ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2009 and 2008
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Alpha Networks Inc.:

We have audited the consolidated balance sheets of Alpha Networks Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, 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 the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accounts and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alpha Networks Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2008, the Company and subsidiaries adopted SFAS No. 39 "Share-based Payment" and Interpretation No. (96) 052 issued by the Accounting Research and Development Foundation to measure and recognize employee bonuses and remuneration to directors and supervisors, resulting in a decrease in net income and basic earnings per common share－retroactively adjusted of NT$134,752 thousand and NT$0.29, respectively, for the year ended December 31, 2008.

Hsinchu, Taiwan (Republic of China)
February 4, 2010

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

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

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2009 and 2008
(Expressed in thousands of New Taiwan dollars)

Assets	2009	2008
Current assets:		
Cash and cash equivalents (note 4)	$ 4,808,984	3,411,566
Financial assets at fair value through profit or loss－current (note 6)	30,705	27,504
Notes and accounts receivable, net (note 7)	1,849,069	2,092,306
Receivables from related parties (note 17)	2,784,147	2,883,486
Other financial assets－current	43,300	41,003
Inventories (note 8)	2,411,445	1,980,875
Other current assets (note 14)	117,928	163,598
	12,045,578	10,600,338
Funds and investments:		
Other financial assets－noncurrent (note 18)	29,453	31,933
Available-for-sale financial assets－noncurrent (note 5)	332,093	198,384
Financial assets carried at cost－noncurrent (note 5)	9,996	9,996
	371,542	240,313
Property, plant and equipment (note 17):		
Buildings and improvements	1,920,803	1,658,775
Machinery and equipment	1,466,509	1,463,614
Transportation, office and other equipment	277,161	268,616
	3,664,473	3,391,005
Less: accumulated depreciation	1,535,432	1,337,313
Prepayment for equipment and construction in progress	14,840	282,543
	2,143,881	2,336,235
Intangible assets:		
Goodwill	140,913	140,913
Core technologies (note 9)	20,148	31,660
Land use right (note 9)	147,320	11,362
	308,381	183,935
Other assets (note 7)**:**		
Deferred expenses and others	90,532	109,994
Total assets	$ 14,959,914	13,470,815

Liabilities and Stockholders' Equity	2009	2008
Current liabilities:		
Short-term borrowings (note 10)	$ 145,824	134,092
Accounts payable	4,100,767	3,041,318
Payables to related parties (note 17)	83,463	79,514
Income tax payable	169,365	339,663
Accrued expenses	619,445	574,108
Payroll and bonus payable	450,718	479,784
Financial liabilities at fair value through profit or loss－current (note 6)	13,473	1,111
Other current liabilities	137,601	277,226
	5,720,656	4,926,816
Long-term liabilities:		
Bonds payable (note 11)	378,883	369,993
Other liabilities:		
Accrued pension liabilities (note 12)	111,048	99,138
Deferred income tax liabilities – noncurrent (note 14)	29,535	74,320
Miscellaneous liabilities – other	333	103
	140,916	173,561
Total liabilities	6,240,455	5,470,370
Stockholders' equity (note 13)**:**		
Common stock	4,642,035	4,487,737
Advance receipts for common stock	12,540	610
	4,654,575	4,488,347
Capital surplus	1,625,768	1,539,841
Retained earnings:		
Legal reserve	516,800	411,544
Special reserve	42,504	-
Unappropriated earnings	1,859,557	1,625,411
	2,418,861	2,036,955
Cumulative foreign currency translation adjustment	143,560	191,618
Unrealized gain or loss on available-for-sale financial assets	(100,413)	(234,122)
Treasury stock	(28,962)	(28,962)
Minority interest	6,070	6,768
Total stockholders' equity	8,719,459	8,000,445
Commitments and contingencies (note 19)		
Total liabilities and stockholders' equity	$ 14,959,914	13,470,815

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2009 and 2008
(Expressed in thousands of New Taiwan dollars, except for net income per common share)

	2009		2008	
Sales (note 17)	$ 17,462,187		24,655,873	
Less: sales returns and allowances	140,492		333,666	
	17,321,695		24,322,207	
Cost of goods sold (notes 8 and 17)	13,961,932		19,950,730	
Gross profit	3,359,763		4,371,477	
Operating expenses (note 17)**:**				
Selling	531,976		996,327	
General and administrative	509,960		460,399	
Research and development	1,499,417		1,419,618	
	2,541,353		2,876,344	
Operating income	818,410		1,495,133	
Non-operating income and gains:				
Interest income	24,411		107,048	
Dividend revenue	4,381		18,025	
Foreign currency exchange gain, net	59,028		115,978	
Gain on valuation of financial liabilities	127,462		-	
Other income, net	27,153		40,134	
	242,435		241,051	
Non-operating expenses and loss:				
Interest expense (note 11)	32,399		105,258	
Impairment loss on financial assets (note 5)	34,690		-	
Loss on valuation of financial assets	-		136,695	
Other loss, net	-		220,806	
	67,089		462,759	
Income before income taxes	993,756		1,273,425	
Income tax expense (note 14)	166,673		220,090	
Net income	**$ 827,083**		**1,053,335**	
Attributable to:				
Equity holders of the parent company	$ 828,961		1,052,563	
Minority interest	(1,878)		772	
	$ 827,083		**1,053,335**	
Earnings per share (in New Taiwan dollars) (note 15)	**Before taxes**	**After taxes**	**Before taxes**	**After taxes**
Basic earnings per share	**$ 2.17**	**1.80**	**2.84**	**2.35**
Basic earnings per share－retroactively adjusted			**$ 2.78**	**2.30**
Diluted earnings per share	**$ 2.08**	**1.73**	**2.70**	**2.23**
Diluted earnings per share－retroactively adjusted			**$ 2.65**	**2.19**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2009 and 2008

(Expressed in thousands of New Taiwan dollars)

				Retained Earnings							
	Common stock	**Advance receipts for common stock**	**Capital surplus**	**Legal reserve**	**Special reserve**	**Unappropriated earnings**	**Cumulative foreign currency translation adjustment**	**Unrealized gain or loss on available-for-sale financial assets**	**Treasury stock**	**Minority interest**	**Total**
Balance at January 1, 2008	$ 4,062,872	53,164	1,522,981	282,168	-	1,870,227	111,307	323	-	5,996	7,909,038
Appropriation of earnings:											
Legal reserve	-	-	-	129,376	-	(129,376)	-	-	-	-	-
Stock dividends	125,011	-	-	-	-	(125,011)	-	-	-	-	-
Bonuses to employees－stock	186,000	-	-	-	-	(186,000)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(833,403)	-	-	-	-	(833,403)
Employee bonuses	-	-	-	-	-	(301)	-	-	-	-	(301)
Directors' and supervisors' remuneration	-	-	-	-	-	(23,288)	-	-	-	-	(23,288)
Issuance of stock for conversion of bonds	25,474	(25,474)	-	-	-	-	-	-	-	-	-
Conversion price reset of bonds payable	-	-	16,860	-	-	-	-	-	-	-	16,860
Foreign currency translation adjustments	-	-	-	-	-	-	80,311	-	-	-	80,311
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	(234,445)	-	-	(234,445)
Issuance of stock for employee stock options exercised	88,380	(27,080)	-	-	-	-	-	-	-	-	61,300
Purchase of treasury stock	-	-	-	-	-	-	-	-	(28,962)	-	(28,962)
Net income for 2008	-	-	-	-	-	1,052,563	-	-	-	772	1,053,335
Balance at December 31, 2008	4,487,737	610	1,539,841	411,544	-	1,625,411	191,618	(234,122)	(28,962)	6,768	8,000,445
Appropriation of earnings:											
Legal reserve	-	-	-	105,256	-	(105,256)	-	-	-	-	-
Special reserve	-	-	-	-	42,504	(42,504)	-	-	-	-	-
Stock dividends	89,411	-	-	-	-	(89,411)	-	-	-	-	-
Bonuses to employees－stock	57,066	-	85,030	-	-	-	-	-	-	-	142,096
Cash dividends	-	-	-	-	-	(357,644)	-	-	-	-	(357,644)
Issuance of stock for conversion of bonds	491	-	756	-	-	-	-	-	-	-	1,247
Foreign currency translation adjustments	-	-	-	-	-	-	(48,058)	-	-	-	(48,058)
Issuance of stock for employee stock options exercised	7,330	11,930	-	-	-	-	-	-	-	-	19,260
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	133,709	-	-	133,709
Adjustments to capital surplus for changes in investee's equity	-	-	141	-	-	-	-	-	-	48	189
Increase in minority interest	-	-	-	-	-	-	-	-	-	1,132	1,132
Net income for 2009	-	-	-	-	-	828,961	-	-	-	(1,878)	827,083
Balance at December 31, 2009	**$ 4,642,035**	**12,540**	**1,625,768**	**516,800**	**42,504**	**1,859,557**	**143,560**	**(100,413)**	**(28,962)**	**6,070**	**8,719,459**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2009 and 2008
(Expressed in thousands of New Taiwan dollars)

	2009	2008
Cash flows from operating activities:		
Net income attributed to parent company's shareholders	$ 828,961	1,052,563
Net income (loss) attributed to minority interest	(1,878)	772
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	462,668	455,882
Provision for allowance for doubtful accounts	6,613	450,684
Provision for inventory obsolescence and devaluation loss	93,502	182,384
Loss on impairment of bond investment without market price	34,690	-
Effect of valuation of financial assets and liabilities at fair value through profit or loss	(17,232)	(26,393)
Loss (gain) on disposal of property, plant and equipment	1,707	(7,294)
Amortization of discount and loss (gain) on repurchase or conversion of bonds payable	10,137	25,270
Expenses with no effect on cash flow	1,180	-
Increase in inventories	(523,694)	(18,637)
Decrease in financial assets at fair value through profit or loss	27,504	510
Decrease (increase) in deferred income tax assets	515	(44,373)
Decrease in notes and accounts receivable (including related parties)	336,004	244,029
Increase (decrease) in accounts payable (including related parties)	1,063,398	(565,821)
Increase in accrued pension	11,910	26,006
Decrease in financial liabilities at fair value through profit or loss	(1,111)	(13,460)
Decrease (increase) in other operations-related current assets	10,087	(18,959)
Increase (decrease) in other operations-related current liabilities	(151,556)	160,120
Cash provided by operating activities	2,193,405	1,903,283
Cash flows from investing activities:		
Proceeds from return of investments in available-for-sale financial assets	-	12,000
Increase in bond investment without market price	(34,690)	-
Proceeds from disposal of property and equipment	5,160	2,528
Acquisition of property and equipment	(220,937)	(397,006)
Increase in available-for-sale financial assets－noncurrent	-	(387,529)
Decrease in restricted cash in bank	8,840	3,299
Decrease (increase) in deposits and other assets	(6,360)	955
Increase in intangible assets and deferred expenses	(193,670)	(65,600)
Increase in guarantee deposit received	277	-
Cash used in investing activities	(441,380)	(831,353)
Cash flows from financing activities:		
Increase in short-term borrowings	11,732	31,528
Proceeds from issuance of stock for employee stock options exercised	19,260	61,300
Redemption of bonds payable	-	(27,898)
Repurchase of treasury stock	-	(28,962)
Payments of cash dividends, directors' and supervisors' remuneration, and employee bonuses	(357,644)	(856,992)
Cash used in financing activities	(326,652)	(821,024)
Effect of exchange rate changes on cash	(27,955)	25,254
Net increase in cash and cash equivalents	1,397,418	276,160
Cash and cash equivalents at beginning of year	3,411,566	3,135,406
Cash and cash equivalents at end of year	$ 4,808,984	3,411,566
Supplemental disclosures of cash flow information:		
Cash payments of interest	$ 26,689	87,844
Cash payments of income taxes	$ 314,793	204,299
Supplementary disclosure of non-cash investing and financing activities:		
Capitalization of employee bonuses	142,096	-
Convertible bonds converted into common stock and capital surplus	$ 1,247	-

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008
(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 ("TSE") since December 20, 2004. Based on the resolution of Alpha's board of directors on April 17, 2006, Alpha merged with Cellvision System Inc. (Cellvision) on October 1, 2006. Cellvision was eliminated in the procedure.

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

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

As of December 31, 2009, Alpha and subsidiaries had 5,616 employees.

2. Summary of Significant Accounting Policies

(1) 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.

Investor	Investee	Percentage of ownership at December 31, 2009	Percentage of ownership at December 31, 2008	Business nature
Alpha	Alpha Holdings Inc. (Alpha Holdings)	100	100	Investment holding
Alpha	Alpha Solutions Co., Ltd. (Alpha Solutions)	100	100	Sale of network equipment and technical services
Alpha	Des Voeux Ltd. (Des Voeux)	-	100	Investment holding

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Investee	Percentage of ownership at December 31, 2009	Percentage of ownership at December 31, 2008	Business nature
Alpha	Alpha Networks Inc. (Alpha USA)	100	-	Manufacture and sale of network equipment and procurement service
Alpha	Darson Trading Limited (Darson)	100	100	Shipping and transportation service
Alpha	Net Mag Technology Corp. (Net Mag)	100	100	Testing and maintaining electrical equipment
Alpha	Aescu Technology Inc. (Aescu)	84.65	79.97	Sale of equipment for medical treatment
Alpha	Alpha Networks (Hong Kong) Limited (Alpha HK)	100	100	Investment holding
Alpha	Alpha Technical and Services Inc. (ATS)	100	-	Post-sale service
Alpha Holdings	D-Link Asia Investment Pte. Ltd. (D-Link Asia)	100	100	Investment for manufacturing business
Alpha Holdings	Alpha Networks (Chengdu) Co., Ltd. (Alpha Chengdu)	100	100	Research, development, production and sale of network products
Alpha Holdings	Alpha Investment Pte. Ltd. (Alpha Investment)	100	100	Investment holding
Alpha Investment	Mirac Networks (Dongguan) Co., Ltd. (Mirac)	100	100	Production and sale of network products

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Investee	Percentage of ownership at December 31, 2009	Percentage of ownership at December 31, 2008	Business nature
D-Link Asia	DongguanYouxun Electronics Co., Ltd. (Dongguan Youxun)	100	100	Production and sale of interface cards
Alpha HK	Alpha Networks (Changshu) Co., Ltd. (Alpha Changshu)	100	-	Research, development, production and sale of network products
Des Voeux	Alpha Networks Inc. (Alpha USA)	-	100	Manufacture and sale of network equipment and procurement service

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

Alpha incorporated Alpha HK in the first half of 2008, and indirectly invested in Alpha Changshu in the first quarter of 2009. In addition, the board of directors approved the modification of investment structure in March 2009. As a result, Alpha directly invested in Alpha USA, instead of through Des Voeux. These subsidiaries are included in the consolidated financial statements of the Company starting from 2008 and 2009, respectively.

Alpha Global and Des Voeux registered for liquidation with the governmental authorities; therefore, these entities were effectively deconsolidated in October 2008 and in March 2009, respectively.

(2) Basis of consolidation

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

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(3) Use of estimates

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

(4) Foreign currency transactions and translation

Entities included in the consolidated financial statements record transactions in their respective functional currencies. Non-derivative foreign currency transactions are recorded at the exchange rates 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 foreign-currency-denominated monetary assets or liabilities are reflected as non-operating gains or losses in the accompanying consolidated statements of income.

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 New Taiwan dollars at the rates prevailing at the balance sheet date. If the non-monetary assets or liabilities are measured at fair value through profit or loss, 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.

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

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

Cash or cash equivalents that 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; all other assets are recorded as noncurrent assets.

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

(6) Asset impairment

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) Cash equivalents

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

(8) Financial instruments

The Company adopted transaction (or settlement) date accounting for financial instrument transactions. Upon initial recognition, financial instruments are evaluated at fair value. Except for financial instruments held for trading purposes, acquisition cost or issuance cost is added to the originally recognized amount.

After initial recognition, the Company classifies the financial instruments according to their purpose of holding or issuance as follows:

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

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

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2. Available-for-sale financial assets

If there is objective evidence that a financial asset is impaired, a loss is recognized. If, in a subsequent period, events or changes in circumstances indicate that the amount of impairment loss has decreased, the previously recognized impairment loss on equity securities is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity, while for debt securities, the reversal is allowed through profit or loss provided that the decrease is clearly related to an event which occurs after the impairment loss is recognized.

3. Financial assets carried at cost

Equity investments which could not be measured at fair value with reasonable certainty are carried at their initial cost. However, if there is objective evidence of impairment, a loss is recognized. Restoration of a previously recognized impairment loss is prohibited.

4. Bond investment without market price

Bond investment without market price is measured at amortized cost using the effective interest method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount of the financial asset that exceeds the amortized cost that would have been determined if no impairment loss had been recognized.

(9) Allowance for doubtful receivables

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

(10) Inventories

Inventories are measured at the lower of cost or net realizable value (except for the inventory costs of Aescu, which are measured by the weighted-average method), including necessary costs to be saleable and freight fees. The cost of inventories is based on the standard cost method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. The difference between standard cost and actual cost is recognized as cost of goods sold.

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Prior to 2008, inventories were stated at the lower of cost or market value. Cost was determined by the weighted-average method. The market value of raw materials was determined on the basis of replacement cost, and the market values of finished goods and work in process were 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.

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. At the end of each fiscal year, the Company evaluates the remaining useful lives, depreciation method, and residual value of fixed assets. Any change in the remaining useful lives, depreciation method, and residual value is treated as a change of accounting estimate.

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

(a) Buildings and improvements: 5~50 years.
(b) Machinery and equipment: 3~8 years.
(c) Transportation: 3~5 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) Intangible assets

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

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) Its intention to complete the intangible asset and use or sell it.

(c) Its ability to use or sell the intangible asset.

(d) How the intangible asset will generate probable future economic benefits.

(e) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.

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(f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

(13) Deferred expenses

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

(14) Convertible bonds

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

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

(Continued)

(15) Retirement plan

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

In accordance with the Plan, Alpha’s employees are eligible for retirement or are required to retire after meeting certain age or service requirements. 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. The Plan is funded by contributions made by Alpha. Beginning July 1, 2005, pursuant to the ROC Labor Pension Act (hereinafter referred to as the “New Act”), employees who elected to participate in the new system or joined the Company after July 1, 2005, are covered by a defined contribution plan under the New Act. 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.

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

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

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

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

(Continued)

(16) Share-based payment

The Company has share-based payment agreements. The equity instruments under the agreement were granted after January 1, 2008. The accounting treatments of shared-based payment transactions are according to SFAS No. 39. However, the pro forma net income and earnings per share, and the nature and the scope of the share-based payment must be disclosed.

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

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

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

(17) Treasury stock

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

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

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

(18) 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.

(19) Employee bonuses and remuneration to directors and supervisors

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

(20) 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 and 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.

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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

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.

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

(21) Earnings per share ("EPS")

The Company's convertible bonds, employee stock options, and employee stock bonuses to be issued after January 1, 2009, are potential common stock. In computing diluted EPS, net income (loss) and the weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common stock, assuming dilutive share equivalents had been issued. The weighted-average outstanding shares are retroactively adjusted for the effects of stock dividends transferred from retained earnings and capital surplus to common stock, and employee stock bonuses issued prior to January 1, 2008. Effective January 1, 2008, EPS are not retroactively adjusted for employee stock bonuses.

3. Reasons for and Effect of Changes in Accounting Principle

Effective January 1, 2008, the Company adopted SFAS No. 39 "Share-based Payment" and ARDF Interpretation No. (96) 052 to measure, recognize, classify and disclose employee bonuses and remuneration to directors and supervisors, resulting in a decrease in net income and retroactively adjusted basic earnings per common share of NT$134,752 thousand and NT$0.29, respectively, for the year ended December 31, 2009. In addition, pursuant to ARDF Interpretation No. (97) 169, the computation of basic and diluted EPS is no longer required to retroactively adjust for the effects of employee stock bonuses approved at the stockholders' meetings held in and after year 2009. If there is a dilutive effect from a possible increase in stock from the issuance of employee bonuses distributed out of the earnings, then employee stock bonuses are included in diluted EPS.

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company adopted, effective January 1, 2009, Republic of China Statement of Financial Accounting Standards ("ROC SFAS") No. 10 "Inventories," as amended, resulting in a decrease in net income and basic earnings per common share of NT$14,236 thousand and NT$0.03, respectively, for the year ended December 31, 2009.

4. Cash and Cash Equivalents

	December 31, 2009	December 31, 2008
Cash on hand	$ 8,566	4,704
Checking and savings accounts	920,690	595,621
Time deposits	3,442,457	2,452,147
Cash equivalents – bonds with repurchase agreements	437,271	359,094
	$ 4,808,984	**3,411,566**

5. Financial Assets

	December 31, 2009	December 31, 2008
Bond investment without market price – current:		
Bonds – iStor Networks Inc.	$ 34,690	-
Less: accumulated impairment – bond investments without market price	(34,690)	-
	$ -	**-**
Available-for-sale financial assets – noncurrent:		
Publicly traded stock – D-Link Corp.	**$ 332,093**	**198,384**
Financial assets carried at cost – noncurrent:		
TGC, Inc.	$ -	-
QuieTek Corp.	9,996	9,996
	$ 9,996	**9,996**

The bonds of iStor held by the Company are not traded publicly, and therefore, the value of the bonds is measured based on an amortization schedule. Alpha recognized impaired loss of $34,690 thousand on the valuation of the bonds in the year ended December 31, 2009.

For the purpose of expanding the marketing of networking products in Mainland China, Alpha invested $16,985 thousand in TGC, Inc. in September 2004. As of December 31, 2009, the Company had obtained 1.83% of the voting shares.

For the purpose of new product testing and certification, Alpha invested $9,996 thousand in QuieTek Corp. in April 2007. As of December 31, 2009, the Company had obtained 3.5% of the voting shares.

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

6. Derivative Financial Instruments

As of December 31, 2009 and 2008, the Company used derivative financial instruments to hedge existing assets and liabilities denominated in foreign currency, as summarized below:

(i) Derivative financial assets

Contract	December 31, 2009 Notional amount (in thousands)	Maturity	Carrying amount
Call option (sell USD)	USD 125,000	2010.01~2010.03	$ (3,812)
Put option (sell USD)	USD 125,000	2010.01~2010.03	(44,587)
Put option (buy USD)	USD 125,000	2010.01~2010.03	77,116
Forward foreign currency exchange	USD 3,000	2010.01	219
Cross currency swap contract	USD 5,000	2010.01	1,769
			$ 30,705

Contract	December 31, 2008 Notional amount (in thousands)	Maturity	Carrying amount
Call option (sell USD)	USD 135,000	2009.01~2009.03	$ (12,630)
Put option (sell USD)	USD 135,000	2009.01~2009.03	(42,769)
Put option (buy USD)	USD 135,000	2009.01~2009.03	77,589
Cross currency swap contract	USD 40,000	2009.01~2009.03	5,314
			$ 27,504

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

(ii) Derivative financial liabilities

Alpha HK and Standard Chartered Bank subscribed a structured derivative product (USD/CNY Target Digital Pivot) with an 18-month contract starting from October 14, 2009, and monthly foreign exchange settlement. As stipulated in the contract, on each expiry date, if the USD/CNY Expiry Reference Rate is above 6.88, Alpha HK will settle at the exchange rate of 6.88 to buy CNY t equivalent to USD10,000 thousand; if the USDCNY Expiry Reference Rate is between 6.88 and 6.70, Alpha HK will settle at the Expiry Reference Rate plus 0.06 to buy CNY equivalent to USD10,000 thousand; however, if the USD/CNY Expiry Reference Rate is below 6.7, Alpha HK will not have any gains or losses. All transactions with respect to the contract will be settled with respect to the difference in USD exchange rates. In addition, the contract will be automatically terminated if Alpha HK accumulates settlement gains on 10 occasions. For the year ended December 31, 2009, Alpha HK recognized settlement gain of NT$2,815 thousand on the aforementioned derivative transactions. Accordingly, unrealized valuation loss amounting to NT$13,473 thousand was accounted for as financial liabilities at fair value through profit or loss – current.

	December 31, 2008		
Contract	**Notional amount (in thousands)**	**Maturity**	**Carrying amount**
Call option (sell USD)	USD 15,000	2009.01~2009.02	$ 344
Put option (sell USD)	USD 15,000	2009.01~2009.02	756
Put option (buy USD)	USD 5,000	2009.02	11
			$ 1,111

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

7. Notes and Accounts Receivable, Net

	December 31,	
	2009	**2008**
Notes receivable	$ 2,823	-
Accounts receivable	1,917,249	2,532,933
Less: allowance for doubtful receivables	(71,003)	(440,724)
	$ 1,849,069	**2,092,306**

As of December 31, 2009 and 2008, the overdue accounts receivable were $373,032 thousand and $97 thousand, respectively, and were reclassified into overdue receivables under other assets; accordingly, the overdue receivables had been fully reserved.

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8. Inventories

	December31, 2009	December31, 2008
Finished goods	$ 497,358	558,785
Less: provision for devaluation	(72,309)	(214,145)
	425,049	344,640
Work in process	561,130	332,686
Less: provision for devaluation	(41,800)	(73,042)
	519,330	259,644
Raw materials	1,668,044	1,443,317
Less: provision for devaluation	(200,978)	(66,726)
	1,467,066	1,376,591
	2,411,445	**1,980,875**

In the year ended December 31, 2009, the total amount of the write-off of provision for devaluation, due to sale of inventory, and the write-down of inventory costs to net realizable value was $38,826 thousand, decreasing the cost of goods sold. In the year ended December 31, 2009, loss on physical inventory and scrap loss decreasing cost of goods sold were $1,365 thousand and $1,151 thousand, respectively. In the year ended December 31, 2008, Alpha recognized cost of goods sold of $155,949 thousand from the write-down of inventory costs to net sales value. In the year ended December 31, 2009, gain on physical inventory and scrap loss decreasing cost of goods sold were $1,886 and $26,435 thousand, respectively.

9. Intangible Assets

Intangible assets as of December 31, 2009 and 2008, consisted of the following:

	2009 Core technologies	2009 Land use right
Original cost		
Balance at January 1, 2009	$ 107,063	14,080
Acquisition	-	141,605
Effect of exchange rate changes	-	(3,658)
Balance at December 31, 2009	107,063	152,027
Accumulated amortization		
Balance at January 1, 2009	75,403	2,718
Amortization	11,512	2,092
Effect of exchange rate changes	-	(103)
Balance at December 31, 2009	86,915	4,707
Book value at December 31, 2009	**$ 20,148**	**147,320**

(Continued)

	2008	
	Core technologies	Land use right
Original cost		
Balance at January 1, 2008	$ 107,063	13,054
Effect of exchange rate changes	-	1,026
Balance at December 31, 2008	107,063	14,080
Accumulated amortization		
Balance at January 1, 2008	51,516	2,303
Amortization	23,887	222
Effect of exchange rate changes	-	193
Balance at December 31, 2008	75,403	2,718
Book value at December 31, 2008	$ 31,660	11,362

10. Short-term Borrowings

Short-term borrowings consisted of the following as of December 31, 2009 and 2008:

	2009		2008	
	Amount	Interest rate %	Amount	Interest rate %
Unsecured borrowings	$ 145,824	4.86%~5.59%	134,092	5.346%
Unused available balance	$ 1,959,761		3,061,037	

11. Bonds Payable

The significant terms of the unsecured domestic convertible bonds payable issued on January 5, 2006, are summarized as follows:

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

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

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	The conversion price should be adjusted in accordance with the above formula when the ex-dividend date occurs between the date of determining the conversion price and the date of actual issuance.
	Using the above approach, the conversion price of the issuance was NT$37 (dollars) per share based on the basis price of NT$34.95 (dollars) per share.
	In addition to the adjustment of the conversion price based on the anti-dilution effect of the above approach, the reset basis dates of the conversion price were the date six months after the issuance of bonds and the basis date for distributing interest of each year between the years 2007 and 2010. If there is no distribution of interest in a year, the basis date will be the date of distribution of stock. And the basis date will be July 31 of a year without any distribution of stock. The conversion price is adjusted by the lowest price of the average closing price of common shares for one, three, and five business days before the basis date times the premium rate of the original issuance. The maximum adjustment downward is 80% of the issued conversion price, with no adjustment upward allowed, and is based on the change in the number of common shares of the Company, if any.
	The resetting of the conversion price does not apply on or before the reset basis date.
	As of December 31, 2009, the conversion price was NT$25.66 (dollars).
Redemption at the option of Alpha	On or at any time after January 5, 2007, and before November 25, 2010, Alpha may, having given not less than 30 days' notice to the bondholders, redeem all of the bonds at their principal amount. However, no such redemption may be made unless (i) the closing price of common stock on the TSE for the period of 30 consecutive trading days is more than 50% of the current conversion price or (ii) at least 90% of the aggregate principal amount of bonds issued has already been converted, redeemed, or purchased and cancelled.
Redemption at the option of bondholders	Alpha will at, the option of any bondholder, redeem all or part of the bonds held by the bondholder on January 5, 2008, at their principal amount. To exercise such option, the holder must deposit the certificate issued in respect of such bond with the agent together with a duly completed redemption notice not less than 40 days prior to the relevant date.

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Based on SFAS No. 36, Alpha separated the conversion option from the liability element when the convertible bonds were issued and recorded them as equity and liability, respectively. Details are summarized as follows:

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

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

As of December 31, 2009 and 2008, the fair values of the above non-equity embedded derivatives estimated based on an evaluation method amounted to $0.

As of December 31, 2009, unsecured convertible bonds amounting to $778,400 thousand had been converted into 25,702 thousand shares of Alpha's common stock. This bond conversion increased capital surplus by $527,034 thousand.

In the fourth quarter of 2008, Alpha repurchased bonds surrendered for cancellation, at cost, amounting to $27,898 thousand from the open market. The related gain on repurchase amounting to $2,219 thousand was recognized and was partially credited to capital surplus – conversion option of convertible bonds amounting to $3,011 thousand.

The conversion price was adjusted to $35.41 from $37 effective July 5, 2006. In accordance with ARDF Interpretation No. (98) 046 and No. (97) 331, the increase in fair value of issued common stock due to conversion price reset increased capital surplus by $16,860 thousand.

The details of convertible bonds as December 31, 2009 and 2008, are summarized below:

	2009	**2008**
Convertible bonds payable	$ 1,200,000	1,200,000
Less: Unamortized discount	(10,917)	(21,107)
Converted into common stock	(778,400)	(777,100)
Total repurchased amount	(31,800)	(31,800)
	$ 378,883	**369,993**
Interest expense	**$ 10,137**	**10,629**

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Retirement Plans

The following table sets forth the benefit obligation and accrued pension balance for the defined benefit plan as of December 31, 2009 and 2008:

		2009	2008
Benefit obligation:			
Nonvested benefit obligation	$	(260,097)	(239,962)
Vested benefit obligation		-	-
Accumulated benefit obligation		(260,097)	(239,962)
Projected future salary increase		(298,931)	(283,921)
Projected benefit obligation		(559,028)	(523,883)
Fair value of plan assets		262,217	263,524
Funded status		(296,811)	(260,359)
Unrecognized net loss		185,763	161,221
Accrued pension cost	**$**	**(111,048)**	**(99,138)**

The components of net periodic pension cost for 2009 and 2008 are summarized as follows:

		2009	2008
The defined benefit plan:			
Service cost	$	8,192	12,664
Interest expenses		13,097	15,158
Actual returns on pension fund		(1,811)	(10,981)
Amortization		20	8,817
Curtailment loss		-	12,146
Net pension cost	**$**	**19,498**	**37,804**
The defined contribution plan:	**$**	**98,617**	**87,331**

Actuarial assumptions at December 31, 2009 and 2008, are summarized as follows:

	2009	2008
Discount rate	2.25%	2.50%
Rate of increase in future compensation levels	4.00%	4.00%
Expected long-term rate of return on plan assets	2.25%	2.50%

The subsidiaries of Alpha comply with pension regulations of each local government and recognize pension costs.

(Continued)

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Notes to Consolidated Financial Statements

13. Stockholders' Equity

(1) Common stock

Pursuant to a stockholders' resolution on June 13, 2008, Alpha increased its common stock by $311,011 thousand in order to distribute shareholder dividends and employee bonuses of $125,011 thousand and $186,000 thousand, respectively. The base date for the dividends was August 4, 2008. The capital increase was registered with the governmental authorities.

Pursuant to a stockholders' resolution on June 19, 2009, Alpha increased its common stock by $231,507 thousand in order to distribute shareholder dividends and employee bonuses of $89,411 thousand and $142,096 thousand, respectively. The base date for the dividends was August 12, 2009. Alpha issued 5,707 thousand shares of new common stock at $24.9 for employee bonuses of $142,096 thousand, based on the stock price on the day before shareholders' meeting and considering the ex-rights and ex-dividend effect.

(2) Employee stock options

As of December 31, 2009, employee stock options issued were as follows:

Classification	Authorization date	Grant date	Vesting period	Issued units in thousands	Exercise price per share (NT$)	Fair value on measurement date	Adjusted exercise price per share (NT$)
First issuance of employee stock options in 2004	Sept. 4, 2003	Jan. 1, 2004	Service periods between two and four years	29,720	15.00	15.00	10.00
Second issuance of employee stock options in 2004	Sept. 4, 2003	Jan. 30, 2004	Service periods between two and four years	80	15.00	15.00	10.00
First issuance of employee stock options in 2007	Sept. 4, 2007	Oct. 5, 2007	Service periods between two and four years	15,000	38.50	38.50	32.20

(Continued)

Classification	Authori-zation date	Grant date	Vesting period	Issued units in thou-sands	Exercise price per share (NT$)	Fair value on measure-ment date	Adjusted exercise price per share (NT$)
Second issuance of employee stock options in 2007	Oct. 30, 2007	Nov. 9, 2007	Service periods between two and four years	7,500	32.30	32.30	26.20
Second issuance of employee stock options in 2007	Oct. 30, 2007	Dec. 6, 2007	Service periods between two and four years	7500	30.75	30.75	25.00

In 2009 and 2008, 1,926 thousand shares and 6,130 thousand shares, respectively, of Alpha's employee stock options were exercised, and $19,260 thousand and $61,300 thousand had been received as of December 31, 2009 and 2008, respectively. Of those shares, 1,254 thousand shares and 61 thousand shares, respectively, were still in the subscription process, recorded under advance receipts for common stock amounting to $12,540 thousand and $610 thousand, respectively.

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

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

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

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Information related to Alpha's employee stock option plan for the years ended December 31, 2009 and 2008, is as follows:

	2009		2008	
Employee stock options	**Options (thousands)**	**Weighted-average exercise price (NT$)**	**Options (thousands)**	**Weighted-average exercise price (NT$)**
Outstanding at beginning of year	34,245	$ 26.48	40,375	28.60
Exercised	(1,926)	10.00	(6,130)	10.00
Forfeited	(2,319)		-	-
Outstanding at end of year	30,000	28.90	34,245	26.48
Exercisable at end of year	9,000		4,245	
Weighted-average fair value of options granted during the year (NT$)	$ 0.6~10.3		0.6~10.3	

The weighted-average grant-date fair value per share of common stock was $27.25 and $28.05 for 2009 and 2008, respectively. As of December 31, 2009 and 2008, the weighted-average remaining contractual life of outstanding options was 2.83 and 3.49 years, respectively.

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

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

Aescu recognized compensation cost of the employee stock options, based on embedded value. The exercise price of the employee stock options was higher than net value per share based on the financial statements closest to the measurement date. Therefore, the recorded compensation cost based on embedded value was $0 for the year ended December 31, 2009.

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Information related to Aescu's employee stock option plan for the year ended December 31, 2009, is as follows:

Employee stock options	2009 Options (thousands)	2009 Weighted-average exercise price (NT$)
Outstanding at beginning of year	-	$ -
Granted	475,000	10.00
Exercised	-	-
Forfeited	-	-
Outstanding at end of year	$ 475,000	10.00
Exercisable at end of year	-	

In the year ended December 31, 2009, no employee stock option was exercised. As of December 31, 2009, the weighted-average remaining contractual life of outstanding options was 4.37 years.

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

			2009	2008
Net income	Net income	$	828,961	1,052,563
	Pro forma net income		756,632	974,240
Basic earnings per share	Earnings per share (NT$)		1.80	2.30
	Pro forma earnings per share (NT$)		1.65	2.13
Diluted earnings per share	Earnings per share (NT$)		1.73	2.19
	Pro forma earnings per share (NT$)		1.58	2.03

As of December 31, 2009 and 2008, the authorized common stock amounted to $6,600,000 thousand (including $500,000 thousand authorized for the issuance of the employee stock options), and the issued common stock amounted to $4,642,035 thousand and $4,487,737 thousand, respectively.

(Continued)

(3) Capital surplus

Capital surplus consisted of the following as of December 31, 2009 and 2008:

		2009	2008
Issuance of new shares – premium	$	1,568,842	1,482,932
Conversion options of convertible bonds (note 10)		53,774	53,898
Treasury stock		3,011	3,011
Adjustment to capital surplus for changes in investee's equity		141	-
	$	1,625,768	1,539,841

Pursuant to the ROC Company Act, realized capital surplus can be used to increase share capital after offsetting accumulated deficit. Realized capital surplus includes proceeds received in excess of the par value of common stock issued and any amounts donated to the Company.

(4) Legal reserve

According to the ROC Company Act, 10 percent of the annual earnings shall be allocated as legal reserve until accumulated legal reserve equals the issued common stock. Legal reserve can only be used to offset accumulated deficits and increase common stock.

(5) Distribution of earnings and dividend policy

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

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

(Continued)

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

Employee bonuses and remuneration to directors and supervisors in 2009 were computed at 15% and 1%, respectively, based on the Company's net income for the year ended December 31, 2009, after setting aside 10% of legal reserve. Accordingly, Alpha recognized employee bonuses and remuneration to directors and supervisors of $118,329 thousand and $7,886 thousand, respectively. The number of common shares to be issued as employee bonuses was computed based on the closing price of Alpha's common stock on the day before the stockholders' meeting, taking into consideration the effects of the dividend announcement and rights offering. If the stockholders' meeting subsequently approves an actual distribution different from the accrual, the difference will be accounted for as a change in accounting estimate and recorded under the net income of year 2010.

On June 19, 2009, and June 13, 2008, the meeting of stockholders of Alpha approved the plan for distribution of retained earnings proposed by the board of directors. Information about Alpha's directors' and supervisors' remuneration and employee bonuses which were distributed from unappropriated earnings of 2008 and 2007 is as follows:

		2008	2007
Directors' and supervisors' remuneration	$	14,209	23,288
Employee bonuses – cash		-	301
Employee bonuses – stock		142,096	186,000
	$	**156,305**	**209,589**

The above earnings distribution, which was charged to expense, had no difference from the resolution of Alpha's board of directors in the year ended December 31, 2008.

The actual distribution of employee bonuses and directors' and supervisors' remuneration for 2009 is subject to the proposal of the board of directors and a resolution of the stockholders' meeting. Relevant information would be available on the Market Observation Post System of the Taiwan Stock Exchange after the above-mentioned meetings.

(6) Treasury stock

Alpha repurchased common stock from the open market in accordance with related regulations of the stock exchange. Details of the treasury stock transactions in 2009 are as follows:

Purpose	As of January 1, 2009	Increase	Decrease	As of December 31, 2009
For transfer to employees	$ 1,883	-	-	1,883

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

14. Income Taxes

(1) The components of the consolidated companies' tax exemption are summarized below:

Earnings Distribution	Law/Statute	Tax exemption period
Distribution of 2005 earnings	Statute for Upgrading Industries	August 20, 2008～August 19, 2013
Distribution of 2008 earnings	Statute fo Emerging, Important, and Strategic Industries	Pending designation

The income tax return of each consolidated entity is filed separately and could not be consolidated with Alpha's filing. Alpha and its subsidiaries are subject to the current tax rate of the countries in which they operate except for Mirac, which is subject to the Income Tax Law of Enterprises with Foreign Investment in the People's Republic of China, under which it is exempt from income tax in the first and second years and allowed a fifty percent reduction in the third to fifth years. Years 2009 and 2008 were the third year and fourth year. Alpha Holding, Des Voeux and Alpha Investment are exempt from taxes.

(Continued)

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

For the years ended December 31, 2009 and 2008, income tax expense was as follows:

		2009	2008
Current	$	120,383	264,463
Deferred		515	(44,373)
Additional 10% income surtax on undistributed earnings		45,775	-
	$	**166,673**	**220,090**

(2) The reconciliation of the expected income tax expense at the statutory tax rate and the actual income tax expense for the years ended December 31, 2009 and 2008, was as follows:

		2009	2008
Income tax expense computed at the statutory tax rate	$	248,439	318,498
Difference generated by the application of different tax rate for subsidiaries		(25,554)	5,945
Tax effect of permanent difference		45,226	(845)
Investment tax credits		(256,223)	(311,876)
Additional 10% surtax on undistributed earnings		45,775	-
Valuation allowance for deferred tax assets		95,398	227,587
Prior year's adjustment		(57,974)	(19,219)
Effect of change in tax rate		91,586	-
Income tax expense	**$**	**166,673**	**220,090**

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(3) The components of deferred income tax assets (liabilities) as of December 31, 2009 and 2008, are summarized as follows:

		2009	2008
Deferred tax assets – current:			
Investment tax credits	$	-	13,176
Unrealized bad debt losses		84,984	101,304
Employee benefits		-	1,500
Unrealized decline in value of inventories		61,717	85,957
Unrealized exchange loss		3,979	3,109
Product warranty		2,850	27,522
Others		40,904	48,967
		194,434	281,535
Less: valuation allowance		(112,267)	(166,082)
	$	**82,167**	**115,453**
Deferred tax assets – noncurrent:			
Investment tax credits	$	340,265	218,457
Accrued pension cost		22,210	24,785
Investment loss on long-term equity investments in foreign entities		138,570	110,775
Employee benefits		-	2,250
Goodwill		(17,535)	(15,176)
Foreign currency translation adjustment		(39,084)	(63,872)
Loss carryforward of Alpha's subsidiaries		14,338	-
Others		12,453	-
		471,217	277,219
Less: valuation allowance		(500,752)	(351,539)
	$	**(29,535)**	**(74,320)**
Total deferred tax assets	**$**	**722,270**	**637,802**
Total deferred tax liabilities	**$**	**56,619**	**79,048**
Total valuation allowance	**$**	**613,019**	**517,621**

(4) 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 current year's tax expense. However, the foregoing limit does not apply to the last year of the utilization period.

(Continued)

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As of December 31, 2009, Alpha's unused investment tax credits from research and development expenditure and the related expiration dates were as follows:

Unused investment tax credit	Expiration year
$ 66,411	2011
92,041	2012
181,813	2013
$ 340,265	

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

Year of loss	Tax effect	Expiration year
2009.1.1~2009.12.31	$ 9,640	2019

In accordance with the tax law of each area, losses of foreign subsidiaries as assessed by the tax authorities can be carried forward to offset the future years' taxable profits. As of December 31, 2009, the tax effects of the unused loss carryforwards were $12,410 thousand.

According to the Merger Law, Alpha, after merging with Cellvision, is entitled to a tax credit for investment in the amount of $13,129 thousand. Due to different interpretations of investment credit, Cellvision was assessed additional tax amounting to $2,539 thousand. Alpha did not agree with the assessment and filed appeals. The expected related liability was accrued in the consolidated financial statements. As of December 31, 2009, no responses from the tax authorities with regard to the appeals had been received.

As of the December 31, 2009, Alpha's income tax returns had been examined by the tax authorities through 2007.

(6) Information relating to the ICA of Alpha as of December 31, 2009 and 2008, is summarized as follows:

	2009	2008
Unappropriated earnings:		
Earned after January 1, 1998	$ 1,859,557	1,625,411
ICA balance	$ 372,859	425,911
Creditable ratio for earnings distribution to resident stockholders	20.05% (estimated)	22.17% (actual)

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15. Earnings per Share

The calculations of basic earnings per share and diluted earnings per share attributable to the stockholders of Alpha in years 2009 and 2008 were as below.

	2009		2008	
	Before taxes	**After taxes**	**Before taxes**	**After taxes**
Basic earnings per share:				
Net income	$ 995,634	828,961	1,272,399	1,052,563
Weighted-average common shares outstanding (thousand shares)	459,504	459,504	447,990	447,990
Basic earnings per share (NT$)	$ 2.17	1.80	2.84	2.35
Basic earnings per share (NT$)－retroactively adjusted			$ 2.78	2.30
Diluted earnings per share:				
Net income	$ 995,634	828,961	1,272,399	1,052,563
Potential dilution effects of common shares －convertible bonds	10,137	7,603	10,629	7,972
Net income when calculating diluted EPS	$ 1,005,771	836,564	1,283,028	1,060,535
Weighted-average common shares outstanding (thousand shares)	459,504	459,504	447,990	447,990
Potential dilution effects of common shares	24,462	24,462	27,586	27,586
Diluted weighted-average common shares outstanding (thousand shares)	483,966	483,966	475,576	475,576
Diluted earnings per share (NT$)	$ 2.08	1.73	2.70	2.23
Diluted earnings per share (NT$)－retroactively adjusted			$ 2.65	2.19

16. Financial Instruments

(1) Derivative financial instruments

The Company’s transactions involving derivative financial instruments in 2009 and 2008 are disclosed in note 6. Net gain on valuation of financial assets (liabilities) resulting from the changes in fair value amounted to $17,232 thousand and $26,393 thousand for the years ended December 31, 2009 and 2008, respectively.

(Continued)

(2) Non-derivative financial instruments

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

(ii) Except for the financial assets and liabilities identified in item (i) above, the carrying amounts and estimated fair value of financial instruments as of December 31, 2009 and 2008, were as follows:

	December 31,			
	2009		2008	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets:				
Bond investment without market price – current	$ -	(2)(iii) below	-	-
Available-for-sale financial assets – noncurrent	332,093	332,093	198,384	198,384
Financial assets carried at cost – noncurrent	9,996	(2)(iii) below	9,996	(2)(iii) below
Financial liabilities:				
Bonds payable (including current portion)	378,883	378,883	369,993	369,993

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

(a) The fair value of bonds payable, available-for-sale financial assets, and financial assets (liabilities) at fair value through profit or loss 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 an 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.

(b) Bond investment without market price – current: If bonds do not have quoted prices in an active market, they are classified under financial assets carried at cost. The bond investment has incurred impairment loss based on valuation. Please refer to Note 5 for the book values and other information.

(c) 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 5 for the details.

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

	December 31,			
	2009		2008	
	Quoted market price	**Estimated fair value**	**Quoted market price**	**Estimated fair value**
Financial assets:				
Cash and cash equivalents	$ 4,808,984	-	3,411,566	-
Notes and accounts receivable (including related parties)	-	4,633,216	-	4,975,792
Financial assets at fair value through profit or loss – current	-	30,705	-	27,504
Bond investment without market price – current	-	-	-	-
Other financial assets – current	-	43,300	11,559	29,444
Other financial assets – noncurrent	15,695	13,758	24,535	7,398
Available-for-sale financial assets – noncurrent	332,093	-	198,384	-
Financial liabilities:				
Short-term borrowings	-	145,824	-	134,092
Accounts payable (including related parties)	-	4,184,230	-	3,120,832
Financial liabilities at fair value through profit or loss – current	-	13,473	-	1,111
Bonds payable	-	378,883	-	369,993

(4) Financial risk information

(i) Market price risk

As the Company and subsidiaries' 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. Publicly traded stocks held by the Company are classified as available-for-sale financial assets. Since these assets are measured by the fair value, the Company and subsidiaries will be exposed to the risks of equity market price change.

(Continued)

(ii) Credit risk

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

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

As of December 31, 2009 and 2008, 77% and 78%, respectively, of the Company's accounts receivable were for a group of five customers.

Although there is a potential for concentration of credit risk, the Company and subsidiaries routinely assess the collectibility of the accounts receivable and make a corresponding allowance for doubtful accounts.

(iii) Liquidity risk

There is no liquidity risk of being unable to raise capital to settle contract obligations since the Company and subsidiaries have sufficient capital and working capital to fulfill the 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 and subsidiaries 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 and subsidiaries have liquidity risk when investing in financial assets carried at cost that are not publicly traded.

(iv) Cash flow risk of fluctuating interest rate

Alpha mainly invests in financial instruments with fixed interest rates. Therefore, the fluctuation of market interest rate has no significant influence on Alpha's cash flows.

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17. 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)	Equity method investor of Alpha
D-Link System Inc. (D-Link Systems)	Subsidiary of D-Link 97.76%
Xtramus Technologies (XT)	Investee of D-Link accounted for under the equity method
Bothhand Enterprise Inc. (BEI)	Investee of D-Link accounted for under the equity method
QuieTek Corporation (QTK)	Investee of D-Link accounted for under the equity method
D-Link International Pte Ltd. (D-Link International)	Subsidiary of D-Link
D-Link Europe Ltd. (D-Link Europe)	Subsidiary of D-Link
D-Link (Shanghai) Co., Ltd. (DLSH)	Subsidiary of D-Link
Directors, supervisors, president, and vice president	The Company’s principal management team

(2) Significant transactions with related parties as of and for the years ended December 31, 2009 and 2008, are summarized as follows:

(a) Sales

	2009		2008	
	Amount	**Percentage of net sales**	**Amount**	**Percentage of net sales**
D-Link International	$ 7,762,031	45	11,061,537	45
DLSH	687,493	4	380,092	2
D-Link	358,286	2	317,310	1
D-Link Systems	23,140	-	9,975	-
Others	40	-	198	-
	$ 8,830,990	51	11,769,112	48

(Continued)

As of December 31, 2009 and 2008, receivables resulting from the above transactions were as follows:

	December 31, 2009		December 31, 2008	
	Amount	Percentage of total receivables	Amount	Percentage of total receivables
D-Link International	$ 2,363,347	51	2,648,037	53
DLSH	221,458	5	137,397	3
D-Link	206,430	4	113,485	2
D-Link Systems	11,206	-	1,110	-
Less: allowance for doubtful receivables	(19,946)	-	(16,643)	-
	$ 2,782,495	100	2,883,386	58

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

The collection terms for sales to unrelated customers were 30 to 75 days, and to related parties were 45 to 90 days during 2009 and 2008. However, collection terms for related parties might be further extended when necessary.

(b) Purchases

	2009		2008	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
BEI	$ 129,781	1	227,095	1
Others	13,409	-	9,295	-
	$ 143,190	1	236,390	1

There are no significant differences in payment terms between related parties and third-party suppliers. The payment terms were both 30 to 90 days.

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As of December 31, 2009 and 2008, payables resulting from the above purchases were as follows:

	December 31, 2009		December 31, 2008	
	Amount	Percentage of total payables	Amount	Percentage of total payables
Accounts payable:				
BEI	$ 55,501	1	51,839	2
Others	3,333	-	403	-
	$ 58,834	1	52,242	2

(c) Service fees and others

The Company and subsidiaries paid fees to related parties for warranty services, royalties, and other services. The total fees for the years ended December 31, 2009 and 2008, and the related unpaid balance as of December 31, 2009 and 2008, are summarized as follows:

	2009		2008	
	Current expense	Accrued expense	Current expense	Accrued expense
D-Link International	$ 26,929	9,914	33,043	13,268
D-Link Europe	3,716	-	518	385
D-Link	12,087	10,702	11,843	11,253
QTK	7,190	2,380	6,802	271
XT	1,750	-	-	-
Others	806	225	930	55
	$ 52,478	23,221	53,136	25,232

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

Acquisition of property, plant and equipment and core technologies for the years ended December 31, 2009 and 2008, and the related unpaid balance as of December 31, 2009 and 2008, are summarized as follows:

	2009		2008	
	Amount	Account payable	Amount	Account payable
XT	$ -	-	16,885	-
QTK	2,112	-	-	-
Others	-	-	1,462	171
	$ 2,112	-	18,347	171

(Continued)

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(e) Others

As of December 31, 2009 and 2008, net receivable from (payable to) related parties resulting from certain payments made by the Company and subsidiaries on behalf of related parties or made by related parties on behalf of the Company and subsidiaries were as follows:

		2009	2008
D-Link International	$	1,652	(3)
D-Link	$	-	100

(f) Alpha entered into a plant lease agreement with D-Link for the Taipei Neihu office. The rental expenses amounted to $5,338 thousand and $5,329 thousand in 2009 and 2008, respectively. As of December 31, 2009 and 2008, payables resulting from the above transactions amounted to $1,408 thousand and $1,866 thousand, respectively, which were recorded in payable to related parties.

(3) Compensation of the principal management team

		2009	2008
Salaries and cash awards	$	43,933	53,540
Business expense		4,533	4,160
Transportation allowances and business expense		34	-
Employee bonuses		33,665	30,106

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

(Continued)

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18. Pledged Assets

Assets pledged as collateral as of December 31, 2009 and 2008, are summarized as follows:

Pledged assets	Pledged to secure		2009	2008
Time deposit (recorded in other financial assets – noncurrent)	Import guarantee for Customs	$	7,000	7,000
Time deposit (recorded in other financial assets – noncurrent)	Guarantee for non-unpaid tax certificate		5,000	-
Bank deposit (recorded in other financial assets – noncurrent)	Guarantee for derivative financial instruments		2,403	-
Bank deposit (recorded in other financial assets – noncurrent)	Guarantee for labor		1,292	-
		$	**15,695**	**7,000**

19. Commitments and Contingencies

(1) Based on the signed leases for offices and employee dormitories, the estimated minimum rental expenditures are as follows:

		Amount
2010.01.01~2010.12.31	$	19,963
2011.01.01~2011.12.31		14,285
2012.01.01~2012.12.31		11,143
	$	45,391

(2) Operating leases

	Lessor	Period for lease	Rental expense in 2009	Payment method
Land	Hsinchu Science Park	Nov 3, 2003~ Dec 31, 2022	$7,684 thousand	Monthly

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

(Continued)

(3) Alpha entered into royalty agreements with Fine Point, Wind River, and others. Pursuant to the terms of each signed agreement, Alpha is obligated to pay royalties when Alpha's products apply technologies specified in the royalty agreements. Total royalty expenses incurred under these agreements for the years ended December 31, 2009 and 2008, amounted to $32,880 thousand and $9,655 thousand, respectively.

(4) As of December 31, 2009 and 2008, Alpha had outstanding letters of credit amounting to $11,564 thousand and $315 thousand, respectively.

(5) The Company delayed payment to J-link Electronics (ShenZhen) Co., Ltd. due to a quality issue regarding purchases. J-link Electronics (ShenZhen) Co., Ltd. asserted that the Company had not made payment and brought suit against Alpha in mainland China in March 2009. As of the auditor opinion date, Alpha could not predict the outcome of the lawsuit and the possible compensation.

(6) Regarding the lawsuit related to the product defect issue which was filed by J-link Electronics (Shenzhen) Co., Ltd. against Alpha in the Hsinchu District Court, the Hsinchu District Court's verdict in favor of Alpha was announced in January 2010. However, on February 1, 2010, J-link Electronics (Shenzhen) Co., Ltd. appealed to the Supreme Court, and Alpha filed another indemnity claim with the Taipei District Court against J-link Electronics (Shenzhen) Co., Ltd., claiming that the defect had caused great damage to Alpha. As of the opinion date, the aforementioned litigation had not been heard by the court and was being handled by an attorney. It is presumed that such litigation will not affect Alpha's daily operations.

20. Subsequent Events

The Company signed a contract with Shanghai Chun Fang Construction Engineering Co., Ltd. and Fujian Province Huidong Construction Co. Ltd. for the first phase of Alpha Changshu's plant construction amounting to $751,229.

(Continued)

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21. Other Information

(1) The information on personnel expenses, depreciation, and amortization by function for the years ended December 31, 2009 and 2008, is summarized as follows:

	2009			2008		
Account	**Cost of goods sold**	**Operating expense**	**Total**	**Cost of goods sold**	**Operating expense**	**Total**
Personnel expenses:						
Salaries	$ 619,635	1,259,018	1,878,653	744,685	1,182,271	1,926,956
Labor and health insurance	28,239	81,994	110,233	33,547	71,798	105,345
Pension	25,111	93,004	118,115	36,126	89,009	125,135
Others	20,950	79,337	100,287	31,280	99,173	130,453
Depreciation	152,142	228,877	381,019	155,548	216,175	371,723
Amortization	404	81,245	81,649	73	84,086	84,159

(2) Reclassification

In order to conform with the presentation of the consolidated financial statements for the year ended December 31, 2009, several amounts in the consolidated financial statements for the year ended December 31, 2008, have been reclassified. The reclassification has no significant effect on the consolidated financial statements for the year ended December 31, 2008.

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

22. Segment Financial Information

(1) Industry information

The Company principally operates in one industry segment: research, development, manufacturing and sale of network communication products.

(2) Geographic information

2009		Taiwan	Asia	Americas	Adjustments and eliminations	Consolidated
Area revenue:						
Third-party customers	$	14,703,942	1,299,942	1,317,811	-	17,321,695
Inter-company		1,358,494	867,642	867	(2,227,003)	-
	$	16,062,436	2,167,584	1,318,678	(2,227,003)	17,321,695
Operating income (loss)	$	960,174	(724,894)	(32,388)	790,864	993,756
Area identifiable assets	$	14,131,423	4,714,487	716,376	(4,602,372)	14,959,914

2008		Taiwan	Asia	Americas	Adjustments and eliminations	Consolidated
Area revenue:						
Third-party customers	$	22,621,302	1,700,905	-	-	24,322,207
Inter-company		218,811	837,090	102,010	(1,157,911)	-
	$	22,840,113	2,537,995	102,010	(1,157,911)	24,322,207
Operating income (loss)	$	1,268,296	(611,261)	8,859	607,531	1,273,425
Area identifiable assets	$	12,786,818	4,225,122	57,413	(3,598,538)	13,470,815

(3) Export sales

The export sales of the consolidated entities located in the ROC for the years ended December 31, 2009 and 2008, are summarized as follows:

		2009		2008	
		Amount	Percentage of net sales	Amount	Percentage of net sales
Asia	$	3,688,393	35	2,975,618	13
Americas		5,661,881	23	14,344,813	63
Europe		5,740,812	36	4,819,513	21
Others		748,600	5	553,009	2
	$	15,839,686	99	22,692,953	99

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Major customers

Individual customers that represented greater than 10% of consolidated revenue in 2009 and 2008 were as follows:

	2009		2008	
	Amount	**Percentage of net sales**	**Amount**	**Percentage of net sales**
D-Link International	$ 7,762,031	45	11,061,537	45