ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2006 and 2005
(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, 2006 and 2005, 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 consolidated subsidiaries included in the consolidated financial statements for the years ended December 31, 2006 and 2005. The total assets of these subsidiaries were NT$38,834 and NT$62,122 thousand as of December 31, 2006 and 2005, respectively, and their total revenue was NT$0 and NT$445,083 thousand for the years ended December 31, 2006 and 2005, respectively. 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 the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and 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, 2006 and 2005, 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 Report by Securities Issues, the related financial accounting standards of the Business Entity Accounting Act and of the Regulation on Business Entity Accounting Handling, and accounting principles generally accepted in the Republic of China.

Hsinchu, Taiwan (the Republic of China)
March 16, 2007

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	2006	2005
Current assets:		
Cash and cash equivalents (note 4)	$ 3,097,024	820,026
Financial assets at fair value through profit or loss－current (note 6)	944	27,660
Notes and accounts receivable, net (note 7)	2,367,749	2,072,859
Receivables from related parties (note 16)	2,719,558	1,631,157
Other financial assets－current (note 15)	15,403	25,822
Inventories (note8)	2,063,223	1,913,417
Other current assets (note 13)	106,537	61,914
Total current assets	10,370,438	6,552,855
Funds and investments:		
Other financial assets－non-current (note 15)	32,711	56,515
Long-term equity investments under cost method (note 5)	3,274	16,985
	35,985	73,496
Property, plant and equipment (notes 6 and 14):		
Buildings and improvements	1,590,789	1,538,911
Machinery and equipment	1,206,036	872,178
Other equipment	236,860	204,442
	3,033,685	2,615,531
Less: accumulated depreciation	952,873	717,919
Prepayment for purchases of machinery and equipment	56,994	22,261
Net property, plant and equipment	2,137,806	1,919,873
Other assets:		
Goodwill	134,883	-
Deferred expenses and others (note 14)	137,565	112,421
Deferred income tax assets－non-current (note 11)	481	9,653
Total other assets	272,929	122,074
Total assets	$ 12,817,158	8,668,302

Liabilities and Stockholders' Equity	2006	2005
Current liabilities:		
Short-term borrowings (note 8)	$ 660,849	19,362
Accounts payable	3,249,533	2,511,488
Payables to related parties (note 14)	81,943	48,839
Accrued expenses	852,823	853,629
Financial liabilities at fair value through profit or loss－current	8,777	4,561
Other current liabilities	402,118	374,609
Total current liabilities	5,256,043	3,812,488
Long-term liabilities:		
Financial liabilities at fair value through profit or loss－non-current	17,508	-
Bonds payable	1,076,934	-
Total long-term liabilities	1,094,442	-
Other liabilities:		
Accrued pension liabilities (note 9)	71,181	60,012
Deferred credit and others	215	1,819
Total other liabilities	71,396	61,831
Total liabilities	6,421,881	3,874,319
Stockholders' equity (note 10)**:**		
Common stock	3,552,922	2,829,000
Advance receipts for common stock	1,450	-
	3,554,372	2,829,000
Capital surplus	1,070,418	579,773
Retained earnings:		
Legal reserve	177,328	75,080
Special reserve	-	3,272
Unappropriated earnings	1,536,633	1,271,952
	1,713,961	1,350,304
Foreign currency translation adjustment	56,526	34,906
Total stockholders' equity	6,395,277	4,793,983
Total liabilities and stockholders' equity	$ 12,817,158	8,668,302

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Income

Year ended December 31, 2006 and 2005
(in thousands of New Taiwan dollars, except for net income per common share)

	2006	2005
Sales (note 14)	$ 21,469,154	17,731,008
Cost of goods sold (note 14)	18,006,885	14,450,854
Gross profit	3,462,269	3,280,154
Operating expenses (note 14)**:**		
Selling	545,330	503,165
Administrative	379,571	396,108
Research and development	1,058,020	1,073,804
	1,982,921	1,973,077
Operating income	1,479,348	1,307,077
Non-operating income:		
Interest income	43,978	14,233
Exchange gain, net	-	14,991
Gain on valuation of financial assets	-	9,820
Gain on valuation of financial liabilities	16,259	-
Other income, net	30,066	16,090
	90,303	55,134
Non-operating loss:		
Interest expense	71,473	33,603
Valuation loss on financial assets	13,711	-
Loss on disposal of property, plant and equipment	-	40,675
Exchange loss, net	59,466	-
Loss on inventory obsolescence and devaluation	117,395	43,485
	262,045	117,763
Income before income taxes	1,307,606	1,244,448
Income tax expenses (note 11)	272,724	221,963
Net income before cumulative effect of changes in accounting principles	**$ 1,034,882**	**1,022,485**
Cumulative effect of changes in accounting principles, net of tax benefit of $1,931 thousand	**13,514**	**-**
Net income	**$ 1,048,396**	**1,022,485**

	2006 Before taxes	2006 After taxes	2005 Before taxes	2005 After taxes
Net income per common share (note 12)				
Basic earnings per common share	**$ 3.92**	**3.10**	**4.40**	**3.61**
Diluted earnings per common share	**$ 3.53**	**2.79**	**4.15**	**3.41**
Basic earnings per common share－retroactively adjusted			**$ 3.87**	**3.17**
Diluted earnings per common share－retroactively adjusted			**$ 3.64**	**2.99**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Year ended December 31, 2006 and 2005
(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	Foreign currency translation adjustment	Total stockholders' equity
Balance at December 31, 2005	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 January 1, 2006	$ 2,829,000	-	579,773	75,080	3,272	1,271,952	34,906	4,793,983
Appropriation of earnings:								
Legal reserve	-	-	-	102,248	-	(102,248)	-	-
Speical reserve	-	-	-	-	(3,272)	3,272	-	-
Bonuses to employees－stock	115,000	-	-	-	-	(115,000)	-	-
Stock dividends	116,064	-	-	-	-	(116,064)	-	-
Employees' bonuses	-	-	-	-	-	(29)	-	(29)
Cash dividends	-	-	-	-	-	(435,241)	-	(435,241)
Directors' and supervisors' remuneration	-	-	-	-	-	(18,405)	-	(18,405)
Capital surplus transferred to common stock	174,097	-	(174,097)	-	-	-	-	-
Conversion options embedded in convertible bonds	-	-	113,640	-	-	-	-	113,640
Issuance of new shares for merger	217,801	-	528,192	-	-	-	-	745,993
Issuance of stock from exercising stock options	100,960	1,450	22,910	-	-	-	-	125,320
Net income for 2006	-	-	-	-	-	1,048,396	-	1,048,396
Foreign currency translation adjustments	-	-	-	-	-	-	21,620	21,620
Balance at December 31, 2006	**$ 3,552,922**	**1,450**	**1,070,418**	**177,328**	**-**	**1,536,633**	**56,526**	**6,395,277**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Year ended December 31, 2006 and 2005
(in thousands of New Taiwan dollars)

	2006	2005
Cash flows from operating activities:		
Net income	$ 1,048,396	1,022,485
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	408,463	447,624
Provision for inventory obsolescence and devaluation loss, and allowance for doubtful accounts	114,641	44,679
(Gain) loss on disposal of property, plant and equipment	(23,328)	40,675
Loss on valuation of financial assets	13,711	-
Gain on valuation of financial liabilities	(16,259)	-
Amortization of discount on bonds payable	28,853	-
Unrealized exchange loss	39,753	32,332
Increase in inventories	(139,574)	(503,685)
Decrease in financial assets at fair value through profit or loss	26,716	438,045
Decrease in deferred income tax assets	10,734	28,683
Increase in notes and accounts receivable (including related parties)	(1,174,381)	(941,540)
Increase in accounts payable (including related parties)	661,750	622,997
Increase in accrued pension	2,021	14,817
Increase in financial liabilities at fair value through profit or loss	5,343	-
Increase in other operation-related current assets	(18,667)	(8,997)
Increase (decrease) in other operation-related current liabilities	(2,413)	568,540
Cash provided by operating activities	985,759	1,806,655
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	22,497	26,180
Acquisition of property and equipment	(532,388)	(385,970)
Increase in deferred expenses	(62,378)	(36,643)
Cash flows from merger	275,226	-
Decrease (increase) in deposits and other assets	56,742	(41,188)
Cash used in investing activities	(240,301)	(437,621)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	641,903	(1,177,465)
Issuance of bonds payable	1,200,000	-
Proceeds from exercise of employee stock options	125,320	-
Payments of directors' and supervisors' remuneration and employees' bonuses	(453,675)	(263,005)
Cash provided by (used in) financing activities	1,513,548	(1,440,470)
Effect of exchange rate changes on cash	17,992	(24,064)
Net increase (decrease) in cash and cash equivalents	2,276,998	(95,500)
Cash and cash equivalents at beginning of year	820,026	915,526
Cash and cash equivalents at end of year	**$ 3,097,024**	**820,026**
Supplemental disclosures of cash flow information:		
Cash payments of interest	**$ 38,203**	**34,816**
Cash payments of income taxes	**$ 253,019**	**86,177**
Cash proceeds from merger:		
Issuance of common stock and capital surplus	$ 145,308	-
Liabilities	745,993	-
Goodwill	(134,883)	-
Acquisition of non-cash assets	(481,192)	-
Cash provided from merger	**$ 275,226**	**-**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2006 and 2005
(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 Alpha have been traded on the Taiwan Stock Exchange since December 20, 2004. A Branch was set up in Hsinchu on June 14, 2005. 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, production and sale of broadband products, computer network systems, wireless local area networks ("LANs"), and relevant spare parts.

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

As of December 31, 2006, Alpha and subsidiaries had 6,415 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

(1) The financial statements of the Company have been prepared in the local currency and in Chinese. These financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

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:

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

(Continued)

Investor	Investee	Percentage of ownership at December 31, 2006	Percentage of ownership at December 31, 2005	Main Business and Products
Alpha	Alpha Solutions Co., Ltd. (Alpha Solutions)	100	100	Networking products import and export trade and technological support
Alpha	Redsonic Technology Co. (Redsonic)	100	100	Automatic control and computer equipment assembly
Alpha	Alpha Holdings Inc. (Alpha Holdings)	100	100	Holding company
Alpha	Des Voeux Ltd. (Des Voeux)	100	100	Holding company
Alpha	Darson Trading Limited (Darson)	100	-	Goods trade service
Alpha	Alpha Global Capital Corporation Limited (Alpha Global)	100	-	Holding company
Alpha Holdings	D-Link Asia Investment Pte. Ltd. (D-Link Asia)	100	100	Goods transit service
Alpha Holdings	Tong Ying Trading (Shenzhen) Co., Ltd. (Tong Ying)	100	100	Networking products import and export trade
Alpha Holdings	Alpha Networks (Chengdu) Co., Ltd. (Alpha Chengdu)	100	100	Research development, production, and sales of networking products
Alpha Holdings	Alpha Investment Pte. Ltd. (Alpha Investment)	100	100	Holding company
Alpha Investment	Alpha Networks (Dongguan) Co., Ltd. (Alpha Dongguan)	100	-	Production and sales of networking products
D-Link Asia	Dongguan Youxun Electronics Co., Ltd. (Dongguan Youxun)	100	100	Production and sales of networking products
Des Voeux	Alpha Networks Inc. (Alpha U.S.A.)	100	100	Networking products production, marketing, and purchasing

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

Alpha incorporated Alpha Investment in 2005, and incorporated Alpha Dongguan, Darson, and Alpha Global in 2006. The accounts of Alpha Investment are included in the consolidated financial statements of the Company starting from 2005.

(2) Consolidation policy

(Continued)

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

(3) Foreign currency transactions and translation

Entities included in the consolidated financial statements record transactions in their respective functional 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 into New Taiwan dollars 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 are reflected as non-operating gain or loss in the accompanying consolidated statements of income.

Effective January 1, 2006, the Company adopted the newly revised Statement of Financial Accounting Standards No. 14 (SFAS No. 14) “The Effects of Changes in Foreign Exchange Rates”. In accordance with the newly revised SFAS No. 14, non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into NT dollars at foreign exchange rates ruling at the dates the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, then the resulting unrealized exchange gains or losses from such transactions are recorded in current profit or loss. If the non-monetary assets or liabilities are measured at fair value through stockholders’ equity, then the resulting unrealized exchange gains or losses from such transactions are recorded as a separate component of stockholders’ equity. 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.

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.

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

(Continued)

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.

(5) 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.

(6) Asset impairment

Effective January 1, 2005, the Company adopted SFAS No. 35 “The Effects of Changes in Foreign Exchange Rates”. In accordance with SFAS 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 excess of carrying value over the recoverable amount.

(7) Financial instruments

Effective January 1, 2006, the Company and subsidiaries adopted SFAS No. 34 “Financial Instruments: Recognition and Measurement”. In accordance with SFAS 34, financial instruments are classified as financial assets at fair value through profit or loss and financial assets carried at cost.

The purchase or sale of the Company and subsidiaries’ financial assets is recognized using trade-date accounting. After initial recognition, the financial instruments of the Company and subsidiaries are reported at fair value. Except for securities held for trading, all securities are recorded in the accounts along with transaction costs, including brokerage and other fees.

1. Financial assets (liabilities) at fair value through profit or loss

(Continued)

Financial assets (liabilities) at fair value through profit or loss are held with the intention of buying and selling them in a short period of time. Except for those that the Company and subsidiaries hold for hedging purposes and are considered to be effective hedging instruments, financial derivatives are classified as into this account.

2. Financial assets carried at cost

Equity investments which cannot be evaluated at fair value are booked at original cost. In addition, if there is any objective evidence of impairment, then impairment loss should be recognized, and the impairment amount cannot be reversed

The Company and subsidiaries' investments as of December 31, 2005, are classified as long-term based on the holding purpose and intention. If there is evidence indicating that a decline in value of such an investment is other than temporary, then the carrying amount of the investment is reduced to reflect its net realizable value. Stock dividends are not recognized as income but as an increase in the number of shares held. Cost of sales is determined by the weighted-average method.

(8) Derivative financial instruments

The financial derivatives held by the Company and subsidiaries are used to manage the foreign exchange rate and interest rate risk that operational, financial and investment activities are exposed to. A financial instrument which is not an effective hedging instrument is classified as a financial asset held for trading.

(9) Allowance for doubtful accounts

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

(10) 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.

(11) 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.

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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 statement of income.

(12) 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.

(13) Convertible bonds

Effective January 1, 2006, convertible bonds issued by the Company involving financial liabilities and conversion options where the bondholder could elect to covert the bond into the Company's equity instrument are treated as compound financial instruments based on SFAS No. 36. The issuance costs are allocated pro rata to liability and equity elements of the convertible bonds based on their original recognition amount. The fair value of liability elements in convertible bonds is determined by reference to the fair value of a similar liability which has no relationship with the equity element. The amount of the equity element is calculated by deducting the fair value of liability elements from the total value of convertible bonds. The interest expense of convertible bonds is calculated by the effective-interest-rate method and recorded in the consolidated statements of income over the duration of the bonds.

(14) 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

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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 Alpha and Redsonic have not revised their retirement plans in accordance with the new system, anything not covered by the current retirement plans should be handled pursuant to the ROC Labor Pension Act.

For the defined benefit plan under the ROC Labor Standards Law (the "old system"), Alpha and Redsonic comply with ROC Statement of Financial Accounting Standards (SFAS) No. 18, "Accounting for Pensions", and recognize 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. Alpha and Redsonic recognize 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, Alpha and Redsonic have 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, Alpha and Redsonic contribute 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, and therefore, no pension expense was recognized.

Alpha's foreign subsidiaries Alpha U.S.A. and Alpha Solutions have defined contribution retirement plans, and the contribution for a period is recognized as pension cost for that period.

(15) 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 the conversion work has been completed and processed products are delivered.

(16) 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

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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 Act, 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.

Income taxes are subject to local laws and calculated separately by each consolidated entity. The consolidated tax expenses are the aggregated tax expense of Alpha and subsidiaries.

(17) 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 the 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.

(18) Employee stock option plan

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

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

(Continued)

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

The Company and subsidiaries adopted SFAS No. 34 “Financial Instruments: Recognition and Measurement” and No. 36 “Financial Instruments : Disclosure and Presentation” on January 1, 2006. After reclassifying and measuring, the cumulative effect of changes in accounting principles amounted to $13,514. The adoption of the newly released SFASs resulted in an increase in net income and basic earnings per share of $16,259 and $0.05, respectively, in 2006. The financial instruments’ related information is disclosed in note 6, and if SFAS No. 34 had been adopted in 2005, the pro forma net income before tax and net income after tax would be $1,244,175 and $1,035,999, respectively.

Effective January 1, 2006, the Company and subsidiaries adopted the newly revised Statement of Financial Accounting Standards No. 14 (SFAS No. 14) “The Effects of Changes in Foreign Exchange Rates”. There was no effect on net income or basic earnings per share for the twelve months ended December 31, 2006.

4. Cash and Cash Equivalents

	December31, 2006	December31, 2005
Cash on hand	$ 49,160	2,071
Checking and saving accounts	208,084	285,272
Time deposits	1,473,570	348,683
Cash equivalents－bonds with repurchase agreements	1,366,210	184,000
	$ 3,097,024	**820,026**

5. Financial Assets

	December31, 2006	December31, 2005
Long-term equity investments under cost method－non-current－TGC, Inc.	**$ 3,274**	**16,985**

For the purpose of expanding the marketing of networking products in Mainland China, Alpha

(Continued)

invested $16,985 thousand in TGC, Inc. in September 2004. As of December 31, 2006, the Company had obtained 1.83% of the voting shares.

The stock of the Company's investee TGC, Inc. is not treaded publicly, and therefore the cost method is used to measure its value. In addition, TGC had net losses for the past years including the current year, and as a result, the Company recognized $13,711 thousand of impairment loss, classified under valuation loss on financial assets, during 2006.

6. Derivative Financial Instruments

As of December 31, 2006, the Company used derivative financial instruments to hedge existing assets and liabilities denominated in foreign currencies, as summarized below:

(i) Derivative financial assets

	December 31, 2006		
Contract	**Contract Amount (in thousands)**	**Maturity**	**Fair Value**
Put option (sell)	USD50,000	2007.01	206
Call option (sell)	USD30,000	2007.01	(568)
Put option (buy)	USD35,000	2007.01	1,306
			$ 944

	December 31, 2005		
Contract	**Contract Amount (in thousands)**	**Maturity**	**Fair Value**
Forward foreign currency exchange contract receivables	USD31,000	2006.01	$ 27,660

The above derivative financial instruments are classified under the financial assets at fair value through profit or loss－current account.

(ii) Derivative financial liabilities

Contract	**Contract Amount (in thousands)**	**Maturity**	**Fair Value**

(Continued)

Forward foreign currency exchange contract receivables	USD10,000	2007.01	2,527
Cross currency swap contract	USD20,000	2007.01	6,250
			$ 8,777

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	-
Call option (buy)	USD13,644	2006.01~2006.03	-
			$ 4,561

The above derivative financial instruments are classified under the financial liabilities at fair value through profit or loss－current account.

(iii) Embedded non-equity derivative

	December 31, 2006
Embedded non-equity derivative	$ 17,508

The above derivative financial instruments are classified under the financial liabilities at fair value through profit or loss－non-current account.

7. Notes and Accounts Receivable, Net

	December31, 2006	**2005**
Notes receivable	$ -	1,070
Accounts receivable	2,379,038	2,084,983
Less: allowance for doubtful accounts	(11,289)	(13,194)
	$ 2,367,749	2,072,859

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

8. Inventories

	December31, 2006	December31, 2005
Merchandise	$ -	6,596
Finished goods	285,380	285,016
Work in process	477,363	415,861
Raw materials	1,455,629	1,283,951
Less: Provision for devaluation	(155,149)	(78,007)
	$ 2,063,223	**1,913,417**

9. Short-term Borrowings

Short-term borrowings consisted of the following as of December 31, 2006 and 2005:

	2006 Amount	2006 Rate %	2005 Amount	2005 Rate %
Usance loan	$ 627,473	5.87%~5.9729%	-	-
Unsecured borrowings	33,376	0.58%	19,362	0.5675%
	$ 660,849		**19,362**	
Unused credit facilities	**$ 5,059,171**		**5,567,264**	

10. Bonds Payable

Alpha issued unsecured convertible bonds totaling $1,200,000 thousand on January 5, 2006, with duration of 5 years and a coupon rate of zero. The conversion price was 37 New Taiwan dollars per share when the bonds were issued. On October 1, 2006, the conversion price was adjusted to 30.8 New Taiwan dollars per share based on the prescribed formula. In addition, the bondholders may exercise their conversion options at any time during the period from one month after the issuance date to ten days before the maturity date, by converting the bonds into Alpha's common stock. The bondholders may redeem their bonds after the issuance date, at a redemption price of the par value of the bonds. Based on SFAS 36, Alpha separated the conversion option from the liability elements when the convertible bonds were issued and recorded them as equity and liability, respectively. Details are summarized as follows:

Item	
Total amount of convertible bonds	$ 1,200,000
Fair value of non-equity embedded derivatives	(32,640)

(Continued)

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 2.6%.

The above non-equity embedded derivatives are classified under the financial liabilities at fair value through profit or loss－non-current account.

The details of convertible bonds as December 31, 2006, are summarized below:

Convertible bonds	$ 1,200,000
Less: Discount	(123,066)
	$ 1,076,934

11. Retirement Plans

The following table sets forth the benefit obligation and accrued pension balance for the defined benefit plan as of December 31, 2006 and 2005:

	2006	**2005**
Benefit obligation:		
Nonvested benefit obligation	$ (287,561)	(212,981)
Vested benefit obligation	-	-
Accumulated benefit obligation	(287,561)	(212,981)
Projected future salary increase	(175,956)	(140,194)

(Continued)

Projected benefit obligation		(463,517)	(353,175)
Fair value of plan assets		287,970	262,208
Funded status		(175,547)	(90,967)
Unrecognized net loss		104,366	30,955
Accrued pension cost	$	**(71,181)**	**(60,012)**

On October 1, 2006, Alpha recognized the accrued pension cost amounting to NT$9,148 thousand for assuming the projected benefit obligation in excess of the plan assets of Cellvision from the merger.

The components of net periodic pension cost for 2006 and 2005 are summarized as follows:

		2006	**2005**
The defined benefit plan:			
Service cost	$	12,437	27,757
Interest expenses		12,361	10,000
Actual return on pension fund		(6,784)	(3,637)
Amortization		(2,634)	(5,334)
Net pension cost	**$**	**15,380**	**28,786**
The defined contribution plan:	**$**	**46,533**	**20,282**

Actuarial assumptions at December 31, 2006 and 2005, are summarized as follows:

	2006	**2005**
Discount rate	2.75%	3.50%
Rate of increase in future compensation levels	3.00%	3.00%
Expected long-term rate of return on plan assets	2.75%	3.50%

12. Stockholders' Equity

(1) Common stock

Pursuant to a stockholders' resolution on May 30, 2004, the Company increased its common stock by $329,000 through the transfer of unappropriated earnings, capital surplus and employees' bonuses of $75,000 thousand, $175,000 thousand and $79,000 thousand, respectively. The capital increase was registered with the governmental authorities.

Pursuant to a stockholders' resolution on June 9, 2006, the Company increased its common stock by $405,161 through the transfer of unappropriated earnings, capital surplus and employees'

(Continued)

bonuses of $116,064 thousand, $174,097 thousand and $115,000 thousand, respectively. The capital increase was registered with the governmental authorities.

Based on the resolution of the Company's board of directors on September 22, 2006, the Company issued 21,780 thousand shares to acquire Cellvision. This was approved by the Securities and Futures Bureau.

As of December 31, 2006, 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	10
Second issuance of employee stock options in 2004	Jan. 30, 2004	80	Jan. 30, 2004~ Jan. 29, 2010	Jan. 30, 2006~ Jan. 29, 2010	10

10,241 thousand shares of the Company's employee stock options issued in 2004 were exercised in 2006, and $125,320 thousand had been received as of December 31, 2006, of which, 145 thousand shares were still in the subscription process, and therefore, $1,450 was recorded under advance receipts for common stock.

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. The 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, 2006 and 2005, is as follows:

	2006	2005

(Continued)

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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	28,652	12.4	29,121	15.0
Granted	(10,241)	12.24	-	-
Forfeited	-	-	(469)	15.0
Outstanding at end of year	18,411	10.0	28,652	12.4
Exercisable at end of year	18,411		28,652	
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:

		2006	2005
Net income	Net income	$ 1,048,396	1,022,485
	Pro forma net income	1,046,926	1,020,336
Basic earnings per common share	Earnings per common share	3.10	3.61
	Pro forma earnings per common share	3.10	3.61
Diluted earnings per common share	Earnings per common share	2.79	3.41
	Pro forma earnings per common share	2.79	3.40

As of December 31, 2006 and 2005, the authorized common stock amounted to $5,000,000 thousand and $3,500,000 thousand, respectively, and the issued and outstanding common stock amounted to $3,552,920 thousand and $2,829,000 thousand, respectively, at a par value of ten New Taiwan dollars.

(2) Capital surplus

	2006	2005
Premium on the new issuance of common stock to acquire net assets from D-Link	$ 180,676	354,773
Capital surplus－premium	247,910	225,000
Capital surplus from merger	528,192	-

(Continued)

Conversion options of convertible options (note 10)	113,640	-
	$ 1,070,418	579,773

Pursuant to the ROC Company Act, 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.

(3) Legal reserve

According to the ROC Company Act, 10% of a company's annual income must be retained 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.

(4) Distribution of earnings and dividend policy

After establishing the legal and special reserve, earnings may be distributed in the following order in accordance with Alpha's articles of incorporation: 2% as remuneration to directors and supervisors and 12.5% as employee bonuses, and the distribution of employee bonuses could include the employees of Alpha's subsidiaries. An additional reserve on certain earnings may also be retained. The distribution of the remaining earnings together with prior years' unapproriated earnings could be proposed by the board of directors upon approval of the shareholders' meeting.

According to ROC SFB regulations, a publicly listed company should retain a special reserve equal to any deductions made to 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 in consideration of 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.

Information about Alpha's directors' and supervisors' remuneration and employees' bonuses which were distributed from unappropriated earnings of 2005 is as follows:

(Continued)

Employees' bonuses－cash	$	29
Employees' bonuses－stock		115,000
Directors' and supervisors' remuneration		18,405
	$	**133,434**

Alpha had distributed employees' stock bonuses constituting 4.07% of its outstanding shares as of December 31, 2005. 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 3.14 New Taiwan dollars.

The actual distribution of employees' bonuses and directors' and supervisors' remuneration for 2006 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.

13. Income Taxes

(1) 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
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 shareholders' meeting chose the stockholders' investment tax credit.

(2) The income tax return of each consolidated entity is filed separately and could not be consolidated with Alpha's. 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. Alpha Holdings, Des Voeux and Alpha Investment are exempted from taxes; since Alpha Chengdu and Alpha Dongguan are still in an operating loss position, no income tax is recognized.

The statutory income tax rate of consolidated entities established in Taiwan is 25%. The ROC government enacted the Income Basic Tax Act ("IBTA"), which is effective from January 1, 2006.

(Continued)

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Notes to Consolidated Financial Statements

As of December 31, 2006 and 2005, income tax expense was as follows:

		2006	2005
Current	$	251,140	176,982
Deferred		(2,395)	28,683
Additional 10% income surtax on undistributed earnings		25,910	16,298
	$	274,655	221,963

(3) 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, 2006 and 2005, was as follows:

		2006	2005
Income tax expense computed at the statutory tax rate	$	343,741	303,182
Tax effect of permanent difference		(4,628)	28,637
Investment tax credits		(180,123)	(179,097)
Tax exemption		-	(37,036)
Additional 10% surtax on undistributed earnings		25,910	16,298
Valuation allowance for deferred tax assets		45,915	73,831
Prior year's adjustment and others		43,840	16,148
Actual income tax expense	$	274,655	221,963

(4) The components of deferred income tax assets (liabilities) as of December 31, 2006 and 2005, are summarized as follows:

		2006	2005
Deferred tax assets－current:			
Investment tax credits	$	38,129	25,000
Employee benefits		1,500	1,500
Allowance for decline in value of inventories		38,768	19,502
Unrealized losses on exchange		8,450	8,083
Product warranty		76,533	65,070
Others		85	(49)
		163,465	119,106
Less: valuation allowance		(125,000)	(85,000)
	$	38,465	34,106
Deferred tax assets－non-current:			
Investment tax credits	$	62,357	81,703
Loss carryforward		11,746	13,831

(Continued)

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Notes to Consolidated Financial Statements

		2006	2005
Accrued pension cost		17,968	15,003
Investment loss on long-term equity investments in foreign entities		50,686	25,082
Employee benefits		3,000	4,500
Goodwill		(1,687)	-
Foreign currency translation adjustment		(18,843)	(11,635)
		125,227	128,484
Less: valuation allowance		(124,746)	(118,831)
	$	**481**	**9,653**
Total deferred tax assets	$	**309,222**	**259,474**
Total deferred tax liabilities	$	**20,530**	**11,684**
Valuation allowance for deferred tax assets	$	**249,746**	**203,831**

(5) The Company'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 are 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 expiration period.

According to the Merger Law, Alpha, after merging with Cellvision, is entitled to an investment tax credit amounting to $13,129 thousand.

As of December 31, 2006, Alpha's unused investment tax credits and related expiration dates were as follows:

Unused investment tax credit	Expiration year
$ 27,065	2007
34,927	2008
38,494	2009
$ 100,486	

(6) As of the December 31, 2006, Alpha's income tax returns had been assessed by the tax through 2004. However, the Cellvision's 2003 and 2002 income tax returns have been assessed additional tax payable of $4,938 and $224, respectively, by the tax authorities. The additional assessments resulted from different interpretation of the research and development subsidies and disallowed research. As of December 31, 2006, no responses from the tax authorities with regard to the appeals had been received.

(7) According to the ROC Income Tax Act, losses of Redsonic as assessed by the tax authorities can be carried forward to offset the future 5 years' taxable profits. As of December 31, 2006, Redsonic's unused loss carryforwards and related expiration years were as follows:

Year of loss	Tax effect	Expiration years
2004 (declared)	$ 9,883	2009
2005 (declared)	1,828	2010
2006 (estimated)	35	2011
	$11,746	

(8) Information relating to the ICA of Alpha as of December 31, 2006 and 2005, is summarized as follows:

	2006	2005
Unappropriated earnings:		
Earned after December 31, 1997	$ 1,536,633	1,271,952
ICA balance	$ 145,967	32,173
Expected creditable ratio for earnings distribution to resident stockholders	19.63% (estimated)	17.82% (actual)

14. Net Income per Common Share

	2006 Before taxes	2006 After taxes	2005 Before taxes	2005 After taxes
Basic net income per common share:				
Income before cumulative effect of changes in accounting principles	1,307,606	1,034,882	1,244,448	1,022,485
Cumulative effect of changes in accounting principles	15,445	13,514	-	-
Net income	$ 1,323,051	1,048,396	1,244,448	1,022,485
Weighted-average common shares outstanding (thousand shares)	337,923	337,923	282,900	282,900
Basic net income per common share (NT$)	$ 3.92	3.10	4.40	3.61

(Continued)

	2006		2005	
	Before taxes	**After taxes**	**Before taxes**	**After taxes**
Diluted net income per common share:				
Net income	1,323,051	1,048,396	1,244,448	1,022,485
Potential dilutive effects of common shares —convertible bonds	28,853	21,640	-	-
Net income when calculating diluted EPS	$ **1,351,904**	**1,070,036**	**1,244,448**	**1,022,485**
Weighted-average common shares outstanding (thousand shares)	337,923	337,923	282,900	282,900
Employee stock options assumed exercised at beginning of year (in thousand shares)	6,082	6,082	16,809	16,809
Convertible bonds assumed converted at the time of issuance (in thousand shares)	38,961	38,961	-	-
Diluted weighted-average common shares outstanding (thousand shares)	**382,966**	**382,966**	**299,709**	**299,709**
Diluted net income per common share (NT$)	$ **3.53**	**2.79**	**4.15**	**3.41**

15. Financial Instruments

(1) The carrying amounts and estimated fair value of all other financial instruments as of December 31, 2005 and 2006, were as follows:

	December 31,			
	2006		2005	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Cash and cash equivalents	$ 3,097,024	3,097,024	820,026	820,026
Notes and accounts receivable (including related parties)	5,087,307	5,087,307	3,704,016	3,704,016

(Continued)

Financial assets at fair value through profit or loss－current	944	944	27,660	27,660
Financial assets carried at cost	3,274	note2(iii)	16,985	note2(iii)
Financial liabilities:				
Short-term borrowings	660,849	660,849	19,362	19,362
Notes and accounts payable (including related parties)	3,331,476	3,331,476	2,560,327	2,560,327
Financial liabilities at fair value through profit or loss－current	8,777	8,777	4,561	4,561
Bonds payable	1,076,934	1,076,934	-	-
Financial liabilities at fair value through profit or loss－noncurrent	17,508	17,508	-	-

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

(i) The carrying amounts of notes and accounts receivable, receivables from related parties, short-term loans, notes and accounts payable, and payables to related parties approximate their fair value due to the short-term nature of these items.

(ii) The fair value of financial instruments is the active market quoted price if it is available. If the market price is unavailable, the Company will determine the fair value based on N evaluation method, and the estimates and assumptions incorporated in such evaluation are consistent with those used by market participants in their pricing of financial instruments.

(iii) It is not practicable to determine the fair values of financial assets carried at cost when these investments are not publicly traded. Refer to note 4(1) for details.

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

	December 31, 2006	
	Quoted market price	Fair value
Financial assets:		
Cash and cash equivalents	3,079,024	
Notes and accounts receivable (including related parties)		5,087,307
Financial assets at fair value through profit or loss－current		944

(Continued)

Financial liabilities:	
Short-term borrowings	660,849
Notes and accounts payable (including related parties)	3,331,476
Financial liabilities at fair value through profit or loss－current	8,777
Financial liabilities at fair value through profit or loss－noncurrent	17,508
Bonds payable	1,076,934

(4) Net loss resulting from the changes in fair value of financial assets (liabilities) based on an evaluation method amounted to $16,259 thousand for the year ended December 31, 2006.

(5) Financial risk information

(i) Market price risk

As the Company’s derivative financial instruments are for hedging purposes, the gains or losses due to changes in interest rates or foreign exchange rates will be naturally offset by the hedged items. As a result, market price risk is considered low.

(ii) Credit risk

The Company’s potential credit risk is derived primarily from cash and cash equivalents, and accounts receivable. The Company maintains its cash in various creditworthy financial institutions. As a result, the Company believes that there is no concentration of credit risk in cash and cash equivalents.

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, credit risks of the Company are mainly influenced by the networking industry.

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 conditions and hence has never encountered any significant loss due to credit risk. On December 31, 2006, 70% 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 collectibility of the accounts receivable and makes a corresponding allowance

(Continued)

for doubtful accounts. The Company management does not foresee any significant loss for the Company.

(iii) Liquidity risk

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

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 is no significant liquidity risk for the related cash flows. The Company has liquidity risk when investing in financial assets carried at cost because they are not publicly traded.

16. Related-party Transactions

(1) 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 System Inc. (DLSI)	An indirectly owned subsidiary of D-Link
Cameo Communications, Inc. (CCI)	Investee of D-Link accounted for under the equity method
Xtramus Technologies (XT)	An indirectly owned subsidiary of D-Link
Bothhand Enterprise Inc. (BEI)	Investee of D-Link accounted for under the equity method
D-Link International Pte Ltd. (DIPL)	An indirectly owned subsidiary of D-Link
D-Link Electronics (Wujiang) Co., Ltd. (“DECL”)	An indirectly owned subsidiary of D-Link

(2) Significant transactions with related parties as of and for the years ended December 31, 2006 and 2005, are summarized below:

(a) Sales

	2006		2005	
	Amount	Percentage of net sales	Amount	Percentage of net sales
DIPL	$ 6,912,260	38	295,659	2
D-Link	1,723,034	2	7,137,974	40
DLSI	1,039,699	5	-	-
Others	20,480	-	235,305	1

(Continued)

	$ 9,695,473	45	7,668,938	43

As of December 31, 2006 and 2005, receivables resulting from the above transactions were as follows:

	December 31, 2006		December 31, 2005	
	Amount	**Percentage**	**Amount**	**Percentage**
Accounts receivable:				
DIPL	$ 2,113,739	42	291,333	8
D-Link	160,435	3	1,329,542	36
DLSI	430,923	8	-	-
Others	13,568	-	9,877	-
	$ 2,718,665	53	1,630,752	44

The credit policy for sales to third-party customers was 30~75 days, but for related parties was 45~90 or 30~75 days. However, credit terms 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.

If the account receivable from related parties arising from the above transactions is outstanding over 90 days, the balance is transferred to other financial assets－current account. As of December 31, 2006, the balance was as below:

	December 31, 2006
D-Link	$ 8,409

(b) Purchases

	2006		2005	
	Amount	**Percentage of net purchases**	**Amount**	**Percentage of net purchases**
BEI	$ 179,252	1	129,439	1
D-Link	20,396	-	37,395	-
Others	11,647	-	39,307	-
	$ 211,295	1	206,141	1

(Continued)

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

As of December 31, 2006 and 2005, payables resulting from the above purchases were as follows:

	December 31, 2006		December 31, 2005	
	Amount	Percentage	Amount	Percentage
Accounts payable:				
BEI	$ 54,769	2	37,883	2
Others	202	-	5,851	-
	$ 54,971	2	43,734	2

(c) 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, 2006 and 2005, are summarized below:

	2006		2005	
	Current expense	Accrued expense	Current expense	Accrued expense
DIPL	$ 24,749	8,628	-	-
D-Link	19,456	12,600	3,759	1,675
Others	8,698	1,781	15,483	1,534
	$ 52,903	23,009	19,242	3,209

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

(i) Acquisition of property, plant and equipment for the years ended December 31, 2006 and 2005, and the related unpaid balance as of December 31, 2005 and 2004, are summarized below:

	2006		2005	
	Amount	Account payable	Amount	Account payable
XT	$ 23,779	-	35,506	-
Others	1,520	210	162	170
	$ 25,299	210	35,668	170

(ii) Sales of property, plant and equipment for the years ended December 31, 2006 and 2005, and the receivables as of December 31, 2005 and 2004, are summarized below:

(Continued)

	2006		2005	
	Amount	Account receivable	Amount	Account receivable
XT	$ 850	893	-	-
DECL	-	-	894	-
Others	-	-	367	-
	$ 850	893	1,261	-

As of December 31, 2006 and 2005, the unrealized inter-company profits resulting from property, plant and equipment transactions amounted to $215 thousand and $113 thousand, respectively, and were recorded as deferred credit.

(e) Others

(i) During the normal courses of business, the Company paid on behalf of related parties, or vice versa. As of December 31, 2005, the resulted net payable amounted to $727 thousand, and was recorded as payable to related parties.

(ii) 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 maintenance and human resources. In 2006 and 2005, service income amounting to $3,585 thousand, was received and was recorded as a reduction of service expenses. As of December 31, 2006, receivables resulting from the above transactions amounted to $405 thousand, recorded as receivables from related parties.

(iii) Alpha entered into a plant lease agreement with D-Link for the plant located in the Hsin Chu Science Park and for the Taipei Neihu office. The rental expenses amounted to $6,934 thousand and $7,694 thousand in 2006 and 2005, respectively. As December 31, 2006 and 2005, the payable resulting from the above transactions amounted to $3,753 thousand and $999, respectively, recorded in payable to related parties.

17. Pledged Assets

Assets pledged as collateral as of December 31, 2006 and 2005, are summarized as follows:

Pledged assets	Pledged to secure	December 31, 2006	December 31, 2005
Time deposit	Guarantees of import tax	$ 15,500	15,500

18. Commitments and Contingencies

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Major operating leases

	Lessor	Description	Rental expense in 2006	Payment method
Land	Hsinchu Science Park	Nov. 2003~Dec. 2022	$7,352 thousand	Monthly

According to the lease agreement, rental will be adjusted when the land value is adjusted by the government.

(2) As of December 31, 2006, Alpha had outstanding letters of credit amounting to approximately $3,008 thousand.

(3) 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, 2006 and 2005, amounted to $9,876 thousand and $16,590 thousand, respectively.

19. Other Information

(1) The information on employee, depreciation, and amortization expenses by function for the years ended December 31, 2006 and 2005, is summarized as follows:

	2006			2005		
Account	**Cost of goods sold**	**Operating expense**	**Total**	**Cost of goods sold**	**Operating expense**	**Total**
Employee expenses:						
Salaries	646,003	757,449	1,403,452	589,033	785,884	1,374,917
Labor and health insurance	25,338	58,613	83,951	23,938	53,633	77,571
Pension	21,903	40,010	61,913	20,256	28,812	49,068
Others	24,922	79,084	104,006	20,226	64,126	84,352
Depreciation	145,708	195,781	341,489	118,587	187,308	305,895
Amortization	243	66,731	66,974	7,117	134,612	141,729

(2) Reclassifications

(Continued)

Upon the adoption of SFAS No. 34, certain accounts in the consolidated financial statements as of and for the year ended December 31, 2005, were reclassified to conform with the consolidated financial statements as of and for the year ended December 31, 2006. Refer to notes 3, 4(1), and 4(12).

(3) Merger

Based on the resolution of Alpha's board of directors on April 17, 2006, Alpha was the surviving corporation. Alpha issued eighteen shares in exchange for ten shares of Cellvision. The Company issued 21,780 thousand shares, in the amount of $217,801 thousand, to exchange for all of Cellvision's stock.

The Company adopted ROC SFAS No. 25, "Business Combinations", to account for the purchase of Cellvision. As the Company's common shares were publicly listed on the Taiwan Stock Exchange, the fair value of Cellvision's net assets was estimated based on the company's market price. The market price was the average closing price within a reasonable period before and after April 17, 2006, the date of announcing this transaction. The amount of goodwill is the difference between the purchasing cost and the fair value of Cellvision's net assets.

The balance sheet and goodwill of Cellvision on October 1, 2006, were as follows:

Cost of merger	$		745,993
Current assets		673,500	
Fixed assets		20,461	
Other assets		62,457	
Current liabilities		(145,308)	
Net assets			611,110
Goodwill	$		134,883

Assuming the Company merged with Cellvision at the beginning of 2006 and 2005, the results of its operations would be as follows:

	December 31		
		2006	2005
Net operating revenue	$	22,227,773	18,703,014

(Continued)

Cost of sales	18,515,996	15,122,420
Gross profit	3,711,777	3,580,594
Operating expenses	2,111,669	2,145,746
Net income	1,142,651	1,118,052
Basic earnings per share	3.23	3.25

20. Segment Financial Information

(1) Industry information

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

(2) Geographic information

The geographical breakdown of sales for the years ended December 31, 2006 and 2005, is summarized as follows:

	2006			
	Asia	**Americas**	**Adjustments and eliminations**	**Total**
Area revenue:				
Third-party customers	$ 21,469,154	-	-	21,469,154
Inter-company	1,898,860	100,073	(1,998,933)	-
	$ 23,368,014	**100,073**	**(1,998,933)**	**21,469,154**
Area profit before taxes	**$ 1,038,719**	**4,764**	**264,123**	**1,307,606**
Area identifiable assets	**$ 116,248,718**	**24,668**	**(3,456,228)**	**12,817,158**

2005

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	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	**$ 11,595,421**	**44,543**	**(2,971,662)**	**8,668,3021**

(3) Export sales

The export sales of consolidated entities located in the ROC for the years ended December 31, 2006 and 2005, are summarized below:

	2006		2005	
	Amount	Percentage of net sales	Amount	Percentage of net sales
Asia	$ 6,298,657	30	6,538,876	37
Americas	5,007,456	24	3,794,251	21
Europe	5,549,700	27	3,389,611	19
Others	1,271,562	6	1,376,357	8
	$ 18,127,375	**87**	**15,099,095**	**85**

(4) Major customers

Individual customers representing greater than 10% of consolidated revenue in 2006 and 2005 were as follows:

	2006		2005	
	Amount	Percentage of net sales	Amount	Percentage of net sales
DIPL	$ 6,612,260	32	295,659	2
Huawei Technologies Co, Ltd.	1,834,674	9	2,188,005	12
D-Link	1,723,034	8	7,137,974	40
	$ 10,469,968	**49**	**9,621,638**	**54**

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