- Return on plan assets (excluding current Interest income)		(1,592)	1,039
Contribution of plan participants		1,500	1,500
Expected return on plan assets		2,252	3,523
Fair value of plan assets as of December 31	**$**	**62,322**	**120,735**

(d) Expenses recognized in profit or loss

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

		For the years ended December 31,	
		2016	2015
Current service costs	$	3,131	4,146
Net interest of net liabilities for defined benefit obligation		9,528	10,807
Expected return on plan assets		(2,252)	(3,523)
	$	10,407	11,430
Operating costs	$	2,577	6,243
Selling expenses		1,536	1,103
General and administrative expenses		1,144	645
Research and development expenses		5,150	3,439
	$	10,407	11,430
Actual return on plan assets	$	660	4,562

(e) Re-measurement of net defined benefit liability (asset) recognized in other comprehensive income

The Group's re-measurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2016 and 2015, were as follows:

		2016	2015
Accumulated amount at January 1	$	(11,876)	(25,818)
Recognized during the period		(4,056)	13,942
Accumulated amount at December 31	$	(15,932)	(11,876)

(f) Actuarial assumptions

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

	December 31, 2016	December 31, 2015
Discount rate	1.375%	1.875%
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.

(Continued)

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(g) Sensitivity analysis

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

	Influences of defined benefit obligations	
	Increased 0.25%	**Decreased 0.25%**
December 31, 2016:		
Discount rate	$ (17,160)	17,961
Future salary increasing rate	$ 17,404	(16,719)
December 31, 2015:		
Discount rate	$ (19,658)	20,599
Future salary increasing rate	$ 20,027	(19,258)

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 2016 and 2015.

B. Defined contribution plans

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

The pension costs under contribution plans amounted to $156,231 and $173,341 for the years ended December 31, 2016 and 2015, respectively.

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(17) Income taxes

A. Income tax expenses

The components of income tax expenses for the years ended December 31, 2016 and 2015, were as follows:

	For the years ended December 31, 2016	For the years ended December 31, 2015
Current tax expense		
Current period	$ 181,223	56,651
Adjustment for prior periods	16,138	22,368
	197,361	79,019
Deferred tax benefit		
Origination and reversal of temporary differences	(1,827)	(2)
Income tax expense	**$ 195,534**	**79,017**

The amount of income tax benefit recognized in other comprehensive income for the years ended December 31, 2016 and 2015, were as follows:

	For the years ended December 31, 2016	For the years ended December 31, 2015
Exchange differences on translation of foreign financial statements	**$ (59,837)**	**(19,609)**

The reconciliation of income tax expense and profit before tax for the years ended December 31, 2016 and 2015 were as follows:

	For the years ended December 31, 2016	For the years ended December 31, 2015
Profit (loss) before income tax	$ 803,573	(261,091)
Income tax at Alpha's domestic tax rate	136,607	(44,385)
Effect of tax rates in foreign jurisdictions	44,975	45,957
Tax effect of permanent difference	39,398	80,469
Tax incentives	(42,293)	(17,349)
Change in unrecognized temporary differences	(17,392)	65,064
Others	34,239	(50,739)
	$ 195,534	**79,017**

(Continued)

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B. Deferred tax assets and liabilities

(a) Unrecognized deferred tax asset

The consolidated entity is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries. Also, management considers it probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax asset. Details are as follows:

	December 31, 2016	December 31, 2015
Tax effect of deductible temporary differences	$ 425,296	442,688
The carry forwards of unused tax loss	90,257	151,307
	$ 515,553	593,995

As at 31 December 2016, the information of the Group's unutilized business losses for which no deferred tax assets were recognized are as follows:

Year of loss	Unutilized business loss	Expiry date
2012	$ 73,126	2017
2013	58,929	2018
2014	63,239	2019
2015	165,732	2020
	$ 361,026	

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2016 and 2015 were as follows:

Deferred tax assets:

	January 1,2015	Recognized in profit and loss	Recognized in other comprehensive income	Effect of movement exchange rate	December 31,2015	Recognized in profit and loss	Recognized in other comprehensive income	Effect of movement exchange rate	December 31,2016
Provision for inventory devaluation	$ 10,852	(3,028)	-	-	7,824	2,827	-	-	10,651
Provision for warranties	23,975	(92)	-	-	23,883	1,782	-	-	25,665
Exchange different on transaction of foreign financial statement	-	-	-	-	-	-	13,993	-	13,993
Others	46,249	(21,743)	-	(848)	23,658	(11,309)	-	-	12,349
	$ 81,076	(24,863)	-	(848)	55,365	(6,700)	13,993	-	62,658

(Continued)

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Notes to Consolidated Financial Statements

Deferred tax liabilities

	January 1,2015	Recognized in profit and loss	Recognized in other comprehen sive income	Effect of movement exchange rate	December 31,2015	Recognized in profit and loss	Recognized in other comprehen sive income	Effect of movement exchange rate	December 31,2016
Investment accounted for using equity method	$ (20,002)	(434)	-	-	(20,436)	(2,540)	-	-	(22,976)
Goodwill	(22,930)	-	-	-	(22,930)	-	-	-	(22,930)
Exchange difference on translation of foreign financial statement	(65,453)	-	19,609	-	(45,844)	-	45,844	-	-
Others	(41,433)	25,299	-	-	(16,134)	11,067	-	-	(5,067)
	$ (149,818)	24,865	19,609	-	(105,344)	8,527	45,844	-	(50,973)

(c) The Alpha's tax returns for the years through 2014 were examined and approved by the Tax Administration as of the December 31, 2016.

(d) Information related to the ICA is summarized as follows:

	December 31, 2016	December 31, 2015
Unappropriated earnings of 1998 and after	$ 1,284,276	826,483
Balance of imputation credit account	$ 217,621	210,414
	2016 (estimated)	**2015 (actual)**
Creditable ratio for earnings distribution to ROC residents	**20.82%**	**26.23%**

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the ROC on October 17, 2013.

(18) Capital and other equity

Reconciliation of shares outstanding for 2016 and 2015 was as follows (in thousands of shares):

	Ordinary share capital 2016	Ordinary share capital 2015
Balance at January 1	$ 434,259	483,137
Purchase of treasury shares	-	(603)
Capital reduction (including retirement of treasury shares)	-	(48,275)
Balance at December 31	$ 434,259	434,259

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

A. Ordinary share capital

As of December 31, 2016 and 2015, the authorized capital of Alpha amounted to $6,600,000, of which included the amount of $500,000 reserved for employee share options; the issued capital amounted to $4,344,697 and $4,429,144, respectively.

B. Capital surplus

The balances of capital surplus were as follows:

		December 31, 2016	December 31, 2015
Capital surplus – premium	$	2,129,454	2,170,844
Capital surplus – investments under equity method		29	29
Others		14,964	14,964
	$	2,144,447	2,185,837

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 Alpha'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) of the remaining balance, 10% to be appropriated as legal reserve;

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

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(e) after the above appropriations, current and prior-period earnings that remain undistributed will be proposed for distribution by the board of directors, and a meeting of shareholders will be held to decide on this matter.

The Alpha'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. Alpha 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.

(a) Legal reserve

According to the R.O.C. Company Act, Alpha 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.

(b) Special reserve

In accordance with Ruling issued by the FSC a portion of current-period earnings and undistributed prior—period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior period. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(c) Earnings distribution

Earnings distribution for 2015 and 2014 was decided via the general meeting of shareholders held on June, 17 2016 and June, 18 2015, respectively. The relevant dividend distributions to shareholders were as follows:

	2015	2014
Dividends distributed to ordinary shareholders		
Cash (dividends per share were $0.5 and $ 1.2, respectively)	$ 217,130	579,293

The above mentioned earnings distribution was consistent with the resolutions approved by the board of directors. The information can be assessed from the Market Observation Post System on the website.

D. Treasury shares

In 2013, in compliance with section 28(2) of the Securities and Exchange Act, Alpha repurchased 9,383 shares as treasury shares in order to transfer to employee. In 2015, Alpha approved capital reduction payment to shareholder and repurchased treasury shares until 8,445 shares and pursuant to the Securities and Exchange Act, Alpha should transfer the shares to employee within three years from the date repurchase shares, and overdue treasury shares were canceled on July 5, 2016. The aforementioned transaction had already been registered and approved by the government authorities on July 22, 2016.

Alpha repurchased shares as treasury shares through TWSE. Detail of the treasury shares are as follows:

(In thousands of shares)

	2016			
Purpose	**January1**	**Increase**	**Canceled**	**December 31**
Transfer to employee	8,655	-	8,445	210

	2015			
Purpose	**January1**	**Increase**	**Canceled**	**December 31**
Transfer to employee	9,383	210	938	8,655
To protect Alpha's integrity and shareholders' equity	4,607	393	5,000	-
Total	13,990	603	5,938	8,655

In accordance with Securities and Exchange Act requirements as stated above, the number of shares repurchased should not exceed 10 percent of all shares outstanding. Also, the value of the repurchased shares should not exceed the sum of the Alpha's retained earnings, share premium, and realized capital reserves.

In accordance with the requirements of Securities and Exchange Act, treasury shares held by Alpha should not be pledged, and do not hold any shareholder rights before their transfer.

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E. Other equity

		Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets
Balance at 1 January 2016	$	39,533	5,066
Foreign exchange differences (net of tax)		(292,147)	-
Unrealized gains on available-for-sale financial assets		-	4,750
Balance at 31 December 2016	$	**(252,614)**	**9,816**
Balance at 1 January 2015	$	135,269	(245,549)
Foreign exchange differences (net of tax)		(101,859)	-
Disposal of a foreign operation reclassified to profit loss		6,123	-
Unrealized losses on available-for-sale financial assets		-	(78,251)
Reclassification of impairment loss on available-for sale financial asset		-	328,866
Balance at 31 December 2015	$	**39,533**	**5,066**

(19) Earnings per share

A. Basic earnings per share

		For the years ended December 31,	
		2016	**2015**
Net income (loss) attributable to ordinary shareholders	$	**608,039**	**(340,108)**
Weighted-average number of shares outstanding:			
Outstanding common stock at January 1		434,259	483,137
Effect of treasury shares held		-	(411)
Effect of capital reduction		-	(20,114)
Weighted-average number of shares outstanding (in thousands of shares)		**434,259**	**462,612**
Basic earnings per share (dollars)	**$**	**1.40**	**(0.74)**

(Continued)

B. Diluted earnings per share

	2016
Net income attributable to ordinary shareholders	$ 608,039
Weighted-average number of shares outstanding (basic)	434,259
Effect of employee bonus and remuneration	6,624
Weighted-average number of shares outstanding (in thousands of shares)	440,883
Diluted earnings per share (dollars)	$ 1.38

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

(20) Revenues

The detail of Revenues were as follows:

	For the years ended December 31,	
	2016	2015
Sales of goods and rendering of services	$ 21,830,730	22,995,238

(21) Remuneration to employees and directors

In accordance with the Articles of incorporation, Alpha should contribute compensation which was ranging from 10% to 22.5% of the profit and less than 1% as directors' remuneration when there is profit for the year. However, if Alpha has incurred accumulated deficits, therefore, the profit should be reserved to offset the deficit. The recipients of shares and cash may include the employees of the Alpha's affiliated companies who meet certain conditions.

For the year ended December 31, 2016, Alpha estimated its employee remuneration amounting to $129,833, and directors' remuneration amounting to $7,842. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees and directors of the period, multiplied by the percentage of remuneration to employees and directors as specified in the Alpha's articles. These remunerations were expensed under operating costs or operating expenses during 2016. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2016. Related information would be available at the Market Observation Post System website.

There was no accrued employee's compensation and directors' remuneration in 2015 due to net loss in the year of 2015 and were consistent with resolutions of meeting of Board of Directors. Information can be obtained from the "Market Observation Post System" on the website of TWSE.

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(22) Other income

		For the years ended December 31, 2016	2015
Interest income	$	29,407	30,353
Dividend income		3,166	-
Others		56,708	31,215
	$	**89,281**	**61,568**

(23) Other gains and losses

		For the years ended December 31, 2016	2015
Gain (loss) on financial asset (liabilities) at fair value through profit or loss, net	$	87,607	(101,463)
Impairment loss on property , plant and equipment		-	(40,071)
Impairment loss on available- for- sale financial asset		-	(328,866)
Foreign exchange gain (loss), net		(116,611)	137,148
Loss on disposal of financial asset carried at cost		-	(2,050)
Gain on disposal of investment accounted for using equity method.		113,961	-
Others		(11,033)	(48,854)
	$	**73,924**	**(384,156)**

(24) Finance costs

		For the years ended December 31, 2016	2015
Interest expense of borrowings	$	**8,624**	**12,934**

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(25) Reclassification adjustments of components of other comprehensive income

		For the years ended December 31,	
		2016	**2015**
Available-for-sale financial assets			
Net change in fair value	$	4,750	(78,251)
Net change in fair value reclassified to profit and loss		-	328,866
	$	**4,750**	**250,615**

(26) Financial instruments

A. Credit risk

(a) Credit risk exposure

The carrying amounts of financial assets represented the Group's maximum amount exposed to credit risk.

(b) Concentration of credit risk

The main customers of the Group belong to networking related industries. The Group generally sets credit limits to its customers according to their credit evaluations. Therefore, the credit risk of the Group is mainly influenced by the networking industry. As of December 31, 2016 and 2015, 64% and 70%, respectively, of the Group's accounts receivable (including related parties) were from the top 7 customers. Although there is a potential in concentration of credit risk, the Group routinely assesses the collectability of its accounts receivable and makes a corresponding allowance for doubtful accounts.

B. Liquidity risk

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

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	Carrying amount	Contractual cash flows	Within 6 months	6 to 12 months	1-2 years	2-5 years
December 31, 2016						
Non-derivative financial liabilities						
Accounts payable	$ 3,709,862	(3,709,862)	(3,709,862)	-	-	-
Payables to related parties	7,010	(7,010)	(7,010)	-	-	-
Accrued expenses	434,031	(434,031)	(434,031)	-	-	-
Derivative financial liabilities						
Forward exchange contracts:						
Outflows	6,828	(1,548,000)	(1,548,000)	-	-	-
Inflows	(322)	1,512,780	1,512,780	-	-	-
Cross currency swap contracts:						
Outflows	3,858	(193,851)	(193,851)	-	-	-
Inflows	-	191,052	191,052	-	-	-
Currency option contracts:						
Outflows	7,501	(806,250)	(806,250)	-	-	-
Inflows	(843)	799,830	799,830	-	-	-
	$ 4,167,925	(4,195,342)	(4,195,342)	-	-	-
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)	-	-	-
Payables to 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)

Except for the early repayments of secured borrowings and unsecured borrowings which were originally due at December 31, 2015, the Group is not expecting the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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C. Currency risk

(a) Exposure to currency risk

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

	December 31, 2016			December 31, 2015		
	Foreign currency	**Exchange rate**	**NTD**	**Foreign currency**	**Exchange rate**	**NTD**
Financial Assets						
Monetary items						
USD	$101,274	32.25	3,266,087	115,979	32.81	3,805,271
CNY	2,915	4.6190	13,464	64,562	4.9980	322,681
Non-Monetary items						
USD	19,000	32.25	Note	15,000	32.81	Note
Investment accounted for using equity method						
USD	-	32.25	-	2,346	32.81	76,972
Financial liabilities						
Monetary items						
USD	24,250	32.25	782,063	23,735	32.81	778,745
Non-Monetary items						
USD	60,000	32.25	Note	134,000	32.81	Note

Note： Please refer note6 (2) for the information on forward exchange contracts, cross currency swap contracts and currency option contract at fair value.

(b) Sensitivity analysis

The Group’s exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade receivables, other receivables, trade payables and other payables which are denominated in foreign currencies. A strengthening (weakening) of 5% of the NTD against the USD and the CNY at December 31, 2016 and 2015, would have decreased or increased the profit before tax by $124,874 and $167,288, respectively. This analysis is based on the foreign currency exchange rate variances the Group considered to be reasonably possible at the reporting date. The analysis assumed that all other variables remain constant, and is performed on the same basis for both periods.

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(c) Exchange gains and losses of functional currency

Since the Group has different functional currencies, the information on foreign exchange gain (loss) on monetary items is disclosed in aggregate amount. For the years ended December 31, 2016 and 2015, the foreign exchange gains (losses) (including realized and unrealized) were $(116,611) and $137,148, respectively.

(d) Interest rate analysis

The following sensitivity analysis is based on the risk exposure to interest rates. For debts with floating interest, the analysis assumes that the liabilities are outstanding for the whole year on the reporting date.

If the interest rate increases or decreases by 0.25%, assuming all other variable factors remain constant, the Group’s net income before tax may increase or decrease by $10,607 and $5,348, for the years ended December 31, 2016 and 2015, respectively. The change is mainly due to the Group’s deposits, other financial assets and borrowings with variable rates

(e) Fair value of financial instruments

i. Categories of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss and available-for sale financial assets is measured on a recurring basis. The carrying amount and fair value of the Group’s financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

	December 31, 2016				
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss on recurring basis					
Financial assets at fair value through profit or loss					
Derivative financial assets-current	$ 1,165	-	1,165	-	1,165
Available-for-sale financial assets					
Stocks in listed company	$ 113,456	113,456	-	-	113,456

(Continued)

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	December 31, 2016				
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Loans and receivables					
Cash and cash equivalents	$ 1,889,957	-	-	-	-
Notes and accounts receivable (including related parties)	3,649,269	-	-	-	-
Other financial assets – current and non-current	2,414,585	-	-	-	-
Investments in debt instrument without active market	62,340	-	-	-	-
Total	$ 8,016,151	-	-	-	-
Financial liability at fair value through profit or loss on recurring basis					
Financial liability at fair value through profit or loss					
Derivative financial liabilities -current	$ 18,187	-	18,187	-	18,187
Financial liabilities measured at amortized cost					
Accounts payable (including related parties)	$ 3,709,862	-	-	-	-
Payable to related parties	7,010	-	-	-	-
Total	$ 3,716,872	-	-	-	-

	December 31, 2015				
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss on recurring basis					
Financial assets at fair value through profit or loss					
Derivative financial assets-current	$ 1,811	-	1,811	-	1,811
Available-for-sale financial assets					
Stokes in listed company	$ 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	77,925	-	-	-	-
Total	$ 6,847,905	-	-	-	-
Financial liability at fair value through profit or loss on recurring basis					
Financial liability at fair value through profit or loss					
Derivative financial liabilities -current	$ 24,317	-	24,317	-	24,317
Financial liabilities measured at amortized cost					
Accounts payable (including related parties)	$ 3,307,636	-	-	-	-
Payable to related parties	6,123	-	-	-	-
Long-term loans	624,550	-	-	-	-
Total	$ 3,938,309	-	-	-	-

(Continued)

Fair value measured on non-recurring basis refers to occurrences in specific condition. Financial assets and liabilities are measured and recognized in the Group's financial statements at fair value on a recurring basis

ii. Valuation techniques for financial instruments not measured at fair value

Investments in debt instrument without active market

Measurements on fair value of financial instruments without an active market are based on valuation technique or quoted price from a competitor. Fair value that is measured using valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable market data at the consolidated balance sheet date.

iii. Valuation techniques for financial instruments that are measured at fair value

a) Non-derivative financial instruments

The fair value of listed stocks, which are publicly traded in an active market, is determined based on the quoted market prices.

b) Derivative financial instruments

Measurement on 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.

There were no transfer between the different levels of fair value hierarchy for the years ended December 31, 2016 and 2015.

(f) Offsetting financial assets and financial liabilities

The Group has financial instrument transactions with an exercisable master netting arrangement with its financial instructions which are applicable to IFRSs NO. 32, and qualified for offsetting. Financial assets and liabilities relating to those transactions are recognized in the net amount on the balance sheets.

The following tables present the aforesaid offsetting financial assets and financial liabilities.

(Continued)

	December 31, 2016		
	Gross amounts of recognized financial assets (a)	Gross amounts of financial liabilities offset n the balance sheet (b)	Net amount of financial assets presented in the balance sheet (c)=(a)-(b)
Time deposit/Long-term loans	$ 6,162,952	6,162,952	-
Financial instruments / Long-term loans	2,322,000	2,322,000	-

(27) Financial risk management

A. Overview

The Group have exposures to the following risks from its 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. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying consolidated financial statements.

B. Structure of risk management

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

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

(Continued)

C. Credit risk

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 receivables from customers and investments in 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 and represent the maximum open amount without requiring and approval from the Risk Management Committee; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group did not have any collateral or other credit enhancements to avoid credit risk of financial assets.

D. Liquidity risk

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures compliance with the terms of loan agreements.

The Group utilizes derivative instruments to hedge its currency exposure arising from net foreign assets and liabilities due to relative cash inflow and outflow occurring at the maturity; therefore the Group does not expect any significant liquidity risk. Partial investments held by the Group are measured using the cost method due to unavailability of any quoted prices; therefore, the Group is exposed to liquidity risk.

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 automatically be offset against hedged items. As a result, market price risk is considered to be 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 is exposed to the risks of equity price change.

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

(Continued)

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

(a) Foreign currency risk

The Group’s exposure to the risk of fluctuation in foreign currency exchange rates relates primarily to the Group’s sales, purchases, and borrowings transactions, and those are denominated in a currency different from that of the Group. These transactions are denominated in New Taiwan dollar (NTD), US dollar (USD), EURO (EUR) and Chinese Yuan (CNY).

Interest is denominated in the same currency of borrowing principals. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily the NTD. In this case, the Group did not enter into any derivative instrument agreement, due to the said; therefore, it 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 maintained at 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 is exposed to interest rate risk arising from holding floating-risk financial assets and liabilities, and changes in interest rates would affect the future cash flows.

(c) Equity price risk

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

(d) Other market price risk

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

(28) Capital management

The Group’s objective for managing its capital is to safeguard the capacity to continue as a going concern, 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.

(Continued)

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

The Group and other entities in the same industry use the debt-to-equity ratio to manage their capital. This ratio is the total net debt divided by the total capital.

The net debt from the balance 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.

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

		December 31, 2016	December 31, 2015
Total liabilities	$	5,742,768	5,902,826
Less: Cash and cash equivalents		(1,889,957)	(2,453,944)
Net debt	**$**	**3,852,811**	**3,448,882**
Total equity	**$**	**8,518,656**	**8,411,088**
Debt-to-equity ratio		**45.23%**	**41.00%**

The debt-to-adjusted-capital ratio was increased on December 31, 2016, due to the increase in investment of time deposit of the Group.

The main purpose of the Group's repurchase of stock is to maintain its credit to be transfer as stock to its 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, 2016, the Group had not changed its capital management method.

(29) Investing and financing activities

As of December 31, 2016, the cancellation of treasury share was a non-cash transaction in the Group's investing and financing activities. Please refer to note6 (18).

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

7. Related-party transactions

(1) Parent company and ultimate controlling party

Alpha is the ultimate controlling party of the Group.

(2) Significant related-party transactions

A. Sales

The receivables from related parties were as follows:

	For the year ended December 31,	
	2016	2015
Entities with significant influence over the Group	$ 5,268,889	6,600,482
Associates	4,390	8,106
	$ 5,273,279	6,608,588

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

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

B. Receivables from related parties

The receivables from related parties were as follows:

Account	Related Party Category	December 31, 2016	December 31, 2015
Accounts receivable from related parties	Entities with significant influence over the Group	$ 1,320,624	1,600,285
Accounts receivable from related parties	Associates	-	3,014
		$ 1,320,624	1,603,299

C. Rendering of services and other expenses

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

	For the year ended December 31,	
	2016	2015
Entities with significant influence over the Group	$ 24,598	27,748

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Account	Related Party Category	December 31, 2016	December 31, 2015
Payables to related parties	Entities with significant influence over the Group	$ 7,010	6,123

D. Rent revenue

The Group entered into a lease agreement with D-Link (shanghai) and the detail was as follows:

	For the year ended December 31, 2016	For the year ended December 31, 2015
Entities with significant influence over the Group	$ 647	-

As of years ended December 31, 2016, the amounts had been paid.

E. Other

The Group sold out 30.44% shares of Delta Mobile Software, Inc. with the proceeds of $192,026 in June 2016 and recognized the gain $113,961 after deducting the related costs reported under other gains and losses. The proceeds of disposal of investments had been collected in the second quarter of 2016 and please refer to note 6(23).

(3) Key management personnel compensation

	For the year ended December 31, 2016	For the year ended December 31, 2015
Short-term employee benefits	$ 24,123	34,552
Post-employment benefits	120	281
	$ 24,243	34,833

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8. Pledged assets

Pledged assets	Object	December 31, 2016	December 31, 2015
Time deposit (recorded in other financial assets–noncurrent)	Deposit for forward current exchange	$ -	14,994
Time deposit (recorded in other financial assets – noncurrent)	Import guarantee for Customs	7,500	7,500
		$ 7,010	22,494

9. Significant commitments and contingencies

As of December 31, 2016 and 2015, The Group deposited notes in the bank in order to obtain the transaction credits of bank financing and foreign exchange amounting 4,142,560 and 4,596,320, 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:

By function / By item	2016			2015		
	Cost of sales	Operation expenses	Total	Cost of sales	Operation expenses	Total
Employee benefits						
Salaries	1,105,547	1,450,488	2,556,035	1,251,095	1,417,972	2,669,067
Labor and health insurance	53,947	109,127	163,074	63,342	114,545	177,887
Pension	75,165	91,473	166,638	89,001	95,770	184,771
Others	50,675	65,130	115,805	62,521	97,953	160,474
Depreciation	223,536	192,879	416,415	262,426	225,016	487,442
Amortization	3,268	71,542	74,810	4,092	68,849	72,941

(Continued)

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Notes to Consolidated Financial Statements

13. Segment financial information

(1) Operating segment information

The Group operates predominantly in one industry segment, which includes the research, development, design, production, and sale of network products. The segment financial information can be found in the consolidated financial statements. For sales to external customers and segment profit and loss, please refer to the consolidated statements of comprehensive income. For segment assets, please see the consolidated statements of financial position.

(2) Products and services information

Revenue of the Group from external customers was as follows:

	For the years ended December 31,	
Product	**2016**	**2015**
LAN/MAN	$ 11,965,615	12,421,391
Wireless and Broadband	5,981,372	6,854,233
Digital Multimedia	3,859,994	3,705,620
Others	23,749	13,994
	$ 21,830,730	**22,995,238**

(3) Geographic information

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

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

	For the years ended December 31,	
Area	**2016**	**2015**
Revenue from external customers:		
United States	$ 6,880,018	6,994,735
China	4,590,271	4,712,171
Others	10,360,441	11,288,332
	$ 21,830,730	**22,995,238**

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	For the years ended December 31, 2016	2015
Non-current assets:		
China	$ 1,641,146	2,094,273
Taiwan	862,923	985,647
Others	121,796	203,416
	$ 2,625,865	**3,283,336**

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, 2016	2015
A Company	$ 4,705,144	5,891,883
B Company	2,665,297	2,171,129
	$ 7,370,441	**8,063,012**