ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2005 and 2004
(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 as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Alpha management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries included in the consolidated financial statements. The total assets of these subsidiaries were NT$62,122 thousand as of December 31, 2005, and their total revenue was NT$445,083 thousand for the year ended December 31, 2005. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, 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, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

Hsinchu, Taiwan (the Republic of China)
March 6, 2006

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

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2005 and 2004
(in thousands of New Taiwan dollars)

Assets	2005	2004
Current assets:		
Cash and cash equivalents (note 3)	$ 820,026	915,526
Short-term investments (note 4)	-	438,045
Notes and accounts receivable, net (note 5)	2,072,859	784,534
Receivables from related parties (note 14)	1,631,157	1,979,136
Other financial assets－current (note 13)	48,921	43,451
Inventories (note 6)	1,913,417	1,453,217
Other current assets (note 11)	61,914	77,344
Total current assets	6,548,294	5,691,253
Long-term equity investments under cost method (note 7)	16,985	16,985
Other financial assets － noncurrent (note 15)	56,515	15,327
Property, plant and equipment (notes 6 and 14):		
Buildings and improvements	1,538,911	1,485,832
Machinery and equipment	872,178	747,968
Other equipment	204,442	142,024
	2,615,531	2,375,824
Less: accumulated depreciation	717,919	527,717
Prepayment for purchases of machinery and equipment	22,261	21,373
Net property, plant and equipment	1,919,873	1,869,480
Other assets:		
Deferred expenses and others (note 14)	112,421	212,067
Net deferred income tax assets － noncurrent (note 11)	9,653	32,028
Total other assets	122,074	244,095
Total assets	$ 8,663,741	7,837,140

Liabilities and Stockholders' Equity	2005	2004
Current liabilities:		
Short-term borrowings (note 8)	$ 19,362	1,196,827
Accounts payable	2,511,488	1,863,307
Payables to related parties (note 14)	48,839	74,023
Accrued expenses	853,629	443,938
Other current liabilities	374,609	214,761
Total current liabilities	3,807,927	3,792,856
Other liabilities:		
Accrued pension liabilities (note 9)	60,012	45,195
Deferred credit and others	1,819	2,764
Total other liabilities	61,831	47,959
Total liabilities	3,869,758	3,840,815
Stockholders' equity (note 10)**:**		
Common stock	2,829,000	2,500,000
Capital surplus	579,773	754,773
Retained earnings:		
Legal reserve	75,080	4,578
Special reserve	3,272	-
Unappropriated earnings	1,271,952	740,246
	1,350,304	744,824
Foreign currency translation adjustment	34,906	(3,272)
Total stockholders' equity	4,793,983	3,996,325
Commitments and contingencies (note 16)		
Total liabilities and stockholders' equity	$ 8,663,741	7,837,140

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2005 and 2004
(in thousands of New Taiwan dollars, except for net income per common share)

	2005	2004
Sales (note 14)	$ 17,731,008	14,082,845
Cost of goods sold (note 14)	14,450,854	11,416,815
Gross profit	3,280,154	2,666,030
Operating expenses (note 14)**:**		
Selling	503,165	329,584
Administrative	396,108	372,948
Research and development	1,073,804	1,010,094
	1,973,077	1,712,626
Operating income	1,307,077	953,404
Non-operating income:		
Interest income	14,233	1,599
Exchange gain, net	14,991	-
Gain on disposal of short-term investments	9,820	20,700
Other income, net	16,090	36,931
	55,134	59,230
Non-operating loss:		
Interest expense	33,603	28,196
Loss on disposal of property, plant and equipment	40,675	2,189
Exchange loss, net	43,485	165,088
Loss on inventory obsolescence and devaluation	-	45,918
	117,763	241,391
Income before income taxes	1,244,448	771,243
Income tax expenses (note 11)	221,963	66,222
Net income	**$ 1,022,485**	**705,021**

	2005 Before taxes	2005 After taxes	2004 Before taxes	2004 After taxes
Net income per common share (note 12)				
Basic earnings per common share	**$ 4.40**	**3.61**	**3.14**	**2.87**
Diluted earnings per common share	**$ 4.15**	**3.41**	**2.96**	**2.71**
Basic earnings per common share － retroactively adjusted			**$ 2.77**	**2.53**
Diluted earnings per common share － retroactively adjusted			**$ 2.63**	**2.41**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2005 and 2004
(in thousands of New Taiwan dollars)

				Retained Earnings				
	Common stock	Advance receipts for common stock	Capital surplus	Legal reserve	Special reserve	Unappro-priated earnings	Foreign currency translation adjustment	Total stockholders' equity
Balance at January 1, 2004	$ 2,000,000	900,000	354,773	-	-	45,777	524	3,301,074
Issuance of common stock for cash	500,000	(900,000)	400,000	-	-	-	-	-
Appropriation of earnings:								
Legal reserve	-	-	-	4,578		(4,578)	-	-
Employees' bonuses	-	-	-	-	-	(5,150)	-	(5,150)
Directors' and supervisors' remuneration	-	-	-	-	-	(824)	-	(824)
Net income for 2004	-	-	-	-	-	705,021	-	705,021
Foreign currency translation adjustment	-	-	-	-	-	-	(3,796)	(3,796)
Balance at December 31, 2004	2,500,000	-	754,773	4,578	-	740,246	(3,272)	3,996,325
Appropriation of earnings:								
Legal reserve	-	-	-	70,502	-	(70,502)	-	-
Special reserve	-	-	-	-	3,272	(3,272)	-	-
Bonuses to employees－stock	79,000	-	-	-	-	(79,000)	-	-
Stock dividends	75,000	-	-	-	-	(75,000)	-	-
Employees' bonuses	-	-	-	-	-	(315)	-	(315)
Cash dividends	-	-	-	-	-	(250,000)	-	(250,000)
Directors' and supervisors' remuneration	-	-	-	-	-	(12,690)	-	(12,690)
Capital surplus transferred to common stock	175,000	-	(175,000)	-	-	-	-	-
Net income for 2005	-	-	-	-	-	1,022,485	-	1,022,485
Foreign currency translation adjustments	-	-	-	-	-	-	38,178	38,178
Balance at December 31, 2005	**$ 2,829,000**	**-**	**579,773**	**75,080**	**3,272**	**1,271,952**	**34,906**	**4,793,983**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2005 and 2004
(in thousands of New Taiwan dollars)

	2005	2004
Cash flows from operating activities:		
Net income	$ 1,022,485	705,021
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	447,624	423,253
Provision for inventory obsolescence and devaluation loss, and allowance for doubtful accounts	44,679	177,088
Loss on disposal of property, plant and equipment	40,675	2,189
Other loss with no cash impacts	32,332	9,510
Increase in inventories	(503,685)	(1,618,304)
Decrease (increase) in deferred income tax assets	28,683	(5,110)
Increase in notes and accounts receivable (including related parties)	(941,540)	(2,551,968)
Increase in accounts payables (including related parties)	622,997	1,921,528
Increase (decrease) in accrued pension	14,817	(200,024)
Increase in other operation-related current assets	(8,997)	(118,035)
Increase in other operation-related current liabilities	568,540	693,826
Cash provided by (used in) operating activities	1,368,610	(561,026)
Cash flows from investing activities:		
Increase in long-term equity investments	-	(74,891)
Decrease in short-term investments	438,045	466,462
Proceeds from disposal of property and equipment	26,180	32,773
Acquisition of property and equipment	(385,970)	(375,530)
Increase in deferred expenses	(36,643)	(174,607)
Increase in deposits and other assets	(41,188)	(5,588)
Cash provided by (used in) investing activities	424	(131,381)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	(1,177,465)	489,817
Payments of directors' and supervisors' remuneration, and employees' bonuses	(263,005)	(5,974)
Cash provided by (used in) financing activities	(1,440,470)	483,843
Effect of exchange rate changes on cash	(24,064)	(29,133)
Net decrease in cash and cash equivalents	(95,500)	(237,697)
Cash and cash equivalents at beginning of year	915,526	1,153,223
Cash and cash equivalents at end of year	**$ 820,026**	**915,526**
Supplemental disclosures of cash flow information:		
Cash payments of interest	**$ 34,816**	**25,671**
Cash payments of income taxes	**$ 86,177**	**17,931**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2005 and 2004
(amounts expressed in thousands of New Taiwan dollars, except for per share information and unless otherwise noted)

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 the Company have been traded on the Taiwan Stock Exchange since December 20, 2004. Alpha set up a branch in Hsinchu on June 14, 2005.

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

As of December 31, 2005, Alpha and subsidiaries had 4,848 employees. Alpha's parent company is D-Link.

The consolidated financial statements include the accounts of Alpha and subsidiaries, hereinafter, referred to individually or collectively as the "Company".

2. Summary of Significant Accounting Policies

(a) The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the Republic of China (ROC). The major accounting policies and measurement basis adopted in preparing the accompanying consolidated financial statements are summarized as follows:

(1) For the purpose of preparing the accompanying consolidated financial statements, an entity is deemed a subsidiary if Alpha directly or indirectly owns 50% or more of its voting stock. The consolidated subsidiaries of Alpha are summarized below.

Investor	Investee	Percentage of ownership at December 31, 2005	Percentage of ownership at December 31, 2004
Alpha	Alpha Solutions Co., Ltd. (Alpha Solutions)	100	100
Alpha	Redsonic Technology Co. (Redsonic)	100	100
Alpha	Alpha Holdings Inc. (Alpha Holdings)	100	100
Alpha Holdings	D-Link Asia Investment Pte. Ltd. (D-Link Asia)	100	100

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Investee	Percentage of ownership at December 31, 2005	Percentage of ownership at December 31, 2004
D-Link Asia	D-Link Dongguan Ltd. (D-Link Dongguan)	100	100
Alpha Holdings	Tong Ying Trading (Shenzhen) Co., Ltd. (Tong Ying)	100	100
Alpha Holdings	Alpha Networks (Chengdu) Co., Ltd. (Alpha Chengdu)	100	100
Alpha Holdings	Alpha Investment Pte. Ltd. (Alpha Investment)	100	-
Alpha	Des Voeux Ltd. (Des Voeux)	100	100
Des Voeux	Alpha Networks Inc. (Alpha U.S.A.)	100	100

(2)The details of change of subsidiaries included in the consolidated financial statements:

In 2005, Alpha increased its investments in Alpha Investment resulting in an ownership interest 100%. Starting from 2005, the accounts of Alpha Investment are included in the consolidated financial statements of the Company.

(b) Accounting principles and consolidation policy

The consolidated financial statements include the accounts of Alpha and subsidiaries which Alpha directly or indirectly owns over 50% of the voting shares. All significant inter-company balances and transactions are eliminated in consolidation.

The difference between the net purchase price and the net equity of the acquired subsidiary is accounted for as consolidated debit (included in “other assets” in the accompanying consolidated balance sheets) and amortized over 5 years using the straight-line method.

(c) Foreign currency transactions and translation

The Company records transactions in their respective local currencies. Foreign currency transactions are recorded at the exchange rate prevailing on the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates on that date. The resulting exchange gains or losses from settlement of such transactions or translation of monetary assets and liabilities are reflected in the accompanying consolidated statements of income.

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The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date, with the exception of stockholders' equity, which is translated at historical rates, and revenues, costs and expenses, which are translated at the weighted-average exchange rates during the reporting period. Translation differences resulting from the translation of such financial statements into New Taiwan dollars are recorded as a foreign currency translation adjustment, a separate component of stockholders' equity.

(d) Principles of classifying assets and liabilities as current and non-current

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

Liabilities that are expected to be liquidated within 12 months after the balance sheet date are recorded as current liabilities; otherwise, they are recorded as non-current liabilities.

(e) 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.

(f) Short-term investments

Short-term investments are stated at the lower of cost or market value. Market value is determined using the net asset value of open-end mutual funds on the last day of the period.

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is determined based on the ageing, credit evaluation results, past experience, and the Company's internal credit policies.

(h) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by the weighted-average method. The market value of raw materials is determined on the basis of replacement cost, and the market values of finished goods and work in process are determined on the basis of net realizable value.

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(i) Long-term equity investments

Long-term equity investments in which Alpha, directly or indirectly, owns less than 20 percent of the investee's voting shares and is not able to exercise significant influence over the investee's operations and financial policies are accounted for by the cost method. If there is evidence indicating that a decline in the value of such an investment is other than temporary, then the carrying amount of the investment is reduced to reflect its net realizable value. The related loss is recognized in the accompanying consolidated statements of income. Cost of sales is determined by the weighted-average method.

(j) Property, plant and equipment

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

Depreciation of property, plant and equipment of the Company is provided for by using the straight-line method over the estimated useful lives of the respective assets. The useful lives of property, plant and equipment are as follows:

(a) Buildings and improvements: 5~50 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 are accounted for as non-operating income or losses in the consolidated statements of income.

(k) Deferred expenses

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

(l) Derivative financial instruments

(1) Forward foreign currency exchange contracts

Forward foreign currency exchange contracts are purchased to hedge currency fluctuations affecting foreign currency receivables and payables. These forward exchange contract receivables and payables are recorded at the spot rate at the date of inception. The difference between the forward and the spot rate on the date the contract is entered into is amortized as an exchange gain or loss over the term of the contract. Realized and unrealized gains and losses on these contracts resulting from actual settlement or balance sheet date translation are charged or credited to current operations.

(2) Foreign currency option contracts

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Foreign currency option contracts are not entered into for trading purposes. For those contracts entered into to hedge the risk of owning assets and liabilities, gains or losses on these contracts resulting from actual exercise and settlement are charged or credited to current operations. Contracts which do not qualify as effective hedges are marked to market on the balance sheet date. The differences between the market value and book value are charged or credited to current operations.

(m) Retirement plan

Alpha and Redsonic have established employee noncontributory retirement plans (the “Plans”) covering all regular employees in Taiwan. In accordance with the Plans, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on 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 is 45 months of salary. Beginning July 1, 2005, pursuant to the ROC Labor Pension Act (hereinafter referred to as the “new system”), employees who elected to participate in the new system or joined the Company after July 1, 2005, are covered by a defined contribution plan under the new system. For these employees, the Company is 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. As the Company has not revised its retirement plan in accordance with the new system, anything not covered by the current retirement plan should be handled pursuant to the ROC Labor Pension Act.

For the defined benefit plan under the ROC Labor Standards Law (the “old system”), the Company complies with ROC Statement of Financial Accounting Standards (SFAS) No. 18, “Accounting for Pensions”, and recognizes a minimum pension liability at every balance sheet date equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan’s assets. The Company recognizes net periodic pension costs every year based on the actuarial report, including the current service cost, interest cost, actual return on plan assets, and unrecognized net transitional assets or obligations, which are amortized on a straight-line basis over the average remaining service period of employees. In accordance with the requirement of the ROC Labor Standards Law, the Company has contributed monthly an amount equal to 2% of salaries and wages to a pension fund maintained with the Central Trust of China.

Under the new system, the Company contributes 6% of employees’ monthly wages to the Bureau of Labor Insurance. The contribution for a period is recognized as pension cost for that period.

Alpha Holdings, Alpha Investments, Des Voeux, etc., did not establish pension plans; therefore, no pension expense was recognized.

Alpha’s foreign subsidiaries Alpha U.S.A. and Alpha Solutions have defined contribution retirement plans.

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(n) Revenue recognition

Sales revenue is recognized when title to the products and the risks and rewards of ownership are transferred to the customers, which occurs principally at the time of shipment. Outsourcing revenue is recognized when title to the products is transferred to the customers, which occurs principally at the time of shipment.

(o) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are 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 are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

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

Income tax expense is reduced by investment tax credits derived from expenditures for purchases of equipment and technologies, research and development, and personal training in the year in which the credits arise.

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

(p) Net income per common share

Net income per common share is calculated based on the weighted-average number of common shares outstanding during the period. The effect on net income per common share from an increase in stock from the transfer of unappropriated earnings, capital surplus, and employee bonuses is computed retroactively.

Employee stock options issued by Alpha are potential common stock. If there is a dilutive effect, both basic and dilutive net income per common share will be disclosed. If there is no dilutive effect, only basic net income per common share will be disclosed.

(q) Employee stock option plan (stock-based compensation)

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The Company adopts the intrinsic value method to recognize the compensation cost, which is the difference between the market price of Alpha stock and the exercise price of employee stock options on the measurement day. Any compensation cost should be charged to expense over the employee vesting period, and increase the stockholders' equity accordingly.

(r) Asset impairment

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 35 (SFAS No. 35) "Accounting for Asset Impairment". In accordance with SFAS No. 35, the Company assesses at each balance sheet date whether there is 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 is higher than the recoverable amount. The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is 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 is allocated on an annual basis and recognizes an impairment loss on the amount of carrying value in excess of the recoverable amount.

3. Reasons for and Effect of the Changes in Accounting Principles

The Company adopted ROC SFAS No. 35 in 2005. The Company determined that no asset had an indication of impairment as of December 31, 2005.

4. Cash and Cash Equivalents

		December31, 2005	December31, 2004
Cash on hand	$	2,071	18,042
Checking and savings accounts		285,272	165,507
Time deposits		348,683	726,975
Cash equivalents-bonds with repurchase agreements		184,000	5,002
	$	**820,026**	**915,526**

5. Short-term Investments

	December31, 2005	December31, 2004
Mutual funds	$ -	438,045
Market value	$ -	438,587

6. Notes and Accounts Receivable, Net

	December31, 2005	December31, 2004
Notes receivable	$ 1,070	41
Accounts receivable	2,084,983	796,493
Less: allowance for doubtful accounts	(13,194)	(12,000)
	$ 2,072,859	784,534

7. Inventories

	December31, 2005	December31, 2004
Merchandise	$ 6,596	76
Finished goods	285,016	222,950
Work in process	415,861	412,407
Raw materials	1,283,951	905,130
Provision for devaluation	(78,007)	(87,346)
	$ 1,913,417	1,453,217
Insurance coverage on inventories	$ 2,600,000	2,739,140

As of December 31, 2005 and 2004, insurance coverage of property, plant and equipment amounted to $2,356,700 thousand and $2,157,734 thousand, respectively.

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8. Long-term Equity Investments

Long-term equity investments and related investment income or loss as of and for the year ended December 31, 2005 and 2004, is summarized below:

	December 31, 2005		December 31, 2004	
Investee	**Book value**	**Percentage of ownership**	**Book value**	**Percentage of ownership**
Cost method:				
TGC, Inc.	$ 16,985	2	16,985	2

For the purpose of expanding the marketing of networking products in Mainland China, Alpha invested $16,985 thousand in TGC, Inc. in September 2004 and obtained 1.84% of the voting shares.

9. Short-term Borrowings

Short-term borrowings consisted of the following as of December 31, 2005 and 2004:

	2005		2004	
	Amount	**Rate**	**Amount**	**Rate**
Usance loan	$ -	-	546,440	2.43%~3.081%
Unsecured borrowings	19,362	0.5675%	650,387	0.796%~2.85%
	$ 19,362		1,196,827	
Unused credit facilities	$ 5,567,264		3,440,563	

As of December 31, 2004, unsecured borrowings of $262,348 thousand were guaranteed by D-Link.

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10. Retirement Plans

The following table sets forth the benefit obligation and accrued pension balance as of December 31, 2005 and 2004:

		2005	2004
Benefit obligation:			
Nonvested benefit obligation	$	(212,981)	(167,724)
Vested benefit obligation		-	-
Accumulated benefit obligation		(212,981)	(167,724)
Projected future salary increase		(140,194)	(117,992)
Projected benefit obligation		(353,175)	(285,716)
Fair value of plan assets		262,208	245,226
Funded status		(90,967)	(40,490)
Unrecognized net loss		30,955	(4,705)
Accrued pension cost	**$**	**(60,012)**	**(45,195)**

Actuarial assumptions at December 31, 2005 and 2004, are summarized as follows:

	2005	2004
Discount rate	3.50%	3.50%
Rate of increase in future compensation levels	3.00%	3.00%
Expected long-term rate of return on plan assets	3.50%	3.50%

The components of Alpha's net periodic pension cost for 2005 and 2004 are summarized as follows:

		2005	2004
Defined benefit plan:			
Service cost	$	27,757	35,005
Interest expenses		10,000	8,583
Actual returns on pension fund		(3,637)	(1,866)
Amortization		(5,334)	1,615
Net pension cost	**$**	**28,786**	**43,337**
Defined contribution plan:	**$**	**19,890**	**-**

Pension expenses for the Company's subsidiaries amounted to NT$392 thousand for the year ended December 31, 2005.

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The number of the Company's employees transferred from D-Link's OEM/ODM division at the spin-off on August 16, 2003, was 1,351. The Company recognizes the service seniority and retirement obligation of these employees for their period of service with D-Link. Due to the regulations, D-Link cannot transfer the pension fund that it contributed and deposited with the Central Trust of China before the spin-off. Therefore, D-Link paid Alpha compensation of $226,537 thousand based on an actuarial calculation. To protect the employees' benefits and rights, Alpha contributed the compensation received from D-Link to the pension fund maintained with the Central Trust of China in May 2005.

11. Stockholders' Equity

(a) Common stock

Pursuant to the board of directors' resolution on October 20, 2003, Alpha issued 50,000 thousand shares of common stock for cash at $18 per share. The capital increase was registered on January 29, 2004.

Pursuant to a stockholders' resolution on June 10, 2004, the Company increased its common stock by $329,000 through the transfer of unappropriated earnings, capital surplus and employees' bonuses of $175,000 thousand, $75,000 thousand and $79,000 thousand, respectively. The capital increase was registered with the governmental authorities.

Alpha issued 30,000 units of employee stock options. Each unit of employee stock options can purchase 1,000 common shares. Pursuant to the board of directors' resolution on December 31, 2005, employee stock options issued were as follows:

Classification	Issue date	Issued units	Option duration	Restricted period	Exercise price per share (NT$)
First issuance of employee stock options in 2004	Jan. 1, 2004	29,720	Jan. 1, 2004~ Dec. 31, 2009	Jan. 1, 2006~ Dec. 31, 2009	12.4
Second issuance of employee stock options in 2004	Jan. 30, 2004	80	Jan. 30, 2004~ Jan. 29, 2010	Jan. 30, 2006~ Jan. 29, 2010	12.4

The transfer price of the employee stock options was adjusted from $15 to $12.4 per share. The above employee stock options have not been exercised.

Pursuant to ROC SFB regulations and the interpretation of the ROC Accounting Research and Development Foundation ("ARDF"), the compensation cost of stock options is recognized by using the intrinsic value method, which was zero because the exercise price of options was higher than the net equity per share of Alpha's common stock based on the latest audited financial statements.

(Continued)

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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. Weighted-average assumptions are summarized as follows:

	2004
Expected dividend yield	15%
Expected volatility	37.16%
Risk-free interest rate	1.98%
Expected life	6 years

Information related to Alpha's employee stock option plan for the years ended December 31, 2005 and 2004, was as follows:

	2005		**2004**	
For the year ended December 31	**Options (thousands)**	**Weighted-average exercise price (dollars)**	**Options (thousands)**	**Weighted-average exercise price (dollars)**
Outstanding at beginning of year	29,121	12.4	-	-
Granted	-	-	29,800	15.0
Forfeited	(469)	-	(679)	-
Outstanding at end of year	**28,652**		**29,121**	
Exercisable at end of year	**28,652**		**29,121**	
Weighted-average fair value of options granted during the year (NT$)	$ **0.60**		**0.60**	

If the compensatory employee stock option plan adopted the fair-value method, the pro forma net income and earnings per common share on the accompanying consolidated financial statements would be as follows:

		2005	**2004**
Net income	Net income	$ 1,022,485	705,021
	Pro forma net income	1,020,336	702,836
Basic earnings per common share	Earnings per common share	3.61	2.87
	Pro forma earnings per common share	3.61	2.86
Diluted earnings per common share	Earnings per common share	3.41	2.71
	Pro forma earnings per common share	3.40	2.70

(Continued)

As of December 31, 2005 and 2004, the authorized common stock amounted to $3,500,000 thousand and $3,000,000 thousand, respectively, and the issued and outstanding common stock were $2,829,000 thousand and $2,500,000 thousand, respectively, at a par value of ten New Taiwan dollars.

(b) Capital surplus

Pursuant to the ROC Company Law, with the exception of capital surplus originating from long-term equity investments accounted for by the equity method, capital surplus can only be used to offset a deficit and cannot be used to declare cash dividends. However, capital surplus derived from additional paid-in capital and earnings from gifts received can be used to increase share capital if there is no accumulated deficit. According to current SFB regulations, capitalization of capital surplus cannot exceed a rate of ten percent and can be done only in years after the year in which such capital increase is registered with the authorities.

(c) Distribution of earnings and dividend policy

According to the ROC Company Law, Alpha must retain 10% of its annual income as a legal reserve until such retention equals the amount of authorized common stock. The retention is accounted for by transfers to a legal reserve upon approval at a stockholders' meeting. The legal reserve can only be used to offset an accumulated deficit, and when it reaches an amount equal to one-half of the paid-in share capital, one-half of legal reserve may be transferred to common stock.

After establishing the legal and special reserve, earnings may be distributed in the following order in accordance with Alpha's articles of incorporation: 10% as remuneration to directors and supervisors and 12.5% as employee bonuses. An additional reserve on certain earnings may also be retained. The remaining earnings may be distributed as stockholders' dividends.

According to ROC SFB regulations, a publicly listed company should retain a special reserve equal to any deductions from stockholders' equity related to items such as foreign currency translation adjustments before distribution of earnings. If the aforementioned deduction from stockholders' equity is reversed, the same amount could be removed from special reserve and transferred to unappropriated earnings.

Alpha has adopted the remaining dividend policy, considering the industry environment, business growth characteristics, long-term financial plan, retention of talent, and ongoing 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.

(Continued)

Information about directors' and supervisors' remuneration and employees' bonuses which were distributed from unappropriated earnings of 2004 is as follows:

Employees' bonuses—cash	$ 315
Employees' bonuses—stock	79,000
Directors' and supervisors' remuneration	12,690
	$ 92,005

Alpha distributed employees' stock bonuses constituting 3.16% of its outstanding shares as of December 31, 2004. Assuming that employees' bonuses and directors' and supervisors' remuneration were recognized as periodic expenses, net income per common share for 2005 would be adjusted to $2.49, in New Taiwan dollars.

The actual distribution of employees' bonuses and directors' and supervisors' remuneration for 2005 is subject to the proposal of the board of directors and a resolution of the stockholders. Relevant information would be available on the Market Observation Post System of the Taiwan Stock Exchange after the above-mentioned meetings.

12. Income Taxes

(a) In accordance with the Business Mergers and Acquisitions Act, D-Link separated its ODM/OEM operations from its D-Link brand business and transferred related operations' assets and liabilities to establish Alpha on August 16, 2003. The following income tax exemption and other tax benefits related to the ODM/OEM business division could be inherited by Alpha from August 16, 2003.

	Duration of tax exemption
2000 capital increase	January 1, 2001 ~ December 31, 2004
2001 capital increase	January 1, 2002 ~ December 31, 2005

Alpha meets the requirements of an "Important Strategic Industry" as prescribed by the Statute for Upgrading Industries, and is entitled to an income tax exemption on the profits generated from certain operations over a period of five years or a stockholders' investment tax credit. After discussion on June 17, 2005, the board of directors chose the stockholders' investment tax credit.

(b) The income tax return of each consolidated entity is filed separately and could not be consolidated with the filing of Alpha. Alpha is subject to a maximum income tax rate of 25 percent. Alpha's subsidiaries are subject to the current tax rate of the countries in which they operate.

(Continued)

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Income tax expense for 2005 and 2004 consisted of the following:

		2005	2004
Current	$	176,982	57,812
Deferred		28,683	(5,110)
Additional 10% surtax on undistributed earnings		16,298	13,520
	$	**221,963**	**66,222**

(c) The components of deferred income tax assets (liabilities) as of December 31, 2005 and 2004, are summarized as follows:

		2005	2004
Deferred tax assets—current:			
Investment tax credits	$	25,000	80,928
Employee benefits		1,500	1,500
Allowance for decline in value of inventories		19,502	21,837
Unrealized losses on exchange		8,083	2,378
Product warranty		65,070	31,485
Others		(49)	12
		119,106	138,140
Less: valuation allowance		(85,000)	(85,000)
Net current deferred tax assets	$	**34,106**	**53,140**
Deferred tax assets—noncurrent:			
Investment tax credits	$	81,703	45,000
Loss carryforward		13,831	9,883
Investment loss on long-term equity investments in foreign entities		25,082	3,755
Accrued pension cost		15,003	11,299
Employee benefits		4,500	6,000
Foreign currency translation adjustment		(11,635)	1,091
		128,484	77,028
Less: valuation allowance		(118,831)	(45,000)
	$	**9,653**	**32,028**
Total deferred tax liabilities	**$**	**259,474**	**215,168**
Total deferred tax asset	**$**	**11,684**	**-**
Valuation allowance for deferred tax assets	**$**	**203,831**	**130,000**

(Continued)

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(d) Alpha's investment credits from the purchase of machinery, research and development expenditure, and training expenditure under the ROC Statute for Upgrading Industries that can be utilized each year is limited to 50 percent of the year's current tax expense. However, the foregoing limit does not apply to the last year of the investment tax credit's usage period. As of December 31, 2005, the unused investment tax credits and related expiration dates were as follows:

Unused investment tax credit	Expiration date
$ 797	2006
27,064	2007
53,476	2008
25,366	2009
$ 10,6,703	

(e) As of the December 31, 2005, the Company's income tax returns had been assessed by the tax through 2003.

(f) According to the ROC Income Tax Law, losses of Redsonic as determined by the tax authorities can be carried forward to offset the future 5 years' taxable profits. As of December 31, 2004, Redsonic's unused loss carryforwards and related expiration dates were as follows:

Year of investment	Amount	Expiration date
2002 (declared)	$ 9,883	2009
2003 (estimated)	3,948	2010
	$ 13,831	

(g) Information relating to the ICA of Alpha as of December 31, 2005 and 2004, is summarized as follows:

	2005	2004
Unappropriated retained earnings:		
Earned after December 31, 1997	**$ 1,271,952**	**740,246**
ICA balance	**$ 32,173**	**14,380**
Expected creditable ratio for earnings distribution to resident stockholders	**16.13% (estimated)**	**12.90% (actual)**

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

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13. Net Income per Common Share

	2005		2004	
	Before taxes	**After taxes**	**Before taxes**	**After taxes**
Basic net income per common share:				
Net income	$ 1,244,448	1,022,485	771,243	705,021
Weighted-average common shares outstanding (thousand shares)	282,900	282,900	245,833	245,833
Basic net income per common share (NT$)	$ 4.40	3.61	3.14	2.87
Weighted-average common shares outstanding–retroactively adjusted			278,185	278,185
Basic net income per common share (NT$)–retroactively adjusted			$ 2.77	2.53
Diluted net income per common share:				
Net income when calculating diluted EPS	$ 1,244,448	1,022,485	771,243	705,021
Weighted-average common shares outstanding (thousand shares)	282,900	282,900	245,833	245,833
Dilutive potential common shares(thousand shares)	16,809	16,809	14,780	14,780
Diluted weighted-average common shares outstanding (thousand shares)	299,709	299,709	260,613	260,613
Diluted net income per common share (NT$)	$ 4.15	3.41	2.96	2.71
Diluted weighted-average common shares outstanding (thousand shares) – retroactively adjusted			292,965	292,965
Diluted net income per common share (NT$)–retroactively adjusted			$ 2.63	2.41

(Continued)

14. Financial Instruments

(a) Derivative financial instruments

Alpha used derivative financial instruments to hedge existing assets and liabilities denominated in foreign currencies. The counter-parties of the derivative contracts are reputable financial institutions. Therefore, management believes that the risk of default by the counter-parties is remote.

(1) Nontrading-purpose derivative financial instruments

(i) Foreign currency option contracts

As of December 31, 2005 and 2004, Alpha had the following foreign currency option contracts outstanding:

	December 31, 2005		
Contract	**Contract Amount (in thousands)**	**Maturity**	**Fair Value**
Put option (sell)	USD23,644	2006.01~2006.03	(3,854)
Call option (sell)	USD30,000	2006.01~2006.02	(707)
Put option (buy)	USD30,000	2006.01	16,852
Call option (buy)	USD13,644	2006.01~2006.03	1,366

	December 31, 2004		
Contract	**Contract Amount (in thousands)**	**Maturity**	**Fair Value**
Call option (sell)	USD31,000	2005.01~2005.03	(290)
Put option (buy)	USD 3,000	2005.01	1,729

As of December 31, 2005, according to an interpretation issued by the ROC ARDF, foreign currency option contracts that do not quality as effective hedges are marked to market. Based on the fair value, the unrealized loss was $4,561 thousand, recorded as unrealized loss and other financial assets.

The realized gain resulting from foreign currency option contracts was $0 and $3,877 thousand in 2005 and 2004, respectively.

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(ii) Forward foreign currency exchange contracts

As of December 31, 2005 and 2004, the notional principal of outstanding forward foreign currency exchange contracts entered into was USD75,000 thousand and USD45,000 thousand, respectively. The details of the above forward foreign currency exchange contracts' balance as of December 31, 2005 and 2004, are as follows:

		December 31, 2005	December 31, 2004
Forward foreign currency exchange contract receivables	$	2,489,490	1,463,270
Forward foreign currency exchange contract payables		(2,461,689)	(1,428,750)
Discount on forward foreign currency exchange contract		(141)	(594)
	$	**27,660**	**33,926**
Fair value	**$**	**24,887**	**30,420**

(2) Fair value and risk

(i) Fair value and risk

The fair value of derivative financial instruments represents the amount the Company may receive or pay if relevant contracts are settled at the balance sheet date, which generally includes unrealized gain or loss. The Company determines the fair value of derivative financial instruments based on the quoted market price provided by financial institutions.

(ii) Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter-parties failed to perform as contracted. Credit risk will increase as the derivative instruments become more profitable. The Company entered into the above derivative contracts with reputable financial institutions. The likelihood of default on the part of the counter-parties is considered remote.

(iii) Market price risk

Market price risk represents the accounting loss that would be recognized at the reporting date for the derivative financial instruments due to changes in market interest rates or foreign exchange rates. As the Company's derivative financial instruments are 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 is considered low.

(Continued)

(iv) Liquidity risk

Liquidity risk is 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 floating interest rates and foreign currency exchange rates. There was no significant liquidity risk for the related cash flows.

The notional principals of the above derivative contracts were only reflected in the unsettled contracts. The fair value of the financial instruments disclosed herein is not necessarily representative of the potential gain or loss that could be realized under current credit and market price risks. The Company does not believe a significant loss on the above financial derivative contracts will occur.

(b) Non-derivative financial instruments

The Company's non-derivative financial assets include cash and cash equivalents, short-term investment, notes and accounts receivable, receivables from related parties, other financial assets, and long-term equity investments. The Company's non-derivative financial liabilities consist of short-term borrowings, accounts payable, and payables to related parties.

The following methods and assumptions were used to estimate the fair value of each class of non-derivative financial instruments:

(a) The carrying amounts of cash and cash equivalents, notes and accounts receivable, other financial assets, accounts payable, payables to related parties, and short-term borrowings approximate their fair value due to the short-term nature of these items.

(b) The fair value of short-term investments is based on publicly quoted market prices. Refer to note 4 for the fair value of short-term investments as of December 31, 2004.

(c) It is not practicable to determine the fair value of long-term equity investments when these investments are not publicly traded. As of December 31, 2005 and 2004, the cumulative investment costs of long-term equity investments amounted to $16,985 thousand.

(c) Concentration of credit risk

The main existing credit risk of the Company lies in financial assets such as short-term investment and accounts receivable. Short-term investment of the Company arises from buying funds issued by companies with good credit. The Company believes its short-term investments will not result in any concentration of credit risk.

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

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However, the main customers of the Company are multinational companies or companies with good credit ratings. From time to time, the Company monitors customers' credit condition and hence has never encountered any significant loss due to credit risk. On December 31, 2005, 66% of the Company's accounts receivable belonged to a group of five customers.

Although, there is a potential for concentration of credit risk, the Company routinely assesses the likelihood of being paid the accounts receivable and makes a corresponding allowance for doubtful accounts. The Company management does not foresee any significant loss for the Company.

15. Related-party Transactions

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

Name	Relationship
D-Link Corporation (D-Link)	Parent of Alpha
D-Link International Pte Ltd. (DIPL)	Subsidiary indirectly owned by D-Link
D-Link India Ltd. (DIL)	Investee accounted for under the equity method
D-Link Electronics Equipment (Shanghai) Co., Ltd. (DEECL)	Indirectly owned subsidiary of D-Link
D-Link Electronics (Wujiang) Co., Ltd. ("DECL")	Indirectly owned subsidiary of D-Link
Xtramus Technologies (XT)	Indirectly owned subsidiary of D-Link
Bothhand Enterprise Inc. (BEI)	Investee of D-Link accounted for under the equity method
Cameo Communications, Inc. (CCI)	Investee of D-Link accounted for under the equity method
Cellvision System Inc. (CSI)	Investee of D-Link accounted for under the equity method
QuieTek Corporation (QTC)	Investee of D-Link accounted for under the equity method

(Continued)

(b) Significant transactions with related parties as of and for the years ended December 31, 2005 and 2004, are summarized below:

(1) Sales

	2005		2004	
	Amount	Percentage of net sales	Amount	Percentage of net sales
D-Link	$ 7,137,974	40	6,712,726	48
DIPL	295,659	2	-	-
DEECL	113,427	1	1,646,616	12
CCI	71,970	-	107,145	1
CSI	46,614	-	59,956	-
Others	3,294	-	16,703	-
	$ 7,668,938	43	8,543,146	61

The average credit terms extended to related parties and third-party customers were approximately 30-75 days. However, credit terms extended to related parties might be further extended when necessary.

The amount that the Company paid or received from D-Link was the balance after offsetting the receivables due from and the payables due to D-Link.

As of December 31, 2004 and 2005, receivables resulting from the above transactions were as follows:

	December 31, 2005		December 31, 2004	
	Amount	Percentage	Amount	Percentage
Accounts receivable:				
D-Link	$ 1,329,542	36	1,419,711	52
DEECL	32	-	486,738	18
CSI	8,287	-	34,469	1
CCI	209	-	33,440	1
DIPL	291,333	8	-	-
Others	1,349	-	4,538	-
	$ 1,630,752	44	1,978,896	72

(Continued)

(2) Purchases

	2005		2004	
	Amount	**Percentage of net purchases**	**Amount**	**Percentage of net purchases**
BEI	$ 129,439	1	93,610	1
CCI	37,519	-	-	-
D-Link	37,395	-	69,261	-
Others	1,788	-	9,864	-
	$ 206,141	**1**	**172,735**	**1**

There are no significant differences in purchasing terms between related parties and third-party suppliers.

As of December 31, 2004 and 2005, payables resulting from the above purchases were as follows:

	December 31, 2005		December 31, 2004	
	Amount	**Percentage**	**Amount**	**Percentage**
Accounts payable:				
BEI	$ 37,883	2	27,585	2
Others	5,851	-	6,111	-
	$ 43,734	**2**	**33,696**	**2**

(3) Service and other

The Company paid service fees to related parties for warranty services, advertising, and exhibitions. The total service fees for the years ended December 31, 2005 and 2004, and the related unpaid balance as of December 31, 2005 and 2004, are summarized below:

	2005		2004	
	Current expense	**Accrued expense**	**Current expense**	**Accrued expense**
DSI	$ -	-	29,882	-
QTC	6,204	1,141	-	-
DIL	7,226	-	14,974	14,974
D-Link	3,759	1,675	7,511	-
Others	2,053	393	-	-
	$ 19,242	**3,209**	**52,367**	**14,974**

(Continued)

(4) Acquisition/sale of property, plant and equipment

(i) Acquisition of property, plant and equipment for the years ended December 31, 2005 and 2004, and the related unpaid balance as of December 31, 2005 and 2004, are summarized below:

	2005		2004	
	Amount	**Account payable**	**Amount**	**Account payable**
D-Link				
Machinery and molds	$ -	-	74,552	-
Research and development software	-	-	78,370	-
	-	-	152,922	-
XT	35,506	-	-	-
DECL	-	-	21,206	21,206
Others	162	170	5,925	4,147
	$ 35,668	170	180,053	25,353

(ii) Sale of property, plant and equipment for the years ended December 31, 2005 and 2004, and the receivables as of December 31, 2005 and 2004, are summarized below:

	2005		2004	
	Amount	**Account receivable**	**Amount**	**Account receivable**
DECL	894	-	-	-
Others	367	-	-	-
	$ 1,261	-	-	-

As of December 31, 2005 and 2004, the unrealized inter-company profits resulting from property, plant and equipment transactions amounted to $113 thousand and $59 thousand, respectively, and were recorded as deferred inter-company profit.

(5) Others

(i) During the normal course of business, the Company paid on behalf of related parties, or vice versa. As of December 31, 2005 and 2004, the resulting net receivable (payable) amounted to ($727) thousand and $240 thousand, respectively, and was recorded as receivables from (payables to) related parties.

(ii) In 2004, D-Link transferred the inventories belonging to its ODM/OEM operations amounting to $1,580,109 thousand to Alpha.

(iii) Alpha entered into a service agreement with D-Link on December 25, 2003. Pursuant to this agreement, Alpha is obligated to provide services concerning information system

(Continued)

maintenance and human resources. In 2005 and 2004, service income amounting to $3,585 thousand and $26,700 thousand, respectively, had been received and was recorded as a reduction to service expenses. As of December 31, 2005 and 2004, receivables resulting from the above transactions amounted to $405 thousand and $0, respectively, recorded as receivables from related parties.

(iv) Alpha entered into a plant lease agreement with D-Link for the plant located in the Hsin Chu Science Park. The duration of the plant lease agreement was from January to December in 2005 and 2004. The rental expenses amounted to $7,694 thousand and $12,000 thousand in 2005 and 2004, respectively. As December 31, 2005 and 2004, payables resulting from the above transactions amounted to $999 thousand and $0, respectively, recorded as payables to related parties.

16. Pledged Assets

Assets pledged as collateral as of December 31, 2005 and 2004, are summarized as follows:

Pledged assets	Pledged to secure	December 31, 2005	December 31, 2004
Time deposit	Guarantees of import tax	$ 15,500	4,000

Alpha entered into an agreement with Chiao Tung Bank Hsin Chu Branch from 2004. Pursuant to this agreement, Alpha was provided a line of credit for customs guarantees of the Science Park amounting to $500 thousand.

17. Commitments and Contingencies

(a) Major operating leases

Lease	Lessor	Description	Rental expense in 2005	Payment method
Land	Hsinchu Science Park	Nov. 2003~Dec. 2022	$7,290 thousand	Monthly

(b) Alpha entered into several royalty agreements with certain companies. According to these agreements, Alpha is obligated to pay royalties when Alpha sells products using the technologies specified in the royalty agreements. Total royalty expenses incurred under these agreements for the years ended December 31, 2005 and 2004, amounted to $16,590 thousand and $12,745 thousand, respectively.

(c) According to D-Link's spin-off plan, unless the liabilities existing before the spin-off could be clearly separated, Alpha should take joint and several responsibility for discharging any liability that existed before the spin-off with D-Link based on Article 32 of the ROC Business Mergers and Acquisitions Act. However, the creditors' right to claim for the performance of the joint

(Continued)

and several liabilities shall become extinguished if not exercised by the creditors within two years from the date of spin-off.

18. Significant Subsequent Events

To meet the increasing market demand and improve the research capability, Alpha issued convertible bands amounting to $1,200,000 thousand on June 5, 2006. Book interest is set as 0%, and the validity period is five years. The conversion price was set at NT$37 per share at the time of issue.

19. Other Information

The information on labor, depreciation, and amortization expenses by function for the years ended December 31, 2005 and 2004, is summarized as follows:

	2005			2004		
Account	**Cost of goods sold**	**Operating expense**	**Total**	**Cost of goods sold**	**Operating expense**	**Total**
Employee expenses:						
Salaries	589,033	785,884	1,374,917	390,329	609,871	1,000,200
Labor and health insurance	23,938	53,633	77,571	27,157	45,517	72,674
Pension	20,256	28,812	49,068	14,550	31,137	45,687
Others	20,226	64,126	84,352	20,440	43,098	63,538
Depreciation	118,587	187,308	305,895	122,435	180,482	302,917
Amortization	7,117	134,612	141,729	2,163	118,173	120,336

20. Segment Financial Information

(1) Industry information

The Company principally operates in one industry segment: network communication products.

(Continued)

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(2) Geographic information

The geographical breakdown of sales for the years ended December 31, 2005 and 2004, is summarized as follows:

	2005			
	Asia	**Americas**	**Adjustments and eliminations**	**Total**
Area revenue:				
Third-party customers	$ 17,731,008	-	-	17,731,008
Inter-company	1,346,383	89,621	(1,436,004)	-
	$ 19,077,391	89,621	(1,436,004)	17,731,008
Area profit before taxes	$ 974,532	6,488	263,428	1,244,448
Area identifiable assets	$ 11,590,860	44,543	(2,971,662)	8,663,741

	2004			
	Asia	**Americas**	**Adjustments and eliminations**	**Total**
Area revenue:				
Third-party customers	$ 14,082,845	-	-	14,082,845
Inter-company	352,510	46,895	(399,405)	-
	$ 14,435,355	46,895	(399,405)	14,082,845
Area profit before taxes	$ 720,571	2,160	48,512	771,243
Area identifiable assets	$ 8,063,540	22,826	(249,226)	7,837,140

(3) Export sales

The export sales of consolidated entities located in the ROC for the years ended December 31, 2005 and 2004, are summarized below:

	2005		2004	
	Amount	**Percentage of net sales**	**Amount**	**Percentage of net sales**
Asia	$ 6,538,876	37	5,258,187	38
Americas	3,794,251	21	2,735,472	19
Europe	3,389,611	19	1,774,896	13
Others	1,376,357	8	753,257	5
	$ 15,099,095	85	10,521,812	75

(Continued)

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Notes to Consolidated Financial Statements

(4) Major customers

Individual customers representing greater than 10% of consolidated revenue in 2005 and 2004 are as follows:

	2005		2004	
	Amount	**Percentage of net sales**	**Amount**	**Percentage of net sales**
D-Link	$ 7,137,974	40	6,712,726	48
Huawei Technologies Co, Ltd.	2,188,005	12	-	-
DEECL	113,427	1	1,646,616	12
	$ 9,439,406	**53**	**8,359,342**	**60**