ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2008 and 2007
(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, 2008 and 2007, 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 did not audit the consolidated financial statements of Des Voeux Ltd., which reflect total assets of NT$22,958 thousand as of December 31, 2007, and total revenue of NT$0 for the year ended December 31, 2007. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Des Voeux Ltd., is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alpha Networks Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

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 of NT$134,752 thousand and NT$0.30, respectively, for the year ended December 31, 2008.

Hsinchu, Taiwan (Republic of China)
February 20, 2009

The accompanying financial statements are intended only to present the consolidated 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 such consolidated 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, 2008 and 2007
(Expressed in thousands of New Taiwan dollars)

Assets	2008	2007
Current assets:		
Cash and cash equivalents (note 4)	$ 3,411,566	3,135,406
Financial assets at fair value through profit or loss－current (note 6)	27,504	510
Notes and accounts receivable, net (note 7)	2,092,306	2,585,216
Receivables from related parties (note 17)	2,883,486	3,085,289
Other financial assets－current	41,003	32,356
Inventories (note 8)	1,980,875	2,144,622
Other current assets (note 14)	163,598	60,620
	10,600,338	11,044,019
Funds and investments:		
Other financial assets－noncurrent (note 18)	31,933	36,187
Available-for-sale financial assets－noncurrent (note 5)	198,384	57,300
Financial assets carried at cost－noncurrent (note 5)	9,996	9,996
	240,313	103,483
Property, plant and equipment (note 17):		
Buildings and improvements	1,658,775	1,675,234
Machinery and equipment	1,463,614	1,384,015
Transportation, office and other equipment	268,616	257,692
	3,391,005	3,316,941
Less: accumulated depreciation	1,337,313	1,176,935
Prepayment for equipment and construction in progress	282,543	86,802
	2,336,235	2,226,808
Intangible assets:		
Goodwill	140,913	140,913
Core technologies (note 9)	31,660	55,547
Land use right (note 9)	11,362	10,751
	183,935	207,211
Other assets:		
Deferred expenses and others	109,994	102,885
Deferred income tax assets－noncurrent (note 14)	-	743
	109,994	103,628
Total assets	$ 13,470,815	13,685,149

Liabilities and Stockholders' Equity	2008	2007
Current liabilities:		
Short-term borrowings (note 10)	$ 134,092	102,564
Accounts payable	3,041,318	3,603,346
Payables to related parties (note 17)	79,514	83,307
Accrued expenses	913,771	858,901
Payroll and bonus payable	479,784	415,078
Financial liabilities at fair value through profit or loss－current (note 6)	1,111	13,460
Bonds payable－current portion (note 11)	-	389,481
Other current liabilities	277,226	236,682
	4,926,816	5,702,819
Long-term liabilities:		
Bonds payable (note 11)	369,993	-
Other liabilities:		
Accrued pension liabilities (note 12)	99,138	73,132
Deferred income tax liabilities – noncurrent (note 14)	74,320	-
Deferred credit (note 17)	103	160
	173,561	73,292
Total liabilities	5,470,370	5,776,111
Stockholders' equity (note 13):		
Common stock	4,487,737	4,062,872
Advance receipts for common stock	610	53,164
	4,488,347	4,116,036
Capital surplus	1,539,841	1,522,981
Retained earnings:		
Legal reserve	411,544	282,168
Unappropriated earnings	1,625,411	1,870,227
	2,036,955	2,152,395
Cumulative foreign currency translation adjustment	191,618	111,307
Unrealized gain or loss on available-for-sale financial assets	(234,122)	323
Treasury stock	(28,962)	-
Minority interest	6,768	5,996
Total stockholders' equity	8,000,445	7,909,038
Commitments and contingencies (note 19)		
Total liabilities and stockholders' equity	$ 13,470,815	13,685,149

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2008 and 2007
(Expressed in thousands of New Taiwan dollars, except for net income per common share)

	2008		2007	
Sales (note 17)	$ 24,655,873		22,803,697	
Less: sales returns and allowances	333,666		452,267	
	24,322,207		22,351,430	
Cost of goods sold (note 17)	19,770,232		18,301,438	
Gross profit	4,551,975		4,049,992	
Operating expenses (note 17)**:**				
Selling	996,327		643,067	
General and administrative	460,399		393,583	
Research and development	1,419,618		1,328,938	
	2,876,344		2,365,588	
Operating income	1,675,631		1,684,404	
Non-operating income and gains:				
Interest income	107,048		70,443	
Dividends revenue	18,025		-	
Foreign currency exchange gain, net	-		35,406	
Gain on valuation of financial liabilities	40,134		4,048	
	165,207		109,897	
Non-operating expenses and loss:				
Interest expense	105,258		49,938	
Foreign currency exchange loss, net	60,851		-	
Loss on inventory obsolescence and devaluation	182,384		61,841	
Loss on valuation of financial assets	-		74,878	
Other loss, net	218,920		50,922	
	567,413		237,579	
Income before income taxes	1,273,425		1,556,722	
Income tax expense (note 14)	220,090		262,978	
Net income	**$ 1,053,335**		**1,293,744**	
Attributable to:				
Equity holders of the parent company	$ 1,052,563		1,293,758	
Minority interest	772		(14)	
	$ 1,053,335		**1,293,744**	
Earnings per share (in New Taiwan dollars) (note 15)	**Before taxes**	**After taxes**	**Before taxes**	**After taxes**
Basic earnings per share	**$ 2.82**	**2.35**	**3.87**	**3.26**
Basic earnings per share−retroactively adjusted			**$ 3.60**	**3.03**
Diluted earnings per share	**$ 2.68**	**2.23**	**3.59**	**3.02**
Diluted earnings per share−retroactively adjusted			**$ 3.34**	**2.81**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2008 and 2007
(Expressed in thousands of New Taiwan dollars)

	Common stock	Advance receipts for common stock	Capital surplus	Retained Earnings: Legal reserve	Retained Earnings: Unappropriated earnings	Cumulative foreign currency translation adjustment	Unrealized gain or loss on available-for-sale financial assets	Treasury stock	Minority interest	Total stockholders' equity
Balance at January 1, 2007	$ 3,554,372	-	1,070,418	177,328	1,536,633	56,526	-	-	-	6,395,277
Appropriation of earnings:										
Legal reserve	-	-	-	104,840	(104,840)	-	-	-	-	-
Stock dividends	107,776	-	-	-	(107,776)	-	-	-	-	-
Bonuses to employees－stock	117,000	-	-	-	(117,000)	-	-	-	-	-
Cash dividends	-	-	-	-	(610,732)	-	-	-	-	(610,732)
Employee bonuses	-	-	-	-	(945)	-	-	-	-	(945)
Directors' and supervisors' remuneration	-	-	-	-	(18,871)	-	-	-	-	(18,871)
Issuance of stock for conversion of bonds	231,054	25,474	452,563	-	-	-	-	-	-	709,091
Foreign currency translation adjustments	-	-	-	-	-	54,781	-	-	-	54,781
Issuance of stock for employee stock options exercised	52,670	27,690	-	-	-	-	-	-	-	80,360
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	323	-	-	323
Increase in minority interest	-	-	-	-	-	-	-	-	6,010	6,010
Net income for 2007	-	-	-	-	1,293,758	-	-	-	(14)	1,293,744
Balance at December 31, 2007	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**

See accompanying notes to consolidated financial statements.

ALPHA NETWORKS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2008 and 2007
(Expressed in thousands of New Taiwan dollars)

	2008	2007
Cash flows from operating activities:		
Net income attributed to parent company's shareholders	$ 1,052,563	1,293,758
Net income attributed to minority interest	772	(14)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	455,882	438,892
Provision for allowance for doubtful accounts and sales returns and allowances	450,684	21,399
Provision for inventory obsolescence and devaluation loss	182,384	61,841
Loss on impairment of long-term equity investments under cost method	-	3,274
Effect of valuation of financial assets and liabilities at fair value through profit or loss	(26,393)	(4,558)
Loss (gain) on disposal of property, plant and equipment	(7,294)	4,470
Amortization of discount and loss (gain) on repurchase or conversion of bonds payable	25,270	21,638
Unrealized exchange loss (gain)	18,027	(36,637)
Increase in inventories	(18,637)	(143,240)
Decrease in financial assets at fair value through profit or loss	510	944
Increase in deferred income tax assets	(44,373)	(2,843)
Decrease (increase) in notes and accounts receivable (including related parties)	277,546	(565,448)
Increase (decrease) in accounts payable (including related parties)	(561,419)	351,029
Increase in accrued pension	26,006	1,951
Decrease in financial liabilities at fair value through profit or loss	(13,460)	(8,777)
Decrease (increase) in other operation-related current assets	(18,959)	13,286
Increase in other operations-related current liabilities	160,120	275,582
Cash provided by operating activities	1,959,229	1,726,547
Cash flows from investing activities:		
Net cash paid for acquisition of subsidiary	-	(6,030)
Proceeds from return of investments in available-for-sale financial assets	12,000	-
Proceeds from disposal of property and equipment	2,528	934
Acquisition of property and equipment	(397,006)	(406,611)
Acquisition of financial assets carried at cost－noncurrent	-	(9,996)
Increase in available-for-sale financial assets－ noncurrent	(387,529)	(56,977)
Decrease in restricted cash in bank	3,299	-
Decrease (increase) in deposits and other assets	955	(11,808)
Increase in deferred expenses	(65,600)	(95,545)
Return of capital from liquidation of long-term equity investments	-	134
Cash used in investing activities	(831,353)	(585,899)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	31,528	(558,285)
Proceeds from issuance of stock for employee stock options exercised	61,300	80,360
Redemption of bonds payable	(27,898)	-
Repurchase of treasury stock	(28,962)	-
Payments of cash dividends, directors' and supervisors' remuneration, and employee bonuses	(856,992)	(630,548)
Increase in minority interest	-	6,010
Cash used in financing activities	(821,024)	(1,102,463)
Effect of exchange rate changes on cash	(30,692)	197
Net increase in cash and cash equivalents	276,160	38,382
Cash and cash equivalents at beginning of year	3,135,406	3,097,024
Cash and cash equivalents at end of year	**$ 3,411,566**	**3,135,406**
Supplemental disclosures of cash flow information:		
Cash payments of interest	**$ 87,844**	**28,300**
Cash payments of income taxes	**$ 204,299**	**170,751**
Supplementary disclosure of non-cash investing and financial activities:		
Convertible bonds converted into common stock and capital surplus	**$ -**	**709,091**

See accompanying notes to consolidated financial statements.

(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. Alpha set up a branch in Hsinchu on June 14, 2005. Based on the resolution of Alpha's board of directors on April 17, 2006, Alpha merged with Cellvision System Inc. (Cellvision) on October 1, 2006. Cellvision was eliminated in the procedure.

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

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

As of December 31, 2008, Alpha and subsidiaries had 5,504 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, 2008	Percentage of ownership at December 31, 2007	Business nature
Alpha	Alpha Solutions Co., Ltd. (Alpha Solutions)	100	100	Sale of network equipment and technical services

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Investee	Percentage of ownership at December 31, 2008	Percentage of ownership at December 31, 2007	Business nature
Alpha	Alpha Holdings Inc. (Alpha Holdings)	100	100	Investment holding
Alpha	Des Voeux Ltd. (Des Voeux)	100	100	Investment holding
Alpha	Darson Trading Limited (Darson)	100	100	Shipping and transportation service
Alpha	Alpha Global Capital Corporation Limited (Alpha Global)	-	100	Investment holding
Alpha	Net Mag Technology Corp. (Net Mag)	100	100	Testing and maintaining electrical equipment
Alpha	Aescu Technology Inc. (Aescu)	79.97	79.97	Sales of equipment for medical treatment
Alpha	Alpha Networks (Hong Kong) Limited (Alpha HK)	100	-	Investment holding
Alpha Holdings	D-Link Asia Investment Pte. Ltd. (D-Link Asia)	100	100	Investment for manufacturing business
Alpha Holdings	Tong Ying Trading (Shenzhen) Co., Ltd. (Tong Ying)	-	100	Import and export trade for network products
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

(Continued)

Investor	Investee	Percentage of ownership at December 31, 2008	Percentage of ownership at December 31, 2007	Business nature
Alpha Investment	Alpha Networks (Dongguan) Co., Ltd. (Alpha Dongguan)	100	100	Production and sale of network products
D-Link Asia	Dongguan Youxun Electronics Co., Ltd. (Dongguan Youxun)	100	100	Production and sale of interface card
Des Voeux	Alpha Networks Inc. (Alpha U.S.A.)	100	100	Manufacture and sale for network equipment and procurement service

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

Alpha incorporated Net Mag and acquired Aescu in 2007, and incorporated Alpha HK in 2008. The subsidiaries are included in the consolidated financial statements of the Company starting from 2007 and 2008, respectively.

Redsonic, Tong Ying and Alpha Global registered for liquidation with the governmental authorities in December 2007 and in March and October 2008, respectively, and have been excluded from consolidation since those dates.

(2) Basis of consolidation

The consolidated financial statements include the accounts of Alpha and its subsidiaries, referred to individually or collectively as “the Company”, 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. All significant inter-company transactions and balances are eliminated in consolidation.

(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.

(Continued)

(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 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 non-current

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

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

(6) 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.

(Continued)

(7) 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.

(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 in 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 as into this account.

2. Available-for-sale financial assets

   The available-for-sale financial assets are measured at fair value, and the changes in fair value are reported as a separate component of stockholders' equity. 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 decreases, the previously recognized impairment loss for 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.

(Continued)

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.

(9) Allowance for doubtful receivables and sales returns and discounts

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

Allowance and related provisions for sales returns and discounts are estimated based on historical experience. Such provisions are deducted from sales in the year the products are sold.

(10) Inventories

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

(11) Property, plant and equipment

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

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

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

(Continued)

(12) Intangible assets

Effective from January 1, 2007, the Company adopted SFAS No. 37 “Intangible Assets”. In accordance with SFAS No. 37, other than intangible assets acquired by way of government grant, which are measured at the fair value, intangible assets are initially measured at cost. After initial recognition, intangible assets are measured at cost plus a revaluation increment (revalued in accordance with ROC laws and regulations), less any subsequent accumulated amortization and accumulated impairment losses. An intangible asset arising from development shall be recognized if, and only if, a company can demonstrate all of the following:

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

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

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

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

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

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

Goodwill represents the excess of the cost of the acquisition over the interest in the fair value of the identifiable assets, liabilities, and contingent liabilities acquired. Goodwill 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 cost of land use rights is amortized using the straight-line method over the lease term of 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 and plant renovation are recorded as deferred expenses and are amortized over periods ranging from three to five years, on a straight-line basis.

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 elements in convertible bonds is determined by reference to the fair value of 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 elements 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 equity elements. 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.

(15) Retirement plan

Alpha established employee a non-contributory defined benefit retirement plans (the "Plan") covering all regular employees. Alpha Holdings, Alpha Investment, Des Voeux, Alpha Globe and Alpha HK have not set up any retirement plans due to no employees. Darson, D-Link Asia, Tong Ying, Dongguan Youxun, Alpha Chengdu, Alpha Dongguan, Alpha Soultions and Alpha U.S.A. have set up their respective retirement plans based on local government regulations. Net Mag and Aescu have not set up retirement plans due being in the development stage.

In accordance with the Plan, the 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.

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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, Net Mag, 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 Global, Alpha HK, Net Mag and Aescu did not establish pension plans, and therefore, no pension expense was recognized.

Darson, D-Link Asia, Tong Ying, Dongguan Youxun, Alpha Chengdu, Alpha Dongguan, Alpha U.S.A. 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.

(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.

(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.

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, the Company measures compensation cost at the date of grant after January 1, 2008, and amortizes the compensation cost over the requisite service period. The grant date is determined to be the date when employees accept the grant of stock. If approval from the board of directors is required, the grant date is determined to be the date of approval by the board of directors.

(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 and charges employee bonuses and remuneration to directors and supervisors to current operations, classified under the 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.

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(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.

Classification of deferred income tax assets or liabilities as current or non-current 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”)

Basic EPS are computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the year. 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, 2009. Effective January 1, 2009, EPS are not retroactively adjusted for employee stock bonuses.

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3. Reasons for and Effect of Changes in Accounting Principle

Effective January 1, 2007, the Company adopted the newly announced SFAS No. 37 "Intangible Assets." The adoption of this new standard did not affect net income and basic earnings per share for the year ended December 31, 2007.

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 basic earnings per common share of NT$134,752 thousand and NT$0.30, respectively, for the year ended December 31, 2008. 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' meeting 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.

4. Cash and Cash Equivalents

	December31, 2008	December31, 2007
Cash on hand	$ 4,704	4,829
Checking and savings accounts	595,621	493,463
Time deposits	2,452,147	2,537,114
Cash equivalents – bonds with repurchase agreements	359,094	100,000
	$ 3,411,566	**3,135,406**

5. Financial Assets

	December31, 2008	December31, 2007
Available-for-sale financial assets – non-current:		
Publicly traded stock – D-Link Corp.	**$ 198,384**	**57,300**
Financial assets carried at cost – non-current:		
TGC, Inc.	$ -	-
QuieTek Corp.	9,996	9,996
	$ 9,996	**9,996**

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, 2008, the Company had obtained 1.83% of the voting shares.

(Continued)

For the purpose of new product testing and certification, Alpha invested $9,996 thousand in QuieTek Corp. in April 2007. As of December 31, 2008, the Company had obtained 3.5% of the voting shares.

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, 2008 and 2007, the Company used derivative financial instruments to hedge existing assets and liabilities denominated in foreign currency, as summarized below:

(i) Derivative financial assets

	December 31, 2008		
Contract	**Notional amount (in thousands)**	**Maturity**	**Carrying amount**
Call option (sell USD)	USD135,000	2009.01~2009.03	(12,630)
Put option (sell USD)	USD135,000	2009.01~2009.03	(42,769)
Put option (buy USD)	USD135,000	2009.01~2009.03	77,589
Cross currency swap contract	USD40,000	2009.01~2009.03	5,314
			$ **27,504**

	December 31, 2007		
Contract	**Notional amount (in thousands)**	**Maturity**	**Carrying amount**
Call option (sell USD)	USD10,000	2008.01	(102)
Put option (sell USD)	USD10,000	2008.01	(429)
Put option (buy USD)	USD10,000	2008.01	1,041
			$ **510**

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

(Continued)

(ii) Derivative financial liabilities

	December 31, 2008		
Contract	Notional amount (in thousands)	Maturity	Carrying amount
Call option (sell USD)	USD15,000	2009.01~2009.02	344
Put option (sell USD)	USD15,000	2009.01~2009.02	756
Put option (buy USD)	USD 5,000	2009.02	11
			$ 1,111

	December 31, 2007		
Contract	Notional amount (in thousands)	Maturity	Carrying amount
Cross currency swap contract	USD75,000	2008.01	$ 13,460

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

7. Notes and Accounts Receivable, Net

	December31, 2008	2007
Notes receivable	$ -	132,649
Accounts receivable	2,533,030	2,465,935
Less: allowance for doubtful receivables, sales returns and discounts	(440,724)	(13,368)
	$ 2,092,306	2,585,216

8. Inventories

	December31, 2008	2007
Finished goods	$ 558,785	376,192
Work in process	332,686	525,828
Raw materials	1,443,317	1,440,291
	2,334,788	2,342,311
Less: Provision for devaluation	(353,913)	(197,689)
	$ 1,980,875	2,144,622

(Continued)

9. Intangible Assets

Intangible assets as of December 31, 2007 and 2008, consisted of the following:

		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 January 1, 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**

		2007	
		Core technologies	**Land use right**
Original cost			
Balance at January 1, 2007	$	107,063	12,434
Effect of exchange rate changes		-	620
Balance at January 1, 2007		107,063	13,054
Accumulated amortization			
Balance at January 1, 2007		23,503	1,986
Amortization		28,013	211
Effect of exchange rate changes		-	106
Balance at December 31, 2007		51,516	2,303
Book value at December 31, 2007	**$**	**55,547**	**10,751**

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10. Short-term Borrowings

Short-term borrowings consisted of the following as of December 31, 2008 and 2007:

	2008		2007	
	Amount	**Interest rate %**	**Amount**	**Interest rate %**
Unsecured borrowings	$ 134,092	5.346%	102,564	5.832%~5.85%
Unused available balance	$ 3,061,037		4,015,765	

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. 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.

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	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, 2008, the conversion price was NT$26.50 (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.

Based on SFAS 36, Alpha separated the conversion option from the liability elements when the convertible bonds were issued and recorded them as equity and liability, respectively. Details are summarized as follows:

Item	
Total amount of convertible bonds	$ 1,200,000
Fair value of non-equity embedded derivatives	(32,640)
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, 2008 and 2007, the fair values of the above non-equity embedded derivatives estimated based on an evaluation method amounted to $0.

As of December 31, 2008, unsecured convertible bonds amounting to $777,100 thousand had been converted into 25,653 thousand shares of Alpha's common stock. This bond conversion increased capital surplus by $526,154 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.

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The details of convertible bonds as December 31, 2008 and 2007, are summarized below:

	2008	2007
Convertible bonds payable	$ 1,200,000	1,200,000
Less: Unamortized discount	(21,107)	(33,419)
Converted into common stock	(777,100)	(777,100)
Total repurchased amount	(31,800)	-
Current portion	-	(389,481)
	$ 369,993	-

12. Retirement Plans

The following table sets forth the benefit obligation and accrued pension balance for the defined benefit plan as of December 31, 2008 and 2007:

	2008	2007
Benefit obligation:		
Nonvested benefit obligation	$ (239,962)	(298,398)
Vested benefit obligation	-	-
Accumulated benefit obligation	(239,962)	(298,398)
Projected future salary increase	(283,921)	(255,324)
Projected benefit obligation	(523,883)	(553,722)
Fair value of plan assets	263,524	309,328
Funded status	(260,359)	(244,394)
Unrecognized net loss	161,221	171,262
Accrued pension cost	$ (99,138)	(73,132)

The components of net periodic pension cost for 2008 and 2007 are summarized as follows:

	2008	2007
The defined benefit plan:		
Service cost	$ 12,664	13,665
Interest expenses	15,158	12,720
Actual returns on pension fund	(10,981)	(8,640)
Amortization	8,817	3,624
Curtailment loss	12,146	-
Net pension cost	$ 37,804	21,369
The defined contribution plan:	$ 52,733	52,184

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Actuarial assumptions at December 31, 2008 and 2007, are summarized as follows:

	2008	2007
Discount rate	2.50%	2.75%
Rate of increase in future compensation levels	4.00%	4.00%
Expected long-term rate of return on plan assets	2.50%	2.75%

Cash contributions for the subsidiaries' local insurance regulations were charged to current operations as pension cost amounting to $34,598 thousand and $27,476 thousand for the years ended December 31, 2008 and 2007, respectively.

The curtailment loss arising from the new amendment of the retirement plan regarding early retirement was recognized as pension cost amounting to $12,146 thousand for the year ended December 31, 2008.

13. Stockholders' Equity

(1) Common stock

Pursuant to a stockholders' resolution on June 8, 2007, Alpha increased the authorized common stock to $6,600,000 thousand, and increased its common stock by $224,776 through the transfer of unappropriated earnings and employee bonuses of $107,776 thousand and $117,000 thousand, respectively. The capital increase was registered with the governmental authorities.

Pursuant to a stockholders' resolution on June 13, 2008, Alpha increased its common stock by $311,011 thousand through the transfer of unappropriated earnings and employee bonuses of $125,011 thousand and $186,000 thousand respectively. The capital increase was registered with the governmental authorities.

(2) Employee stock options

As of December 31, 2008, employee stock options issued were as follows:

Classification	Authori-zation date	Grant date	Vesting period	Issued units in thousands	Exercise price per share (NT$)	Fair value on measure-ment date	Adjusted exercise price per share (NT$)
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

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Classification	Authori-zation date	Grant date	Vesting period	Issued units in thousands	Exercise price per share (NT$)	Fair value on measure-ment date	Adjusted exercise price per share (NT$)
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	34.00
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	27.90
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	26.50

In 2008 and 2007, 6,130 thousand shares and 8,036 thousand shares, respectively, of Alpha's employee stock options were exercised, and $61,300 thousand and $80,360 thousand had been received as of December 31, 2008 and 2007, respectively. Of those shares, 61 thousand shares and 2,769 thousand shares, respectively, were still in the subscription process, recorded under advance receipts for common stock amounting to $610 thousand and $27,690 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.

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

Information related to Alpha's employee stock option plan for the years ended December 31, 2008 and 2007, is as follows:

	2008		2007	
Employee stock options	**Options (thousands)**	**Weighted-average exercise price (NT$)**	**Options (thousands)**	**Weighted-average exercise price (NT$)**
Outstanding at beginning of year	40,375	28.60	18,411	10.00
Granted	-	-	30,000	35.01
Exercised	(6,130)	10.00	(8,036)	10.00
Forfeited	-	-	-	-
Outstanding at end of year	34,245	26.48	40,375	28.60
Exercisable at end of year	4,245		10,375	
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 $28.05 for 2008. As of December 31, 2008, the weighted-average remaining contractual life of outstanding options was 3.49 years.

(Continued)

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:

		2008	2007
Net income	Net income	$ 1,052,563	1,293,758
	Pro forma net income	974,240	1,277,963
Basic earnings per share	Earnings per share (NT$)	2.35	3.26
	Pro forma earnings per share (NT$)	2.17	3.22
Diluted earnings per share	Earnings per share (NT$)	2.23	3.02
	Pro forma earnings per share (NT$)	2.07	2. 99

As of December 31, 2008 and 2007, 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 4,487,737 thousand and 4,062,872 thousand, respectively.

(3) Capital surplus

Capital surplus consisted of the following as of December 31, 2008 and 2007:

	2008	2007
Issuance of new shares – premium	$ 1,482,932	1,482,932
Conversion options of convertible bonds (note 10)	53,898	40,049
Treasury stock	3,011	-
	$ 1,539,841	**1,522,981**

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.

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(5) Distribution of earnings and dividend policy

After paying income tax, offsetting any accumulated deficit, and appropriating 10% of the balance as legal reserve, the balance may be distributed in the following order in accordance with Alpha's articles of incorporation: 1.5% as remuneration to directors and supervisors and 10%~22.5% as employee bonuses. The distribution of employee bonuses could include the employees of Alpha's subsidiaries. An additional reserve on certain earnings may also be retained. The distribution of the remaining earnings together with prior years' unapproriated earnings could be proposed by the board of directors and approved in the shareholders' meeting.

Alpha has adopted the remaining dividend policy after considering 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.

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

Employee bonuses and remuneration to directors and supervisors in 2008 were computed at 15% and 1.5%, respectively, based on the Company's net income for the year ended December 31, 2008, after setting aside 10% of legal reserve. Accordingly, Alpha recognized employee bonuses and remuneration to directors and supervisors of NT$142,096 thousand and NT$14,209 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 2009.

(Continued)

On June 13, 2008, and June 8, 2007, 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 2007 and 2006 is as follows:

	2007	2006
Directors' and supervisors' remuneration	$ 23,288	18,871
Employee bonuses – cash	301	945
Employee bonuses – stock	186,000	117,000
	$ 209,589	136,816

There was no difference between the above earnings distribution and the resolution of Alpha's board of directors.

The actual distribution of employee bonuses and directors' and supervisors' remuneration for 2008 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 had repurchased common stock from the open market in accordance with related regulations of the stock exchange. Details of the treasury stock transactions in 2008 are as follows:

Purpose	As of January 1, 2008	Increase	Decrease	As of December 31, 2008
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—premiums, 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.

(Continued)

14. Income Taxes

(1) The income tax return of each consolidated entity is filed separately and could not be consolidated with Alpha's filing. Alpha and it subsidiaries are subject to the current tax rate of the countries in which they operate. Alpha Holding, Alpha Global, Des Voeux and Alpha Investment are exempt from taxes.

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

For the years ended December 31, 2008 and 2007, income tax expense was as follows:

		2008	2007
Current	$	264,463	256,998
Deferred		(44,373)	(2,843)
Additional 10% income surtax on undistributed earnings		-	8,823
	$	220,090	262,978

(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, 2008 and 2007, was as follows:

		2008	2007
Income tax expense computed at the statutory tax rate	$	318,498	387,960
The difference generated by the application of different tax rate in subsidiaries		5,945	17,998
Tax effect of permanent difference		(845)	9,383
Investment tax credits		(311,876)	(243,797)
Additional 10% surtax on undistributed earnings		-	8,823
Valuation allowance for deferred tax assets		227,587	40,279
Prior year's adjustment		(19,219)	42,332
Income tax expense	$	220,090	262,978

(Continued)

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(3) The components of deferred income tax assets (liabilities) as of December 31, 2008 and 2007, are summarized as follows:

		2008	2007
Deferred tax assets – current:			
Investment tax credits	$	13,176	25,000
Employee benefits		1,500	1,500
Unrealized bad debt losses		101,304	-
Unrealized decline in value of inventories		85,957	48,549
Unrealized exchange loss		3,109	-
Product warranty		27,522	51,479
Others		48,967	18,368
		281,535	144,896
Less: valuation allowance		(166,082)	(122,109)
	$	**115,453**	**22,787**
Deferred tax assets – non-current:			
Investment tax credits	$	218,457	136,779
Loss carryforward		-	25
Accrued pension cost		24,785	18,283
Investment loss on long-term equity investments in foreign entities		110,775	56,488
Employee benefits		2,250	2,625
Goodwill		(15,176)	(8,430)
Foreign currency translation adjustment		(63,872)	(37,102)
		277,219	168,668
Less: valuation allowance		(351,539)	(167,925)
	$	**(74,320)**	**743**
Total deferred tax assets	**$**	**637,802**	**359,096**
Total deferred tax liabilities	**$**	**79,048**	**45,532**
Total valuation allowance	**$**	**517,621**	**290,034**

(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)

As of December 31, 2008, 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
$ 13,176	2009
28,000	2010
114,203	2011
76,254	2012
$ 231,633	

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.

(5) As of the December 31, 2008, Alpha's income tax returns had been examined by the tax authorities through 2005. However, due to different interpretations of investment credit for research and development, Alpha's income tax returns for 2005 and Cellvision's income tax returns for the years from 2002 to 2006 were assessed additional tax amounting to $4,032 thousand and $36,925 thousand respectively. 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, 2008, no responses from the tax authorities with regard to the appeals had been received.

(6) Information relating to the ICA of Alpha as of December 31, 2008 and 2007, is summarized as follows:

	2008	2007
Unappropriated earnings:		
Earned after January 1, 1998	$ 1,625,411	1,870,227
ICA balance	$ 425,911	239,202
Expected creditable ratio for earnings distribution to resident stockholders	25.45% (estimated)	16.53% (actual)

15. Earnings per Share

The calculations of basic earnings per share and diluted earnings per share attributable to the stockholders of Alpha in years 2008 and 2007 were as below.

	2008		2007	
	Before taxes	After taxes	Before taxes	After taxes
Basic earnings per share:				
Net income	$ 1,263,259	1,052,563	1,534,317	1,293,758
Weighted-average common shares outstanding (thousand shares)	447,990	447,990	396,296	396,296
Basic earnings per share (NT$)	$ 2.82	2.35	3.87	3.26
Basic earnings per share (NT$) — retroactively adjusted			$ 3.60	3.03
Diluted earnings per share:				
Net income	$ 1,263,259	1,052,563	1,534,317	1,293,758
Potential dilution effects of common shares —convertible bonds	10,629	7,972	21,638	16,229
Net income when calculating diluted EPS	$ 1,273,888	1,060,535	1,555,955	1,309,987
Weighted-average common shares outstanding (thousand shares)	447,990	447,990	396,296	396,296
Potential dilution effects of common shares	27,586	27,586	37,142	37,142
Diluted weighted-average common shares outstanding (thousand shares)	475,576	475,576	433,438	433,438
Diluted earnings per share (NT$)	$ 2.68	2.23	3.59	3.02
Diluted earnings per share (NT$)— retroactively adjusted			$ 3.34	2.81

16. Financial Instruments

(1) Derivative financial instruments

The Company’s transactions involving derivative financial instruments in 2008 and 2007 are disclosed in note 6. Net gain on valuation of financial assets (liabilities) resulting from the changes in fair value amounted to $26,393 thousand and $4,558 thousand for the years ended December 31, 2008 and 2007, 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 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, 2008 and 2007, were as follows:

		December 31,			
		2008		**2007**	
		Book value	**Fair value**	**Book value**	**Fair value**
Financial assets:					
Available-for-sale financial assets – noncurrent	$	198,384	198,384	57,300	57,300
Financial assets carried at cost – noncurrent		9,996	(2)(iii) below	9,996	(2)(iii) below
Financial liabilities:					
Bonds payable (including current portion)		369,993	369,993	389,481	389,481

(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) 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.

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

	December 31,			
	2008		2007	
	Quoted market price	Estimated fair value	Quoted market price	Estimated fair value
Financial assets:				
Cash and cash equivalents	$ 3,411,566	-	3,135,406	-
Notes and accounts receivable (including related parties)	-	4,975,792	-	5,670,505
Financial assets at fair value through profit or loss – current	-	27,504	-	510
Other financial assets – current	11,559	29,444	-	32,356
Other financial assets – noncurrent	-	31,933	-	36,187
Available-for-sale financial assets – non-current	198,384	-	57,300	-
Financial liabilities:				
Short-term borrowings	-	134,092	-	102,564
Accounts payable (including related parties)	-	3,120,832	-	3,686,653
Financial liabilities at fair value through profit or loss – current	-	1,111	-	13,460
Bonds payable (including current portion)	-	369,993	-	389,481

(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.

(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, 2008 and 2007, 78% and 70%, 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.

(Continued)

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)	Parent of Alpha (After March 2007, it became the largest shareholder.)
D-Link System Inc. (D-Link systems)	Subsidiary of D-Link
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
D-Link International Pte Ltd. (D-Link International)	Subsidiary of D-Link
D-Link (Shanghai) Co., Ltd (DLSH)	Subsidiary of D-Link
QuieTek Corporation (QTK)	Investee of D-Link accounted for under the equity method
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, 2008 and 2007, are summarized as follows:

(a) Sales

	2008		2007	
	Amount	Percentage of net sales	Amount	Percentage of net sales
D-Link International	$ 11,061,537	45	8,855,068	39
D-Link	317,310	1	811,444	4
D-Link systems	9,975	-	643,391	3
DLSH	380,092	2	194,515	1
Others	198	-	968	-
	$ 11,769,112	48	10,505,386	47

(Continued)

As of December 31, 2008 and 2007, receivables resulting from the above transactions were as follows:

	December 31, 2008		December 31, 2007	
	Amount	Percentage of total receivables	Amount	Percentage of total receivables
D-Link International	$ 2,648,037	53	2,640,399	46
D-Link	113,485	2	336,935	6
DLSH	137,397	3	13,578	-
D-Link systems	1,110	-	3,697	-
Others	-	-	-	2
Less: allowance for sales returns and discounts	-	-	(19,320)	-
allowance for doubtful receivables	(16,643)	-	-	-
	$ 2,883,386	58	3,085,289	54

The selling prices for sales to the related parties were determined by the products' specifications, which were not comparable with those of other customers.

The collection terms for sales to unrelated customers were 30 to 75 days, and to related parties were 45 to 120 days and 45 to 90 days during 2008 and 2007, respectively. However, collection terms for related parties might be further extended when necessary.

The amount that Alpha paid or received from D-Link was settled by the receivables due from and the payables due to D-Link.

(b) Purchases

	2008		2007	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
BEI	$ 227,095	1	197,567	1
Others	9,295	-	9,043	-
	$ 236,390	1	206,610	1

The purchasing prices for purchases to the related parties were determined by the products' specifications, which were not comparable with those of other suppliers.

(Continued)

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

As of December 31, 2008 and 2007, payables resulting from the above purchases were as follows:

	December 31, 2008		December 31, 2007	
	Amount	Percentage of total payables	Amount	Percentage of total payables
Accounts payable:				
BEI	$ 51,839	2	51,484	1
Others	403	-	392	-
	$ 52,242	**2**	**51,876**	**1**

(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, 2008 and 2007, and the related unpaid balance as of December 31, 2008 and 2007, are summarized as follows:

	2008		2007	
	Current expense	Accrued expense	Current expense	Accrued expense
D-Link International	$ 33,043	13,268	25,447	10,203
D-Link	11,843	11,253	23,420	12,842
QTK	6,802	271	5,564	1,308
Others	1,448	441	8,937	838
	$ 53,136	**25,233**	**63,368**	**25,191**

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

(i) Acquisition of property, plant and equipment and core technologies for the years ended December 31, 2008 and 2007, and the related unpaid balance as of December 31, 2008 and 2007, are summarized as follows:

	2008		2007	
	Amount	Account payable	Amount	Account payable
XT	$ 16,885	-	16,751	-
Others	1,462	171	4,139	494
	$ 18,347	**171**	**20,890**	**494**

(Continued)

(ii) There was no disposal of equipment to related parties for the years ended December 31, 2008 and 2007.

As of December 31, 2008 and 2007, the unrealized inter-company profits resulting from property, plant and equipment transactions amounted to $103 thousand and $160 thousand, respectively, and were recorded as deferred credit.

(e) Others

(i) As of December 31, 2008 and 2007, net receivable (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:

		2008	**2007**
D-Link	$	-	(3,943)
Others		(3)	(404)
	$	**(3)**	**(4,347)**
Others	**$**	**100**	**-**

(ii) Alpha entered into a plant lease agreement with D-Link for the plant located in the Hsin Chu Science Park (no longer rented from November 2007) and for the Taipei Neihu office. The rental expenses amounted to $5,329 thousand and $12,906 thousand in 2008 and 2007, respectively. As of December 31, 2008 and 2007, payables resulting from the above transactions amounted to $1,865 thousand and $1,399 thousand, respectively, which were recorded in payable to related parties.

(f) Compensation to the principal management team

		2008	**2007**
Salaries and cash awards	$	53,540	67,935
Business expense		4,160	10,355
Employee bonuses		30,106	25,058

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

(Continued)

18. Pledged Assets

Assets pledged as collateral as of December 31, 2008 and 2007, are summarized as follows:

Pledged assets	Pledged to secure	2008	2007
Time deposit (recorded in other financial assets – noncurrent)	Import guarantee for Customs	$ 7,000	15,500

19. Commitments and Contingencies

(1) Operating leases

	Lessor	Period for lease	Rental expense in 2008	Payment method
Land	Hsinchu Science Park	Nov 3, 2003~ Dec 31, 2022	$ 7,685 thousand	Monthly

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

(2) 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, 2008 and 2007, amounted to $9,655 thousand and $17,747 thousand, respectively.

(3) As of December 31, 2008 and 2007, Alpha had outstanding letters of credit amounting to $315 thousand and $0 thousand, respectively.

(Continued)

20. Other Information

The information on personnel, depreciation, and amortization expenses by function for the years ended December 31, 2008 and 2007, is summarized as follows:

	2008			2007		
Account	**Cost of goods sold**	**Operating expense**	**Total**	**Cost of goods sold**	**Operating expense**	**Total**
Personnel expenses:						
Salaries	$ 744,685	1,182,271	1,926,956	841,172	1,075,553	1,916,725
Labor and health insurance	33,547	71,798	105,345	32,434	68,260	100,694
Pension	36,126	89,009	125,135	25,077	75,952	101,029
Others	31,280	99,173	130,453	35,026	74,364	109,390
Depreciation	155,548	216,175	371,723	155,645	212,546	368,191
Amortization	73	84,086	84,159	57	70,644	70,701

21. 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

	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

(Continued)

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	2007				
	Taiwan	Asia	Americas	Adjustments and eliminations	Consolidated
Area revenue:					
Third-party customers	$ 20,567,484	1,783,946	-	-	22,351,430
Inter-company	138,389	812,863	102,701	(1,053,953)	-
	$ 20,705,873	2,596,809	102,701	(1,053,953)	22,351,430
Operating income (loss)	$ 1,537,011	(40,449)	7,713	52,447	1,556,722
Area identifiable assets	$ 13,052,155	4,616,640	53,400	(4,037,046)	13,685,149

(3) Export sales

The export sales of the consolidated entities located in the ROC for the years ended December 31, 2008 and 2007, are summarized as follows:

	2008		2007	
	Amount	Percentage of net sales	Amount	Percentage of net sales
Asia	$ 2,975,618	13	6,229,176	30
Americas	14,344,813	63	8,067,117	39
Europe	4,819,513	21	5,417,452	25
Others	553,009	2	748,892	4
	$ 22,692,953	99	20,462,637	98

(4) Major customers

Individual customers that represented greater than 10% of consolidated revenue in 2008 and 2007 were as follows:

	2008		2007	
	Amount	Percentage of net sales	Amount	Percentage of net sales
D-Link International	$ 11,061,537	45	8,855,068	39