

## **Array Inc. and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2015 and 2014 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Array Inc.

We have audited the accompanying consolidated balance sheets of Array Inc. (the "Company") and subsidiaries (collectively referred to as the "Group") as of December 31, 2015 and 2014 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2015 and 2014, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed by the Financial Supervisory Commission of the Republic of China.

On June 26, 2015, Array Inc. sold and passed ownership and control of Beijing Infosec Information Security WOFE and Beijing Infosec Technologies Co., Ltd. to the acquirer under a sale agreement.

March 19, 2016

### Notice to Readers

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

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

# ARRAY INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2015 AND 2014 (In Thousands of United States Dollars)

ASSETS	2015		2014	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 36,122	68	\$ 30,495	53
Available-for-sale financial assets - current (Notes 4 and 24)	259	-	257	-
Notes receivable (Note 4)	1,754	3	2,106	4
Trade receivables (Notes 4, 5 and 7)	6,700	13	10,178	18
Other receivables	37	-	85	-
Inventories (Notes 4, 5 and 8)	2,027	4	3,717	6
Other current assets (Note 14)	419	1	713	1
Total current assets	<u>47,318</u>	<u>89</u>	<u>47,551</u>	<u>82</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Notes 4 and 11)	951	2	1,572	3
Goodwill (Notes 4, 5 and 12)	3,521	6	5,594	10
Other intangible assets (Notes 4 and 13)	1,008	2	2,249	4
Deferred tax assets (Notes 4 and 18)	91	-	68	-
Refundable deposits (Notes 4 and 14)	395	1	792	1
Other financial assets (Notes 14 and 26)	32	-	32	-
Total non-current assets	<u>5,998</u>	<u>11</u>	<u>10,307</u>	<u>18</u>
<b>TOTAL</b>	<u>\$ 53,316</u>	<u>100</u>	<u>\$ 57,858</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Trade payables	\$ 507	1	\$ 1,531	3
Other payables (Note 15)	3,036	6	3,939	7
Current tax liabilities (Notes 4 and 18)	48	-	69	-
Deferred revenue - current (Notes 4, 5 and 15)	5,478	10	5,768	10
Other current liabilities (Note 15)	78	-	948	1
Total current liabilities	<u>9,147</u>	<u>17</u>	<u>12,255</u>	<u>21</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred revenue - non-current (Notes 4, 5 and 15)	3,195	6	4,214	7
Other non-current liabilities (Note 15)	7	-	19	-
Total non-current liabilities	<u>3,202</u>	<u>6</u>	<u>4,233</u>	<u>7</u>
Total liabilities	<u>12,349</u>	<u>23</u>	<u>16,488</u>	<u>28</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 16)</b>				
Share capital - ordinary shares	23,986	45	23,824	41
Capital surplus	11,583	22	11,435	20
Retained earnings				
Legal reserve	191	-	149	-
Special reserve	20	-	589	1
Unappropriated earnings	6,180	12	4,035	7
Total retained earnings	6,391	12	4,773	8
Other equity	48	-	2,580	5
Treasury shares	(1,041)	(2)	(1,242)	(2)
Total equity	<u>40,967</u>	<u>77</u>	<u>41,370</u>	<u>72</u>
<b>TOTAL</b>	<u>\$ 53,316</u>	<u>100</u>	<u>\$ 57,858</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 19, 2016)

## ARRAY INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of United States Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Sales	\$ 25,581	100	\$ 28,355	100
Sales returns and allowances	<u>23</u>	<u>-</u>	<u>66</u>	<u>-</u>
Total operating revenue (Notes 4 and 5)	25,558	100	28,289	100
<b>OPERATING COSTS</b>				
Cost of goods sold (Notes 4, 8 and 17)	<u>6,956</u>	<u>27</u>	<u>5,866</u>	<u>21</u>
<b>GROSS PROFIT</b>	<u>18,602</u>	<u>73</u>	<u>22,423</u>	<u>79</u>
<b>OPERATING EXPENSES (Notes 4 and 17)</b>				
Selling and marketing expenses	11,328	44	12,667	45
General and administrative expenses	4,010	16	3,665	13
Research and development expenses	<u>8,992</u>	<u>35</u>	<u>8,014</u>	<u>28</u>
Total operating expenses	<u>24,330</u>	<u>95</u>	<u>24,346</u>	<u>86</u>
<b>LOSS FROM OPERATIONS</b>	<u>(5,728)</u>	<u>(22)</u>	<u>(1,923)</u>	<u>(7)</u>
<b>NON-OPERATING INCOME AND EXPENSES</b>				
Interest income (Note 4)	176	1	167	1
Other income (Note 4)	805	3	1,011	3
Exchange loss, net (Note 4)	423	1	(15)	-
Others	<u>(34)</u>	<u>-</u>	<u>(91)</u>	<u>-</u>
Total non-operating income and expenses	<u>1,370</u>	<u>5</u>	<u>1,072</u>	<u>4</u>
<b>LOSS BEFORE INCOME TAX</b>	(4,358)	(17)	(851)	(3)
<b>INCOME TAX EXPENSE (Notes 4 and 18)</b>	<u>139</u>	<u>1</u>	<u>228</u>	<u>1</u>
<b>NET LOSS FROM CONTINUING OPERATIONS</b>	(4,497)	(18)	(1,079)	(4)
<b>NET PROFIT FROM DISCONTINUED OPERATIONS (Notes 10 and 21)</b>				
	<u>6,115</u>	<u>24</u>	<u>1,500</u>	<u>5</u>
<b>NET PROFIT FOR THE YEAR</b>	<u>1,618</u>	<u>6</u>	<u>421</u>	<u>1</u>

(Continued)

## ARRAY INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of United States Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (Note 4)				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	\$ (2,530)	(10)	\$ (119)	-
Unrealized gain (loss) on available-for-sale financial assets	<u>(2)</u>	<u>-</u>	<u>1</u>	<u>-</u>
Other comprehensive income for the year	<u>(2,532)</u>	<u>(10)</u>	<u>(118)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ (914)</u>	<u>(4)</u>	<u>\$ 303</u>	<u>1</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	<u>\$ 1,618</u>	<u>6</u>	<u>\$ 421</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO				
Owners of the Company	<u>\$ (914)</u>	<u>(4)</u>	<u>\$ 303</u>	<u>1</u>
EARNINGS (LOSS) PER SHARE (Note 19)				
From continuing and discontinued operations				
Basic	<u>\$ 0.021</u>		<u>\$ 0.006</u>	
Diluted	<u>\$ 0.021</u>		<u>\$ 0.005</u>	
From continuing operations				
Basic	<u>\$ (0.058)</u>		<u>\$ (0.014)</u>	

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 19, 2016)

(Concluded)

**ARRAY INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(In Thousands of United States Dollars)**

	Equity Attributable to Owners of the Company												Treasury Shares	Total Equity
	Capital Surplus					Retained Earnings				Other Equity				
	Share Capital	Additional Paid-in Capital Common Shares	Treasury Share Transaction	Stock Options	Total	Legal Reserve	Special Reserve	Unappropriated Earnings		Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total		
								Earnings	Total					
BALANCE AT JANUARY 1, 2014	\$ 23,645	\$ 10,748	\$ 18	\$ 266	\$ 11,032	\$ -	\$ -	\$ 4,352	\$ 4,352	\$ 2,703	\$ (5)	\$ 2,698	\$ (1,300)	\$ 40,427
Appropriated of 2013 earnings														
Legal reserve	-	-	-	-	-	149	-	(149)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	589	(589)	-	-	-	-	-	-
Net profit for the year ended December 31, 2014	-	-	-	-	-	-	-	421	421	-	-	-	-	421
Other comprehensive income for the year ended December 31, 2014, net of income tax	-	-	-	-	-	-	-	-	-	(119)	1	(118)	-	(118)
Total comprehensive income for the year ended December 31, 2014	-	-	-	-	-	-	-	421	421	(119)	1	(118)	-	303
Issue of ordinary shares under stock options	179	39	-	(39)	-	-	-	-	-	-	-	-	-	179
Recognition of share-based compensation for the year ended December 31, 2014	-	-	-	388	388	-	-	-	-	-	-	-	-	388
Buy-back of common shares - 1,260 thousand shares	-	-	-	-	-	-	-	-	-	-	-	-	(1,041)	(1,041)
Reissue of treasury shares transferred to employees - 1,833 thousand shares	-	-	404	(389)	15	-	-	-	-	-	-	-	1,099	1,114
BALANCE AT DECEMBER 31, 2014	23,824	10,787	422	226	11,435	149	589	4,035	4,773	2,584	(4)	2,580	(1,242)	41,370
Appropriated of 2014 earnings														
Legal reserve	-	-	-	-	-	42	-	(42)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(569)	569	-	-	-	-	-	-
Net profit for the year ended December 31, 2015	-	-	-	-	-	-	-	1,618	1,618	-	-	-	-	1,618
Other comprehensive income for the year ended December 31, 2015, net of income tax	-	-	-	-	-	-	-	-	-	(2,530)	(2)	(2,532)	-	(2,532)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	-	-	-	1,618	1,618	(2,530)	(2)	(2,532)	-	(914)
Issue of ordinary shares under stock options	162	(28)	-	(50)	(78)	-	-	-	-	-	-	-	-	84
Recognition of share-based compensation for the year ended December 31, 2015	-	-	-	223	223	-	-	-	-	-	-	-	-	223
Reissue of treasury shares transferred to employees - 292 thousand shares	-	-	46	(43)	3	-	-	-	-	-	-	-	201	204
BALANCE AT DECEMBER 31, 2015	<u>\$ 23,986</u>	<u>\$ 10,759</u>	<u>\$ 468</u>	<u>\$ 356</u>	<u>\$ 11,583</u>	<u>\$ 191</u>	<u>\$ 20</u>	<u>\$ 6,180</u>	<u>\$ 6,391</u>	<u>\$ 54</u>	<u>\$ (6)</u>	<u>\$ 48</u>	<u>\$ (1,041)</u>	<u>\$ 40,967</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 19, 2016)

# ARRAY INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of United States Dollars)

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax		
Income before income tax from continuing operations	\$ (4,358)	\$ (851)
Income before income tax from discontinued operations	<u>(1,770)</u>	<u>1,609</u>
	(6,128)	758
Adjustments for:		
Net loss on foreign currency exchange	(450)	(333)
Depreciation expenses	795	878
Amortization expenses	527	584
Write-down of inventories	391	456
Impairment loss recognized on trade receivables	359	59
Interest income	(234)	(265)
Recognition of share-based compensation	223	388
Loss on disposal of property, plant and equipment	43	25
Net changes in operating assets and liabilities:		
Notes receivable and trade receivable	3,853	3,584
Other receivables	(593)	(63)
Inventories	(1,030)	(1,246)
Other current assets	(15)	(710)
Trade payables	289	(1,741)
Other payables	(635)	(740)
Deferred revenue	2,045	1,393
Other current liabilities	(622)	688
Other liabilities	<u>(12)</u>	<u>(21)</u>
Cash generated from operations	(1,194)	3,694
Interest received	249	292
Income tax paid	<u>(183)</u>	<u>(404)</u>
Net cash (used in) generated from operating activities	<u>(1,128)</u>	<u>3,582</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net cash inflow on disposal of subsidiaries	7,695	-
Increase in refundable deposits	384	622
Payments for property, plant and equipment	(327)	(743)
Payment for intangible assets	(268)	(259)
Purchase of available-for-sale financial assets	(4)	(4)
Proceeds from disposal of property, plant and equipment	<u>-</u>	<u>1</u>
Net cash generated from (used in) investing activities	<u>7,480</u>	<u>(383)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments for buy-back of treasury shares	-	(1,041)
Exercise of stock options	84	179
Proceeds from reissue of treasury shares	<u>204</u>	<u>1,114</u>
Net cash generated from financing activities	<u>288</u>	<u>252</u>

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## ARRAY INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of United States Dollars)

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	2015	2014
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>\$ (1,013)</u>	<u>\$ (31)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,627	3,420
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>30,495</u>	<u>27,075</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 36,122</u>	<u>\$ 30,495</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 19, 2016)

(Concluded)



# ARRAY INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of United States Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Array Inc. (the “Company”) was incorporated on December 19, 2008 in the Cayman Islands for the purpose of reorganizing Array Networks, Inc. (“Array Cayman”) and its subsidiaries. The reorganization was completed on May 1, 2009 pursuant to a share swap agreement. Following the reorganization, Array Cayman became a wholly-owned subsidiary of the Company.

The Company and subsidiaries (hereinafter referred to as the “Group”) mainly research, manufacture and sell Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions, Application Acceleration, WAN Optimization Controllers and Public Key Infrastructure (PKI) solutions.

On June 26, 2015, the Company sold and passed ownership and control of Beijing Infosec Information Security WOFE and Beijing Infosec Technologies Co., Ltd. to the acquirer under a sale agreement (Note 9).

The functional currency of the Company is U.S. dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors and authorized for issue on March 19, 2016.

### 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC

Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC on April 3, 2014, stipulated that the Group should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, “IFRSs”) endorsed by the FSC and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 IFRSs version did not have any material impact on the Group’s accounting policies:

- 1) IFRS 13 “Fair Value Measurement”

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than in past standards; for example, quantitative and qualitative disclosures based on the three-level fair value hierarchy previously required only for financial instruments are extended by IFRS 13 to cover all assets and liabilities within its scope.

The fair value measurements under IFRS 13 are applied prospectively from January 1, 2015 (Note 24).

2) Amendments to IAS 1 “Presentation of Items of Other Comprehensive Income”

The amendments to IAS 1 require items of other comprehensive income to be grouped into those items that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under previous IAS 1, there were no such requirements.

The Group retrospectively applied the above amendments starting from 2015. Items that are expected to be reclassified to profit or loss are the exchange differences on translating foreign operations and unrealized gains on available-for-sale financial assets. The application of the above amendments will not result in any impact on the net profit for the year, other comprehensive income for the year (net of income tax), and total comprehensive income for the year.

b. New IFRSs in issue but not yet endorsed by the FSC

On March 10, 2016, the FSC announced the scope of IFRSs to be endorsed and will take effect from January 1, 2017. The scope includes all IFRSs that were issued by the IASB before January 1, 2016 and have effective dates on or before January 1, 2017, which means the scope excludes those that are not yet effective as of January 1, 2017 such as IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” and those with undetermined effective date. In addition, the FSC announced that the Group should apply IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new, amended and revised standards and interpretations.

The Group has not applied the following New IFRSs issued by the IASB but not yet endorsed by the FSC.

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016

(Continued)

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

#### The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

#### 2) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Group is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

## **4. SIGNIFICANT ACCOUNTING POLICIES**

### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed by the FSC.

### b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

- Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

See Note 9, Tables 6 and 7 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

The exchange differences accumulated in equity which resulted from the translation of the assets and liabilities of the Group entities into the presentation currency are not subsequently reclassified to profit or loss.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

f. Inventories

Inventories consist of raw materials and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the reporting period.

g. Property, plant and equipment

Property, plant and equipment are stated at cost, less recognized accumulated depreciation and accumulated impairment loss.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

h. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's groups of cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal.

i. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment loss, on the same basis as intangible assets that are acquired separately.

3) De-recognition of intangible assets

On de-recognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

j. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

Financial assets are classified into the following categories: Available-for-sale financial assets, and loans and receivables.

i. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.



Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

ii. Loans and receivables

Loans and receivables (including cash and cash equivalent, trade receivables, notes receivables, other receivables, refundable deposits and other financial assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence 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 the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) De-recognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

Equity instruments issued by a Group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

### 3) Financial liabilities

#### a) Subsequent measurement

All the financial liabilities are measured at amortized cost using the effective interest method:

#### b) De-recognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

## 1. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

### 1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sales of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the good, primarily upon shipment, because the earning process has completed and the economic benefits associated with the transaction have been realized or are realizable.

Revenue is measured at the fair value of the consideration received or receivable agreed between the Group and the customers for goods sold, net of sales discounts and volume rebates. For the trade receivables due within one year from the balance sheet date, as the normal value of the consideration to be received approximates fair value and transaction are frequent, consideration fair value of the revenue is not determined by discounting all future receipts using an impute rate of interest.

### 2) Rendering of services

Service income is recognized when services are provided.

When the selling price of a product includes an identifiable amount for subsequent sales support, that amount is deferred and recognized as revenue over the period during which the service is performed. If the subsequent sales support is included in the selling price of the product, the amount for subsequent sales support that includes the expected cost of the service under the agreement and together with a reasonable profit on the service should be identified, deferred and recognized as revenue over the period during which the service is performed.

3) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

m. Leasing

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

n. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

o. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

p. Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the stock options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of stock options that will eventually vest, with a corresponding increase in capital surplus - stock options. The fair value determined at the grant date of the stock options is recognized as an expense in full at the grant date when the stock options granted vest immediately.

At the end of each reporting period, the Group revises its estimate of the number of stock options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - stock options.

q. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for research and development expenditures, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Revenue recognition

Whenever the subsequent sales support is included in the selling price of the product, the sales amount for subsequent sales support should be identified and deferred. In making the judgment, management had considered the revenue recognition criteria and whether the identification of sales amounts for the product and the subsequent sales support is appropriate. The sales amount for subsequent sales support should include the expected cost of the service under the agreement and a reasonable profit on the service. Management assured that the revenue amounts of the subsequent sales support recognized in the current period and in the deferral were appropriate.

b. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

d. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

## 6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Checking accounts and demand deposits	\$ 25,434	\$ 23,062
Time deposits	10,667	7,407
Cash on hand	<u>21</u>	<u>26</u>
	<u>\$ 36,122</u>	<u>\$ 30,495</u>
Bank deposits	0.01%-0.55%	0.01%-0.485%
Time deposits	1.35%-1.60%	1.98%-3.30%

## 7. TRADE RECEIVABLES

	<u>December 31</u>	
	<b>2015</b>	<b>2014</b>
Accounts receivable	\$ 7,557	\$ 14,502
Less: Allowance for impairment loss	<u>(857)</u>	<u>(4,324)</u>
	<u>\$ 6,700</u>	<u>\$ 10,178</u>

The average credit period on sales of goods was 90 days. No interest was charged on trade receivables. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over a year. Allowance for impairment loss were recognized against trade receivables between 6 months and a year based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

	<u>December 31</u>	
	<b>2015</b>	<b>2014</b>
Less than 180 days	\$ 6,684	\$ 9,530
181-270 days	26	524
271-360 days	35	746
More than 360 days	<u>812</u>	<u>3,702</u>
	<u>\$ 7,557</u>	<u>\$ 14,502</u>

The aging of receivables that were past due but not impaired was as follows:

	<u>December 31</u>	
	<b>2015</b>	<b>2014</b>
Less than 180 days	<u>\$ 2,267</u>	<u>\$ 3,068</u>

Movements in the collectively assessed allowance for impairment loss recognized on trade receivables were as follows:

	<u>For the Year Ended December 31</u>	
	<b>2015</b>	<b>2014</b>
Balance at January 1	\$ 4,324	\$ 4,504
Add: Impairment losses recognized on receivables - continuing operations	193	153
Add: Impairment losses recognized on receivables - discontinued operations	166	-
Add: Amounts recovered from prior year write-off	-	3

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Less: Impairment losses reversed - discontinued operations	\$ -	\$ (94)
Disposal of subsidiaries	(3,799)	-
Effect of exchange rate changes	<u>(27)</u>	<u>(242)</u>
Balance at December 31	<u>\$ 857</u>	<u>\$ 4,324</u> (Concluded)

In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The clients of the Group are widely spread and unrelated; thus, credit risk is limited.

## 8. INVENTORIES

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Raw materials	\$ 1,290	\$ 2,767
Finished goods	<u>737</u>	<u>950</u>
	<u>\$ 2,027</u>	<u>\$ 3,717</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2015 and 2014 included inventory write-downs of \$391 thousand and \$456 thousand, respectively.

## 9. SUBSIDIARIES

### a. Subsidiaries included in consolidated financial statements:

The consolidated entities of the consolidated financial report were as follows:

Investor	Investee	Main Business	<b>Percentage of Ownership</b>		Remark
			<b>2015</b>	<b>2014</b>	
Company	Array Networks, Inc. (Array Cayman)	Investment	100	100	
Array Cayman	Array Networks, Inc. (Array US)	Research, manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions, WAN Optimization Controllers and Application Acceleration	100	100	
	Array Networks (China) Co., Ltd. (Array China)	Research, manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	100	100	
	Infosec Technologies Holdings, Inc. (Infosec Cayman)	Investment	-	100	1)

(Continued)

Investor	Investee	Main Business	Percentage of Ownership		Remark
			2015	2014	
Array US	Array Networks Japan Kabishiki Kaisha	Research, manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	100	100	
	Array Networks, LLC	Research, manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	-	100	2)
Infosec Cayman	Beijing Infosec Information Security WOFE (Infosec WOFE)	Research and sale of full life cycle management of Public Key Infrastructure (PKI) and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	-	100	See Notes 10 and 21
Infosec WOFE	Beijing Infosec Technologies Co., Ltd. (Infosec Technologies)	Research and sale of full life cycle management of Public Key Infrastructure (PKI) and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	-	-	See Notes 10 and 21

(Concluded)

Remarks:

- 1) Infosec Cayman was dissolved on December 31, 2015.
- 2) The dissolve of Array Networks, LLC was started in 2014 and completed in 2015.

InfoSec WOFE is a wholly-owned foreign enterprise (WOFE) in the People's Republic of China (PRC), which has made numerous achievements in the research on the management of digital Public Key Infrastructure (PKI). However, current PRC laws and regulations limit foreign investment in businesses relating to PKI business development. Therefore, InfoSec WOFE arranged structure contracts with InfoSec Technologies to have the power to govern its financial and operating policies. The structure contracts were designed to provide InfoSec WOFE with effective control over and the right to acquire the equity interests in the assets of InfoSec Technologies.

For the past few years, PRC has placed great emphasis to network security. To give consideration to both the shareholders' equity of the Company and the limits and difficulties of foreign investment in business with PRC nationalized industries and banks, a sale agreement was approved in the shareholders' meetings on June 26, 2015 to authorize the Company's board of directors to handle the disposal of Infosec WOFE and Infosec Technologies. In the same meeting, the shareholders also approved and authorized the board chairman to handle the relevant transaction and contract execution matters. The Company signed the framework contract with the nominal shareholders (the managerial officers) of Infosec Technologies with the conditions as follows:

- 1) The nominal shareholders of Infosec Technologies shall return the Company for the total amount of RMB23,680 thousand as a compensation.
- 2) Infosec Technologies shall purchase Infosec WOFE's entire equity from Infosec Holding at the total transaction amount of \$14,400 thousand.

The transaction was completed on September 18, 2015.

See Note 21 for the calculation of the disposal gain or loss.



- b. Subsidiaries excluded from consolidated financial statements: None.
- c. Details of subsidiaries that have material non-controlling interests: None.

## 10. DISCONTINUED OPERATIONS

On June 26, 2015, the Group entered into a sale agreement to dispose of Infosec WOFE and Infosec Technologies, which carried out all of the Group's research on the management of digital Public Key Infrastructure (PKI) in PRC, on which dates control of Infosec WOFE and Infosec Technologies passed to the acquirer. Certain accounts in the financial statements for the year ended December 31, 2014 have been reclassified to conform to the presentation of discontinued operations in the financial statements for the year ended December 31, 2015.

Profit (loss) from discontinued operations was as follows:

	<b>For the Period from January 1 to June 26, 2015</b>	<b>For the Year Ended December 31, 2014</b>
Current period (loss) profits	\$ (1,770)	\$ 1,500
Disposal of income	<u>7,885</u>	<u>-</u>
	<u>\$ 6,115</u>	<u>\$ 1,500</u>

The details of profit (loss) from discontinued operations and the related cash flows information are as follows:

	<b>For the Period from January 1 to June 26, 2015</b>	<b>For the Year Ended December 31, 2014</b>
Operating revenues	\$ 3,815	\$ 13,182
Operating costs	<u>(847)</u>	<u>(4,045)</u>
Gross profit	2,968	9,137
Selling and marketing expenses	(3,726)	(6,490)
General and administrative expenses	(818)	(671)
Research and development expenses	<u>(1,188)</u>	<u>(2,079)</u>
Loss from operations	(2,764)	(103)
Non-operating income and expenses	<u>994</u>	<u>1,712</u>
Loss before income tax	(1,770)	1,609
Income tax expense	<u>-</u>	<u>(109)</u>
Net (loss) profit for the year	<u>\$ (1,770)</u>	<u>\$ 1,500</u>
Net (loss) profit from discontinued operations:		
Owners of the Company	<u>\$ (1,770)</u>	<u>\$ 1,500</u>
Net cash (used in) generated from operating activities	\$ (2,508)	\$ 3,067
Net cash generated (used in) from investing activities	299	(66)
Net cash generated from financing activities	<u>-</u>	<u>-</u>
Net cash (outflows) inflows	<u>\$ (2,209)</u>	<u>\$ 3,001</u>

The carrying amounts of assets and liabilities of Infosec WOFE and Infosec Technologies at the date of disposal were disclosed in Note 21.

## 11. PROPERTY, PLANT AND EQUIPMENT

	Equipment	Office Equipment	Equipment Held under Finance Lease	Other Equipment	Total
<u>Cost</u>					
Balance, January 1, 2014	\$ 3,280	\$ 1,084	\$ 465	\$ 1,361	\$ 6,190
Addition	309	82	7	345	743
Disposals	(299)	(15)	(20)	(1)	(335)
Reclassification	310	-	-	-	310
Effect of foreign currency exchange differences	<u>(10)</u>	<u>(2)</u>	<u>(3)</u>	<u>(1)</u>	<u>(16)</u>
Balance, December 31, 2014	<u>\$ 3,590</u>	<u>\$ 1,149</u>	<u>\$ 449</u>	<u>\$ 1,704</u>	<u>\$ 6,892</u>
<u>Accumulated depreciation and impairment</u>					
Balance, January 1, 2014	\$ 2,380	\$ 945	\$ 404	\$ 1,062	\$ 4,791
Disposals	(274)	(15)	(21)	-	(310)
Depreciation	523	101	44	210	878
Reclassification	(27)	-	-	-	(27)
Effect of foreign currency exchange differences	<u>(7)</u>	<u>(4)</u>	<u>(1)</u>	<u>-</u>	<u>(12)</u>
Balance, December 31, 2014	<u>\$ 2,595</u>	<u>\$ 1,027</u>	<u>\$ 426</u>	<u>\$ 1,272</u>	<u>\$ 5,320</u>
Carrying amounts at December 31, 2014	<u>\$ 995</u>	<u>\$ 122</u>	<u>\$ 23</u>	<u>\$ 432</u>	<u>\$ 1,572</u>
<u>Cost</u>					
Balance, January 1, 2015	\$ 3,590	\$ 1,149	\$ 449	\$ 1,704	\$ 6,892
Addition	98	109	-	120	327
Disposals	(135)	-	-	(30)	(165)
Reclassification	81	-	-	-	81
Disposal of subsidiaries (Note 21)	(443)	-	(270)	(189)	(902)
Effect of foreign currency exchange differences	<u>(147)</u>	<u>(9)</u>	<u>(9)</u>	<u>(2)</u>	<u>(167)</u>
Balance, December 31, 2015	<u>\$ 3,044</u>	<u>\$ 1,249</u>	<u>\$ 170</u>	<u>\$ 1,603</u>	<u>\$ 6,066</u>
<u>Accumulated depreciation and impairment</u>					
Balance, January 1, 2015	\$ 2,595	\$ 1,027	\$ 426	\$ 1,272	\$ 5,320
Disposals	(122)	-	-	-	(122)
Depreciation	436	73	18	268	795
Reclassification	(62)	-	-	-	(62)
Disposal of subsidiaries (Note 21)	(285)	-	(270)	(127)	(682)
Effect of foreign currency exchange differences	<u>(118)</u>	<u>(7)</u>	<u>(9)</u>	<u>-</u>	<u>(134)</u>
Balance, December 31, 2015	<u>\$ 2,444</u>	<u>\$ 1,093</u>	<u>\$ 165</u>	<u>\$ 1,413</u>	<u>\$ 5,115</u>
Carrying amounts at December 31, 2015	<u>\$ 600</u>	<u>\$ 156</u>	<u>\$ 5</u>	<u>\$ 190</u>	<u>\$ 951</u>

For the impairment evaluation for the years ended December 31, 2015 and 2014, refer to Note 12.

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Equipment	3 years
Office equipment	5 years
Equipment held under finance lease	The shorter of the lease term and useful lives
Other equipment	3 years

## 12. GOODWILL

The goodwill as of December 31, 2015 comprised of goodwill \$3,521 thousand acquired from Array US. The goodwill as of December 31, 2014 comprised of goodwill \$3,521 thousand acquired from Array US and goodwill of \$2,073 thousand acquired from Infosec Cayman, respectively. The Group identified the smallest identifiable group of cash-generating units (CGU): The Company, Array US and Array China (Array Group) were identified and viewed as one CGU; Infosec Cayman, Infosec WOFE and Infosec Technologies (Infosec Group) were identified and viewed as another CGU.

On the evaluation of the impairment on goodwill, the recoverable amounts of the CGUs were based on value in use, which was estimated using budgeted cash flows of respective CGU. The critical assumptions to estimate the recoverable amounts were as follows:

- a. Operating revenues were estimated on the basis of changes in industry and competitive landscape.
- b. The estimates of costs and expenses were based on the proportion of the actual costs and expenses to operating revenues in the 2015 and 2014 financial statements.
- c. Assumptions on discount rate:

The discount rates used to calculate the recoverable amounts for Array Group were 22.45% and 23.0% in 2015 and 2014, respectively; the discount rates used for Infosec Group were 27.2% in 2014.

Based on the above key assumptions, the Group's management believes that the carrying amounts of these operating assets and goodwill will not exceed their recoverable amounts even if there are changes in the critical assumptions used to estimate recoverable amounts as long as these changes are within reasonable levels for the years ended December 31, 2015 and 2014.

## 13. OTHER INTANGIBLE ASSETS

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
<u>Carrying amounts of each class of</u>		
Computer software (a)	\$ 594	\$ 712
Intellectual Property (b)	414	585
Trademarks (c)	<u>-</u>	<u>952</u>
Other intangible assets	<u>\$ 1,008</u>	<u>\$ 2,249</u>

a. Computer software

	<b>2015</b>	<b>2014</b>
<u>Cost</u>		
Balance, January 1	\$ 1,662	\$ 1,406
Addition	268	259
Derecognized on disposal of a subsidiary (Note 21)	(40)	
Effect of foreign currency exchange differences	<u>-</u>	<u>(2)</u>
Balance, December 31	<u>\$ 1,890</u>	<u>\$ 1,663</u>
<u>Accumulated amortization and impairment</u>		
Balance, January 1	\$ 951	\$ 539
Amortization expense	356	413
Derecognized on disposal of a subsidiary (Note 21)	(10)	
Effect of foreign currency exchange differences	<u>(1)</u>	<u>(1)</u>
Balance, December 31	<u>\$ 1,296</u>	<u>\$ 951</u>

b. Intellectual property

	<b>2015</b>	<b>2014</b>
<u>Cost</u>		
Balance at January 1	\$ 870	\$ 870
Additions	<u>-</u>	<u>-</u>
Balance at December 31	<u>\$ 870</u>	<u>\$ 870</u>
<u>Accumulated depreciation and impairment</u>		
Balance at January 1	\$ 285	\$ 114
Amortization expense	<u>171</u>	<u>171</u>
Balance at December 31	<u>\$ 456</u>	<u>\$ 285</u>

c. Trademarks

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Balance at January 1	\$ 952	\$ 952
Derecognized on disposal of a subsidiary (Note 21)	<u>(952)</u>	<u>-</u>
Balance at December 31	<u>\$ -</u>	<u>\$ 952</u>

Management believes the Group will renew the trademarks continuously and has the ability to do so. There is no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows. Therefore, the trademark is considered to have an indefinite useful life. The trademark will not be amortized until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

Other intangible assets are depreciated on a straight-line basis over the estimated useful lives as follows:

Computer software	3-10 years
Intellectual property	5 years

#### 14. OTHER ASSETS

	<u>December 31</u>	
	2015	2014
Refundable deposits	\$ 426	\$ 810
Prepayments	388	695
Pledged time deposit	<u>32</u>	<u>32</u>
	<u>\$ 846</u>	<u>\$ 1,537</u>
Current - others	<u>\$ 419</u>	<u>\$ 713</u>
Non-current - refundable deposits	<u>\$ 395</u>	<u>\$ 792</u>
Non-current - other financial assets	<u>\$ 32</u>	<u>\$ 32</u>

#### 15. OTHER LIABILITIES

	<u>December 31</u>	
	2015	2014
<u>Other payables</u>		
Accrued salary and bonus	\$ 1,441	\$ 1,312
Accrued vacation	467	550
Others	<u>1,128</u>	<u>2,077</u>
	<u>\$ 3,036</u>	<u>\$ 3,939</u>
Deferred revenue	<u>\$ 8,673</u>	<u>\$ 9,982</u>
Other liabilities	<u>\$ 85</u>	<u>\$ 967</u>
Current - other payables	<u>\$ 3,036</u>	<u>\$ 3,939</u>
Current - deferred revenue	<u>\$ 5,478</u>	<u>\$ 5,768</u>
Current - other liabilities	<u>\$ 78</u>	<u>\$ 948</u>
Non-current - deferred revenue	<u>\$ 3,195</u>	<u>\$ 4,214</u>
Non-current - other liabilities	<u>\$ 7</u>	<u>\$ 19</u>

#### 16. EQUITY

##### a. Ordinary shares

	<u>December 31</u>	
	2015	2014
Number of shares authorized (in thousands)	<u>105,000</u>	<u>105,000</u>
Shares authorized (in thousands N.T. dollars)	<u>NT\$1,050,000</u>	<u>NT\$1,050,000</u>
Number of shares issued and fully paid (in thousands)	<u>77,804</u>	<u>77,289</u>
Shares issued	<u>\$ 23,986</u>	<u>\$ 23,824</u>

The differences of the shares issued were due to options exercise.

b. Capital surplus

The capital surplus arising from shares issued in excess of par (including share premium from issuance of ordinary shares and treasury share transactions) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital limited to a certain percentage of the Company's capital surplus and once a year. The capital surplus from stock options may not be used for any purpose.

c. Retained earnings and dividend policy

Under the Company's Articles of Association, which was revised on June 18 2014, when making appropriation of the earnings for each fiscal year, after offsetting losses from previous years and after paying taxes, the Company may set aside any 10% as legal reserve and less special reserve based on relevant laws and regulations. The remaining balance should be distributed as follows:

- 1) Up to 3%, as bonus to directors;
- 2) No less than 1%, as bonus to employees of the Company and subsidiaries; and
- 3) The appropriation of the remaining balance as bonuses or dividends should be resolved by the shareholders' meeting. The appropriation should not be less than 5% of remaining balance of the earnings. The distribution of cash dividends should comprise no less than 10% of the dividends in such year.

Under the Company's amended Articles of Association, which was approved in the shareholders' meeting on June 18 2014, the Company may distribute profits for each fiscal year in the form of cash dividends, bonus shares or others upon a proposal for distribution of profits by the Board and approved by the Shareholders at the general meeting. The directors shall prepare such proposal to allocate the earnings for each fiscal year according to the following sequence:

- 1) Payment of taxes;
- 2) Making up losses from previous years;
- 3) Setting aside 10% as legal reserve, until the accumulated legal reserve has equaled the total issued capital of the Company;
- 4) Setting aside special reserve from the remaining earnings together with any undistributed retained earnings accrued from prior years in accordance with the applicable listing rules or as requested by the competent authorities;
- 5) Up to 3% of the residual amount after deducting the amounts stated in items (1) through (4) above as bonus to directors;
- 6) The rest could be distributed as cash dividends and/or bonus shares to the shareholders according to the distribution plan proposed by the board;

Because the Company is still at the growth stage, any balance earnings together with any undistributed retained earnings accrued from prior years of the Company may be distributed as cash dividends and/or bonus shares in accordance with the Law and Applicable Listing Rules, after taking into consideration the investment environment, capital requirement, domestic and overseas competition environment and capital budget of the Company current or future, as well as shareholders interest, balance of dividend and long term financial plan of the Company. The directors shall specify the exact percentages or amounts to be paid to Directors and distributed to the Shareholders in the proposal for distribution of profits, and submit it for the Shareholders' approval at the general meeting. Unless the Board determines otherwise after consideration to the withholding tax and associated expenses relating to the dividend distribution, dividends to be distributed to the Shareholders shall not be less than 5% of the remaining balance after deducting the amounts stated in items (1) through (4) above. The cash dividends shall comprise no less than 10% of the dividends declared in such year.

For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to b. Employee benefits expense in Note 17.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's capital surplus. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's capital surplus, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

The appropriations of earnings for 2014 and 2013 have been approved in the shareholders' meetings on June 26, 2015 and June 18, 2014 respectively, were as follows:

	<b>Appropriation of Earnings</b>	
	<b>2014</b>	<b>2013</b>
Legal reserve	\$ 42	\$ 149
(Reserved) special reserve	(569)	589

The appropriations of earnings for 2015 had been proposed by the Company's board of directors on March 19, 2016. The appropriations were as follows:

	<b>Appropriation of Earnings</b>
Legal reserve	\$ 162

The appropriations of earnings for 2015 are subject to the resolution of the shareholders' meeting to be held on June 8, 2016.

d. Treasury shares

<b>Purpose of Buy-back</b>	<b>Number of Shares, Beginning of Year</b>	<b>Increase During the Year</b>	<b>Decrease During the Year</b>	<b>Number of Shares, End of Year</b>
<u>Year ended December 31, 2015</u>				
Shares transferred to employees (in thousands of shares)	1,552	-	292	1,260
<u>Year ended December 31, 2014</u>				
Shares transferred to employees (in thousands of shares)	1,883	1,260	1,591	1,552

In order to motivate employees and enhance employees' retention, on December 23, 2011, the board of directors resolved the plan to buy back 2,000 thousand shares of the Company's outstanding shares as treasury shares from the securities exchange market. The buyback of treasury shares was executed in the period between January 2, 2012 and February 22, 2012, and the total buyback amount was \$1,381 thousand. As of December 31, 2015, the treasury shares were all transferred to employees.

The board of directors resolved the plan to buy back 3,175 thousand shares of the Company's outstanding shares as treasury shares from the securities exchange market on October 24, 2014. The buyback of treasury shares was executed in the period between October 27, 2014 and December 23, 2014, and the total buyback shares were 1,260 thousand, which amounted to \$1,041, thousand.

The Company granted 1,278.5 units of treasury share options to the Group's employees based on the resolution of the board of directors on June 21, 2012. Each unit of treasury share option entitles the holder to subscribe for 1,000 shares of the Company's treasury shares. The treasury share options are valid for 29 months and vest 1/29 in equal monthly installments from July 1, 2012 to November 30, 2014. Holders may choose to exercise the vested treasury share options on four designated dates: June 10, 2013, December 10, 2013, June 10, 2014 and December 10, 2014.

The Company granted 926 units of treasury share options to the Group's employees based on the resolution of the board of directors on May 1, 2014. Each unit of treasury share option entitles the holder to subscribe for 1,000 shares of the Company's treasury shares. The treasury share options are valid for 9 months and vest 1/9 in equal monthly installments from May 1, 2014 to February 2, 2015. Holders may choose to exercise the vested treasury share options on four designated dates: July 1, 2014, October 1, 2014, December 10, 2014 and February 2, 2015.

The Company granted 1,310 units of treasury share options to the Group's employees based on the resolution of the board of directors on February 9, 2015. Each unit of treasury share option entitles the holder to subscribe for 1,000 shares of the Company's treasury shares. The treasury share options are valid for 35 months and vest 1/35 in equal monthly installments from January 1, 2015 to November 30, 2017. Holders may choose to exercise the vested treasury share options on nine designated dates: July 15, 2015, October 15, 2015, January 15, 2016, July 15, 2016, November 15, 2016, February 10, 2017, July 10, 2017, October 10, 2017 and December 10, 2017.



	<b>Number of Exercisable Options (In Thousands)</b>	
	<b>2015</b>	<b>2014</b>
<u>Treasury share options</u>		
Balance, beginning of year	242	957
Options granted	1,310	926
Options exercised	(292)	(1,591)
Options expired	<u>-</u>	<u>(50)</u>
Balance, end of year	<u>1,260</u>	<u>242</u>

Treasury share options granted during the years ended December 31, 2015, 2014 and 2012 were priced using the Black-Scholes pricing model. The share-based compensation costs recognized for the years ended December 31, 2015 and 2014 were \$174 thousand and \$383 thousand, respectively.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

## 17. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

### a. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Property, plant and equipment	\$ 754	\$ 770
Intangible assets	<u>525</u>	<u>582</u>
	<u>\$ 1,279</u>	<u>\$ 1,352</u>
An analysis of depreciation by function		
Operating costs	\$ 256	\$ 324
Operating expenses	<u>498</u>	<u>446</u>
	<u>\$ 754</u>	<u>\$ 770</u>
An analysis of amortization by function		
Operating costs	\$ 210	\$ 199
Operating expenses	<u>315</u>	<u>383</u>
	<u>\$ 525</u>	<u>\$ 582</u>

### b. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Post-employment benefits	\$ 725	\$ 688
Share-based payments	223	388
Other employee benefits	<u>17,441</u>	<u>15,841</u>
	<u>\$ 18,389</u>	<u>\$ 16,917</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
An analysis of employee benefits expense by function		
Operating costs	\$ 945	\$ 943
Operating expenses	<u>17,444</u>	<u>15,974</u>
	<u>\$ 18,389</u>	<u>\$ 16,917</u>
		(Concluded)

For the years ended December 31, 2015 and 2014, the bonus to employees and remuneration to directors and supervisors were zero and \$150 thousand, respectively, and the calculation was based on the policy and past experience.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date the annual consolidated financial statements are authorized for issue are adjusted in the year the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The bonus to employees and remuneration to directors and supervisors for 2014 and 2013 which have been approved in the shareholder's meetings on June 26, 2015 and June 18, 2014, respectively were as follows:

	<b>For the Year Ended December 31</b>			
	<b>2014</b>		<b>2013</b>	
	<b>Cash Dividends</b>	<b>Share Dividends</b>	<b>Cash Dividends</b>	<b>Share Dividends</b>
Bonus to employees	\$ -	\$ -	\$ 120	\$ -
Remuneration of directors and supervisors	-	-	30	-

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meetings on June 26, 2015 and June 18, 2014 and the amounts recognized in the consolidated financial statements for the years ended December 31, 2014 and 2013, respectively.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2016 and bonus to employees, directors and supervisors resolved by the shareholders' meeting in 2015 and 2014 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 18. INCOME TAXES RELATING TO CONTINUING OPERATIONS

- a. Major components of tax expense recognized in profit or loss

	<u>For the Year Ended December 31</u>	
	2015	2014
Current tax		
In respect of the current year	\$ 162	\$ 247
Deferred tax		
In respect of the current year	<u>(23)</u>	<u>(19)</u>
Income tax expense recognized in profit or loss	<u>\$ 139</u>	<u>\$ 228</u>

A reconciliation of accounting profit and income tax expenses and the applicable tax rate is as follows:

	<u>For the Year Ended December 31</u>	
	2015	2014
Loss before tax	<u>\$ (4,357)</u>	<u>\$ (851)</u>
Income tax expense calculated at the statutory rate	\$ (973)	\$ (862)
Nondeductible expenses in determining taxable income	738	411
Unrecognized deductible temporary differences	(211)	661
Tax of Controlled Foreign Corporation	<u>585</u>	<u>18</u>
Income tax expense recognized in profit or loss	<u>\$ 139</u>	<u>\$ 228</u>

The applicable tax rate used above is the Federal tax rate of 34% payable and the state tax rate of 8.84% payable by the Group in the U.S., while the applicable tax rate used by subsidiaries in China is 25%.

- b. Current tax assets and liabilities

	<u>December 31</u>	
	2015	2014
Current tax liabilities		
Income tax payable	<u>\$ 48</u>	<u>\$ 69</u>

- c. Deferred tax assets and liabilities

The movements of deferred tax assets were as follows:

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Exchange Differences	Closing Balance
For the year ended <u>December 31, 2015</u>				
Others	<u>\$ 68</u>	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 91</u>
For the year ended <u>December 31, 2014</u>				
Others	<u>\$ 49</u>	<u>\$ 19</u>	<u>\$ -</u>	<u>\$ 68</u>

- d. Deductible temporary differences, unused loss carry-forwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Loss carry-forwards	<u>\$ 16,217</u>	<u>\$ 17,769</u>
Investment credits		
Research and development	\$ 1,613	\$ 1,926
Purchase of machinery and equipment	<u>50</u>	<u>-</u>
	<u>\$ 1,663</u>	<u>\$ 1,926</u>
Deductible temporary differences	<u>\$ 2,060</u>	<u>\$ 2,513</u>

- e. Information about unused investment credits, unused loss carry-forward and tax-exemption

As of December 31, 2015, investment tax credits comprised of:

<b>Laws and Statutes</b>	<b>Tax Credit Source</b>	<b>Remaining Creditable Amount</b>	<b>Expiry Year</b>
Federal tax	Research and development expenditures	\$ 144	2020
		342	2021
		213	2026
		188	2027
		93	2028
		54	2029
		46	2030
		53	2031
		70	2032
		93	2033
		76	2034
		<u>68</u>	2035
State tax		<u>\$ 888</u>	Indefinite

Loss carry-forwards by federal tax as of December 31, 2015 comprised of:

<b>Unused Amount</b>	<b>Expiry Year</b>
\$ 2,535	2021
20,167	2022
5,665	2023
5,383	2024
929	2025
4,529	2026
309	2027
400	2028

(Continued)

<b>Unused Amount</b>	<b>Expiry Year</b>
\$ 394	2031
<u>3,107</u>	2032
<u>\$ 43,418</u>	

Loss carry-forwards by state tax as of December 31, 2015 comprised of:

<b>Unused Amount</b>	<b>Expiry Year</b>
\$ 2,182	2016
<u>462</u>	2032
<u>\$ 2,644</u>	

## 19. EARNINGS PER SHARE

The earnings (loss) and weighted average number of ordinary shares outstanding in the computation of earnings (loss) per share were as follows:

### Net Profit for the Period

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Profit for the period attributable to owners of the Company	\$ 1,618	\$ 421
Less: Earnings used in the computation of basic earnings per share from discontinuing operations	<u>6,115</u>	<u>1,500</u>
Earnings (loss) used in the computation of basic earnings per share from continuing operations	<u>\$ (4,497)</u>	<u>\$ (1,079)</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Weighted average number of ordinary shares in computation of basic earnings per share	77,209	76,062
Effect of dilutive potential ordinary shares:		
Employee share option	<u>750</u>	<u>1,993</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>77,959</u>	<u>78,055</u>

If the Group will distribute bonus to employees and the bonus will be settled in cash or shares, the Group will assume that the entire amount of the compensation or bonus will be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 20. SHARE-BASED PAYMENT ARRANGEMENTS

Array Cayman adopted the stock option plan resolved by the board of directors in December 2003. Due to the reorganization on May 1, 2009, pursuant to the merger agreement, the Company modified each outstanding stock option to be exercisable to subscribe for one ordinary shares of the Company. The options were granted to qualified employees, directors and consultants of the Group. The options granted are valid for 10 years and vest 25% one year after the date of grant and the remaining balance vests 1/48 in equal monthly installments over the following 36 months.

On August 5, 2011, 300 options were granted to qualified employees of the Group. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company when exercisable. The options granted are valid for 10 years and vest 50% two years after the date of grant and the remaining balance vest 1/48 in equal monthly installments over the following 24 months.

On June 6, June 23 and August 8, 2014, 2,480, 150 and 545 options were granted to qualified employees of the Group. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company when exercisable. The options granted are valid for 10 years and vest 50% two years after the date of grant and the remaining balance will vest 1/48 in equal monthly installments over the following 24 months. As of December 31, 2014, these options were abandoned and all forfeited.

On January 15, May 20, 2015, 700 and 125 options were granted to qualified employees of the Group. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company when exercisable. The options granted are valid for 10 years and vest 50% two years after the date of grant and the remaining balance will vest 1/48 in equal monthly installments over the following 48 months.

The options were granted at an exercise price equal to the fair value of the Company's ordinary shares on the grant date. For any subsequent changes in the Company's ordinary shares, the exercise price will be adjusted accordingly.

Information about stock options was as follows:

	<b>For the Year Ended December 31</b>			
	<b>2015</b>		<b>2014</b>	
	<b>Number of Exercisable Options (In Thousands)</b>	<b>Weighted- average Exercise Price (US\$)</b>	<b>Number of Exercisable Options (In Thousands)</b>	<b>Weighted- average Exercise Price (US\$)</b>
Balance, beginning of year	1,985	\$ 0.27	2,556	\$ 0.33
Options granted	825	0.84	3,175	1.50
Options forfeited	-	-	(3,175)	1.50
Options exercised	(515)	0.16	(544)	0.33
Options expired	<u>(316)</u>	0.90	<u>(27)</u>	0.43
Balance, end of year	<u>1,979</u>	0.43	<u>1,985</u>	0.27
Options exercisable, end of year	<u>1,288</u>	0.34	<u>1,985</u>	0.29

The weighted-average stock price at the date of exercise for stock options exercised during the years ended December 31, 2015 and 2014 was US\$0.67 and US\$1.46, respectively.

Information about outstanding options as of December 31, 2015 and 2014 was as follows:

December 31			
2015		2014	
Range of Exercise Price (US\$)	Weighted-average Remaining Contractual Life (Years)	Range of Exercise Price (US\$)	Weighted-average Remaining Contractual Life (Years)
\$0.34-\$0.36	1.61	\$0.10	0.96
\$0.73	5.60	\$0.34-\$0.36	2.61
\$0.60-\$0.99	8.40	\$0.73	6.60

The share-based compensation cost recognized for the years ended December 31, 2015 and 2014 were \$49 thousand and \$5 thousand, respectively.

## 21. DISPOSAL OF SUBSIDIARIES

### a. Consideration received from the disposal

According to disposal agreement, consideration of US\$14,400 thousand and RMB 23,680 thousand (total \$18,274 thousand) were received on September 11, 2015 and October 19, 2015, respectively.

### b. Analysis of assets and liabilities on the date control was lost

	<b>Infosec WOFE and Infosec Technologies</b>
Current assets	
Cash and cash equivalents	\$ 10,579
Trade receivables	4,928
Other receivables	626
Inventories	2,225
Prepayments	322
Non-current assets	
Property, plant and equipment	220
Goodwill	2,073
Other intangible assets	982
Current liabilities	
Payables	(2,092)
Other payables	(6,012)
Other	(248)
Non-current liabilities	
Deferred revenue	<u>(3,354)</u>
Net assets disposed of	<u>\$ 10,249</u>

c. Gain on disposal of subsidiary

	<b>Infosec WOFE and Infosec Technologies</b>
Consideration received	\$ 18,274
Net assets disposed of	(10,249)
Non-controlling interests	
The reclassification of other comprehensive income in respect of the subsidiary	<u>1,100</u>
Gain on disposal	9,125
Tax expense	<u>(1,240)</u>
	<u>\$ 7,885</u>

The gain on disposal was included in the profit from discontinued operations, see Note 10.

d. Net cash inflow on disposal of subsidiary

	<b>Infosec WOFE and Infosec Technologies</b>
Consideration received in cash and cash equivalents	\$ 18,274
Effect of exchange rate changes	-
Less: Cash and cash equivalent balances disposed of	<u>10,579</u>
	<u>\$ 7,695</u>

## 22. OPERATING LEASE ARRANGEMENTS

Operating leases relate to leases of office with lease terms between 1 and 6 years. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews. The Group does not have a bargain purchase option to acquire the leased office at the expiry of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2015</b>	<b>2014</b>
Not later than 1 year	\$ 1,779	\$ 2,410
Later than 1 year and not later than 5 years	<u>1,921</u>	<u>2,724</u>
	<u>\$ 3,700</u>	<u>\$ 5,134</u>

## 23. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity attributable to owners of the Company (comprising issued capital, reserves, retained earnings and other equity).



The Group is not subject to any externally imposed capital requirements.

## 24. FINANCIAL INSTRUMENTS

- a. Fair value of financial instruments that are not measured at fair value

The management considers the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

- b. Fair value of financial instruments that are measured at fair value on a recurring basis

### December 31, 2015

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Mutual funds	\$ 259	\$ -	\$ -	\$ 259

### December 31, 2014

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Mutual funds	\$ 257	\$ -	\$ -	\$ 257

There were no transfers between Levels 1 and 2 in the current and prior periods.

- c. Categories of financial instruments

	<u>December 31</u>	
	2015	2014
<u>Financial assets</u>		
Loans and receivables (1)	\$ 45,040	\$ 43,688
Available-for-sale financial assets	259	257
<u>Financial liabilities</u>		
Amortized cost (2)	3,543	5,470

1) The balances included cash and cash equivalents, debt investments with no active market, note receivables, trade and other receivables, refundable deposit, other financial assets and financial assets measured at amortized cost.

2) The balances included financial liabilities measured at amortized cost, which comprise trade and other payables.

d. Financial risk management objectives and policies

The Group's major financial instruments included cash and cash equivalents, and trade receivables and trade payables. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

a) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting period are set out in Note 27.

Sensitivity analysis

The Group's exchange rate exposure was in the exchange rate of Renminbi (RMB), the functional currency of several subsidiaries, against the U.S. dollars.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies.

The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. The sensitivity analysis included borrowings to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in pre-tax profit and other equity associated with RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	<b>U.S. Dollars</b>	
	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Profit or loss	\$ 503*	\$ 197*

\* RMB was the functional currency of several subsidiaries. This was mainly attributable to the exposure to outstanding bank deposit, receivables and payables in U.S. dollars, which were not hedged, at the end of the reporting period.

The Group's sensitivity to foreign currency during the current period was driven by the sensitivity of RMB, the functional currency of several subsidiaries, to the small amount of trade payable in U.S. dollars.

b) Interest rate risk

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	<u>December 31</u>	
	2015	2014
Fair value interest rate risk		
Financial assets	\$ 10,699	\$ 7,439
Cash flow interest rate risk		
Financial assets	23,905	22,079

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2015 and 2014 would decrease/increase by \$60 thousand and \$55 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognized financial assets as stated in the condensed balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, the Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The Group's concentration of credit risk by geographical locations was mainly in A, which accounted for 29% and 67% of the total trade receivable as of December 31, 2015 and 2014, respectively.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Non-derivative financial liabilities which the Group holds were all non-interest, and the maturities of repayments were within one year.

The contractual amount at maturity was same as the carrying amount.

## 25. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which were related parties of the Company, had been eliminated on consolidation and are not disclosed in this note.

### Compensation of Key Management Personnel

The remuneration of directors and other members of key management personnel for the years ended December 31, 2015 and 2014 were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Short-term benefits	\$ 1,684	\$ 2,019
Share-based payments	<u>10</u>	<u>87</u>
	<u>\$ 1,694</u>	<u>\$ 2,106</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

## 26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings, the tariff of imported raw materials guarantees or the deposit for hiring foreign workers:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Pledge deposits (classified as other financial assets)	<u>\$ 32</u>	<u>\$ 32</u>

## 27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2015

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 15,270	6.4936 (USD:RMB)	\$ 15,270
<u>Financial liability</u>			
Monetary items			
USD	5,206	6.4936 (USD:RMB)	5,206

December 31, 2014

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 18,029	6.119 (USD:RMB)	\$ 18,029
<u>Financial liability</u>			
Monetary items			
USD	14,088	6.119 (USD:RMB)	14,088

The significant unrealized foreign exchange gains (losses) were as follows:

	<b>For the Year Ended December 31</b>			
	<b>2015</b>		<b>2014</b>	
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Exchange Rate</b>	<b>Net Foreign Exchange Gain (Loss)</b>
	<b>Net Foreign Exchange Gain (Loss)</b>		<b>Net Foreign Exchange Gain (Loss)</b>	
USD	6.4936 (USD:RMB)	<u>\$ 917</u>	6.1190 (USD:RMB)	<u>\$ 30</u>

## 28. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (None)
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 2)
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital. (Table 3)
- 5) Acquisition of individual real estate at costs of at least NT \$300 million or 20% of the paid-in capital. (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 4)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 5)
- 9) Trading in derivative instruments. (None)
- 10) Intercompany relationships and significant intercompany transactions. (Table 6)
- 11) (None) Information on investees. (Table 7)

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 8)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (Table 8)
  - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
  - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
  - c) The amount of property transactions and the amount of the resultant gains or losses.
  - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
  - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
  - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

## 29. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

Network application - (U.S. and China)

Public Key Infrastructure (PKI) operation was discontinued in the current year. The segment information reported on the following pages does not include any amounts for the discontinued operations, which are described in more detail in Note 10.

a. Segment revenues and results

	Segment Revenue		Segment Profit (Loss)	
	Year Ended December 31	Year Ended December 31	Year Ended December 31	Year Ended December 31
	2015	2014	2015	2014
Network application				
U.S.	\$ 15,392	\$ 16,833	\$ (323)	\$ 1,001
China	10,166	11,456	(4,548)	(2,010)
Others	-	-	(857)	(914)
Total from continuing operations	<u>\$ 25,558</u>	<u>\$ 28,289</u>	(5,728)	(1,923)

(Continued)

	<u>Segment Revenue</u>		<u>Segment Profit (Loss)</u>	
	<u>Year Ended December 31</u>		<u>Year Ended December 31</u>	
	2015	2014	2015	2014
Interest income			\$ 176	\$ 167
Other income			805	1,011
Exchange loss, net			423	(15)
Others			<u>(34)</u>	<u>(91)</u>
Loss before income tax			<u>\$ (4,358)</u>	<u>\$ (851)</u> (Concluded)

Segment revenue reported above represents revenue generated from external customers. There were adjusted and reversed for the years ended December 31, 2015 and 2014.

Segment profit (loss) represented the profit before tax earned by each segment. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment assets and liabilities

	<u>December 31</u>	
	2015	2014
Network application		
U.S.	\$ 13,359	\$ 12,654
China	17,716	14,145
Others	<u>22,241</u>	<u>11,585</u>
Total department assets	53,316	38,384
Assets associated with discontinued operation	<u>-</u>	<u>19,474</u>
Consolidated total assets	<u>\$ 53,316</u>	<u>\$ 57,858</u>
Network application		
U.S.	\$ 8,337	\$ 7,347
China	3,599	3,701
Others	<u>413</u>	<u>173</u>
Total department assets	12,349	11,221
Assets associated with discontinued operation	<u>-</u>	<u>5,267</u>
Consolidated total liabilities	<u>\$ 12,349</u>	<u>\$ 16,488</u>

c. Other segment information

	<u>Depreciation and Amortization</u>		<u>Additions to Noncurrent Assets</u>	
	2015	2014	2015	2014
Network application				
U.S.	\$ 944	\$ 947	\$ 537	\$ 769
China	335	405	172	716
Discontinued operation	<u>43</u>	<u>110</u>	<u>-</u>	<u>423</u>
	<u>\$ 1,322</u>	<u>\$ 1,462</u>	<u>\$ 709</u>	<u>\$ 1,908</u>

d. Revenue from major products and services

The Group's revenue from continuing operations categorized by major products and services was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
ADC	\$ 14,212	\$ 16,212
Service revenue	7,936	7,350
SSL VPN	2,702	4,603
WOC	<u>708</u>	<u>124</u>
	<u>\$ 25,558</u>	<u>\$ 28,289</u>

e. Geographical information

The Group operates in two principal geographical areas - U.S. and China. The Group's revenue from continuing operations from external customers and information about its noncurrent assets by geographical location were as follows:

	<b>Revenue from</b>		<b>Noncurrent Assets</b>	
	<b>External Customers</b>			
	<b>For the Year Ended</b>		<b>For the Year Ended</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
U.S.	\$ 15,392	\$ 16,833	\$ 5,093	\$ 5,535
China	<u>10,166</u>	<u>11,456</u>	<u>814</u>	<u>4,704</u>
	<u>\$ 25,558</u>	<u>\$ 28,289</u>	<u>\$ 5,907</u>	<u>\$ 10,239</u>

Noncurrent assets excluded deferred tax assets.

f. Information about major customers

Single customers contributed 10% or more to the Group's revenue were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Customer A	\$ 2,840	\$ NA (Note)
Customer B	NA (Note)	3,007

Note: Less than 10% to the Group's revenue.



**ARRAY INC. AND SUBSIDIARIES**

**FINANCINGS PROVIDED TO OTHERS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(In Thousands of United States Dollars, Unless Specified Otherwise)**

Financing Company	Borrower	Financial Statement Account	Maximum Balance for the Year	Ending Balance	Balance Used	Interest Rate	Type of Financing	Transaction Amount	Reason for Short-term Financing	Allowance for Bad Debt	Collateral		Financing Limit for Each Borrowing Company	Financing Company's Financing Amount Limit
											Item	Value		
Array Networks (China), Co., Ltd.	Array Inc.	Other receivables	US\$ 2,310	US\$ -	US\$ -	-	Short-term financing	\$ -	Operational revolving fund	\$ -	-	-	Net worth of the Corporation US\$3,717	Net worth of the Corporation US\$3,717

**ARRAY INC. AND SUBSIDIARIES**

**MARKETABLE SECURITIES HELD**

**DECEMBER 31, 2015**

**(In Thousands of United States Dollars, Unless Specified Otherwise)**

Holding Company	Marketable Securities Type and Issuer's Name	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2015				Note
				Shares/Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Array Networks, Inc. (Cayman)	<u>Mutual fund</u> Fidelity Advisor Short Inter Muni Inc. mutual fund	None	Available-for-sale financial assets - current	-	\$ 259	-	\$ 259	-

Note 1: In this table referred to securities, refer to IAS 39 "Financial Instrument" recognition and derived. Scope of stock, bonds, beneficiary certificates and of the projects within in securities.

Note 2: Investments in subsidiaries, associated companies and joint venture interest in related information, see Tables 7 and 8.

## ARRAY INC. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
 FOR THE YEAR ENDED DECEMBER 31, 2015  
 (In Thousands of U.S. Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount
Infosec Cayman	Infosec WIFE	Investments accounted for using equity method	Infosec Technologies and its nominal shareholders	-	-	\$ 2,000	-	\$ -	-	\$ 18,274	\$ 10,249	\$ 7,885	-	\$ -

**ARRAY INC. AND SUBSIDIARIES**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2015**

**(In Thousands of United States Dollars, Unless Specified Otherwise)**

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Array Networks, Inc.	Array Networks (China), Co., Ltd.	Fellow subsidiaries	Sale	\$ (5,551)	(26)	The price were determined after taking the selling and warrants expense into consideration	\$ -	-	\$ 1,770	12	-
Array Networks (China), Co., Ltd.	Array Networks, Inc.	Fellow subsidiaries	Purchase	5,551	100	The price were determined after taking the selling and warrants expense into consideration	-	-	(1,770)	(9)	

**ARRAY INC. AND SUBSIDIARIES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**DECEMBER 31, 2015**

**(In Thousands of United States Dollars, Unless Specified Otherwise)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Array Networks (China), Co., Ltd.	Array Networks, Inc. (Array US)	Fellow subsidiaries	\$ 13,040	0.72	\$ 7,667	Note	\$ -	\$ -

Note: The period of receipt and payment was longer than those for third parties in accordance with the financial position of the Group.

## ARRAY INC. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2015

(In Thousands of United States Dollars, Unless Specified Otherwise)

Number	Company Name	Counterparty	Nature of Relationship (Note 1)	Transaction Details			
				Account	Amount	Transaction Item	Percentage of Consolidated Total Operating Revenues or Total Assets
0	Array Cayman	Array US Array China	a	Trade receivable	\$ 702	Based on regular terms	1
			a	Other receivable	1,253	Based on regular terms	2
1	Array US	Array China	c	Trade receivable	1,770	Note 3	3
			c	Trade payable	13,040	Note 3	24
			c	Operating revenue	5,551	Note 2	22
		InfoSec	c	Operating cost	40	Note 2	-
			c	Research and development expense	7,517	Note 2	29
			c	Operating revenue	779	Note 2	3

Note 1: a. Parent to subsidiary.  
b. Subsidiary to parent.  
c. Between subsidiaries.

Note 2: The prices were determined after taking the selling and warranty expenses into consideration.

Note 3: The period of receipt and payment was longer than those for third parties in accordance with the financial position of the Group.

## ARRAY INC. AND SUBSIDIARIES

INFORMATION ON INVESTEE  
 FOR THE YEAR ENDED DECEMBER 31, 2015  
 (In Thousands of United States Dollars, Unless Specified Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2015			Net Income (Losses) of the Investee	Equity in Earnings (Losses)	Note
				Ending Balance	Beginning Balance	Shares (In Thousands)	Percentage of Ownership	Carrying Value			
Array Inc.	Array Networks, Inc. (Cayman)	British Cayman Islands	Investment	NT\$ 525,925	NT\$ 525,925	52,592	100	US\$ 40,967	US\$ 1,618	US\$ 1,618	
Array Networks, Inc. (Cayman)	Array Networks, Inc.	U.S.A.	Research manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	US\$ 6,019	US\$ 6,019	-	100	(623)	(7,331)	(7,331)	
Array Networks, Inc.	Array Networks Japan Kabishiki Kaisha	Japan	Research manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	JPY 10,000	JPY 10,000	200	100	298	29	29	

## ARRAY INC. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(In Thousands of United States Dollars, Unless Specified Otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Thousands)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2015	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2015	Net Income (losses) of the Investee	Percentage of Ownership	Investment Income (Loss) Recognized	Carrying Value as of December 31, 2015	Accumulated Inward Remittance of Earnings as of December 31, 2015
					Outflow	Inflow						
Array Networks (China), Co., Ltd.	Research manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	\$ 6,000	Through a third-region company invested by the Corporation.	\$ -	\$ -	\$ -	\$ -	\$ 409	100	\$ 409	\$ 3,717	\$ -
Beijing InfoSec Information Security WOFE	Research and sale of full life cycle management of Public Key Infrastructure (PKI) and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	Note 2	Through a third-region company invested by the Corporation.	-	-	-	-	273	- Note 2	273	Note 2	-
Beijing InfoSec Technologies Co., Ltd.	Research and sale of full life cycle management of Public Key Infrastructure (PKI) and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	Note 2	Note 1	-	-	-	-	(2,043)	- Note 2	(2,043)	Note 2	-

Accumulated Investment in Mainland China as of December 31, 2015	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on Investment
\$ -	NA	NA

Note 1: InfoSec WOFE arranged structure contracts with InfoSec Technologies to have the power to govern its financial and operating policies. The structure contracts were designed to provide InfoSec WOFE with effective control over and the right to acquire the equity interests in the assets of InfoSec Technologies.

Note 2: On June 26, 2015, the Group entered into a sale agreement to dispose of Infosec WOFE and Infosec Technologies, on which dates control of Infosec WOFE and Infosec Technologies passed to the acquirer.