ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2011 and 2010
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Alpha Networks Inc.:

We have audited the consolidated balance sheets of Alpha Networks Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements were the responsibility of the Company's management. Our responsibility was to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alpha Networks Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Hsinchu, Taiwan (Republic of China)
February 29, 2012

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

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

ALPHA NETWORKS INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2011 and 2010
(Expressed in thousands of New Taiwan dollars)

Assets	2011	2010
Current assets:		
Cash and cash equivalents (note 4)	$ 3,266,754	2,831,660
Financial assets at fair value through profit or loss – current (note 6)	10,901	32,209
Notes and accounts receivable, net (note 7)	3,945,596	2,988,757
Receivables from related parties (note 17)	3,373,778	2,926,427
Other financial assets – current (note 18)	162,040	155,155
Inventories (note 8)	4,787,314	4,078,451
Other current assets (note 14)	388,539	224,247
	15,934,922	13,236,906
Funds and investments:		
Other financial assets – noncurrent (note 18)	36,984	43,213
Available-for-sale financial assets – noncurrent (note 5)	201,522	295,631
Financial assets carried at cost – noncurrent (note 5)	9,996	9,996
	248,502	348,840
Property, plant and equipment (note 17):		
Land	102,377	102,603
Buildings and improvements	3,057,152	1,924,014
Machinery and equipment	1,896,115	1,521,510
Transportation, office and other equipment	399,198	282,514
	5,454,842	3,830,641
Less: accumulated depreciation	2,026,243	1,735,474
Prepayment for equipment and construction in progress	58,523	725,414
	3,487,122	2,820,581
Intangible assets:		
Trademarks (note 9)	127	116
Goodwill	140,913	140,913
Core technologies (note 9)	-	8,635
Land use right (note 9)	114,020	106,540
	255,060	256,204
Other assets (note 7)**:**		
Deferred expenses and others	109,101	105,335
Total assets	$ 20,034,707	16,767,866

Liabilities and Stockholders' Equity	2011	2010
Current liabilities:		
Short-term borrowings (note 10)	$ 1,299,455	905,675
Accounts payable	6,202,891	4,793,827
Payables to related parties (note 17)	24,221	25,383
Income tax payable	128,402	117,743
Accrued expenses	619,007	563,590
Payroll and bonus payable	614,249	550,469
Financial liabilities at fair value through profit or loss – current (note 6)	12,844	12,539
Other financial liabilities – current	-	116,498
Bonds payable – current (note 11)	-	137,600
Other current liabilities	444,001	321,342
	9,345,070	7,544,666
Long term liabilities		
Financial liabilities at fair value through profit or loss – noncurrent (notes 6 and 11)	3,385	-
Bonds payable (note 11)	844,453	-
	847,838	-
Other liabilities:		
Accrued pension liabilities (note 12)	153,724	129,344
Deferred income tax liabilities – noncurrent (note 14)	44,759	10,722
Miscellaneous liabilities – other	648	354
	199,131	140,420
Total liabilities	10,392,039	7,685,086
Stockholders' equity (note 13)**:**		
Equity attributable to Alpha Networks Inc.		
Common stock	4,756,784	4,711,143
Advance receipts for common stock	28,883	48,180
	4,785,667	4,759,323
Capital surplus	1,929,425	1,796,734
Retained earnings:		
Legal reserve	693,341	599,696
Special reserve	102,505	-
Unappropriated earnings	2,197,107	2,152,891
	2,992,953	2,752,587
Other:		
Cumulative foreign currency translation adjustment	165,662	34,371
Unrealized gain or loss on available-for-sale financial assets	(230,984)	(136,875)
Treasury stock	-	(126,009)
	(65,322)	(228,513)
Total equity attributable to Alpha Networks Inc.	9,642,723	9,080,131
Minority interest	(55)	2,649
Total stockholders' equity	9,642,668	9,082,780
Commitments and contingencies (note 19)		
Total liabilities and stockholders' equity	$ 20,034,707	16,767,866

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2011 and 2010
(Expressed in thousands of New Taiwan dollars, except for net income per common share)

		2011	2010
Sales (note 17)	$	25,677,524	26,004,892
Less: sales returns and allowances		209,280	153,496
		25,468,244	25,851,396
Cost of goods sold (notes 8 and 17)		21,701,333	21,853,866
Gross profit		3,766,911	3,997,530
Operating expenses (note 17)**:**			
Selling		562,544	522,623
General and administrative		787,169	680,318
Research and development		1,476,096	1,597,189
		2,825,809	2,800,130
Operating income		941,102	1,197,400
Non-operating income and gains:			
Interest income		23,943	17,831
Gain on reversal of impairment loss on financial assets (note 5)		-	31,875
Dividend revenue		13,053	9,854
Foreign currency exchange gain, net		290,957	-
Gain on valuation of financial liabilities		-	127,242
Other income, net		37,548	111,064
		365,501	297,866
Non-operating expenses and loss:			
Interest expense (note 11)		54,320	31,599
Loss on valuation of financial assets		71,008	-
Foreign currency exchange loss, net		-	392,044
		125,328	423,643
Income before income taxes		1,181,275	1,071,623
Income tax expense (note 14)		233,497	138,577
Net income	**$**	**947,778**	**933,046**
Attributable to:			
Equity holders of the parent company	$	950,482	936,446
Minority interest		(2,704)	(3,400)
	$	**947,778**	**933,046**

		2011 Before taxes	2011 After taxes	2010 Before taxes	2010 After taxes
Earnings per share (in New Taiwan dollars) (note 15)					
Basic earnings per share	**$**	**2.50**	**2.01**	**2.30**	**2.01**
Diluted earnings per share	**$**	**2.40**	**1.93**	**2.23**	**1.94**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2011 and 2010

(Expressed in thousands of New Taiwan dollars)

	Common stock	Advance receipts for common stock	Capital surplus	Retained Earnings: Legal reserve	Retained Earnings: Special reserve	Retained Earnings: Unappro-priated earnings	Cumulative foreign currency translation adjustment	Unrealized gain or loss on available-for-sale financial assets	Treasury stock	Minority interest	Total
Balance at January 1, 2010	$ 4,642,035	12,540	1,625,768	516,800	42,504	1,859,557	143,560	(100,413)	(28,962)	6,070	8,719,459
Appropriation of earnings (note 1):											
Legal reserve	-	-	-	82,896	-	(82,896)	-	-	-	-	-
Special reserve	-	-	-	-	(42,504)	42,504	-	-	-	-	-
Cash dividends	-	-	-	-	-	(602,720)	-	-	-	-	(602,720)
Issuance of stock for conversion of bonds	55,456	42,829	150,896	-	-	-	-	-	-	-	249,181
Foreign currency translation adjustments	-	-	-	-	-	-	(109,189)	-	-	-	(109,189)
Issuance of stock for employee stock options exercised	13,652	(7,189)	1,629	-	-	-	-	-	-	-	8,092
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	(36,462)	-	-	(36,462)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(126,009)	-	(126,009)
Treasury stocks transferred to employees	-	-	18,553	-	-	-	-	-	28,962	-	47,515
Adjustments to capital surplus for changes in investee's equity	-	-	(112)	-	-	-	-	-	-	(21)	(133)
Net income for 2010	-	-	-	-	-	936,446	-	-	-	(3,400)	933,046
Balance at December 31, 2010	4,711,143	48,180	1,796,734	599,696	-	2,152,891	34,371	(136,875)	(126,009)	2,649	9,082,780
Appropriation of earnings (note 2):											
Legal reserve	-	-	-	93,645	-	(93,645)	-	-	-	-	-
Special reserve	-	-	-	-	102,505	(102,505)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(710,116)	-	-	-	-	(710,116)
Component of issuing convertible bonds – stock option	-	-	100,900	-	-	-	-	-	-	-	100,900
Issuance of stock for conversion of bonds	42,829	(13,946)	24,755	-	-	-	-	-	-	-	53,638
Foreign currency translation adjustments	-	-	-	-	-	-	131,291	-	-	-	131,291
Issuance of stock for employee stock options exercised	2,812	(5,351)	3,961	-	-	-	-	-	-	-	1,422
Treasury stocks transferred to employees	-	-	3,075	-	-	-	-	-	126,009	-	129,084
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	(94,109)	-	-	(94,109)
Net income for 2011	-	-	-	-	-	950,482	-	-	-	(2,704)	947,778
Balance at December 31, 2011	$ 4,756,784	28,883	1,929,425	693,341	102,505	2,197,107	165,662	(230,984)	-	(55)	9,642,668

Note 1: Remuneration to directors and supervisors and employees' bonuses in the amount of $7,886 and $118,329, respectively, had been charged against earnings of 2009.

Note 2: Remuneration to directors and supervisors and employees' bonuses in the amount of $7,403 and $111,045, respectively, had been charged against earnings of 2010.

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010
(Expressed in thousands of New Taiwan dollars)

	2011	2010
Cash flows from operating activities:		
Net income	$ 947,778	933,046
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	446,696	436,257
Reversal of provision for allowance for doubtful accounts	(21,985)	(42,104)
Effect of valuation of financial assets and liabilities at fair value through profit or loss	(757)	(19,670)
Provision (reversal of provision) for inventory obsolescence and devaluation loss	72,154	(41,440)
Loss on disposal of property, plant and equipment	4,832	819
Compensation cost arising from treasury stocks transferred to employees	3,457	18,641
Amortization of discount on bonds payable	5,076	7,898
Decrease in financial assets at fair value through profit or loss	32,209	30,705
Decrease in financial liabilities at fair value through profit or loss	(12,539)	(13,473)
Gain on reversal of impairment of bond investment without market price	-	(31,875)
Net change in operating assets and liabilities:		
Notes and accounts receivable (including related parties)	(1,382,205)	(1,239,825)
Inventories	(794,852)	(1,623,349)
Deferred income tax assets	51,178	(28,199)
Other operations-related current assets	(180,153)	(71,308)
Accounts payable (including related parties)	1,407,902	634,980
Other operations-related current liabilities	182,645	176,015
Accrued pension	24,380	18,296
Cash provided by (used in) operating activities	785,816	(854,586)
Cash flows from investing activities:		
Return of bond investment without market price	-	31,875
Acquisition of property and equipment	(774,329)	(1,127,746)
Proceeds from disposal of property and equipment	-	285
Decrease (increase) in deposits and other assets	2,388	(3,614)
Increase in intangible assets and deferred expenses	(82,697)	(57,922)
Increase in restricted cash in bank	(147,714)	(10,146)
Cash used in investing activities	(1,002,352)	(1,167,268)
Cash flows from financing activities:		
Increase in short-term borrowings	393,780	759,851
Repayment of bonds payable	(137,600)	-
Payments of cash dividends	(710,116)	(602,720)
Increase in guarantee deposit received	318	53
Increase in bonds payable	1,000,0000	-
Cash received from exercise of employee stock option	1,422	8,092
Repurchase of treasury stock	-	(126,009)
Treasury stock transferred to employees	125,627	28,874
Cash provided by financing activities	673,431	68,141
Effect of exchange rate changes on cash	(21,801)	(23,611)
Net increase (decrease) in cash and cash equivalents	435,094	(1,977,324)
Cash and cash equivalents at beginning of year	2,831,660	4,808,984
Cash and cash equivalents at end of year	**$ 3,266,754**	**2,831,660**
Supplemental disclosures of cash flow information:		
Cash payments of interest	**$ 45,194**	**23,929**
Cash payments of income taxes	**$ 176,770**	**217,479**
Supplementary disclosure of non-cash investing and financing activities:		
Convertible bonds converted into common stock and capital surplus	**$ 53,638**	**249,181**
Bonds payable – current	**$ -**	**137,600**
Acquisition of property, plant and equipment:		
Increase in property, plant and equipment	$ 844,199	1,127,746
Change in payables on equipment	(69,870)	-
	$ 774,329	**1,127,746**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011 and 2010
(Amounts expressed in New Taiwan dollars)

1. Organization and Principal Activities

Alpha Networks Inc. ("Alpha") was established by a spin-off whereby on August 16, 2003, D-Link Corporation ("D-Link") separated its original design manufacturing and original equipment manufacturing ("ODM/OEM") operations from its D-Link brand business and transferred related operating assets and liabilities to Alpha. Alpha was incorporated on September 4, 2003, as a company limited by shares under the laws of the Republic of China ("ROC") and the ROC Statute for the Establishment and Administration of the Science-Based Industrial Park. The shares of Alpha have been traded on the Taiwan Stock Exchange ("TSE") since December 20, 2004. Based on the resolution of Alpha's board of directors on April 17, 2006, Alpha merged with Cellvision System Inc. (Cellvision) on October 1, 2006. Cellvision was eliminated in the procedure.

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

Cellvision's main activities included the research, development, design, production and sale of network print servers, file servers, internet cameras and servers, etc.

As of December 31, 2011 and 2010, Alpha and subsidiaries had 6,412 and 6,126 employees, respectively.

2. Summary of Significant Accounting Policies

(1) The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the Republic of China (ROC). The major the Guidelines Governing the Preparation of Financial Reports by securities Issuers and accounting policies and measurement basis adopted in preparing the accompanying consolidated financial statements were summarized as follows:

(a) The consolidated subsidiaries of Alpha were summarized below.

Investor	Investee	Percentage of ownership at December 31, 2011	Percentage of ownership at December 31, 2010	Business nature
Alpha	Alpha Holdings Inc. (Alpha Holdings)	100	100	Investment holding
Alpha	Alpha Solutions Co., Ltd. (Alpha Solutions)	100	100	Sale of network equipment and technical services

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Investee	Percentage of ownership at December 31, 2011	Percentage of ownership at December 31, 2010	Business nature
Alpha	Alpha Networks Inc. (Alpha USA)	100	100	Manufacture and sale of network equipment and procurement service
Alpha	Darson Trading Limited (Darson)	100	100	Shipping and transportation service; in October 2010, the Company ceased operation of the business
Alpha	Net Mag Technology Corp. (Net Mag)	100	100	Testing and maintaining electrical equipment
Alpha	Aescu Technology Inc. (Aescu)	91.36	84.65	Sale of equipment for medical treatment
Alpha	Alpha Networks (Hong Kong) Limited (Alpha HK)	100	100	Investment holding
Alpha	Alpha Technical Services Inc. (ATS)	100	100	Post-sale service
Alpha	Alpha Networks NL B.V. (Alpha NL)	100	100	Sale of network equipment
Alpha	Universal Networks Trading Limited (Universal)	100	-	Sale of electrical equipment
Alpha	Global Networks Trading Limited (Global)	100	-	Sale of electrical equipment
Alpha	Alpha Technical Services Japan Inc. (ATSJ)	100	-	Post-sales service
Alpha Holdings	D-Link Asia Investment Pte. Ltd. (D-Link Asia)	100	100	Investment for manufacturing business

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Investee	Percentage of ownership at December 31, 2011	Percentage of ownership at December 31, 2010	Business nature
Alpha Holdings	Alpha Networks (Chengdu) Co., Ltd. (Alpha Chengdu)	100	100	Research, development, production and sale of network products
Alpha Holdings	Alpha Investment Pte. Ltd. (Alpha Investment)	100	100	Investment holding
Alpha Investment	Mirac Networks (Dongguan) Co., Ltd. (Mirac)	100	100	Production and sale of network products
D-Link Asia	DongguanYouxun Electronics Co., Ltd. (Dongguan Youxun)	100	100	Production and sale of interface cards
Alpha HK	Alpha Networks (Changshu) Co., Ltd. (Alpha Changshu)	100	100	Research, development, production and sale of network products
Alpha HK	Changshu Maintrend Technical Services Co., Ltd. (Maintrend)	100	-	Post-sales service

(b) The details of changes in subsidiaries included in the consolidated financial statements:

In 2011 and 2010, Alpha incorporated Universal, Global, ATSJ, Maintrend and Alpha NL were included in the consolidated financial statements of the Company since the inception.

(2) Basis of consolidation

The consolidated financial statements include the accounts of Alpha and its subsidiaries, in which Alpha directly or indirectly owns over 50% of the voting shares and was able to exercise control over the subsidiaries' operations and financial policies. Alpha and its consolidated subsidiaries were referred to individually or collectively as "the Company". All significant inter-company transactions and balances were eliminated in consolidation.

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(3) Use of estimates

The preparation of the consolidated financial statements requires management to make reasonable estimates and assumptions that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting periods. Actual results may differ from management's estimates.

(4) Foreign currency transactions and translation

Entities included in the consolidated financial statements record transactions in their respective functional currencies. Non-derivative foreign currency transactions were recorded at the exchange rates prevailing on the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies were translated using the exchange rates on that date. The resulting exchange gains or losses from settlement of such transactions or translation of foreign-currency-denominated monetary assets or liabilities were reflected as non-operating gains or losses in the accompanying consolidated statements of income.

Non-monetary assets and liabilities that were measured in terms of historical cost in a foreign currency were translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that were stated at fair value were translated into New Taiwan dollars at the rates prevailing at the balance sheet date. If the non-monetary assets or liabilities were measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such transactions were recorded in current profit or loss. If the non-monetary assets or liabilities were measured at fair value through stockholders' equity, then the resulting unrealized exchange gains or losses from such transactions were recorded as a separate component of stockholders' equity.

In translating foreign currency financial statements into New Taiwan dollars, balance sheet date rates were used for asset and liability accounts; historical rates were used for equity accounts, except that the prior-year translated balance was carried forward for the beginning retained earnings, and weighted-average rates were used for profit and loss accounts. Translation differences were included in the cumulative translation adjustment account under stockholders' equity.

(5) Principles of classifying assets and liabilities as current and noncurrent

Cash or cash equivalents that were not restricted in use, assets held for the purpose of trading, and assets that will be held for a short time period and were expected to be converted to cash within 12 months from the balance sheet date were recorded as current assets; all other assets were recorded as noncurrent assets.

Liabilities that were incurred for the purpose of trading or were expected to be liquidated within 12 months after the balance sheet date were recorded as current liabilities; all other liabilities were recorded as noncurrent liabilities.

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(6) Asset impairment

The Company assesses at each balance sheet date whether there was any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value was higher than the recoverable amount. The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there was any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company assesses the cash-generating unit to which goodwill was allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

(7) Cash equivalents

The Company considers all highly liquid investments, such as investments in bonds with repurchase agreements, with a maturity of three months or less to be cash equivalents.

(8) Financial instruments

1. Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss were held with the intention of buying and selling them within a short period of time. Except for those that the Company holds for hedging purposes and were considered to be effective hedging instruments, financial derivatives were classified into this account.

2. Available-for-sale financial assets

These were measured at fair value, and any changes, excluding impairment loss and unrealized foreign currency exchange gain or loss, were reported as a separate component of stockholders' equity before gain or loss on financial instruments was realized. Realized gain or loss on financial instruments was charged to current operations. If there is any objective evidence of impairment, an impairment loss is recognized in profit or loss. If, in a subsequent period, the events or changes in circumstances indicate that the amount of impairment loss has decreased, the previously recognized impairment loss for equity securities is reversed to the extent of the decrease and will be recorded as an adjustment to equity.

(Continued)

3. Financial assets carried at cost

Financial instruments whose fair values could not be measured with reasonable certainty are measured at their initial cost. However, if there is any objective evidence of impairment, a loss should be recognized thereon. Therefore, the loss could not be reversed.

4. Accounts and other receivables

Accounts receivable were the creditors' rights from selling goods or rendering services. Other receivables were created from non-operating income.

Concerning financial assets, the Company first assesses whether objective evidence of impairment exists individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. Assets that were individually assessed for impairment and for which an impairment loss was or continues to be recognized were not included in a collective assessment of impairment.

Impairment loss was recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced through the use of an allowance account. The impairment loss was recognized in profit or loss. The present value of estimated future cash flows includes the recoverable amount of collateral and insurance.

If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment was reversed. The amount of the reversal shall be recognized in profit or loss.

(9) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The allocation of fixed production overheads to the finished goods and work in progress was based on the normal capacity of the production facilities. Variable production overheads were allocated to each unit of production on the basis of the actual use of the production facilities. Inventories were measured at the lower of cost or net realizable value on an individual item basis. The cost of inventories was based on the weighted-average-cost principle. Net realizable value was the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

(Continued)

(10) Property, plant and equipment

Property, plant and equipment were stated at cost. Costs associated with significant additions, improvements, and replacements to property, plant and equipment were capitalized. Repairs and maintenance were charged to expenses as incurred.

Depreciation of property, plant and equipment of the Company was provided for by using the straight-line method over the estimated useful lives of the respective assets. At the end of each fiscal year, the Company evaluates the remaining useful lives, depreciation method, and residual value of fixed assets. Any change in the remaining useful lives, depreciation method, and residual value was treated as a change of accounting estimate.

The useful lives of property, plant and equipment were as follows:

(a) Buildings and improvements: 2~50 years.
(b) Machinery and equipment: 3~10 years.
(c) Transportation: 3~10 years.
(d) Office equipment and others: 3~8 years.

Gains or losses on the disposal of property, plant and equipment were accounted for as non-operating income or losses in the consolidated statement of income.

(11) Intangible assets

Expenditure on research was recognized as an expense when it was incurred, except for the recognition of goodwill or intangible assets in a business combination. An intangible asset arising from technology development was recognized if, and only if, the Company can demonstrate all of the following:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
(b) Its intention to complete the intangible asset and use or sell it.
(c) Its ability to use or sell the intangible asset.
(d) How the intangible asset will generate probable future economic benefits.
(e) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.
(f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Goodwill represents the excess of the cost of the acquisition over the interest in the fair value of the identifiable assets, liabilities, and contingent liabilities acquired. Goodwill was measured at cost less accumulated impairment losses. Core technologies were amortized over periods ranging from three to five years, on a straight-line basis. The costs of land use rights were amortized using the straight-line method over the lease terms, ranging from 50 to 60 years.

(Continued)

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

(12) Deferred expenses

The purchase costs of software were recorded as deferred expenses and were amortized over periods ranging from three to five years, on a straight-line basis.

(13) Financial liabilities at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss were held with the intention of buying and selling them within a short period of time. Except for those that the Company holds for hedging purposes and were considered to be effective hedging instruments, financial derivatives were classified into this account.

(14) Convertible bonds

Convertible bonds issued by the Company involving financial liabilities and conversion options where the bondholder could elect to convert the bond into the Company's common stock were treated as compound financial instruments. The issuance costs were allocated pro-rata to the liability and equity elements of the convertible bonds based on their original recognized amount. The fair value of the liability element in convertible bonds was determined by reference to the fair value of a similar liability which has no relation with the equity element. The amount of the equity element was calculated by reducing the fair value of the liability element from the total value of the convertible bonds. The interest expense of convertible bonds was calculated by the effective interest rate method and recorded in the consolidated statements of income over the duration of the bonds.

The Company recognized the conversion option with price reset as an equity element. In accordance with ARDF Interpretation No. (97) 331, increases in the fair value of issued common stock due to conversion price reset were accounted for as non-operating losses in the consolidated statement of income.

(15) Retirement plan

Alpha established a non-contributory defined benefit employee retirement plan (the "Plan") covering all regular employees. Alpha Holdings, D-Link Asia, Alpha Investment, Alpha HK Alpha NL, Universal and Global have not set up any retirement plans due to having no employees. Aescu, Darson, Dongguan Youxun, Alpha Chengdu, Mirac, Alpha Solutions, Alpha Changshu, Maintrend, Alpha USA, ATS and ATSJ have set up their respective retirement plans based on local government regulations. Net Mag has not set up a retirement plan due being in the development stage.

(Continued)

In accordance with the Plan, all of Alpha's employees in the Republic of China were eligible for retirement or were required to retire after meeting certain age or service requirements. Payments of retirement benefits were based on the years of service and the average salary for the six-month period before the employee's retirement. Each employee earns two months of salary for the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit was 45 months of salary. The Plan was funded by contributions made by Alpha. Beginning July 1, 2005, pursuant to the ROC Labor Pension Act (hereinafter referred to as the "New Act"), employees who elected to participate in the new system or joined the Company after July 1, 2005, were covered by a defined contribution plan under the New Act. For these employees, the Company was required to make a monthly contribution at a rate no less than 6% of the employee's monthly wages to the employee's individual pension fund account at the ROC Bureau of Labor Insurance.

The defined benefit plan under the ROC Labor Standards Law (the "old system") was accounted for in accordance with Republic of China Statement of Financial Accounting Standards ("ROC SFAS") No. 18 "Accounting for Pensions", which requires an actuarial calculation of pension obligation at year-end. Based on the actuarial calculation, Alpha recognizes a minimum pension liability and net periodic pension costs covering the service lives of the retirement plan participants, including current service cost, net obligation at transition, and pension gains or losses amortized on a straight-line basis. In accordance with the requirement of the ROC Labor Standards Law, Alpha has contributed monthly at the rate of 2% of salaries and wages to a pension fund.

Under the New Act, Alpha and Aescu contribute 6% of employees' monthly wages to the Bureau of Labor Insurance. The contribution for a period was recognized as pension cost for that period.

Alpha Holdings, Alpha Investments, Alpha HK, D-Link Asia, Alpha NL, Universal, Global and Net Mag did not establish pension plans, and therefore, no pension expense was recognized.

Darson, Dongguan Youxun, Alpha Chengdu, Mirac, Alpha Changshu, Maintrend, Alpha USA, ATS, Alpha Solutions and ATSJ have defined contribution retirement plans. For the defined contribution plans, the companies were required to make a monthly contribution at a certain rate based on an employee's monthly salary or wages to the employee's individual pension fund account at a trust fund separate from the companies. Cash contributions were charged to current operations as pension cost. Except for the contribution above, there was no pension obligation.

(16) Share-based payment

The Company has share-based payment agreements. The equity instruments under the agreements were granted after January 1, 2008. The accounting treatments of shared-based payment transactions were according to Republic of China Statement of Financial Accounting Standards ("ROC SFAS") No. 39 Share-based Payment. However, the pro forma net income and earnings per share, and the nature and the scope of the share-based payment must be disclosed.

(Continued)

The Company used the intrinsic value method to recognize compensation cost for its employee stock options issued between January 1, 2004, and December 31, 2007, which was the difference between the market price of the stock and the exercise price of the employee stock option on the measurement date, in accordance with ARDF Interpretation Nos.(92) 070~072. Compensation cost should be charged to expense over the employee vesting period and increase stockholders' equity accordingly.

The private consolidated subsidiaries apply the intrinsic value method to share-based payment agreements which were established after January 1, 2008; namely, they recognize compensation cost, which was the difference between the value of the net stockholders' equity of the most recent financial statements and the exercise price of the employee stock option on the measurement date. Under the intrinsic value method, the compensation cost should be charged to expense over the employee vesting period and increase stockholders' equity accordingly, and any gains or losses on changes in intrinsic value on the follow-up balance sheet dates and share-based payment agreement completion date should be recognized.

The accounting treatment of the Company for the capital increase by cash reserved for employee stock subscription since January 1, 2008, was in accordance with ARDF Interpretation No. (96) 267. The compensation cost based on the option-pricing model on the grant date was accrued and was being amortized over the requisite service period. The subsidiaries should recognize embedded value as compensation cost if the subsidiaries' shares have not been publicly listed and fair value could not be reliably estimated on the grant date. The grant date was either the ex-dividend date or the date of approval by the board of directors if approval from the board of directors was required. However, the private subsidiaries accounted for employee stock options using the intrinsic value method, and the deferred compensation for options was equal to the difference between the exercise price of the option and the value of the net stockholders' equity at the measurement date.

(17) Treasury stock

The Company repurchases its outstanding stock and recognizes it as treasury stock at cost. If the disposal price was more than the book value of treasury stock, the difference will be presented under capital surplus – treasury stock transactions. The difference will be offset with capital surplus resulting from transactions of the same sort of treasury stock if the book value was more than the disposal price. The difference will be charged to retained earnings if capital surplus was insufficient.

Upon retirement of treasury stock, the "capital stock" and "capital surplus – additional paid-in capital" were debited on a pro rata basis. If the book value exceeds the sum of the par value of capital stock and the premium on stock issuance, the difference was charged against capital surplus arising from the same class of treasury stock transactions, and the remainder, if any, was charged against retained earnings. If the book value was less than the sum of the par value of capital stock and the premium on stock issuance, the difference was credited to capital surplus arising from the same class of treasury stock transactions.

(Continued)

When treasury stock was transferred to employees as bonus, compensation cost was measured by the use of option pricing models if the date of grant was after January 1, 2008, and was amortized over the requisite service period. The grant date was the date when the transfer of treasury stock, number of shares, and price were determined. If approval for the number of shares and price was required, the grant date was the date of approval.

(18) Revenue recognition

Sales revenue was recognized when title to the products and the risks and rewards of ownership were transferred to the customers, which occurs principally at the time of shipment. Outsourcing revenue was recognized when the conversion work has been completed and processed products were delivered.

(19) Employee bonuses and remuneration to directors and supervisors

Effective January 1, 2008, in accordance with Interpretation No. (96) 052 issued by the ARDF, the Company estimates employee bonuses and remuneration to directors and supervisors and charges them to current operations, classified under cost of goods sold and operating expense, as appropriate. The difference, if any, between the amount approved by stockholders in the subsequent year and the amount estimated in the current-year financial statements was accounted for as a change in accounting estimate, and charged to profit or loss in the subsequent year.

(20) Income taxes

Income taxes were accounted for under the asset and liability method. Deferred income taxes were determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences were expected to reverse. The income tax effects resulting from taxable temporary differences were recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences and tax credits were recognized as deferred income tax assets. The realization of deferred income tax assets was evaluated, and if it was considered more likely than not that the deferred tax assets will not be realized, a valuation allowance was recognized accordingly.

Classification of deferred income tax assets or liabilities as current or noncurrent was based on the classification of the related asset or liability. If the deferred income tax asset or liability was not directly related to a specific asset or liability, then the classification was based on the expected realization date of such asset or liability.

The Company’s purchase of machinery and technology for the automation of production and expenditures for research and development and for training entitle the Company to tax credits that were recognized by using the flow-through method.

(Continued)

According to the ROC Income Tax Act, undistributed earnings of Alpha and its subsidiaries in the ROC were subject to an additional 10 percent corporate income surtax. The surtax was charged to income tax expense after the appropriation of earnings was approved by the stockholders in the following year.

The income tax return of each consolidated entity was filed separately and could not be consolidated with Alpha's filing. The Company's income tax expense in the consolidated financial statements includes the accounts of Alpha and its subsidiaries.

(21) Earnings per share ("EPS")

In computing EPS, net income (loss) was divided by the weighted-average number of common shares. The Company's convertible bonds, employee stock options, and employee stock bonuses to be issued after January 1, 2009, were potential common stock. In computing diluted EPS, net income (loss) and the weighted-average number of common shares outstanding during the year were adjusted for the effects of dilutive potential common stock, assuming dilutive share equivalents had been issued. The weighted-average outstanding shares were retroactively adjusted for the effects of stock dividends transferred from retained earnings and capital surplus to common stock.

(22) Operating Segment Information

Effective January 1, 2011, the Consolidated Companies adopted the R.O.C. SFAS No. 41 "Disclosure of the Operating Segment". According to the standard, an operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the Consolidated Companies' chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available.

3. Reasons for and Effect of Changes in Accounting Principle

(1) Effective January 1, 2011, the Company adopted the newly released SFAS No. 41 "Operating Segments". This Standard was to regulate the disclosure of operation segment information to enable users of financial statements to evaluate the nature and financial effects of an entity's business activities in which it engages and the economic environments in which it operates. The statement requires identification and disclosure of operating segments on the basis of how the Consolidated Companies' chief operating decision maker regularly reviews the information in order to allocate resources and assess performance. SFAS No.41 supersedes SFAS No. 20 "Segment Reporting." The adoption of the newly released SFAS did not have any influence on the consolidated financial statements for the year ended December 31, 2011. However, the Consolidated Companies have restated the prior period's segment information for comparison purposes.

(Continued)

(2) Effective January 1, 2011, the Consolidated Companies adopted the newly revised SFAS No. 34 "Financial Instruments: Recognition and Measurement". The recognition, measurement, and impairment evaluation of receivables are subject to the newly revised SFAS. The adoption of the newly released SFAS did not have any influence on net income and basic earnings per share for the year ended December 31, 2011.

The identification of related party was in pursuant to ARDF Interpretation No. (99) 371. The interpretation has no effect on the net income and EPS.

4. Cash and Cash Equivalents

		December 31, 2011	2010
		(in thousands)	
Cash on hand	$	6,942	4,250
Checking and savings accounts		1,261,275	1,804,102
Time deposits		1,308,955	386,610
Cash equivalents – bonds with repurchase agreements		689,582	636,698
	$	3,266,754	2,831,660

5. Financial Assets

		December 31, 2011	2010
		(in thousands)	
Available-for-sale financial assets – noncurrent:			
Publicly traded stock – D-Link Corp.	$	201,522	295,631
Financial assets carried at cost – noncurrent:			
TGC, Inc.	$	-	-
QuieTek Corp.		9,996	9,996
	$	9,996	9,996

The bonds of iStor held by the Company were not traded publicly, and therefore, the value of the bonds was measured based on an amortization schedule. Alpha recognized impairment loss of $34,690 thousand on the valuation of the bonds in the year ended December 31, 2009. As of December 31, 2010, the Company had received from iStor Networks Inc. $31,875 thousand, accounted for as gain on reversal of impairment loss on financial assets.

For the purpose of expanding the marketing of networking products in Mainland China, Alpha invested $16,985 thousand in TGC, Inc. in September 2004. As of December 31, 2011, the Company had obtained 1.83% of the voting shares.

(Continued)

For the purpose of new product testing and certification, Alpha invested $9,996 thousand in QuieTek Corp. in April 2007. As of December 31, 2011, the Company had obtained 1.6% of the voting shares.

The stock of the Company's investees TGC, Inc. and QuieTek Corp. was not traded publicly, and therefore, the cost method was used to measure its value. In addition, TGC Inc. had net losses for the past years including the current year, and as a result, the Company recognized $16,985 thousand of impairment loss.

6. Derivative Financial Instruments

Financial assets and liabilities at fair value through profit or loss are summarized as below:

		December 31, 2011	2010
		(in thousands)	
Assets - current			
Currency Option	$	9,298	31,523
Cross currency swap contract		1,588	-
Structured Derivative		15	686
	$	**10,901**	**32,209**
Liabilities - current			
Currency Option		4,743	11,135
Cross currency swap contract		8,101	1,404
		12,844	12,539
Liabilities - noncurrent			
Call and Put option - Convertible Bonds Payable (6(i) below)		3,385	-
	$	**16,229**	**12,539**

(i): Please refer the abovementioned derivative financial derivatives to Note 11.

As of December 31, 2011 and 2010, the derivative financial instruments foreign are summarized as below:

December 31, 2011

Financial Instrument	Notional amount (in thousands)	Currency	Maturity
Put option (buy USD)	USD 75,000	USD/NTD	January 2012~March 2012
Call option (sell USD)	USD 75,000	USD/NTD	January 2012~March 2012
Put option (sell USD)	USD 75,000	USD/NTD	January 2012~March 2012

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011

Financial Instrument	Notional amount (in thousands)	Currency	Maturity
Put option (sell USD)	USD 2,000	USD/JPY	March 2012
Cross currency swap contract	USD 83,000	USD/NTD	January 2012~April 2012
Structured derivative (6(ii) below)	USD 2,000	USD/CNY	March 2011~March 2012
Structured derivative (6(iii) below)	USD 1,000	USD/CNY	January 2012~November 2012

December 31, 2010

Financial Instrument	Notional amount (in thousands)	Currency	Maturity
Put option (sell USD)	USD 145,000	USD/NTD	January 2011~March 2011
Put option (buy USD)	USD 145,000	USD/NTD	January 2011~March 2011
Call option (sell USD)	USD 145,000	USD/NTD	January 2011~March 2011
Put option (sell USD)	USD 2,000	USD/JPY	January 2011
Cross currency swap contract	USD 5,000	USD/NTD	January 2011
Structured derivative (6(iv) below)	USD 6,000	USD/CNY	September 2010~June 2011

(ii): Alpha HK and Bank subscribed a structured derivative product (USD/CNY Target Digital Pivot) with an 12-month contract starting from March, 2011, and monthly foreign exchange settlement. As stipulated in the contract, on each expiry date, if the USD/CNY Expiry Reference Rate was above 6.60, the Company will settle at the exchange rate of 6.60 to buy CNY equivalent to USD2,000 thousand; if the USD/CNY Expiry Reference Rate was between 6.60 and 6.50, the Company will settle at the Expiry Reference Rate plus 0.02 to buy CNY equivalent to USD2,000 thousand; however, if the USD/CNY Expiry Reference Rate was below 6.50, the Company will not have any gains or losses. All transactions with respect to the contract will be settled with respect to the difference in USD exchange rates. In addition, the contract will be automatically terminated if the Company accumulates settlement gains on 6 occasions.

(iii): The Company and Bank subscribed a structured derivative product (USD/CNY Target Digital Pivot) with an 12-month contract starting from November, 2011, and monthly foreign exchange settlement. As stipulated in the contract, on each expiry date, if the USD/CNY Expiry Reference Rate was above 6.50, the Company will settle at the exchange rate of 6.50 to buy CNY equivalent to USD11,000 thousand; if the USD/CNY Expiry Reference Rate was below 6.50, the Bank will pay the Company CNY 3,000. All transactions with respect to the contract will be settled with respect to the difference in USD exchange rates.

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iv): The Company and Bank subscribed a structured derivative product (USD/CNY Target Digital Pivot) with a 9-month contract starting from September 28, 2010, and monthly foreign exchange settlement. As stipulated in the contract, on each expiry date, if the USD/CNY Expiry Reference Rate was above 6.80, the Company will settle at the exchange rate of 6.80 to buy CNY equivalent to USD6,000 thousand; if the USD/CNY Expiry Reference Rate was between 6.80 and 6.60, the Company will settle at the Expiry Reference Rate plus 0.048 to buy CNY equivalent to USD3,000 thousand; however, if the USD/CNY Expiry Reference Rate was below 6.6, the Company will not have any gains or losses. All transactions with respect to the contract will be settled with respect to the difference in USD exchange rates. In addition, the contract will be automatically terminated if the Company accumulates settlement gains on 6 occasions.

For the years ended December 31, 2011 and 2010, the Company recognized a settlement loss of NT$365 thousand and a gain of NT$26,087 thousand, respectively, on the aforementioned derivative transactions. Accordingly, unrealized valuation gain amounting to NT$757 thousand and NT$19,670 thousand, respectively, were accounted for as financial assets at fair value through profit or loss – current.

7. Notes and Accounts Receivable, Net

	December 31, 2011	December 31, 2010
	(in thousands)	
Notes receivable	$ 116,024	31,042
Accounts receivable	3,839,211	2,988,608
Less: allowance for doubtful receivables	(9,639)	(30,893)
	$ 3,945,596	**2,988,757**

As of December 31, 2011 and 2010, the overdue accounts receivable were $396,998 thousand and $397,729 thousand, respectively, and were reclassified into overdue receivables under other assets; the overdue receivables were fully reserved.

8. Inventories

	December 31, 2011	December 31, 2010
	(in thousands)	
Finished goods	$ 1,100,192	963,629
Less: provision for devaluation	(57,028)	(55,385)
	1,043,164	908,244

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		December 31, 2011	December 31, 2010
		(in thousands)	
Work in process		770,379	699,002
Less: provision for devaluation		(64,655)	(42,253)
		705,724	656,749
Raw materials		3,276,402	2,689,467
Less: provision for devaluation		(237,976)	(176,009)
		3,038,426	2,513,458
	$	**4,787,314**	**4,078,451**

In the year ended December 31, 2011, the Company recognized cost of goods sold of $72,154 thousand from the write-down of inventory costs to net realizable value. In the year ended December 31, 2011, gain on physical inventory and scrap loss charged to cost of goods sold were $2,945 thousand and $60,836 thousand, respectively. In the year ended December 31, 2010, the total amount of the write-off of provision for devaluation, due to sale of inventory, and the write-down of inventory costs to net realizable value was $41,440 thousand, decreasing the cost of goods sold. In the year ended December 31, 2010, gain on physical inventory and scrap loss charged to cost of goods sold were $7,427 thousand and $155 thousand, respectively.

9. Intangible Assets

The movement of intangible assets for the years ended as of December 31, 2011 and 2010 are as follows:

2011		Trademarks	Core technologies	Land use right
			(in thousands)	
Original cost				
Balance at January 1, 2011	$	116	57,563	113,368
Acquisition		11	-	-
Effect of exchange rate changes		-	-	9,984
Balance at December 31, 2011		127	57,563	123,352
Accumulated amortization				
Balance at January 1, 2011		-	48,928	6,828
Amortization		-	8,635	1,801
Effect of exchange rate changes		-	-	703
Balance at December 31, 2011		-	57,563	9,332
Book value at December 31, 2011	$	**127**	-	**114,020**

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Trademarks	2010 Core technologies (in thousands)	Land use right
Original cost			
Balance at January 1, 2010	$ -	107,063	152,027
Write off	-	(49,500)	(30,624)
Acquisition	116	-	-
Effect of exchange rate changes	-	-	(8,035)
Balance at December 31, 2010	116	57,563	113,368
Accumulated amortization			
Balance at January 1, 2010	-	86,915	4,707
Amortization	-	11,513	2,545
Write off	-	(49,500)	-
Effect of exchange rate changes	-	-	(424)
Balance at December 31, 2010	-	48,928	6,828
Book value at December 31, 2010	**$ 116**	**8,635**	**106,540**

10. Short-term Borrowings

Short-term borrowings consisted of the following as of December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
	(in thousands)	
Unsecured borrowings	$ 1,147,900	905,675
Guaranteed borrowings	151,555	-
	$ 1,299,455	**905,675**
Range of interest rate	**1.004%~ 7.2%**	**1.28%~ 5.61%**
Unused available balance	**$ 2,743,236**	**2,346,126**

As of December 31, 2011, the time deposit was pledged as collarterul; please refer to note 18 for the related discussion on the matter.

11. Bonds Payable

The first and second domestic unsecured convertible bonds of Alpha was issued on January 5, 2006 and October 14, 2011, respectively. The first domestic unsecured convertible bonds of Alpha matured on January 4, 2011, and were redeemed in full. The details of convertible bonds as of December 31, 2011 and 2010, were summarized below:

	2011	2010
	(in thousands)	
Convertible bonds payable	$ 1,000,000	1,200,000
Less: Unamortized discount	(102,124)	-
Converted into common stock	(53,423)	(1,030,600)
Total repurchased amount	-	(31,800)
Current portion	-	(137,600)
	$ 844,453	-

	For the years ended as of December 31, 2011	2010
Interest expense	$ 5,076	7,898

(1) The significant terms of the first unsecured domestic convertible bonds payable issued on January 5, 2006, were summarized as follows:

Par value	NT$1,200,000 thousand, par value NT$100 thousand
Issue date	January 5, 2006
Maturity date	January 4, 2011
Coupon rate	0%
Conversion method	Bondholders may convert bonds into Alpha's common shares at any time between February 5, 2006, and December 25, 2010
Conversion price and price adjustment	The basis date for setting the conversion price of the bonds was December 22, 2005. The conversion price was calculated as 105.87% of the basis price, which was the lowest price among the three arithmetic averages of Alpha's closing prices for one, three, and five business days before the basis date. The selected closing price for determining the conversion price should be converted into the ex-dividend price when the ex-dividend date occurs before the basis date.

(Continued)

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

Using the above approach, the conversion price of the issuance was NT$37 per share based on the basis price of NT$34.95 per share.

In addition to the adjustment of the conversion price based on the anti-dilution effect of the above approach, the reset basis dates of the conversion price were the date six months after the issuance of bonds and the basis date for distributing interest of each year between the years 2007 and 2010. If there was no distribution of interest in a year, the basis date will be the date of distribution of stock. And the basis date will be July 31 of a year without any distribution of stock. The conversion price was adjusted by the lowest price of the average closing price of common shares for one, three, and five business days before the basis date times the premium rate of the original issuance. The maximum adjustment downward was 80% of the issued conversion price, with no adjustment upward allowed, and was based on the change in the number of common shares of the Company, if any.

The resetting of the conversion price does not apply on or before the reset basis date.

As of December 31, 2010, the conversion price was NT$25.66.

Redemption at the option of Alpha	On or at any time after January 5, 2007, and before November 25, 2010, Alpha may, having given not less than 30 days' notice to the bondholders, redeem all of the bonds at their principal amount. However, no such redemption may be made unless (i) the closing price of common stock on the TSE for the period of 30 consecutive trading days was more than 50% of the current conversion price or (ii) at least 90% of the aggregate principal amount of bonds issued has already been converted, redeemed, or purchased and cancelled.
Redemption at the option of bondholders	Alpha will at, the option of any bondholder, redeem all or part of the bonds held by the bondholder on January 5, 2008, at their principal amount. To exercise such option, the holder must deposit the certificate issued in respect of such bond with the agent together with a duly completed redemption notice not less than 40 days prior to the relevant date.

(Continued)

Based on Republic of China Statement of Financial Accounting Standards ("ROC SFAS") No. 36, Alpha separated the conversion option from the liability element when the convertible bonds were issued and recorded them as equity and liability, respectively. Details were summarized as follows:

Item	(in thousands)
Total amount of convertible bonds	$ 1,200,000
Fair value of non-equity embedded derivatives	(32,640)
Issue cost	(5,639)
Fair value of convertible bonds	(1,048,081)
Equity element – conversion options	**$ 113,640**

The above straight bond has an effective interest rate of 2.6%.

As of December 31, 2010, the fair values of the above non-equity embedded derivatives estimated based on an evaluation method amounted to $0.

The unsecured convertible bonds mentioned above amounting to $252,200 thousand were converted into 9,828 thousand shares of common stock in 2010. As of December 31, 2010, unsecured convertible bonds issued in 2006 amounting to $1,030,600 thousand had been converted into 35,530 thousand shares of Alpha's common stock. Of those shares, 4,283 thousand shares were still in the subscription process, recorded under advance receipts for common stock amounting to $42,829 thousand. The bond conversion increased capital surplus by $604,215 thousand.

(2) The significant terms of the second unsecured domestic convertible bonds payable issued on October 14, 2011 were summarized as follows:

Insurance of par value	NT$1,000,000 thousand, with a par value of NT$100 thousand. Issued in a accordance with 100.5% of the par value.
Issue date	October 14, 2011
Maturity date	October 13, 2016
Coupon rate	0%
Conversion method	Bondholders may convert bonds into Alpha's common shares at any time between November 15, 2011, and October 3, 2016
Conversion price and price adjustment	The basis date for setting the conversion price of the bonds was October 5, 2011. The conversion price was calculated as 120% of the basis price, which was the lowest price among the three arithmetic averages of Alpha's closing prices for one, three, and five business days before the basis date.

(Continued)

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

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

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

Except for any securities with common stock conversion right or warrant for common stock issued by the Company after the convertible bond is issued, Alpha should adjust the bond price based on the equation in the conversion regulation if Alpha's common stock has increased.

As of December 31, 2011, the conversion price was NT$20.6.

Redemption at the option of Alpha	On or at any time after November 14, 2011, and before September 3, 2016, Alpha may, having given not less than 30 days' notice to the bondholders, redeem all of the bonds at their principal amount. However, no such redemption may be made unless (i) the closing price of the common stock on the TSE for the period of 30 consecutive trading days is more than 30% of the current conversion price or (ii) at least 90% of the aggregate principal amount of bonds issued that has already been converted, redeemed, or purchased and cancelled.
Redemption at the option of bondholders	Alpha will, at the option of any bondholder, redeem all or part of the bonds held by the bondholder on October 14, 2014 at their principal amount. To exercise such option, the holder must deposit the certificate issued in respect of such bond with the agent together with a duly completed redemption notice not less than 30 days prior to the relevant date.

Based on Republic of China Statement of Financial Accounting Standards ("ROC SFAS") No. 36, Alpha separated the conversion option from the liability element when the convertible bonds were issued and recorded them as equity and liability, respectively. Details were summarized as follows:

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

(Continued)

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

As of December 31, 2011, the fair values of the above non-equity embedded derivatives estimated based on an evaluation method amounted to $3,385 thousand.

The unsecured convertible bonds mentioned above amounting to $59,500 thousand were converted into 2,888 thousand shares of common stock in 2011. As of December 31, 2011, the unsecured convertible bonds issued in 2011 amounting to $59,500 thousand had been converted into 2,888 thousand shares of Alpha's common stock. Of those shares, 2,888 thousand shares were still in the subscription process, and they were recorded under advance receipts for common stock amounting to $28,883 thousand. The bond conversion has increased the capital surplus by $24,755 thousand.

12. Retirement Plans

The following table sets forth the benefit obligation and accrued pension balance for the defined benefit plan as of December 31, 2011 and 2010:

		2011	2010
		(in thousands)	
Benefit obligation:			
Vested benefit obligation	$	(13,578)	(14,083)
Nonvested benefit obligation		(299,721)	(312,568)
Accumulated benefit obligation		(313,299)	(326,651)
Projected future salary increase		(321,262)	(356,834)
Projected benefit obligation		(634,561)	(683,485)
Fair value of plan assets		253,995	261,016
Funded status		(380,566)	(422,469)
Unrecognized net loss		226,842	293,125
Accrued pension cost	**$**	**(153,724)**	**(129,344)**

The components of net periodic pension cost for 2011 and 2010 were summarized as follows:

		2011	2010
		(in thousands)	
The defined benefit plan:			
Service cost	$	7,795	7,225
Interest expenses		11,961	12,578
Actual returns on pension fund		(5,875)	(4,310)
Amortization		11,998	4,296
Net pension cost	**$**	**25,879**	**19,789**
The defined contribution plan:	**$**	**123,516**	**111,894**

(Continued)

Actuarial assumptions at December 31, 2011 and 2010, were summarized as follows:

	2011	2010
Discount rate	2.00%	1.75%
Rate of increase in future compensation levels	4.00%	4.00%
Expected long-term rate of return on plan assets	2.00%	1.75%

As of December 31, 2011 and 2010, the vested benefits of employees meeting retirement requirement amounted to $17,665 thousand and $18,067 thousand, respectively.

The subsidiaries Aescu, Darson, Dongguan Youxun , Alpha Chengdu, Mirac, Alpha Changshu, Maintrend, Alpha USA, ATS and ATSJ comply with the pension regulations of each local government and recognize pension costs under defined contribution retirement plans.

13. Stockholders' Equity

(1) Employee stock options

As of December 31, 2011, employee stock options issued were as follows:

Classification	Authori-zation date	Grant date	Vesting period	Issued units in thou-sands	Exercise price per share (NT$)	Fair value on measure-ment date	Adjusted exercise price per share (NT$)
First issuance of employee stock options in 2007	Sept. 4, 2007	Oct. 5, 2007	Service periods between two and four years	15,000	38.50	38.50	29.40
Second issuance of employee stock options in 2007	Oct. 30, 2007	Nov. 9, 2007	Service periods between two and four years	7,500	32.30	32.30	23.20
Second issuance of employee stock options in 2007	Oct. 30, 2007	Dec. 6, 2007	Service periods between two and four years	7500	30.75	30.75	22.20

(Continued)

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In 2011 and 2010, 60 thousand shares and 332 thousand shares, respectively, of Alpha's employee stock options were exercised, and $1,422 thousand and $8,092 thousand had been received as of December 31, 2011 and 2010, respectively. Of those shares, 0 thousand shares and 221 thousand shares, respectively, were still in the subscription process, recorded under advance receipts for common stock amounting to $0 thousand and $5,351 thousand, respectively.

Alpha applied the intrinsic value method in accounting for stock options granted to employees from the year 2004 to the year 2007 under the stock option plan. Under the intrinsic value method, no compensation cost was recognized since the exercise price of Alpha's employee stock options was equal to the market price of the underlying stock on the date of the grant.

If the compensation cost of employee stock options were accounted for by using the fair-value method and the Black-Scholes model were used to estimate the fair value of employee stock options granted, the fair value of each unit of employee stock options would be $0.6~10.3 Weighted-average assumptions were summarized as follows:

Expected dividend yield	15%
Expected volatility	37.16%~45.24%
Risk-free interest rate	1.98%~2%
Expected life	5~6 years

Information related to Alpha's employee stock option plan for the years ended December 31, 2011 and 2010, was as follows:

	2011		2010	
Employee stock options	**Options (thousands)**	**Weighted-average exercise price (NT$)**	**Options (thousands)**	**Weighted-average exercise price (NT$)**
Outstanding at beginning of year	29,668	27.61	30,000	28.90
Exercised	(60)	23.70	(332)	24.35
Forfeited	-	-	-	-
Outstanding at end of year	29,608	26.10	29,668	27.61
Exercisable at end of year	29,608		8,668	
Weighted-average fair value of options granted during the year (NT$)	$ 0.6~10.3		0.6~10.3	

The weighted-average grant-date fair value per share of common stock was $25.62 and $27.09 for 2011 and 2010, respectively. As of December 31, 2011 and 2010, the weighted-average remaining contractual life of outstanding options was 0.83 and 1.83 years, respectively.

(Continued)

Based on the resolution of the board meeting in May 2009, Aescu issued 475 units of employee stock options, and each unit entitles the holder to subscribe for 1,000 shares of common stock of Aescu. The option rights were valid for 5 years. As of December 31, 2011, a summary of the employee stock option certificates was as the follows:

Classification	Issue date	Units (thousands)	Option duration	Restricted period	Exercise price per share (NT$)	Adjusted exercise price per share (NT$)
First issuance of employee stock options in 2009	2009.5.15	475	2009.5.15~ 2014.5.14	2009.5.15~ 2011.5.14	10.0	10.0

Aescu recognized compensation cost of the employee stock options, based on intrinsic value. The exercise price of the employee stock options was higher than net value per share based on the financial statements closest to the measurement date. Therefore, the recorded compensation cost based on intrinsic value was both $0 for the years ended December 31, 2011 and 2010.

Information related to Aescu's employee stock option plan for the years ended December 31, 2011 and 2010, was as follows:

	2011		2010	
Employee stock options	Options (thousands)	Weighted-average exercise price (NT$)	Options (thousands)	Weighted-average exercise price (NT$)
Outstanding at beginning of year	380	10.0	475	10.0
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(25)	-	(95)	-
Outstanding at end of year	355	10.0	380	10.0
Exercisable at end of year	107		-	

In the years ended December 31, 2011 and 2010, no employee stock option was exercised. As of December 31, 2011 and 2010, the weighted-average remaining contractual life of outstanding options was 2.37 and 3.37 years, respectively.

(Continued)

If ROC SFAS No. 39 was adopted for the employee stock option plan and the compensation cost was recognized, the pro forma net income and earnings per share in the Company's financial statements would be as follows:

Attributable to equity holders of the parent company:

			2011	2010
			(in thousands, except for per share data)	
Net income	Net income	$	950,482	936,446
	Pro forma net income		930,245	891,506
Basic earnings per share	Earnings per share (NT$)		2.01	2.01
	Pro forma earnings per share (NT$)		1.96	1.91
Diluted earnings per share	Earnings per share (NT$)		1.93	1.94
	Pro forma earnings per share (NT$)		1.88	1.84

As of December 31, 2011 and 2010, the authorized common stock both amounted to $6,600,000 thousand (including $500,000 thousand authorized for the issuance of the employee stock options), and the issued common stock amounted to $4,756,784 thousand and $4,711,143 thousand, respectively.

(3) Capital surplus

Capital surplus consisted of the following as of December 31, 2011 and 2010:

		2011	2010
		(in thousands)	
Issuance of new shares – premium	$	1,047,398	1,043,437
Conversion options of convertible bonds (note 11)		94,896	14,964
Treasury stock		25,086	22,011
Adjustment to capital surplus for changes in investee's equity		29	29
Conversion premium of convertible bonds		628,970	604,215
Stock options (13(i) below)		118,082	112,078
Convertible bonds – others		14,964	-
	$	1,929,425	1,796,734

In pursuant to the ROC Company Act, capital surplus can be used to offset a deficit. When a company incurs no loss, it may capitalize its capital reserve (consisting of the following listed below) by issuing new shares which shall be distributed as dividend shares to its original shareholders in proportion to the number of shares held by each of them or by distributing a cash dividend:

(i) The income derived from the issuance of new shares at a premium;

(ii) The income from endowments received by the company.

According to the current ROC securities regulations, the total capital surplus capitalized per annum may not exceed 10 percent of the paid-in capital.

(i) Alpha recorded the additional paid-in capital – stock option in proportion to the convertible bonds converted into common stock.

(4) Legal reserve

In pursuant to the ROC Company Act, 10% of the Company's annual net income is to be set aside as legal reserve until such retention equals the amount of the issued common stock. When a company incurs no loss, it may distribute the amount of the legal reserve that exceeds 25% of issued common stock either by capitalizing its legal reserve and distributing the new shares as dividend shares to its original shareholders in proportion to the number of shares held by each of them or by distributing a cash dividend.

(5) Distribution of earnings and dividend policy

Pursuant to the Company's articles of incorporation amended on June 10, 2011, current year's earnings before tax, if any, shall be distributed in the following order:

(a) payment of all taxes;
(b) offset prior years' operating losses;
(c) set aside 10% of the remaining amount after deducting (a) and (b) as legal reserve;
(d) set aside special reserve in accordance with the Securities and Exchange Act prescribed by the ROC SFB or reverse special reserve previously provided; and
(e) after deducting items (a), (b), (c) and (d) from current year's earnings, the remainder was allocated as follows: 1% as directors' and supervisors' remuneration, 10~22.5% as employee bonuses, and the remainder as distributable earnings as proposed by a resolution of the stockholders' meeting.

In pursuant to regulations promulgated by the Financial Supervisory Commission, and effective from the distribution of earnings for the fiscal year 1999 onwards, a special reserve equals to the total amount of contra accounts that were accounted for as deductions to the stockholders' equity shall be set aside from current earnings, and not distributed. This special reserve shall be made available for appropriation when these contra accounts to stockholders' equity were reversed in subsequent periods.

(Continued)

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

Employee bonuses to employees in 2011 and 2010 were computed at 17% and 15%, respectively, and remumeration were computed at 1% based on the Company's net income for the year ended December 31, 2011 and 2010, after setting aside 10% as legal reserve and asid as or reseral of special reserve. Information about Alpha recognized employee bonuses and remuneration to directors and supervisors of 2011 and 2010 was as follows:

		2011	2010
		(in thousands)	
Employee – bonuses	$	151,747	111,045
Directors' and supervisors' remuneration		8,926	7,403
	$	**160,673**	**118,448**

The number of common shares to be issued as employee bonuses was computed based on the closing price of Alpha's common stock on the day before the stockholders' meeting, taking into consideration the effects of the dividend announcement and rights offering. If the stockholders' meeting subsequently approves an actual distribution different from the accrual, the difference will be accounted for as a change in accounting estimate and recorded under the net income of next year.

On June 10, 2011, and June 18, 2010, the meeting of stockholders of Alpha approved the plan for distribution of retained earnings proposed by the board of directors. Information about Alpha's directors' and supervisors' remuneration and employee bonuses which were distributed from unappropriated earnings of 2010 and 2009 were as follows:

		2010	2009
		(in thousands, except for per share date)	
Dividend per common share			
Cash	**$**	**1.50**	**1.28**
Directors' and supervisors' remuneration	$	7,403	7,886
Employee bonuses – cash		111,045	118,329
	$	**118,448**	**126,215**

The above earnings distribution, which was charged to expense, had no difference from the resolution of Alpha's board of directors in the year ended 2010 and 2009.

(Continued)

The actual distribution of employee bonuses and directors' and supervisors' remuneration for 2011 was subject to the proposal of the board of directors and a resolution of the stockholders' meeting. Relevant information would be available on the Market Observation Post System of the Taiwan Stock Exchange after the above-mentioned meetings.

(6) Treasury stock

Alpha repurchased common stock from the open market in accordance with related regulations of the stock exchange. Details of the treasury stock transactions in 2011 and 2010 were as follows:

Purpose	**As of January 1, 2011**	**Increase**	**Decrease**	**As of December 31, 2011**
		(in thousands)		
For transfer to employees	$ 5,248	-	5,248	-

Purpose	**As of January 1, 2010**	**Increase**	**Decrease**	**As of December 31, 2010**
		(in thousands)		
For transfer to employees	$ 1,883	5,248	1,883	5,248

Alpha transferred 5,248 and 1,883 thousand shares of treasury stocks to employee in the year 2011 and 2010. If the compensation cost were calculated using the Black-Scholes option pricing model in accordance with ROC SFAS No. 39, the fair value of the options would amount to $3,457 and $18,641 thousand. The assumptions were summarized as follows.

	2011	**2010**
Cash dividend rate	-	-
Expected volatility	26.33%~37.85%	22.52%
Risk-free interest rate	0.4469%~0.9783%	0.4469%
Expected life (in years)	0.0575 years~ 0.1521years	0.0438 years
Transfer price	24.01	15.38
Underlying stock current price	21.3~24.8	25.3

According to the Securities and Exchange Act of the R.O.C., the total shares of treasury stock shall not exceed 10% of Alpha's issued stock, and the total purchase amount shall not exceed the sum of the retained earnings, additional paid-in capital－premium, and realized additional paid-in capital. In compliance with the Securities and Exchange Act of the R.O.C., treasury stock should not be pledged, nor was it entitled to voting rights or dividends.

(Continued)

14. Income Taxes

(1) The components of the Company's tax exemption were summarized below:

Earnings Distribution	Law/Statute	Tax exemption period
Distribution of 2005 earnings	Statute for Emerging, Important, and Strategic Industries	August 20, 2008～August 19, 2013
Distribution of 2008 earnings	Statute for Emerging, Important, and Strategic Industries	Not yet to be determined until 2012
Distribution of 2007 earnings	New investments of Exemption from Corporate Income Taxes for Five Consecutive Years on July 1, 2008 to December 31, 2009	January 1, 2011~December 31, 2015

The income tax return of each consolidated entity was filed separately and could not be consolidated with Alpha's filing. Alpha and its subsidiaries were subject to the current tax rate of the countries in which they operate except for Mirac and Alpha Chengdu, which was subject to the Income Tax Law of Enterprises with Foreign Investment in the People's Republic of China, under which it was exempt from income tax in the first and second years and allowed a fifty percent reduction from the third to fifth year (Mirac was allowed a reduction from 2009 to 2011 and Alpha Chengdu was exempted from 2008 to 2009 and allowed a reduction from 2010 and 2012). Alpha Holding, Alpha Investment, Universal and Global were tax exempt entities.

The tax returns of Alpha, Net Mag and Aescu were prepared under current enacted income tax law, and an alternative minimum tax ("AMT") was calculated in accordance with the Income Basic Tax Act ("IBTA"). On May 27, 2009, the Republic of China government promulgated an amendment of the Income Tax Act and the statutory income tax rate was changed from 25% to 20% starting from 2010. On June 15, 2010, pursuant to the Income Tax Act, as revised, the statutory income tax rate applicable to the Company was changed from 20% to 17% starting from 2010. According to the amendment, the income tax rate of Alpha, Net Mag and Aescu will be reduced from 20% to 17%, effective in 2010. The statutory income tax rate applicable to Alpha's subsidiaries located in the PRC ranges between 12.5% and 25%.

For the years ended December 31, 2011 and 2010, income tax expense was as follows:

	2011	2010
	(in thousands)	
Current	$ 179,301	148,191
Deferred	51,178	(28,199)
Additional 10% income surtax on undistributed earnings	3,018	18,585
	$ 233,497	**138,577**

(Continued)

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(2) The reconciliation of the expected income tax expense at the statutory tax rate and the actual income tax expense for the years ended December 31, 2011 and 2010, was as follows:

		2011	2010
		(in thousands)	
Income tax expense computed at the statutory tax rate	$	200,817	182,176
Difference generated by the application of different tax rate for subsidiaries		10,103	16,008
Loss on investments of subsidiaries		(35,943)	(32,327)
Tax effect of permanent difference		63,884	33,878
Expired of (increase of) investment tax credits		667	(5,241)
Income tax exemption		(7,057)	(10,714)
Additional 10% income surtax on undistributed earnings		3,018	18,585
Valuation allowance for deferred tax assets		(24,673)	(166,470)
Prior year's adjustment		22,681	57,789
Effect of change in tax rate		-	44,893
Income tax expense	**$**	**233,497**	**138,577**

(3) The components of deferred income tax assets (liabilities) as of December 31, 2011 and 2010, were summarized as follows:

		2011	2010
		(in thousands)	
Deferred tax assets – current:			
Investment tax credits	$	72,537	102,251
Unrealized bad debt losses		56,070	63,287
Unrealized decline in value of inventories		34,132	46,520
Unrealized exchange loss (gain)		(4,610)	14,577
Product warranty		32,189	28,958
Others		576	23,081
		190,894	278,674
Less: valuation allowance		(122,391)	(166,139)
	$	**68,503**	**112,535**

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		2011	2010
		(in thousands)	
Deferred tax assets – noncurrent:			
Investment tax credits	$	14,502	86,887
Accrued pension cost		26,133	21,989
Investment loss on equity investments in foreign entities		178,296	146,355
Goodwill		(22,930)	(19,491)
Foreign currency translation adjustment		(37,748)	(10,857)
Loss carryforward of Alpha's subsidiaries		75,458	27,378
Others		21,015	17,427
		254,726	269,688
Less: valuation allowance		(299,485)	(280,410)
	$	(44,759)	(10,722)
Total deferred tax assets	$	510,908	578,710
Total deferred tax liabilities	$	65,288	30,348
Total valuation allowance	$	421,876	446,549

(4) According to the Industrial Innovation Act, Alpha's investment credits from research and development expenditures can be deducted from the current income tax expenses, subject to the threshold of 30% of current income tax expenses. Based on Industrial Innovation Act, the deduction of investment credits for the current-year income tax payable amounted to $0 thousand in 2011. Alpha's investment credits under the ROC Statute for Upgrading Industries that can be utilized each year were limited to 50 percent of the current year's tax expense. However, the foregoing limit does not apply to the last year of the utilization period.

As of December 31, 2011, Alpha's unused investment tax credits from research and development expenditure and the related expiration year were as follows:

Unused investment tax credit (in thousands)	Expiration year
$ 1,648	2012
85,391	2013
$ 87,039	

(5) According to the ROC Income Tax Act amended in January 2009, the previous 10 years' losses of ROC subsidiaries as assessed by the tax authorities can offset the current year's taxable profit for income tax purposes. As of December 31, 2011, the unused loss carryforwards and related expiration year of the Company were as follows:

Year of loss	Tax effect (in thousands)	Expiration year
2009	$ 9,568	2019
2010	21,834	2020
2011	25,280	2021
	$ 56,682	

(Continued)

In accordance with the tax law of each area, losses of foreign subsidiaries as assessed by the tax authorities can be carried forward to offset the future years' taxable profits. As of December 31, 2011, the tax effects of the unused loss carryforwards were $65,822 thousand.

Based on the examination of Alpha's 2008 tax return, the tax authority rejected the tax credit from the merger with Cellvision, and Alpha had to accrue $5,078 thousand of tax payable. Alpha filed a petition for review of the assessment. As of December 31, 2010, the tax authority and Alpha had reached an agreement that the tax payable was $3,298 thousand, and Alpha had paid the full amount.

As of the December 31, 2011, Alpha's income tax returns had been examined by the tax authorities through 2008.

(6) Information relating to the ICA of Alpha as of December 31, 2011 and 2010, was summarized as follows:

	2011	2010
	(in thousands)	
Unappropriated earnings:		
Earned after January 1, 1998	$ 2,197,107	2,152,891
ICA balance	$ 241,208	269,956
Creditable ratio for earnings distribution to resident stockholders	15.00% (Estimated)	18.30% (Actual)

15. Earnings per Share

The calculations of basic earnings per share and diluted earnings per share attributable to the stockholders of Alpha in years 2011 and 2010 were as below.

	2011 Before taxes	2011 After taxes	2010 Before taxes	2010 After taxes
	(in thousands, except for per share data)			
Basic earnings per share:				
Net income－equity holders of the parent company	$ 1,183,979	950,482	1,075,023	936,446
Weighted-average common shares outstanding (thousand shares)	473,530	473,530	466,399	466,399
Basic earnings per share (NT$)	$ 2.50	2.01	2.30	2.01

(Continued)

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	2011 Before taxes	2011 After taxes	2010 Before taxes	2010 After taxes
	(in thousands, except for per share data)			
Diluted earnings per share:				
Net income－equity holders of the parent company	$ 1,183,979	950,482	1,075,023	936,446
Potential dilution effects of common shares －Interest expense of convertible bonds saving	5,076	4,213	7,898	6,555
Net income when calculating diluted EPS	**$ 1,189,055**	**954,695**	**1,082,921**	**943,001**
Weighted-average common shares outstanding (thousand shares)	473,530	473,530	466,399	466,399
Potential dilution effects of common shares	21,993	21,993	18,998	18,998
Diluted weighted-average common shares outstanding (thousand shares)	**495,523**	**495,523**	**485,397**	**485,397**
Diluted earnings per share (NT$)	**$ 2.40**	**1.93**	**2.23**	**1.94**

16. Financial Instruments

(1) Derivative financial instruments

The Company's transactions involving derivative financial instruments in 2011 and 2010 were disclosed in note 6.

(2) Non-derivative financial instruments

(i) The Company's non-derivative financial assets or liabilities with short maturities include notes and accounts receivable (including related parties), other financial assets－current/noncurrent, short-term borrowings and accounts payable (including related parties), whose fair value was estimated based on book value at the balance sheet date. The carrying amounts approximate their fair value due to the short-term nature of these items.

(Continued)

(ii) Except for the financial assets and liabilities identified in item (i) above, the carrying amounts and estimated fair value of financial instruments as of December 31, 2011 and 2010, were as follows:

	December 31,			
	2011		2010	
	Book value	Fair value	Book value	Fair value
	(in thousands)			
Financial assets:				
Available-for-sale financial assets – noncurrent	201,522	201,522	295,631	295,631
Financial assets carried at cost – noncurrent	9,996	(2)(iii) below	9,996	(2)(iii) below
Financial liabilities:				
Bonds payable (including current portion)	844,453	844,453	137,600	137,600

(iii) The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

(a) The fair value of bonds payable, available-for-sale financial assets, and financial assets (liabilities) at fair value through profit or loss was the active market quoted price if it was available. If the active market quoted price was unavailable, the Company will determine the fair value based on an evaluation method, and the estimates and assumptions incorporated in such evaluation were consistent with those used by market participants in their pricing of financial instruments.

(b) It was not practicable to determine the fair values of financial assets carried at cost when these investments were not publicly traded. Refer to note 5 for the details.

(3) Details of quoted market prices and estimated fair values of financial instruments were as follows:

	December 31,			
	2011		2010	
	Quoted market price	Estimated fair value	Quoted market price	Estimated fair value
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$ 3,266,754	-	2,831,660	-
Notes and accounts receivable (including related parties)	-	7,319,374	-	5,915,184
Financial assets at fair value through profit or loss – current	-	10,901	-	32,209

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	December 31,			
	2011		2010	
	Quoted market price	Estimated fair value	Quoted market price	Estimated fair value
	(in thousands)			
Other financial assets – current	151,555	10,485	-	155,155
Other financial assets – noncurrent	22,000	14,984	25,841	17,372
Available-for-sale financial assets – noncurrent	201,522	-	295,631	-
Financial liabilities:				
Short-term borrowings	-	1,299,455	-	905,675
Accounts payable (including related parties)	-	6,227,112	-	4,819,210
Financial liabilities at fair value through profit or loss – current	-	12,844	-	12,539
Other financial liabilities – current	-	-	-	116,498
Financial liabilities at fair value through profit or loss– noncurrent	-	3,385	-	-
Bonds payable (including current portion)	-	844,453	-	137,600

(4) Financial risk information

(i) Market price risk

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

(ii) Credit risk

The Company's potential credit risk was derived primarily from cash and cash equivalents, and accounts receivable. The Company maintains its cash in various creditworthy financial institutions. Credit risk exposure to each financial institution was controlled by the Company. As a result, the Company believes that there was no concentration of credit risk of cash and cash equivalents.

The main customers of the Company were in the networking and related industries. It was a normal practice for the Company to provide customers a credit limit according to their credit evaluations. Therefore, the credit risk of the Company was mainly influenced by the networking industry.

As of December 31, 2011 and 2010, 60% and 67%, respectively, of the Company's accounts receivable consisted of five customers.

Although there was a potential concentration of credit risk, the Company routinely assesses the collectibility of the accounts receivable and makes a corresponding allowance for doubtful accounts.

(iii) Liquidity risk

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

Liquidity risk was the risk of being unable to settle derivative contracts on schedule. The purpose of these instruments held by the Company was to manage and hedge the foreign currency exchange rates. There was no significant liquidity risk for the related cash flows. The Company has liquidity risk when investing in financial assets carried at cost that were not publicly traded.

17. Related-party Transactions

(1) The name and relationship of the related parties with which Alpha and its subsidiaries had significant transactions were shown below:

Name	Relationship
D-Link Corporation (D-Link)	Equity method investor of Alpha
D-Link Systems Inc. (D-Link Systems)	97.76%-owned subsidiary of D-Link
D-Link (Europe) Ltd. (D-Link Europe)	Subsidiary of D-Link
D-Link International Pte Ltd. (D-Link International)	Subsidiary of D-Link
D-Link (Shanghai) Co., Ltd. (DLSH)	Subsidiary of D-Link
Directors, supervisors, president, and vice president	The Company's key management team

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(2) Significant transactions with related parties as of and for the years ended December 31, 2011 and 2010, were summarized as follows:

(a) Sales

	2011		2010	
	Amount (in thousands)	**Percentage of net sales**	**Amount** (in thousands)	**Percentage of net sales**
D-Link International	$ 8,779,199	34	10,897,142	42
DLSH	1,009,431	4	975,588	4
D-Link	868,540	3	416,966	2
D-Link Systems	188,668	1	43,177	-
	$ 10,845,838	**42**	**12,332,873**	**48**

As of December 31, 2011 and 2010, receivables resulting from the above transactions were as follows:

	December 31, 2011		December 31, 2010	
	Amount (in thousands)	**Percentage of total receivables**	**Amount** (in thousands)	**Percentage of total receivables**
D-Link International	$ 2,483,400	34	2,550,282	43
DLSH	487,232	7	202,193	3
D-Link	310,112	4	158,172	3
D-Link Systems	93,034	1	15,780	-
	$ 3,373,778	**46**	**2,926,427**	**49**

The selling prices for sales to related parties were determined by the products' fair market value, area, volume, etc.

The collection terms for sales to unrelated customers were 30 to 75 days, and to related parties were 45 to 120 days during 2011 and 2010. However, collection terms for related parties might be further extended when necessary.

(Continued)

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(b) Purchases

In 2011 and 2010, the Company did not purchase from related parties; however, the account payables to related parties resulting from purchases that occurred before 2010 were as follows.

	2011		2010	
	Amount (in thousands)	**Percentage of net purchases**	**Amount** (in thousands)	**Percentage of net purchases**
DLSH	**$ 1**	**-**	**1**	**-**

(c) Service fees and others

The Company paid fees to related parties for warranty services, royalties, research, and other services. The total fees for the years ended December 31, 2011 and 2010, and the related unpaid balance as of December 31, 2011 and 2010, were summarized as follows:

	2011		2010	
	Current expense	**Accrued expense**	**Current expense**	**Accrued expense**
	(in thousands)			
D-Link International	$ 33,241	12,637	41,738	13,460
D-Link	11,193	10,051	11,351	10,230
D-Link Europe	2,679	-	3,676	287
D-Link Systems	504	-	39	-
	$ 47,617	**22,688**	**56,804**	**23,977**

(d) Property, plant and equipment

Acquisition of property, plant and equipment for the years ended December 31, 2011 and 2010, and the related unpaid balance as of December 31, 2011 and 2010, were summarized as follows:

	2011		2010	
	Expenditure	**Account payable**	**Expenditure**	**Account payable**
	(in thousands)			
D-Link	**$ -**	**-**	**167**	**-**

(Continued)

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(e) Others

Alpha entered into a plant lease agreement with D-Link for the Taipei Neihu office. The rental expense was $5,551 and $5,338 thousand in the years 2011 and 2010, respectively. As of December 31, 2011 and 2010, payables resulting from the above transactions amounted to $1,532 thousand and $1,405 thousand, respectively, which were recorded in payable to related parties.

(3) Compensation of the principal management team

		2011	2010
		(in thousands)	
Salaries and cash awards	$	47,681	40,316
Compensation		10,769	13,200
Transportation allowances and business expense		-	26
Employee bonuses		14,550	23,152

The aforementioned amounts contained the accruals for remuneration of directors and supervisors and for employee bonuses; refer to the section “stockholders’ equity” for further details.

18. Pledged Assets

Assets pledged as collateral as of December 31, 2011 and 2010, were summarized as follows:

Pledged assets	Pledged to secure		2011	2010
			(in thousands)	
Time deposit (recorded in other financial assets – noncurrent)	Import guarantee for Customs	$	22,000	7,000
Time deposit (recorded in other financial assets – noncurrent)	Guarantee for lawsuits		-	10,000
Time deposit (recorded in other financial assets – noncurrent)	Guarantee for labor		-	8,841
Time deposit (recorded in other financial assets – current)	Short-term borrowings		151,555	-
		$	173,555	25,841

(Continued)

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Notes to Consolidated Financial Statements

19. Commitments and Contingencies

(1) Operating leases

Lessee	Object	Lessor	Period for lease	Rental expense in 2011	Payment method
Alpha	Land	Hsinchu Science Park	Nov 3, 2003~ Dec 31, 2022	$7,685 thousand	Monthly

According to the lease agreement, rent payment was subject to an adjustment as the government adjusts the land value.

Based on the signed leases for offices and employee dormitories, the estimated minimum rental expenditures were as follows:

	Amount (in thousands)
2012.01.01~2012.12.31	$ 22,542
2013.01.01~2013.12.31	16,799
2014.01.01~2014.12.31	6,885
2015.01.01~2015.12.31	2,377
	$ 48,603

(2) Alpha entered into royalty agreements with Fine Point and Wind River. Pursuant to the terms of each signed agreement, Alpha was obligated to pay royalties when Alpha’s products utilize technologies specified in the royalty agreements.

(3) As of December 31, 2011 and 2010, Alpha had outstanding letters of credit amounting to $0 thousand and $8,778 thousand, respectively.

(4) As of December 31, 2011 and 2010, the significant outstanding commitments for construction and purchase of property, plant and equipment amounted to $77,964 thousand and $338,288 thousand, respectively.

(5) Former employees of Alpha USA brought lawsuits claiming that their employment was inappropriately terminated and claiming unpaid wages. Alpha USA hired lawyers to resolve the disputes. As of the audit report date, Alpha USA estimates that the lawsuits will not significantly impact Alpha USA’s operations.

20. Casualty Loss: None.

21. Subsequent Events: None.

(Continued)

22. Other Information

(1) Information on personnel expenses, depreciation, and amortization, by function, for the years ended December 31, 2011 and 2010, was summarized as follows:

	2011			2010		
Account	**Cost of goods sold**	**Operating expense**	**Total**	**Cost of goods sold**	**Operating expense**	**Total**
	(in thousands)					
Personnel expenses:						
Salaries	1,036,445	1,409,723	2,446,168	901,128	1,395,458	2,296,586
Labor and health insurance	46,842	87,995	134,837	33,388	88,752	122,140
Pension	25,701	123,694	149,395	23,159	108,524	131,683
Others	25,866	80,806	106,672	23,154	70,899	94,053
Depreciation	155,610	200,671	356,281	139,068	210,326	349,394
Amortization	2,543	87,872	90,415	653	86,210	86,863

(2) As of December 31, 2011 and 2010, the significant financial assets and liabilities in foreign currency were as follows:

	2011			2010		
	Foreign currency	**Exchange rate**	**NTD**	**Foreign currency**	**Exchange rate**	**NTD**
	(in thousands, except for exchange rate data)					
Financial assets:						
Monetary items:						
USD	238,450	30.26	7,215,497	245,613	29.26	7,186,636
JPY	450,270	0.3907	175,920	384,370	0.36	138,373
CNY	310,608	4.7962	1,489,738	236,032	4.41	1,040,901
Non-monetary items:						
USD	78,000	30.26	(2)(i) below	296,000	29.26	(2)(i) below
Financial liabilities:						
Monetary items:						
USD	124,954	30.26	3,781,108	91,903	29.26	2,689,082
CNY	569,067	4.7962	2,729,359	305,747	4.41	1,348,344
Non-monetary items:						
USD	235,000	30.26	(2)(i) below	152,000	29.26	(2)(i) below

(i): The Company’s transactions involving derivative financial instruments in 2011 and 2010 were disclosed in note 6.

(Continued)

23. Segment Financial Information

(1) General information

The Company operate predominantly in one industry segment, which includes the research, development, design, production and sale of broad band products, computer network systems, wireless, and relevant spare parts.

The Segment financial information can be found in the consolidated financial statements. For sale to other than consolidated entities and income before income tax, please see the consolidated statements of income. For assets, please see the consolidated balance sheets.

(2) Entity integral information

(i) Production information

Revenue from non-consolidated entities' customers:

	2011	2010
	(in thousands)	
LAN/MAN	$ 12,181,401	12,171,383
Wireless	7,078,836	7,458,670
Digital Home	3,738,168	2,501,236
Boardband	2,188,968	3,351,694
Others	280,871	368,413
	$ 25,468,244	**25,851,396**

(ii) Geographic information

The revenue from external customers were categorized by the area of the collection of the account receivables and the noncurrent assets were categorized by the area the assets are located.

(Continued)

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Revenue from external customers:

Area		**2011**	**2010**
		(in thousands)	
United States	$	6,142,949	6,235,917
Netherland		3,124,447	2,747,794
China		3,050,047	2,784,928
England		2,537,778	4,387,190
Singapore		1,060,650	754,111
Japan		1,007,640	908,754
Other Countries		8,544,733	8,032,702
	$	**25,468,244**	**25,851,396**

Noncurrent Assets:

Area		**2011**	**2010**
		(in thousands)	
Taiwan	$	1,110,069	1,179,723
China		2,578,931	1,857,866
United States		161,762	144,222
Japan		521	309
	$	**3,851,283**	**3,182,120**

(iii) Major customers information

Sales to individual customers representing greater than 10% of consolidated revenue in 2011 and 2010 were as follows:

		2011	**2010**
		(in thousands)	
D-Link International	**$**	**8,779,199**	**10,897,142**