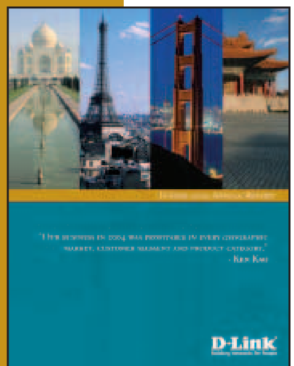
D-Link 2004 Annual Report

"Our business in 2004 was profitable in every geographic market, customer segment and product category."

- Ken Kao

Chairman and CEO

D-Link
Building Networks for People



about the cover

In fiscal 2004, D-Link drove global revenue and net income to record highs. D-Link's extensive network of in-country business units allowed the company to compete aggressively with in-market data and technology assessments, delivering quality products to best serve each market individually.

D-Link Fiscal 2004 Review

(U.S. Dollars in Thousands)	**2004**	2003	**Change**	2002	2001
Net Sales	**$966,584**	$728,062	**33%**	$583,560	$510,291
Operating Income	**$78,952**	$46,655	**69%**	$18,745	$15,256
Income Before Tax	**$96,381**	$45,246	**113%**	$28,749	$30,044
Net Income	**$77,966**	$39,992	**95%**	$25,075	$28,196

*Amounts are expressed in U.S. Dollars solely for the readers' convenience, at the rate of: NT$33.36=US$1, The average annual exchange rate for 2004
NT$34.36=US$1, The average annual exchange rate for 2003
NT$34.62=US$1, The average annual exchange rate for 2002

(U.S. Dollars in Thousands)	**2004**	2003	2002	2001
Cash & Cash Equivalents	**$120,515**	$90,620	$57,762	$90,394
Total Assets	**$814,977**	$700,592	$541,990	$503,998
Working Capital	**$231,611**	$169,995	$215,405	$215,405
Long Term Loans	**$685**	$6,580	$86,632	$86,632
Shareholders' Equity	**$367,315**	$298,952	$276,619	$276,619
Shares Outstanding**	**535,521**	501,777	494,378	445,944

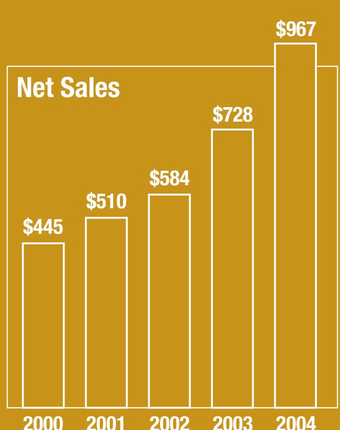
*Amounts are expressed in U.S. Dollars solely for the readers' convenience, at the rate of: NT$31.75=US$1, The prevailing rate on December 31, 2004
NT$33.93=US$1, The prevailing rate on December 31, 2003
NT$34.62=US$1, The prevailing rate on December 31, 2002

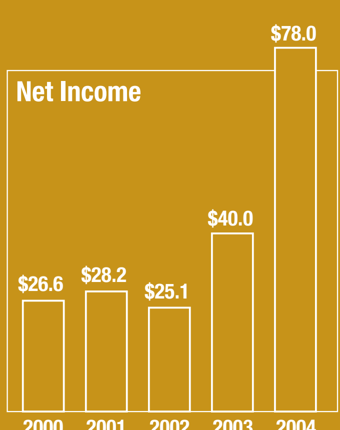
**In Thousands

Letter to Shareholders, Customers, Partners, and Employees

Ken Kao
Chairman and Chief Executive Officer
D-Link Group

"D-Link's fiscal 2004 was the most successful of the 19 years since our founding"
- Ken Kao





Two Thousand and Four has been a year of momentous growth for D-Link. Our 2004 product shipments, revenue, operating income and earnings per share were all company records. Our business was profitable in every geographic market, customer segment and product category. We continued to establish D-Link as the world's number one SOHO and home networking, broadband and communication solutions provider.

In fiscal year 2004, D-Link assertively drove record global consolidated revenue to US $967 million (NT $32.2 billion), a year-over-year increase of 33 percent compared to fiscal 2003 US $728 million (NT $25.0 billion). Net income increased 95 percent, to US $77.9 million (NT $2.6 billion); compared to fiscal 2003 of US $40 million (NT $1,374 million).

We successfully grew gross profit by 38 percent, operating profit by 69 percent, and earnings per share by 95 percent.

We are a dominant market leader in numerous market segments and have increased investments in digital home technologies, channel expansion and global market development. We continued to introduce affordable, standard-based products resulting in significant market share increases for 2004.

The D-Link brand is stronger than ever and we are well-prepared for the next phase of our company's growth. As we move forward into 2005, dedication to excellence in technology innovation, outperforming the competition, and creating greater shareholder and customer value will continue to be driving factors behind our actions.

Dominating Worldwide Presence

We extended our global reach and advantage over the competition in 2004 with successful expansion of in-country business units to 90 offices serving more than 100 countries in over 5 continents worldwide.

D-Link business units deliver competitive products, perfectly suited to the diverse market needs of individual countries through in-market data collection and technology assessments.

Because D-Link is strategically located in-country with sales, marketing and customer support, the company is better able to integrate key product initiatives and ideas in unity worldwide.

This extensive sales network has enabled D-Link to drive sales revenues evenly from the major 3 markets of the world; i.e. North America (33%), EMEA (Europe including Russia, Middle East and Africa) (33%) and APAC and Others (34%).

North America

For fiscal year 2004, the North America region sales grew 20 percent to US $322 million on a year-over-year basis and accounted for 33 percent of the company's consolidated revenue.

The North America region continued its strategic leadership role in product planning, product development and product marketing in 2004. In addition to research and development, sales and marketing services and regional management for North America, the region made significant inroads with emerging technologies for the digital home, including high-growth areas such as wireless, VoIP and multimedia. The North America region also realized significant growth from new business opportunities with increased penetration to corporate customers through the company's extensive channel structure.

Europe, the Middle East and Africa

The EMEA business units drove a steady revenue increase to US$ 315 million, posting a solid 40 percent gain in fiscal 2004, representing 33 percent of the company's consolidated revenue.

Our EMEA region successfully completed a consolidation plan, which unified sales, marketing and product strategies across all countries in the region. This unification effort resulted in a stronger brand presence for D-Link throughout Europe, the Middle East and Africa, increasing the leverage of each individual country to penetrate markets and win new business. D-Link brand equity has been well recognized in EMEA. Particularly in Russia, where D-Link's sales grew 78% year-over-year.

The EMEA business units achieved success with a significant percentage of sales coming from switching, security and wireless networking sales into small and medium-sized enterprise. In addition, broadband CPE sales to service providers in Europe and Russia were particularly booming thanks to the penetration of ADSL technology, and D-Link's strong product offering and dominant market position.

Asia Pacific and Other Regions

The Asia Pacific and Other emerging market regions grew 37 percent to US $330 million in fiscal 2004, representing 34 percent of the company's consolidated revenue.

D-Link continues to be one of the top three broadband equipment suppliers in Japan. In Latin America, D-Link dominated the market with contract wins from major telecommunication companies and sales growth of 233% in 2004. In Australia, the company captured a 60 percent market share by being the number one Digital Subscriber Line (DSL) provider with telecommunication companies across the board. In 2004, D-Link India marked its ten-year anniversary with numerous awards and a marked increase in sales. In India, D-Link is the market leader of both low and high-end networking and structured cabling.

Selling to Consumer, Business and Broadband Customers

We evaluated and modified our business strategy in 2004 to strategically focus on the three distinct customer segments D-Link sells to worldwide: the end-user consumer, the business customer and the broadband provider.

Our award-winning consumer products are effectively meeting worldwide customer demand in an exceedingly timely and cost-effective manner. D-Link offers consumers advanced connectivity products that are easy to use, superior in performance, and above all, of great value.

D-Link's core competency is in Ethernet networking, and the company drives innovation and development by producing a wide range of powerful high-end wired and wireless networking solutions for businesses at the enterprise, workgroup and departmental processing levels.

As broadband provides more consumers and small businesses worldwide high-speed access to the Internet, D-Link offers the key connectivity hardware, interactive media and security solutions to the end-user through service providers worldwide. D-Link develops a wide range of broadband products perfectly suited for service providers to sell to consumers and businesses today.

A Word on Alpha Networks

The successful reorganization initiative to carve out the OEM/ODM business from the D-Link Brand business resulted in streamlined operational efficiency and increased business opportunities for D-Link and Alpha Networks companies. Alpha Networks successfully went IPO in 2004 and continued its successful expansion with a more diversified customer base, ending the fiscal year with US $422 million in revenue.

A Word of Thanks to our Shareholders, Customers, Partners and Employees

Our goal is to be a great company in all facets of business. We are not just satisfied with our number one position in global SOHO and home networking. We strive to be number one in global SMB networking as well. We maintain very high expectations and are confident about our future. We are proud of our record-setting accomplishments in 2004 and will build on this momentum.

In 2005, we will continue to be driven by product innovation, while analyzing all markets and listening to our customers' needs to help determine the direction of our business. The company is well-positioned to leverage our past success in consumer networking to further grow its sales into the SMB and service provider market segments worldwide.

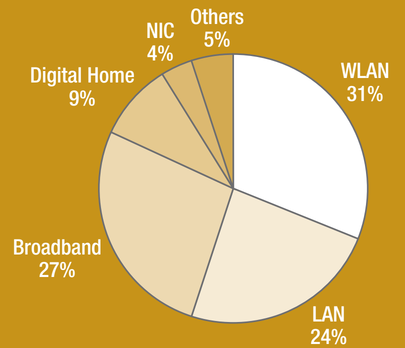
I wish to thank our shareholders, customers, partners and employees for their support in 2004. We are eager to meet the challenges ahead as we direct our resources to major growth areas, encourage the enthusiasm and determination within each D-Link team member, and drive to become a more competitive and successful company in 2005 and beyond.

Ken Kao

Ken Kao
Chairman and Chief Executive Officer,
D-Link Group

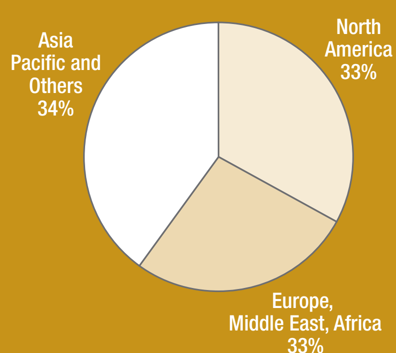
Technology expertise, market forecasting and product breadth give D-Link the strength to aggressively compete with quality hardware at an affordable price point in a variety of markets

Sales by Product Category



The company maintains revenue streams from multiple product market segments through extensive breadth and diversity

Sales by Region



D-Link business is strong and diversified, with balanced revenue contribution coming from all regional business units

Global Presence

1700 Employees serving over 100 countries through 90 offices in over 5 continents

Now more than ever, the world is a global marketplace.

Different regions are being served locally while embracing many of the same worldwide standards. D-Link creates innovative technology that strictly adheres to industry standards, delivers maximum interoperability and serves the global marketplace with local, regional and worldwide offices.

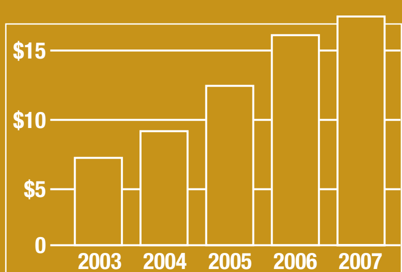
D-Link is the worldwide leader and award-winning designer, developer, and manufacturer of wireless and Ethernet networking, broadband, multimedia, digital electronics, voice and data communications solutions. D-Link is dedicated to "Building Networks for People." This "Building Networks for People" connectivity solutions concept is designed to give users the ability to share broadband access, voice, video, data and more importantly, ideas - whether they're around the world or in the next room.

"D-Link has shown exceptional revenue and product growth in the SOHO, SMB and Enterprise connectivity markets for North America in 2004. Their product portfolio well positions them to continue driving significant business in these key markets."

- Joshua Johnson,
  Senior Analyst,
  Synergy Research Group

CompUSA Named D-Link as Networking Vendor of the Year for 2004

HOME NETWORK TOTAL DEVICE REVENUE FORECAST (U.S.$ IN BILLIONS)



Source: In-Stat

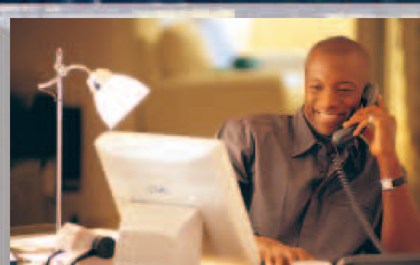
Broadband access and laptop sales continue to be strong drivers for home networking equipment sales. D-Link is well-positioned to continue driving sales of home networking and digital home devices.

Dr Pepper/Seven Up, Inc., the largest beverage division of Cadbury Schweppes plc (NYSE: CSG), North America was looking for a way to universally connect 325 field sales people and virtual offices of various sizes to both the Internet and to Dr Pepper/Seven Up corporate servers.

Dr Pepper/Seven Up was able to find the right balance of scalability, performance, reliability with D-Link Broadband Routers for their remote sales force.

"The D-Link routers have exceeded our expectations," said John Hess, director of Network Service Management at Dr Pepper/Seven Up, Inc. "D-Link's support has been great, and the easy installation of the routers has allowed us to deploy them rapidly and better anticipate the technical needs of our sales force."

D-Link is a leading supplier of home and business networking for North America, and a pioneer in the emerging digital home market



D-Link was a major provider of Voice over Internet Protocol (VoIP) hardware as the technology gained widespread adoption in 2004

D-Link remains a dominant player in the burgeoning Wireless home networking market

The major trend in the industry is enabling seamless connections between computers and consumer electronic devices; D-Link makes quality digital home devices to bridge these connections

North America

Sales for WLAN Equipment in 2004 grew 30 percent (YoY) to $2.8 billion.

source: Synergy Research Group, Inc.

D-Link North America revenue grew to US $322 million, up 20% year-over-year, representing 33% of global revenue for 2004.

D-Link North America teams serve one of the world's largest markets for information technology from the North America headquarters in Fountain Valley, California, overseeing business in the U.S., Canada and Mexico.

D-Link North America wireless networking revenue grew faster than the industry with a 42% gain, and the company notably grew business-to-business development while expanding in the crucial small to medium business and service provider channel segments.

D-Link North America continued its contribution of product planning, product marketing, and product development leadership with the introduction of next-generation connectivity technology, and synchronized efforts with corresponding worldwide business units.

In 2004, D-Link North America successfully expanded its retail channel business with a market share increase of 21%, retail shelf space expansion of over 40%, and the successful penetration into six new retail chains that now carry D-Link consumer connectivity products.

The company orchestrated resurgence in selling to corporate customers in North America with the launch of D-Link Business Solutions, a strategic campaign to win networking business in the small to medium business market space. Through increased support of D-Link partners and resellers, the company acquired major customers looking for standard-based and affordable means to apply next-generation networking technology. D-Link is well-suited to be an aggressive participant in the SMB market segment and will continue its focus on gaining market share.

D-Link North America struck major deals and partnerships with some of the world's largest companies in 2004. The result of these company-to-company synergies will continue to bring D-Link significant business opportunities and penetration into new and emerging markets.

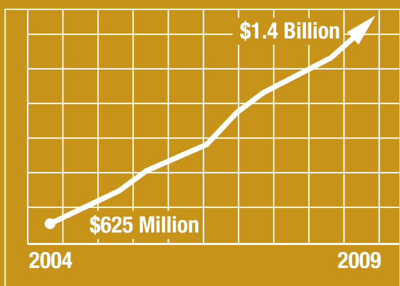
D-Link also strengthened its business in Canada and Mexico with the launching of new connectivity products and business programs well-suited for these growing markets.

D-Link North America continues to significantly augment worldwide net sales for fiscal 2004 by market and product research to intelligently choose the right technologies and products at the right time.

"With its double-digit growth in both port shipments and revenue, D-Link is the fastest growing vendor of LAN switches in EMEA"

- Peter Hulleman
IDC

Western European Security Application Market Forecast



D-Link EMEA is focused on winning business in the rapidly growing security hardware market segment

Source: IDC

D-Link was Named "Data Networking Vendor Partner of the Year" from Computer Reseller News Channel Award 2004 in the UK

The David Lewis Centre, spread over a 170-acre campus in rural Cheshire, is the largest UK provider of a range of medical, educational, residential and assessment services for people with complex epilepsy and other neurological conditions. The centre, which celebrated its centenary in 2004, consists of 26 buildings housing over 700 regular staff and 300 residents of all ages. A registered charity, the centre helps to enrich the lives of thousands of people every year.

At the centre's main administration building, D-Link wireless technology has been deployed to provide wireless roaming coverage. D-Link wireless access now provides seamless network access for several hundred users on the campus.

"Using wireless technology from D-Link has enabled us to branch out our network cost effectively and provided plenty of flexible ways of growing and expanding," said Alex Taylor, IT Manager. "Without it, we would not have the faith in our network's ability to help us deliver improved medical, educational, residential and assessment services for people in need."

D-Link EMEA maintained its leading position as a #1 supplier of networking equipment throughout the region

D-Link is empowering the business sector with powerful, secure wireless network connectivity throughout the region

Secure connections for the business traveler present growing opportunities for D-Link firewall and VPN solutions

D-Link EMEA continues to be the dominant player in Ethernet switching and corporate connectivity

Europe, the Middle East and Africa

On the security side, EMEA is expected to come on very strong, grabbing 34% of worldwide annual security revenues by 2007.

source: In-Stat

D-Link EMEA sales grew 40% on a year-over-year basis to US $315 million, representing 33% of global revenue for 2004.

Strongest revenue growth came from Russia, which was up 78% compared to 2003. Broadband CPE products, AP, and ADSL significantly drove growth for the entire year of 2004. Strategically, this area has grown its business units to 30 countries with a total of 42 sales offices during 2004.

D-Link EMEA successfully consolidated marketing and sales strategies in 2004, resulting in a cumulative strength across multiple countries, further solidifying D-Link as the networking leader throughout Europe, the Middle East and Africa.

In 2004, strong brand recognition coupled with high-quality products at affordable price points enabled D-Link EMEA to win share of emerging market sectors arising from the widespread adoption of broadband connectivity for both consumer and business.

Wireless networking, multimedia and multiplayer gaming are readily becoming mainstream technologies, and D-Link EMEA is well-poised to take advantage of resulting opportunities. In addition, workgroup to enterprise LAN switching business has seen steady growth.

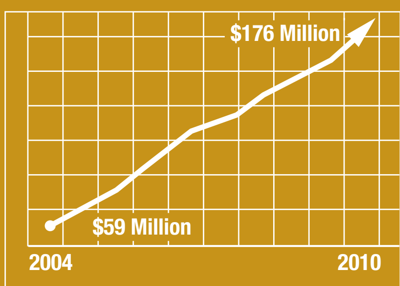
Sales of security products are expected to grow significantly over the next six years. D-Link EMEA aims to repeat the success of its router, firewall and VPN business with strong product portfolios in the emerging security hardware segments, including both intrusion detection and threat management solutions.

D-Link EMEA launched a specialized, instructor-led training initiative aimed at channel partners to increase their knowledge of specific D-Link technology areas and gain a formal accreditation reflecting their expertise. This effort is one of many initiatives led by the D-Link EMEA team to grow and strengthen its channel business.

"'The global market is experiencing record growth and D-Link has helped open the market to new users with their aggressive pricing and the stratification of their Broadband, LAN and WLAN product lines."

- Sam Lucero
  In-Stat

Number of APAC Homes Using Broadband Internet



D-Link supplies both backbone switching and end-user connection devices into the burgeoning broadband markets in the Asia Pacific and surrounding regions

Source: Strategy Analytics

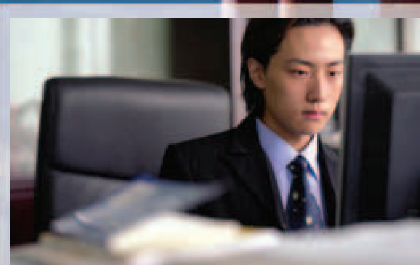
D-Link Wins CRN's "Most Admired Company" Award in India for 2004

D-Link Wins the Nova Channel Award in Taiwan for 2004

Tecumseh India, the #1 independent manufacturer of air conditioner compressors in India, deployed a D-Link Gigabit switching solution using state-of-the-art layer 3 switching technology supported by a fiber backbone, with a Gigabit interface for inter-departmental connectivity.

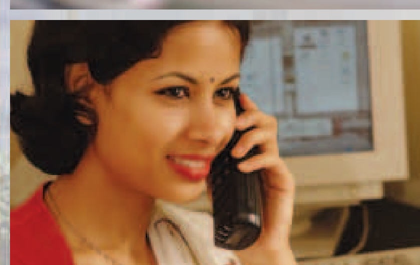
The D-Link high-speed, secure network gives remote access from any of the campus buildings, with remote management for the network administrator, which has resulted in operational cost savings for Tecumseh India.

D-Link is the Market Leader in Networking and Connectivity Segments Throughout the Asia Pacific and Surrounding Regions



D-Link is connecting both backbone and workgroup connectivity throughout the Asia Pacific and surrounding regions

D-Link wireless networking is enabling anytime, anywhere access to the Internet and corporate headquarters for business



D-Link played a large part in bringing large-scale Broadband and VoIP deployment to consumers in the region with major project wins in Taiwan, India, and Australia/New Zealand

Asia Pacific and Other Areas

The worldwide telecommunications market will continue gaining momentum and is forecasted to reach $1.2 trillion in 2007.

source: IDC

D-Link APAC and Other areas grew its revenue 37% to US $330 million, representing 34% of global revenue for 2004.

In 2004, D-Link Asia Pacific, Latin America, Australia, India and surrounding regions successfully strengthened the worldwide brand, expanded sales channels and distribution partnerships, while introducing both high and low-end connectivity, broadband and networking products well-matched for these diverse market segments.

D-Link APAC and Other emerging markets not only grew revenue 37% but also were key contributors to global consolidated profits for fiscal year 2004. Looking at Latin American business, D-Link phenomenally grew its sales 233% in 2004. This was made possible by a slew of contract wins with major telecommunication companies in the region.

The regional business units are well-situated in their respective markets where the company is showing market leadership with strong and sustained growth. While competitors extol the promise and potential of expansion into these rapidly expanding markets, D-Link is successfully reaping its rewards and enjoying first-mover advantage.

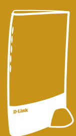
Widespread adoption of broadband Internet access worldwide is a driving force for the region's growth. The company had major wins in the telecommunication markets in Brazil, Taiwan, India and Australia/New Zealand with large deployments of ADSL, VDSL and VoIP products through extensive service provider relationships.

Since 1986, the company has worked to build a global network of strong channel partners and has worked hard to ensure that lasting relationships are formed in virtually every market.

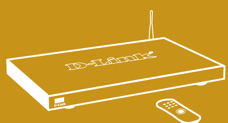
We strengthened our local presence in each of the markets we have presence in throughout the region. In total, the region boasts 44 sales offices in 16 countries, and an extensive distribution network that is second to none.

D-Link Consumer Products

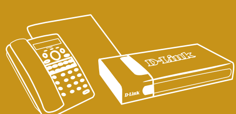
Home Networking
D-Link is a dominant player in home networking with award-winning products that are powerful and easy to use



Cable/DSL Modems
D-Link broadband modems are standard-based connectivity solutions sold through the retail channel and service providers

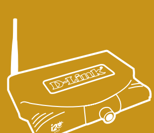


Multimedia
D-Link MediaLounge-branded products bring new options to the consumer in the digital home by uniting PCs and devices to a home entertainment system



Voice & IP Communications
D-Link VoIP products are sold through retail, partners and service providers, bringing affordable calling options over an Internet connection

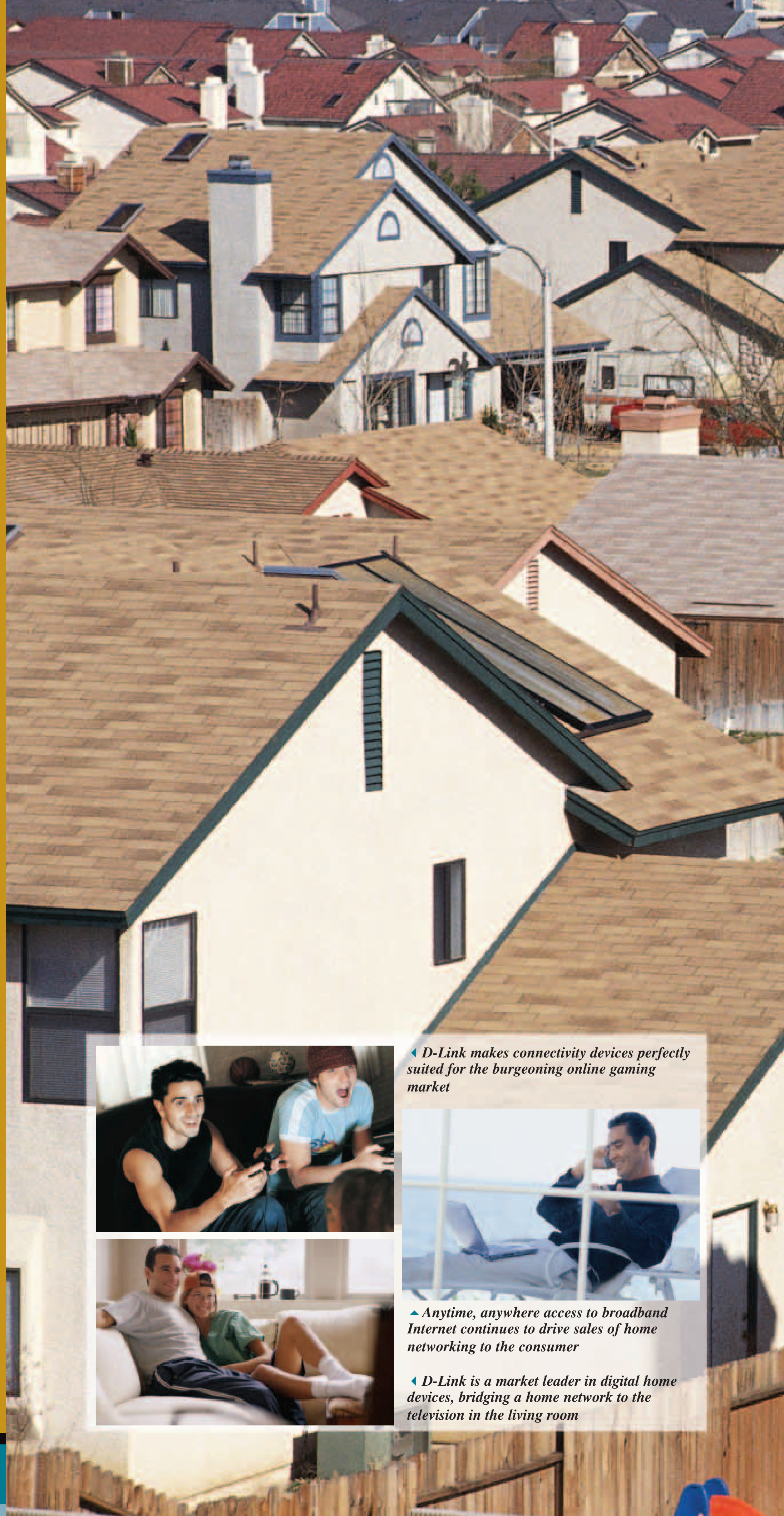
Internet Cameras
D-Link SecuriCam cameras bring anytime, anywhere access to live video streams over the Internet to any PC in the world



Video Conferencing
D-Link i2eye products turn standard televisions into powerful videophones, empowering users to easily connect and make video-phone calls over a broadband connection

USB/Firewire
D-Link is a market leader in plug-and-play, high-bandwidth connectivity solutions for computers, peripherals, and consumer electronics products

Home Network Storage
D-Link plug-and-play home drives are ideal storage devices for consumers to house their entire library of digital music, photos and data files for instant access



D-Link makes connectivity devices perfectly suited for the burgeoning online gaming market

Anytime, anywhere access to broadband Internet continues to drive sales of home networking to the consumer

D-Link is a market leader in digital home devices, bridging a home network to the television in the living room

Consumer and the Digital Home

Total media networking connections will grow from over 51 million in 2005 to over 223 million in 2009, a 29% annual growth rate

source: In-Stat

D-Link remains a worldwide leader and award-winning designer, developer, and manufacturer of connectivity solutions for consumers in the digital home.

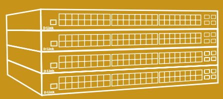
D-Link successfully extended its Digital Home campaign in 2004 with numerous product introductions of next-generation networking, storage, multimedia, gaming, VoIP and security solutions for the consumer market. The D-Link Digital Home strategy looks to the future of where the consumer market is heading, delivering new entertainment and communication devices so consumers can experience anywhere, anytime access inside their home to media, data, peripherals, and friends and family connections.

The explosion of high-speed Internet access continues to open up opportunities for D-Link in the world of consumer computing. Voice, video and data convergence combining digital and analog technology allows D-Link to deliver real products like digital media players, IP-based remote security devices and video conferencing for consumers.

As the company continues its successful development of leading wired and wireless streaming media technologies, D-Link wireless media solutions gives consumers greater choices for experiencing home digital entertainment. D-Link reached out and formed strategic alliances in 2004 with some of the world's largest consumer technology companies, including both Microsoft and Intel. Strategic alliances provide D-Link with a greater knowledge base for the development of next-generation, standards-based media devices as well as assured product compatibility with upcoming operating systems and computer hardware.

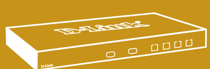
Strong manufacturing capability, keen market sense and esteemed design skills in standards-based technology enables D-Link to continually expand its scope and develop next-generation technology that is affordably priced for today's consumer marketplace.

D-Link Business Products



Switching
D-Link business-class Ethernet switching products bring price for performance leading solutions to the Small to Medium (SMB) and Enterprise Businesses

Enterprise Wireless
D-Link *Air*Premier wireless solutions are designed for medium to large businesses requiring extensive feature sets for both indoor and outdoor WLAN applications

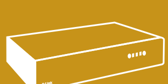


Hot Spot Gateways
D-Link *Air*Spot products deliver turn-key solutions for businesses and service providers looking to provide public wireless network connectivity and services to mobile visitors

Firewalls
D-Link NetDefend family of products effectively protect networks, corporate resources and data communication from outside intrusion

VPNs
D-Link Virtual Private Network (VPN) products establish strong and secure connections to business headquarter networks for the remote office worker and business traveler

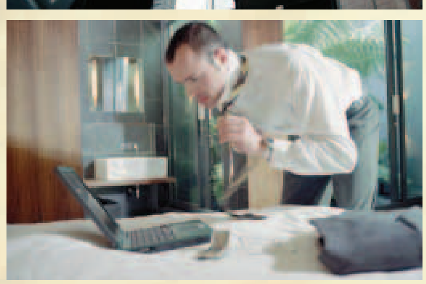
Internet Cameras
D-Links full-featured camera surveillance systems provide remote video and audio monitoring, recording and pan/tilt/zoom over the Internet for business



KVM Switches
D-Link Keyboard, Video, Mouse (KVM) switches allow for easy management of multiple PCs or servers for the IT manager and integrator

D-Link is committed to making its resellers and partners successful with strong programs, support and product solutions

D-Link's core competency is in wired Ethernet connectivity and the company delivers next generation 10-Gigabit networks for today's growing business



D-Link is empowering the business traveler with remote connections, wireless connectivity and secure access to corporate offices

Business

Worldwide IT spending reached $965 billion in 2004 and will reach $1.2 trillion in 2008

source: IDC

D-Link delivers a wide range of powerful networking and connectivity solutions designed to bring exceptional value for business at the enterprise, workgroup and departmental processing levels.

D-Link switching and connectivity products are a dominant force in business environments, delivering increased network performance, increased network scalability, and decreased costs over time for the information technology (IT) manager and decision maker.

D-Link delivers powerful solutions for deploying or upgrading to Gigabit Ethernet throughout an entire network including server farms, ISP backbone and campus-wide connectivity.

D-Link engineers continually push the innovation envelope to develop next-generation, standards-based IT solutions that businesses, whether small or large, can experience today. This philosophy strengthens D-Link's stature as a viable alternative to more expensive, proprietary-based solutions by bringing the same level of performance with better value.

In 2004, D-Link delivered a series of 10-Gigabit switching products, branded D-Link xStack™, that provide exceptional performance of up to 1.4 Terabits of switching capacity with price points that cannot be matched in the industry. The D-Link xStack line of connectivity solutions gained widespread acceptance and the company looks to build on this success in 2005 with numerous product extensions to the xStack line.

With higher security protocols, increased bandwidth over multiple radio channels, and better management and control being built into wireless devices, the technology continues to gain acceptance as a mainstream solution for connectivity in business. D-Link delivers robust indoor and outdoor wireless networking solutions, branded D-Link AirPremier, for business that interoperates seamlessly with wired Ethernet networking.

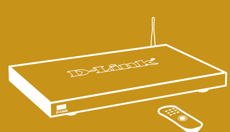
D-Link remains steadfast in our approach to bring value to end-user business customers and better incentives to resellers and partners selling D-Link Business Solutions. We will continue to deliver competitive products, programs and support services for business in 2005 and beyond.

D-Link Broadband Products

Broadband Modems
D-Link modems are standard-based connectivity devices that deliver strong, high-speed Internet connectivity

Broadband Routers
D-Link's strength in engineering brings customizable router solutions to the service provider selling to the end-user consumer

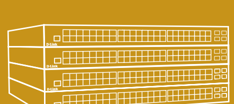
Voice & IP Communications
D-Link VoIP products are primarily sold through VoIP service providers, bringing affordable calling options over an Internet connection



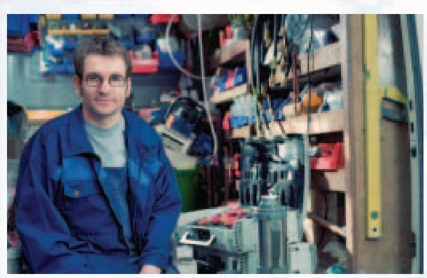
Wireless Media Players
D-Link media players and set-top boxes are next-generation, value-add devices for the service providers selling to the home consumer

Video Conferencing
D-Link video-phones represent another value-add solution for service providers selling to the home consumer

Internet Cameras
D-Link SecuriCam Internet cameras represent another value-add option for service providers to bring access to live video streams over the Internet to the home consumer

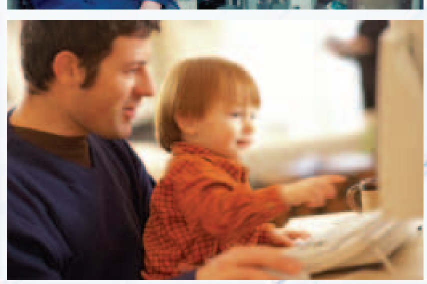


Switching
D-Link business-class Ethernet switching products are robust solutions capable of providing worldwide service provider networks



D-Link has extensive relationships with the world's largest Internet service providers

Service provider relationships present continued business opportunities for D-Link as service providers integrate additional access services to the home such as home networking



Broadband access will continue to gain widespread adoption as consumers realize the benefits of always on, high-speed access

Broadband

According to Parks Associates, by 2009, more than 40 million U.S. households will have a data network, and more than 20 million of these data networks will originate from an ISP.

D-Link offers cost-effective, feature-rich telecommunications solutions for any network.

As broadband provides more and more consumers with high-speed access to the Internet, D-Link continues to offer core connectivity devices and next-generation interactive media solutions to empower users in the digital home to take full advantage of the faster Internet speeds.

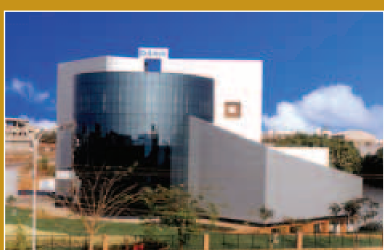
Internet service providers know the future of their business depends on their ability to increase the monthly revenue from customer subscriptions. D-Link utilizes its extensive set of relationships with major service providers, presenting an extensive set of viable network extension options for the service provider, including home networking, media streaming and content delivery, IP-based remote security monitoring, firewall protection, VoIP and videoconferencing technology.

Broadband service providers are also marketing business applications, such as virtual private networks, network storage or integrated voice, as reasons for businesses to go broadband. Operational and economic efficiencies from network convergence will prompt business users to layer voice services on top of their IP VPN circuits. Increasingly, VoIP is seen as a logical and desirable complimentary service to VPNs. D-Link has developed a wide range of broadband products ready for businesses to implement today. Extensive product breadth gives D-Link the diversity and strength needed to adapt to future emerging markets and opportunities.

D-Link's industry recognized broadband, media and networking solutions provide valuable cost savings and enhanced communication features for the home or business network, and present a considerable set of business opportunities to the Internet service provider.

D-Link maintains strength through an extensive network of design, development, and manufacturing facilities worldwide

The Wujiang manufacturing facility has a total floor space of 70,500 square feet

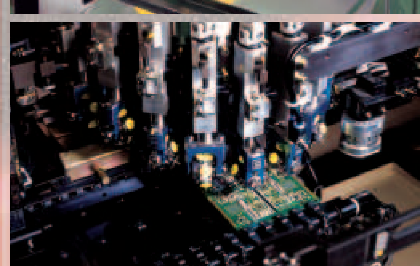


The Goa manufacturing facility in India has a total floor space of 49,837 square feet

The Dongguan facility has a total floor space of 426,000 square feet

D-Link engineers have an extensive range of design and testing equipment to produce next-generation technology

D-Link has built an extensive network of distribution and delivery channels that brings products to over 100 countries everyday



Automated robotic manufacturing equipment allows D-Link to deliver mass quantities of product while reducing overall production costs

Product Design, Development, and Delivery

Forecasting emerging markets and delivering solutions with the highest quality, while choosing strategically sound business partners for successful marketing and distribution, are keys to the successful introduction and sale of technology to consumers. D-Link has mastered these activities with increased agility and has introduced the right product to the right market at the right time with increased consistency and success for Consumer, Business and Broadband market segments.

D-Link continues to be a global leader in the design, manufacturing, and global delivery of networking, broadband and communications technology. One of D-Link’s fundamental strategic touchstones has been a total commitment toward making high-quality technology products, achieving manufacturing excellence and delivering solutions on a worldwide scale.

Each year, profits are allocated to improve capabilities in creating next-generation products. D-Link reinvests profits back into the key areas of the company such as sophisticated test equipment, quality engineering talent and improved operational facility. This investment fundamentally increases the core equity and future capability of the company.

For over 19 years, D-Link has been delivering cutting-edge, high-performance products on a global scale, all designed within standards-based technologies. Serving both mass consumer and business needs, D-Link continues to offer the best value in the connectivity market by combining high-quality products with the most affordable price points.

To date, D-Link has the largest product portfolio with over 500 products for enterprise, SMB and SOHO markets. The company has a channel-friendly distribution model with evolving channel programs to match changing markets. This creates a lower total cost of ownership and a higher return on investment for companies that use D-Link products. With presence in all facets of networking, D-Link has consistently increased market share, shown strong revenue growth and is positioned for continued growth in 2005 and beyond.

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Board of Directors

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Chairman & CEO

J.C. Liao
Director & President

A.P. Chen
Director & CFO

Charley Chang
Director

Kenneth Tai
Independent Director

John Lee
Director

Chung-Yu Wu
Director

Joan Chen
Independent Supervisor

Hui-Ci Hu
Supervisor

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2003 and 2004
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
D-Link Corporation:

We have audited the consolidated balance sheets of D-Link Corporation and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of 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 financial statements of certain consolidated subsidiaries included in the consolidated financial statements. The total assets of these subsidiaries were NT$824,258 thousand and NT$1,415,984 thousand as of December 31, 2003 and 2004, respectively, and their total revenue was NT$1,955,336 thousand and NT$3,018,760 thousand for the years ended December 31, 2003 and 2004, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of D-Link Corporation and subsidiaries as of December 31, 2003 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

Hsinchu, Taiwan (the Republic of China)
March 25, 2005

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

D-LINK CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2003 and 2004
(in thousands of New Taiwan dollars)

Assets	2003	2004
Current assets:		
Cash and cash equivalents (note 3)	$ 3,074,750	3,826,361
Short-term investments (note 4)	3,511,432	1,364,172
Notes and accounts receivable, net (note 5)	4,478,961	5,643,083
Receivables from related parties (note 18)	208,365	148,327
Other financial assets - current	150,866	138,423
Inventories (note 6)	5,082,165	6,042,779
Other current assets (note 16)	939,073	855,923
Restricted assets (note 19)	894,756	1,595,013
Total current assets	18,340,368	19,614,081
Long-term investments (notes 7 and 18):		
Long-term investments under equity method	1,411,268	1,476,267
Long-term investments under cost method	806,490	675,006
Total long-term investments	2,217,758	2,151,273
Other financial assets - noncurrent (note 19)	37,483	40,589
Property, plant and equipment (notes 9 and 19):		
Land	95,949	38,472
Buildings and improvements	2,183,773	1,729,264
Machinery and equipment	1,250,892	1,452,677
Other equipment	528,429	586,234
	4,059,043	3,806,647
Less: accumulated depreciation	(1,315,717)	(1,498,797)
Construction in progress and prepayment for purchases of machinery and equipment	4,258	21,551
Net property, plant and equipment	2,747,584	2,329,401
Other assets:		
Assets held for lease and idle assets (notes 8 and 9)	-	1,222,722
Others (notes 13 and 16)	427,880	517,461
Total other assets	427,880	1,740,183
Total assets	$ 23,771,073	25,875,527

Liabilities and Stockholders' Equity	2003	2004
Current liabilities:		
Short-term borrowings (note 10)	$ 2,587,598	4,642,867
Notes and accounts payable	4,694,414	3,293,077
Payables to related parties (note 18)	718,177	1,435,409
Current portion of long-term debts (notes 11 and 12)	2,405,966	235,533
Other current liabilities	2,166,292	2,653,552
Total current liabilities	12,572,447	12,260,438
Long-term liabilities bearing interest:		
Long-term debts and lease obligations payable, excluding current installments (note 12)	223,266	21,744
Other liabilities:		
Accrued pension (note 13)	154,532	-
Minority interest	71,265	1,686,789
Deferred income tax liability and others (notes 16 and 18)	170,895	244,292
Advance receipts for capital increase from minority shareholders	435,240	-
Total other liabilities	831,932	1,931,081
Total liabilities	13,627,645	14,213,263
Stockholders' equity (note 14)**:**		
Common stock	5,137,771	5,475,211
Capital surplus	2,940,261	2,894,829
Retained earnings:		
Legal reserve	610,282	747,696
Unappropriated earnings	1,724,066	2,929,260
	2,334,348	3,676,956
Unrealized valuation losses on long-term equity investment	-	(86,840)
Foreign currency translation adjustment	197,719	150,824
Treasury stock	(466,671)	(448,716)
Total stockholders' equity	10,143,428	11,662,264
Commitments and contingencies (note 20)		
Total liabilities and stockholders' equity	$ 23,771,073	25,875,527

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2003 and 2004
(in thousands of New Taiwan dollars, except for net income per common share)

	2003		2004	
Sales (note 18)	$ 25,016,221		32,245,237	
Cost of goods sold (note 18)	17,201,907		21,437,524	
	7,814,314		10,807,713	
Net changes in unrealized profit on inter-company sales	362		-	
Gross profit	7,814,676		10,807,713	
Operating expenses (note 18)**:**				
Selling	4,688,883		6,257,406	
Administrative	585,967		664,930	
Research and development	936,721		1,251,542	
	6,211,571		8,173,878	
Operating income	1,603,105		2,633,835	
Nonoperating income:				
Interest income	36,329		86,277	
Investment income on long-term investments under equity method, net (note 7)	196,779		140,438	
Gain on disposal of investments	311,732		1,056,218	
Exchange gain, net	109,234		-	
Rental income (note18)	21,024		30,105	
Gain on bad debt recoveries	-		50,149	
Other income, net	28,598		81,914	
	703,696		1,445,101	
Nonoperating expenses:				
Interest expense (note 11)	157,974		193,136	
Investment loss on long-term investments under cost method (note 7)	174,799		132,495	
Exchange loss, net	-		128,411	
Loss on inventory obsolescence and devaluation	419,383		374,366	
Loss on idle assets' valuation loss	-		35,268	
	752,156		863,676	
Income before income taxes and minority interest	1,554,645		3,215,260	
Income tax expenses (note 16)	172,750		398,680	
Income before minority interest	1,381,895		2,816,580	
Net income attributed to minority interest	(7,760)		(215,645)	
Net income	$ 1,374,135		2,600,935	
	Before taxes	**After taxes**	**Before taxes**	**After taxes**
Net income per common share (note 15)				
Basic earnings per common share	$ 3.03	2.75	5.35	4.82
Diluted earnings per common share	$ 2.87	2.59	5.32	4.80
Basic earnings per common share－retroactive	$ 2.83	2.57		
Diluted earnings per common share－retroactive	$ 2.69	2.43		

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2003 and 2004
(in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Retained Earnings: Legal reserve	Retained Earnings: Special reserve	Retained Earnings: Unappro-priated earnings	Unrealized valuation losses on long-term investment	Foreign currency translation adjustment	Treasury stock	Total stockholders' equity
Balance at January 1, 2003	$ 5,163,307	2,790,203	523,254	275,530	1,379,825	-	117,972	(643,096)	9,606,995
Appropriation of earnings:									
Legal reserve	-	-	87,028	-	(87,028)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(15,622)	-	-	-	(15,622)
Cash dividends	-	-	-	-	(735,466)	-	-	-	(735,466)
Employees' bonuses	96,000	-	-	-	(97,634)	-	-	-	(1,634)
Convertible bonds applying for conversion	138,664	270,719	-	-	-	-	-	-	409,383
Net income for 2003	-	-	-	-	1,374,135	-	-	-	1,374,135
Effect of disposal of long-term equity investments on capital surplus	-	(3,271)	-	-	-	-	-	-	(3,271)
Foreign currency translation adjustment	-	-	-	-	-	-	79,747	-	79,747
Purchase of treasury stock	-	-	-	-	-	-	-	(579,045)	(579,045)
Cancellation of treasury stock	(260,200)	(139,851)	-	-	(355,419)	-	-	755,470	-
Special reserve transferred to unappropriated earnings	-	-	-	(275,530)	275,530	-	-	-	-
Effect of disproportionate participation in investee's capital increase	-	22,461	-	-	(14,255)	-	-	-	8,206
Balance at December 31, 2003	5,137,771	2,940,261	610,282	-	1,724,066	-	197,719	(466,671)	10,143,428
Appropriation of earnings:									
Legal reserve	-	-	137,414	-	(137,414)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(24,734)	-	-	-	(24,734)
Cash dividends	-	-	-	-	(760,450)	-	-	-	(760,450)
Employees' bonuses	100,000	-	-	-	(154,590)	-	-	-	(54,590)
Capital surplus transferred to common stock	253,484	(253,484)	-	-	-	-	-	-	-
Convertible bonds applying for conversion	122,716	229,953	-	-	-	-	-	-	352,669
Net income for 2004	-	-	-	-	2,600,935	-	-	-	2,600,935
Effect of disposal of long-term equity investments on capital surplus	-	(49,854)	-	-	-	-	-	-	(49,854)
Foreign currency translation adjustment	-	-	-	-	-	-	(46,895)	-	(46,895)
Unrealized valuation losses on long-term equity investment	-	-	-	-	-	(86,840)			(86,840)
Purchase of treasury stock	-	-	-	-	-	-	-	(506,820)	(506,820)
Cancellation of treasury stock	(138,760)	(75,251)	-	-	(310,764)	-	-	524,775	-
Effect of disproportionate participation in investee's capital increase	-	103,204	-	-	(7,789)	-	-	-	95,415
Balance at December 31, 2004	**$ 5,475,211**	**2,894,829**	**747,696**	**-**	**2,929,260**	**(86,840)**	**150,824**	**(448,716)**	**11,662,264**

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2004
(in thousands of New Taiwan dollars)

	2003	2004
Cash flows from operating activities:		
Net income	$ 1,374,135	2,600,935
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain attributed to minority interest	7,760	(215,645)
Depreciation and amortization	560,573	586,008
Provision for inventory obsolescence and devaluation loss, allowance for doubtful accounts, and accrued pension	489,367	445,505
Investment income on long-term investments under equity method	(196,779)	(140,438)
Investment loss on long-term investments under cost method	174,799	132,495
Cash dividend received	72,045	103,744
Loss on idle assets' valuation loss	-	35,268
Gain on disposal of long-term investments	(264,085)	(71,483)
Other loss with no cash impacts	5,974	84,871
Net changes in unrealized inter-company profits	(362)	-
Provision for early redemption of convertible bonds	59,596	87,806
Increase in operation-related current assets	(2,649,066)	(2,511,491)
Increase (decrease) in operation-related current liabilities	2,495,955	(223,170)
Cash provided by operating activities	2,129,912	914,405
Cash flows from investing activities:		
Decrease in receivables from related parties	30,000	-
Decrease (increase) in short-term investments	(161,510)	2,135,278
Increase in long-term equity investments	(157,142)	(239,224)
Proceeds from disposal of long-term equity investments	405,413	196,676
Additions to property, plant and equipment	(381,179)	(1,528,797)
Proceeds from disposal of property and equipment	10,415	174,400
Increase in restricted assets	(896,256)	(700,257)
Increase in deferred expenses and other assets	(106,685)	(254,020)
Cash used in investing activities	(1,256,944)	(215,944)
Cash flows from financing activities:		
Increase in minority interest	9,776	1,896,164
Increase (decrease) in advance receipts for capital increase from minority interest	435,240	(435,240)
Increase in short-term borrowings	1,018,498	2,055,269
Decrease in long-term debts	(2,178)	(403,656)
Purchase of treasury stock	(648,159)	(506,820)
Redemption of convertible bonds	(10,645)	(1,700,982)
Payments of cash dividends, directors' and supervisors' remuneration, and employees' bonuses	(752,722)	(839,774)
Increase (decrease) in deposits in and others	(44)	18,134
Cash provided by financing activities	49,766	83,095
Effect of exchange rate changes on cash	145,953	(29,945)
Net increase in cash and cash equivalents	1,068,687	751,611
Cash and cash equivalents at beginning of year	2,006,063	3,074,750
Cash and cash equivalents at end of year	**$ 3,074,750**	**3,826,361**
Supplemental disclosures of cash flow information:		
Cash payments of interest (excluding capitalized interest)	**$ 97,335**	**90,245**
Cash payments of income tax	**$ 54,208**	**173,294**
Supplementary disclosures of noncash investing and financing activities:		
Convertible bonds applying for conversion	**$ 409,383**	**352,669**
Current portion of long-term debts	**$ 2,405,966**	**235,533**
Purchase of treasury stock	$ 579,045	506,820
Other payables	69,114	-
Cash paid in purchase of treasury stock	**$ 648,159**	**506,820**

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2003 and 2004
(amounts expressed in thousands of New Taiwan dollars, except for per share information and unless otherwise noted)

1. Organization and Principal Activities

D-Link Corporation ("D-Link") was founded in the Hsinchu Science Park in the Republic of China ("ROC") on June 20, 1987. D-Link's main activities include the research, development, production and sale of personal computers, local area network systems, wireless local area network ("LAN") and spare parts for integrated circuits.

On May 8, 2003, D-Link's shareholders' meeting resolved a spin-off whereby on August 16, 2003, D-Link separated its original design manufacturing ("ODM") and original equipment manufacturing ("OEM") operations from its D-Link brand business and transferred related operating assets and liabilities to establish Alpha Networks Inc. ("Alpha"). D-Link received 200 million common shares (par value NT$10) from Alpha at NT$11.77 per share.

As of December 31, 2004, D-Link and subsidiaries had about 5,600 employees.

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

	Percentage of Ownership at December 31,	
	2003	**2004**
1. D-Link Systems, Inc. ("DSI")	93	94
2. D-Link Holding Company Ltd. ("DHCL")	100	100
(1) D-Link (Europe) Ltd. ("DEL")	100	100
• D-Link (Holding) Ltd. ("DHL") and subsidiaries	100	100
• D-Link Denmark A.S. ("DDAS")	100	100
• D-Link France ("DF")	100	100
• D-Link Scandinavia AB ("DSAB")	100	100
• D-Link Iberia SL ("DI")	100	100
• D-Link Mediterraneo SRL ("DMSRL")	100	100
• D-Link Netherlands ("DN")	100	100
• D-Link Deutschland ("DD") and subsidiaries	100	100
(2) D-Link China Inc. ("DC")	100	100
• D-Link Electronics (Wujiang) Co., Ltd. ("DECL")	100	100
(3) D-Link Shang-Hai Co., Ltd. ("DSCL")	100	100

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Percentage of Ownership at December 31, 2003	2004
• D-Link Electronics Equipment (Shang-Hai) Co., Ltd. ("DEECL")	100	100
(4) D-Link Mauritius ("DM")	100	100
(5) D-Link Holding Brazil ("DB")	100	100
(6) D-Link Latin America ("DLA")	100	100
3. D-Link Canada Inc. ("DCI")	100	100
4. D-Link Australia Pty Ltd. ("DAPL")	100	100
5. D-Link Taiwan Inc. ("DTI")	98	100
6. D-Link International Pte. Ltd. ("DLI")	100	100
• D-Link Middle East FZCO ("DMEFZCO")	50	50
• D-Link Middle East ("DME")	51	-
• D-Link Sudamerica S.A. ("DSA")	100	100
7. Alpha Networks Inc. ("Alpha")	100	60
• Alpha Solutions Co., Ltd. ("Alpha Solutions")	100	100
• Redsonic Technology Co., Ltd.	-	100
• Alpha Holding Inc. ("AHI")	100	100
* D-Link Asia Investment Pte. Ltd. ("DAIPL")	100	100
- D-Link Dongguan Ltd. ("DDL")	100	100
* Tong Ying Trading (Shenzhen) Co., Ltd.	-	100
* Alpha Networks (Chengdu) Co., Ltd.	-	100
• Des Voeux Ltd.	-	100
* Alpha Network Inc.	-	100
8. Yeo-Chia Investment Ltd. ("YCI")	100	100
• Xtramus Technology Corporation ("XTC")	80	78
9. Yeo-Mao Investment Ltd. ("YMI")	100	100
10. D-Link Technology Venture Capital Investment Inc. ("DTVCI")	100	100

DME and DSA were subsidiaries of DLI that transferred their operations to DMEFZCO and DLA in 2003. DME and DSA were not consolidated in the accompanying 2003 consolidated financial statements; however, DMEFZCO and DLA were consolidated in the accompanying consolidated financial statements as of and for the year ended December 31, 2003. From the economic substance point of view, there is no change in the consolidated entities.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

D-Link sold DAIPL, DDL and AHI to Alpha in 2004. DAIPL, DDL and AHI were consolidated in the accompanying consolidated financial statements as of and for the year ended December 31, 2004. From the economic substance point of view, there is no change in the consolidated entities.

D-Link Russia and D-Link Hong Kong, were the subsidiaries of DHCL, and Netpro International Trading (Shanghai) Co., Ltd. were the subsidiaries of DSCL and Wink-Link System, Inc. that were not consolidated in the accompanying consolidated financial statements as of and for the years ended December 31, 2003 and 2004, and Viva Wisdom Services Co. Ltd. was the subsidiary of DTI that were not consolidated in the accompanying consolidated financial statements as of and for the year ended December 31, 2003, since the total assets and total revenue of the above subsidiaries were less than 10% of D-Link’s respective assets or revenues.

2. Summary of Significant Accounting Policies

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

(1) Accounting principles and consolidation policy

These consolidated financial statements are not intended to present the financial position of D-Link and the related results of operations and cash flows based on accounting principles and practices generally accepted in countries and jurisdictions other than the ROC.

The consolidated financial statements include the accounts of D-Link and subsidiaries in which D-Link directly or indirectly owns greater than 50 percent of the subsidiary’s voting shares and is able to exercise control over the subsidiary’s operations and financial policies. However, if a subsidiary’s total assets and revenues do not exceed 10% of D-Link’s total assets and revenues and the unconsolidated subsidiaries’ total assets and revenues do not exceed 30% of D-Link’s total assets and revenues, the subsidiaries could be excluded from consolidation.

All significant inter-company balances and transactions are eliminated in consolidation.

The difference between the net purchase price and the net equity of the acquired subsidiary is accounted for as consolidated debit or credit (included in “other assets” or “other liabilities” on the accompanying consolidated balance sheets) and amortized from 5 to 10 years using the straight-line method.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) The spin-off

The accounting treatment for D-Link's spin-off of ODM/OEM operations to establish Alpha and obtaining the common stock of Alpha in return was based on the net book values of the assets transferred (less impairment loss, if any) minus the liabilities as the cost of acquiring Alpha's common stock. There were no exchange gains or losses.

(3) Cash equivalents

D-Link 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.

(4) Foreign currency transactions and translation

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

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

(5) Short-term investments

Short-term investments are stated at the lower of cost or market value. Market value is determined using the net asset value of open-end mutual funds on the last day of the period, and the average closing price of the last month of the period for domestic publicly listed securities and the closing price on the last day of the period for foreign publicly listed securities.

(6) Allowance for doubtful accounts

The allowance for doubtful accounts is provided based on accounts receivable aging analysis and the expected collectibility of accounts receivable.

(Continued)

(7) Inventories

Inventories are stated at the lower of cost or market value. Except for DCI and DIL, D-Link and its subsidiaries determine cost by using the weighted-average method. DCI and DIL determine cost by using the first-in, first-out method (starting from November 2003, DCI changed to 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.

(8) Long-term equity investments

Long-term equity investments in publicly traded companies whereby D-Link directly or indirectly, owns less than 20 percent of the investee's voting shares and is not able to exercise significant influence over the investee's operations and financial policies are accounted for by the lower-of-cost-or-market method. However, if the shares of such long-term equity investments are not traded publicly, they are accounted for by the cost method. If there is evidence indicating that a decline in the value of such an investment is other than temporary, then the carrying amount of the investment is reduced to reflect its net realizable value. The related loss is recognized in the accompanying consolidated statements of income.

Long-term equity investments in which D-Link, directly or indirectly, owns between 20 percent and 50 percent of the investee's voting shares, or less than 20 percent of the investee's voting shares but is able to exercise significant influence over the investee's operations and financial policies, are accounted for by the equity method. The difference between the acquisition cost and the net equity of the investee as of the acquisition date is deferred and amortized from five to ten years using the straight-line method, and the amortization is recorded as investment income or loss in the accompanying consolidated statements of income.

If an investee company issues new shares and the D-Link and subsidiaries do not acquire new shares in a proportion to its original ownership percentage, the equity in the investee's net assets will be changed. The change in the equity interest shall be used to adjust the capital surplus and long-term investments accounts.

For long-term equity investments in which D-Link owns less than 50% of an investee's voting shares and the investees are unable to forward their audited financial statements in a timely fashion, D-Link recognizes its share of the income or losses of the investee in the following year. Such time lag in recording the investee's income or losses is consistently applied afterward.

All significant inter-company transaction gains or losses with investees accounted for under the equity method are deferred. These gains or losses are recognized in the year that the gain or loss is realized through a third-party transaction or over the remaining useful life of property, plant and equipment.

(Continued)

(9) 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. Interest costs related to the construction of property, plant and equipment are capitalized and included in the cost of the related asset. Except for DCI's depreciation, which is calculated using the declining-balance method, depreciation of property, plant and equipment of D-Link and its subsidiaries 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: 5~55 years.
(b) Machinery and equipment: 3~10 years.
(c) Transportation, office equipment and others: 2~8 years.

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

Property, plant and equipment held for lease are recorded as other assets and are evaluated on the basis of cost. Depreciation of property, plant and equipment held for lease is provided for by using the straight-line method over the estimated useful lives of the assets.

Property, plant and equipment not in use are classified as idle assets and are stated at the lower of carrying amount or net realizable value.

Depreciation of assets held for lease and idle assets is recorded as non-operating expense.

(10) Deferred expenses

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

Issuance costs of convertible bonds with a redemption right are amortized by using the straight-line method over the period from the bond issue date to the expiration date of the redemption right. When the bondholders exercise the conversion right or the redemption right of the bonds before maturity, the proportionate issuance costs not yet amortized are recognized at that date.

(11) Convertible bonds

For convertible bonds issued with an option allowing the bondholders to redeem their bonds for cash at a premium over par value, the premium is amortized over the period from the issuance of such bonds to the initial redemption date.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

When the bondholders exercise their conversion right, the amounts of unamortized issuance costs, forfeited unpaid interest, reserve for redemption premium, and par value of the extinguished bonds are transferred to stockholders' equity. The excess of such amounts over the par value of the certificates for conversion of convertible bonds is recorded as capital surplus in the accompanying consolidated balance sheets.

(12) Financial derivatives

(a) Forward foreign currency exchange contracts

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

(b) Foreign currency option contracts

Foreign currency option contracts are not for trading purposes .For those contracts entered to hedge the risk of assets and liabilities, gain or losses on these contracts resulting from actual exercise and settlement are charged or credited to current operations. Contracts which are entered must not qualified to hedge the risk effectively, are make to market on the balance sheet date. The differences between the market value and book value charged or credited to current operations.

(13) Retirement plan

D-Link, DTI and Alpha have established employee noncontributory retirement plans (the "Plans") covering all regular employees in Taiwan. In accordance with the Plans, employees are eligible for retirement or are required to retire after reach certain age or service requirements. Payments of retirement benefits are based on years of service and the average salary for the six-month period before the employee's retirement. Each employee earns two months of salary for the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is 45 months of salary. D-Link, DTI and Alpha contribute two percent of wages and salaries to a pension fund maintained with the Central Trust of China on a monthly basis. Retirement benefits are paid to eligible participants on a lump-sum basis upon retirement. After transferring its ODM/OEM operations and employees to Alpha, D-Link paused its contribution to the pension fund from November 2003 to October 2005.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

D-Link, DTI and Alpha have adopted ROC Statement of Financial Accounting Standards ("SFAS") No. 18 "Accounting for Pensions." SFAS No. 18 requires D-Link, DTI and Alpha to perform an actuarial calculation of their pension obligation as of each fiscal year-end. Based on the actuarial calculation, D-Link, DTI and Alpha recognize net periodic pension costs.

The investment companies such as YMI, YCI, DTVIC and DHCL, etc. did not recognize pension expense.

Certain of D-Link's foreign subsidiaries have defined contribution retirement plans. These plans are funded in accordance with the regulations of their respective countries. Contributions to these plans are expensed as incurred.

(14) Revenue recognition

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

(15) Income taxes

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

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

Income tax expense is reduced by investment tax credits in the year in which the credits arise.

According to the ROC Income Tax Law, undistributed earnings of D-Link and its subsidiaries in the ROC are subject to an additional ten 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.

(Continued)

(16) Treasury stock

Pursuant to ROC SFAS No. 30, “Accounting for Treasury Stock”, the outstanding shares of D-Link purchased back by itself should be recorded as treasury stock at the purchasing cost before such shares are disposed of or retired.

If treasury stock is disposed of afterward, the difference is recorded as capital surplus when the disposal price is higher than the carrying amount; when the situation is reversed, the difference is recorded as a reduction in capital surplus generated from treasury stock transaction, and any insufficiency is applied to retained earnings. The carrying amount of the treasury stock is calculated by using the weighted-average method.

When retiring treasury stock, common stock and capital surplus derived from paid-in capital in excess of par value should be eliminated proportionally. If the carrying amount of retired treasury stock is higher than the eliminated amount of common stock and capital surplus, then the difference is recorded as a reduction in capital surplus derived from treasury stock, with any insufficiency applied to retained earnings; when the situation is reversed, the difference is recorded as capital surplus.

(17) Net income per common share

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

Overseas convertible bonds and domestic convertible bonds issued by D-Link in 2001 and 1999, respectively, are potential common stock. If there is a dilutive effect, both basic and dilutive net income per common share will be disclosed. For dilutive net income per common share, the net income and the weighted-average number of common shares outstanding during the period should be adjusted to include the dilutive effects of the potential common stock, assuming that they are outstanding during the whole period.

(18) Reasons for and effect of the accounting changes

Starting 2003, YCI was able to timely obtain Quie Tek Corp.’s financial statements for the recognition of its equity method investment income or loss. As a result, the 2003 and 2002 investment gains or losses from Quie Tek Corp. were all recorded in 2003. This accounting change increased D-Link and subsidiaries’ investment income by $14,828 thousand, and the effect on income from continuing operations before income tax was not significant.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Starting 2004, D-Link, YCI, YMI and DTVCI were able to timely obtain Bothhand Enterprise Inc.'s ("BEI's") financial statements for the recognition of their equity method investment gain or loss. As a result, the 2004 and 2003 investment gains or losses from BEI were all recorded in 2004. This accounting change increased D-Link and subsidiaries' investment income by $12,106 thousand, and the effect on income from continuing operations before income tax was not significant.

3. Cash and Cash Equivalents

	December31, 2003	December31, 2004
Cash on hand; checking and savings accounts	$ 2,561,926	1,722,488
Time deposits	497,824	2,089,870
Bonds with repurchase agreements	15,000	14,003
	$ 3,074,750	**3,826,361**

4. Short-term Investments

The components of short-term investments as of December 31, 2003 and 2004, are summarized below:

	December31, 2003	December31, 2004
Publicly listed stocks	$ 53,472	14,684
Mutual funds	3,474,089	1,361,470
	3,527,561	1,376,154
Less: allowance for decline in market value	(16,129)	(11,982)
	$ 3,511,432	**1,364,172**
Market value	**$ 3,526,099**	**1,366,218**

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Notes and Accounts Receivable

The components of notes and accounts receivable as of December 31, 2003 and 2004, are summarized below:

	December31, 2003	December31, 2004
Notes receivable	$ 149,354	51,536
Accounts receivable	4,518,969	5,719,909
	4,668,323	5,771,445
Less: allowance for doubtful accounts	(189,362)	(128,362)
	$ 4,478,961	**5,643,083**

6. Inventories

The components of inventories as of December 31, 2003 and 2004, are summarized below:

	December31, 2003	December31, 2004
Finished goods	$ 3,903,202	5,150,566
Work in process	514,863	422,542
Raw materials	1,333,526	1,060,757
	5,751,591	6,633,865
Provision for obsolescence and devaluation	(669,426)	(591,086)
	$ 5,082,165	**6,042,779**
Insurance coverage on inventories	**$ 3,657,833**	**5,699,921**

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Long-term Investments

Long-term investments and related investment income or loss as of and for the years ended December 31, 2003 and 2004, are summarized below:

	December 31,			
	2003		2004	
Investee	Book value	Percentage of ownership	Book value	Percentage of ownership
Equity method:				
D-Link India Ltd.	$ 267,801	35	393,973	36
Cameo Communication, Inc. (CSI)	524,300	30	525,906	29
Bothhand Enterprise Inc. (BEI)	203,350	33	206,958	32
Cellvision System Inc. (CSI)	136,656	36	154,913	36
Quie Tek Corp. (QTC)	130,281	37	123,938	35
Others	148,880		70,579	
	1,411,268		1,476,267	
Lower-of-cost-or market method:				
Abocom Systems, Inc. (ACS)	278,346	18	122,525	13
Dray Tek Corp.	99,161	13	95,653	11
Lanner Electronics Inc.	-	-	54,029	14
	377,507		272,207	
Cost method:				
Z-Com, Inc. (Z-Com)	103,285	7	43,804	7
IC Plus Corp.	84,068	13	92,457	13
Azure Venture Partners I, L.P.	-	-	97,474	3
Lanner Electronics Inc.	71,529	17	-	-
Others	170,101	-	169,064	-
	428,983		402,799	
	$ 2,217,758		**2,151,273**	

The total investment gains related to investment accounted for under the equity method were $196,799 thousand and $140,438 thousand for the years ended December 31, 2003 and 2004, respectively.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Starting 2003, YCI was able to obtain Quie Tek Corp.'s 2003 financial statements in a timely fashion. As a result, the 2002 and 2003 investment gains or losses from Quie Tek Corp. were all recorded in 2003. This change in accounting principle increased D-Link and subsidiaries' 2003 investment income by $14,828 thousand, and the effect on income from continuing operations before income tax was not significant.

In 2003, BEI was unable to forward its audited financial statements in a timely fashion, and D-Link and subsidiaries recognized their share of investment gains or losses in 2004. Starting 2004, D-Link, YCI, YMI and DTVCI were able to obtain BEI's 2004 financial statements in a timely fashion. As a result, the 2003 and 2004 investment gains or losses from BEI were all recorded in 2004. This change in accounting principle increased D-Link and subsidiaries' 2004 investment income by $12,106 thousand, and the effect on income from continuing operations before income tax was not significant.

D-Link and its subsidiary YCI made additional investments in W-Link System Inc. ("W-Link") in August 2001 through contribution of accounts receivable amounting to $95,000 thousand and cash amounting to $25,000 thousand, respectively. D-Link had previously provided allowance of doubtful account amounting to $120,000 thousand for its receivables due from W-Link, and the provision was reversed when the capital increase of W-Link was concluded. The reversal was then offset with D-Link's and YCI's equity in loss of W-Link in 2003.

In 2004, D-Link sold a portion of its investment in Alpha to other companies; the selling price was $2,003,849 thousand and the disposal gain was $927,946 thousand.

In 2003, D-Link found there was a permanent impairment in the value of its investment in Azure Venture Partners I, L.P. and Ewave System. An investment loss equal to their carrying amount of $69,022 thousand was recognized to reflect such decline. In 2003, YCI, YMI and DTVCI found there was a permanent impairment in the value of their equity investments in IC Plus Corporation, MaxEdge Electronics Corporation, PowerCom Technology Co., Ltd., etc. An investment loss of $105,777 thousand was recognized to reflect such decline.

In 2004, D-Link found there was a permanent impairment in the value of its investment in Triumph Technology Inc. An investment loss equal to its carrying amount of $3,783 thousand was recognized to reflect such decline. In 2004, YCI, YMI, DTVCI and DHL found there was a permanent impairment in the value of their equity investment in Z COM Inc., IC Plus Corporation, Max Edge Electronics., etc. An investment loss of $128,712 thousand was recognized to reflect such decline.

In 2004, ACS was valued using the lower-of-cost–or-market method and recognized unrealized valuation losses on long-term investment of $86,840 thousand under stockholders' equity.

(Continued)

8. Assets Held for Lease and Idle Assets

D-Link purchased a plant located in the Neihu district of Taipei from Globe Sun Electronic, Inc. for $880,000 thousand, as appraised by China Credit Information Service, Ltd. The plant was temporarily leased to Globe Sun Electronic Inc. As of December 31, 2004, the plant was recorded as assets held for lease. As of December 31, 2004, the components of assets held for lease were as below:

	December 31, 2004
Cost	
Land	$ 588,930
Building	617,920
	1,206,850
Accumulated depreciation	
Building	59,413
Net carrying amount	**$ 1,147,437**

D-Link transferred a plant and certain machinery and equipment not in use for operations to idle assets, and related allowance for evaluation loss on idle assets was as below:

	December 31, 2004
Cost	
Building	$ 167,499
Machinery and equipment	5,741
Other equipment	2,600
	175,840
Accumulated depreciation	
Building	59,646
Machinery and equipment	3,680
Other equipment	1,961
	65,287
Less: Allowance for losses on idle asset valuation	(35,268)
Net carrying amount	**$ 75,285**

9. Insurance Coverage of Property, Plant and Equipment

As of December 31, 2003 and 2004, insurance coverage of property, plant and equipment, assets held for lease, and idle assets amounted to $3,337,060 thousand and $2,854,328 thousand, respectively.

(Continued)

10. Short-term Borrowings

Short-term borrowings consisted of the following as of December 31, 2003 and 2004:

	December 31,			
	2003		2004	
	Amount	Rate %	Amount	Rate %
Usance letters of credit	$ 465,460	1.74%~ 2.00%	1,285,263	1.68%~ 3.24%
Unsecured borrowings under lines of credit	809,859	0.796%~ 2.005%	70,000	1.25%~ 1.35%
Secured loans	1,312,279	1.41%~ 4.5%	3,287,604	0.79%~ 4.25%
	$ 2,587,598		4,642,867	
Unused credit facilities	$ 2,121,456		5,630,638	

11. Bonds Payable

The components of bonds payable as of December 31, 2003 and 2004, are summarized below:

	December 31,	
	2003	2004
Bonds payable	$ 1,763,867	31,750
Provision for early redemption	236,127	-
Less: current portion of bonds payable	(1,999,994)	(31,750)
	$ -	-

A summary of the major terms of the bonds payable outstanding as of December 31, 2003 and 2004, is as follows:

(1) The second issuance of domestic convertible bonds

- Par value: $1.5 billion.
- Issue date: September 28, 1999.
- Issue price: at par value.
- Duration: seven-years, maturing on September 27, 2006.
- Coupon rate: 0%
- Conversion objective: D-Link’s common stock.
- Conversion price:

(Continued)

The conversion price was 64.2 New Taiwan dollars per share when the bonds were issued. As of July 19, 2004, the conversion price was adjusted to 31.8 New Taiwan dollars per share based on the prescribed formula.

- Conversion period:

  The bondholders may exercise their conversion right at any time during the period from three months after the issuance date to ten days before the maturity date, by converting the bonds into a certificate for conversion of convertible bonds, and then converting the certificate into common stock.

- Redemption right:

  The bondholders may redeem their bonds within the first thirty days of the third year and the fifth year after the issuance date, at a redemption price of 121.82% and 143.56%, respectively, of the par value of the bonds at such dates. The bondholders may also redeem their bonds within the period from the beginning of the sixth year after the issuance date to ten days prior to the maturity date, at their par value.

  As of December 31, 2004, the convertible bonds had been fully converted or redeemed.

(2) The first issuance of foreign convertible bonds

- Par value: US$40 million.
- Issue date: March 21, 2001.
- Issue price: at par value.
- Duration: five-years, maturing on March 21, 2006.
- Coupon rate: 0%
- Conversion objective: D-Link's common stock or global depository receipts (GDRs).
- Conversion period:

  The bondholders may exercise their conversion right at any time during the period from thirty days after the issuance date to thirty days before the maturity date, by converting the bonds into a certificate for conversion of convertible bonds, and then converting the certificate into common stock or GDRs.

- Conversion price:

  The conversion price was 50 New Taiwan dollars per share when the bonds were issued. On July 19, 2004, the conversion price was adjusted to 27.76 New Taiwan dollars per share based on the prescribed formula.

- Redemption right:

  The bondholders may redeem their bonds within the first thirty to sixty days of the first, second, third and the fourth year after the issuance date, at a redemption price equal to the par value of the bonds at such dates. If more than 90% of the bonds have been converted to common stock or redeemed by bondholders, D-Link has the right to redeem all the outstanding bonds at a redemption price equal to their par value.

  As of December 31, 2004, convertible bonds amounting to $31,750 thousand had been converted, and they were fully converted in February 2005.

(3) The first issuance of domestic guaranteed straight bonds

- Par value: $600 million.
- Issue date: December 24, 2001.
- Issue price: at par value.
- Duration: three-years, maturing on December 24, 2004.
- Coupon rate: 2.65%, interest paid annually on December 24.
- Issue terms: The principal of the bonds will be fully paid at one time upon the maturity of the bonds.[CORRECT INDENTATION AND LINE SPACING BELOW]
- Commitment: the bonds are guaranteed by the Chiao Tung Bank. D-Link's committed to maintain a current ratio (current assets/current liabilities) over 150% and a debt ratio (liabilities /equities) lower than 100%. These financial ratios should be determined based on D-Link's audited financial statements.

On December 20, 2004, the bonds were fully paid.

Interest expense on bonds payable in 2003 and 2004 amounted to $75,496 thousand and $103,706 thousand, respectively.

In 2003 and 2004, convertible bonds amounting to $412,378 thousand and $355,068 thousand, respectively, were converted. The excess of the conversion price over the par value of the certificates for conversion of the convertible bonds issued amounted to $270,719 thousand and $229,953 thousand as of December 31, 2003 and 2004, respectively, and was included in capital surplus in the accompanying consolidated balance sheets.

(Continued)

12. Long-term Debts and Lease Obligations Payable

(1) Long-term debts

Bank	Credit Line and Purpose	Period and Redemption	December 31, 2003	December 31, 2004	Pledged Assets
Chiao Tung Bank	$600 million for the redemption of convertible bonds	Due by March 26, 2005; the principal will be paid in 3 half-yearly installments starting from March 26, 2002	$ 600,000	200,000	Plant (refer to note 19)
Less: current portion of long-term debts			400,000	200,000	
			$ 200,000	-	
Rate			5.20%	5.20%	

The long-term debts are all secured. Certain property was pledged as collateral for long-term debts (please see note 19).

On August 14, 2003, D-Link updated the contract with Chiao Tung Bank. In this contract, Chiao Tung Bank agreed to cancel the pledge of plant and equipment; however, the rate of 4.95% was increased to 5.2%. D-Link must maintain a current ratio (current assets/current liabilities) over 150% and a debt ratio (liabilities/equities) lower than 100%. These financial ratios should be determined based on the D-Link's audited financial statements. If D-link could not keep the financial ratios, Chiao Tung Bank will change the rate to the prime loan rate. The long-term debts were fully repaid in March 2005.

(2) Lease obligations payable

The components of lease obligations payable as of December 31, 2003 and 2004, are summarized below:

	December 31, 2003	, 2004
Lease obligations payable	$ 29,238	25,527
Less: current portion of lease payable	(5,972)	(3,783)
	$ 23,266	21,744

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

According to the agreement, D-Link Systems and Alpha Holding Inc. issued some notes payable to the leasing company. The par value of the unpaid notes as of December 31, 2004, are summarized below:

Year ending December 31,		
2005	$	6,738
2006		6,738
2007		4,501
2008		3,439
2009 and after		6,305
	$	27,721

13. Retirement Plans

The following table sets forth the benefit obligation and accrued pension balance as of December 31, 2003 and 2004:

		December 31, 2003	December 31, 2004
Benefit obligation:			
Nonvested benefit obligation	$	(192,277)	(205,138)
Vested benefit obligation		(3,390)	(20,850)
Accumulated benefit obligation		(195,667)	(225,988)
Projected future salary increase		(133,068)	(153,208)
Projected benefit obligation		(328,735)	(379,196)
Fair value of plan assets		144,607	393,031
Funded status		(184,128)	13,835
Unrecognized net transition obligation		10,211	9,696
Unrecognized net gain (loss)		20,798	14,815
Additional minimum pension liability		(1,413)	(325)
Prepaid pension cost (Accrued pension cost)	$	(154,532)	38,021

The components of D-Link's, DTI's and Alpha's net periodic pension cost for 2003 and 2004 are summarized as follows:

		2003	2004
Service cost	$	41,434	46,532
Interest expenses		9,223	11,506
Actual returns on pension fund		(2,019)	(3,581)
Amortization		(3,407)	(1,078)
	$	45,231	53,379

Actuarial assumptions at December 31, 2003 and 2004, are summarized as follows:

(Continued)

	December 31, 2003	December 31, 2004
Discount rate	3.50%	3.50%
Rate of increase in future compensation levels	3.00%	3.00%
Expected long-term rate of return on plan assets	3.50%	3.50%

To cope with the spin-off plan stated in note 1, D-Link transferred 1,351 ODM/OEM department employees to Alpha on August 16, 2003, and committed to compensate Alpha for relevant pension liability of $226,537 thousand based on the actuarial calculation. In proportion to the number of employees transferred, D-Link recognized curtailment gain of $220,554 thousand. The net impact of the pension obligation amounted to $5,983 thousand, which was recorded as other losses.

14. Stockholders' Equity

(a) Common stock

In 1998, D-Link issued 5 million Global Depository Receipts ("GDRs"). Each GDR represents 5 common shares and was offered at ten U.S. dollars and thirteen cents per GDR. The GDRs were publicly listed on the Luxembourg Stock Exchange at September 24, 1998.

Pursuant to a stockholders' resolution on May 8, 2003, D-Link increased its common stock by $96,000 thousand through the transfer of employee bonuses. The capital increase was registered in July 2003. The capital increase was registered with the government authorities in July 2003.

Pursuant to a stockholder's resolution on May 28, 2004, D-Link increased its common stock by $353,484 thousand through the transfer of employees' bonuses and capital surplus of $100,000 thousand and $253,484 thousand, respectively. The capital increase was registered with the government authorities in August 2004.

As of December 31, 2003 and 2004, the authorized capital totaled $6,600,000 thousand (including $1,000,000 thousand authorized for the conversion of convertible bonds and $250,000 thousand authorized for the issuance of the employee stock options). As of December 31, 2003 and 2004, the issued capital amounted to $5,137,771 thousand and $5,475,211 thousand, respectively. The par value of D-Link's common stock is ten New Taiwan dollars per share. On February 28, 2005, because the convertible bonds had been fully converted or redeemed revised, a board of directors resolution revised to $0 the amount authorized for the conversion of convertible bonds.

(Continued)

D-Link applied to the Securities and Futures Commission (SFC) to issue 25,000 thousand units of employee stock options on May 27, 2003. Each unit of employee stock options can purchase one common share, and the total amount of common shares for employee stock options is 25,000 thousand shares. D-Link will issue new common shares to redeem the stock options. The application was approved by the SFC on June 6, 2003, but the employee stock options had not been issued as of December 31, 2004.

(b) Capital surplus

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

(c) Distribution of earnings and dividend policy

After establishing the legal and special reserve, earnings may be distributed in the following order in accordance with D-Link's articles of incorporation (revised on May 28, 2004): 2% as remuneration to directors and supervisors and 5%~10% (originally 12.5%) as employee bonuses. An additional reserve on certain earnings may also be retained. The remaining earnings may be distributed as stockholders' dividends.

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

According to ROC SFC regulations, an ROC publicly listed company should retain a special reserve equal to any deductions made to stockholders' equity related to items such as foreign currency translation adjustments before distribution of earnings which were generated after 1999. If the aforementioned deduction of stockholders' equity is reversed, the same amount could be removed from special reserve and transferred to unappropriated earnings.

D-Link has adopted the remaining dividend policy based on the industry environment, business growth, and long-term financial planning. D-Link considers the capital budget to determine the distribution of stock dividends accompanied by cash dividends, which should be no less than 10% of total dividends.

(Continued)

Information about the dividends to shareholders, directors' and supervisors' remuneration and employees' bonuses of 2002 and 2003 that were distributed from unappropriated earnings is as follows:

		2002	2003
Dividends per common share:			
Cash	$	1.50	1.50
Stock (per value)		-	-
	$	**1.50**	**1.50**

		2002	2003
Employees' bonuses—common stock (par value)	$	96,000	100,000
Employees' bonuses—cash		1,634	54,590
Directors' and supervisors' remuneration		15,622	24,734
	$	**113,256**	**179,324**

D-Link distributed employees' stock bonuses constituting 1.86% and 1.95% of its outstanding shares as of December 31, 2002 and 2003, respectively. Assuming that employees' bonuses and directors' and supervisors' remuneration were recognized as periodic expenses, net income per common share for 2002 and 2003 would be adjusted to $1.44 and $2.23, respectively, in New Taiwan dollars.

The actual distribution of employees' bonuses and directors' and supervisors' remuneration for 2004 is subject to the proposal of the board of directors and a resolution of the stockholders. Relevant information would be available on the Market Observation Post System of the Taiwan Stock Exchange after the related meetings.

(d) Treasury stock

D-Link bought back 26,020 thousand common shares for $755,470 thousand from October to February 2003 to maintain its credit and stockholders' equity. Based on the resolution of D-Link's board of directors, these treasury shares were cancelled on February 24, 2003, common stock of $260,200 thousand and capital surplus of $139,851thousand were eliminated, and the insufficiency amounting to $355,419 thousand was deducted from retained earnings.

Pursuant to the board of directors' resolution on October 28, 2003, D-Link bought back 12,000 thousand common shares for $466,671 thousand to fulfill the purpose of its employee stock purchasing plan. D-Link bought back 13,876 thousand common shares for $506,820 thousand in 2004 to maintain its credit and stockholders' equity. Based on the resolution of D-Link's board of directors, these treasury shares were cancelled on July 17, 2004, common stock of $105,540 thousand and capital surplus of $58,263 thousand were eliminated, and the insufficiency amounting to $248,928 thousand was deducted from retained earnings. The capital decrease was registered with the government authorities on August 11, 2004.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Based on the resolution of D-Link's board of directors, 112,044 thousand shares of treasury stock were cancelled on December 27, 2004, common stock of $33,220 thousand and capital surplus of $16,988 thousand were eliminated, and the insufficiency amounting to $61,836 thousand was deducted from retained earnings. The capital decrease was registered with the government authorities on January 11, 2005.

As of December 31, 2004, D-Link had bought back 12,000 thousand common shares for $448,716 thousand, recorded under stockholders' equity.

Pursuant to the ROC Securities and Exchange Law, treasury stock should not exceed 10% of a company's total issued shares, and the total amount of the treasury stock should not exceed the aggregation of retained earnings, capital surplus derived from paid-in capital in excess of par value, plus other realized capital surplus. Based on the financial statements of D-Link in 2003, the maximum number of shares and the maximum amount D-Link could buy back on December 31, 2004, were 54,752 thousand shares and $6,483,873 thousand, respectively.

According to SFB regulations, treasury stock cannot be pledged as collateral. Until the treasury stock is transferred, it does not carry any shareholder rights.

15. Net Income per Common Share

	2003		2004	
	Before taxes	**After taxes**	**Before taxes**	**After taxes**
Basic net income per common share:				
Income applicable to common stockholders	**$ 1,512,144**	**1,374,135**	**2,881,962**	**2,600,935**
Weighted-average common shares outstanding (thousand shares)	**499,812**	**499,812**	**539,060**	**539,060**
Basic net income per common share (New Taiwan dollars)	**$ 3.03**	**2.75**	**5.35**	**4.82**
Diluted net income per common share:				
Income applicable to common stockholders	$ 1,512,144	1,374,135	2,881,962	2,600,935
Dilutive effect of potential common stock: convertible bonds	59,596	44,697	-	-
	$ 1,571,740	**1,418,832**	**2,881,962**	**2,600,935**
Weighted-average common shares outstanding (thousand shares)	499,812	499,812	539,060	539,060

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2003		2004	
	Before taxes	**After taxes**	**Before taxes**	**After taxes**
Convertible bonds assumed converted on issue day (thousand shares)	48,102	48,102	2,768	2,768
Diluted weighted-average common shares outstanding (thousand shares)	**547,914**	**547,914**	**541,828**	**541,828**
Diluted net income per common share (New Taiwan dollars)	**$ 2.87**	**2.59**	**5.32**	**4.80**

16. Income Taxes

(1) D-Link is subject to a maximum income tax rate of 25 percent. D-Link's subsidiaries are subject to the current tax rate of the countries in which they operate.

Income tax expense for 2003 and 2004 consisted of the following:

	2003	2004
Current	$ 224,311	231,740
Deferred	(78,642)	63,888
Additional 10% income surtax on undistributed earnings	27,081	103,052
	$ 172,750	**398,680**

(2) D-Link meets the requirements of a "scientific industry" as prescribed by the Statute for the Establishment and Administration of the Science Park. Therefore, D-Link is entitled to an income tax exemption on the profits generated from certain operations over a period of four or five years. Such operations relate to the expanded operations accompanying the following capital increases:

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

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

(3) The components of deferred income tax assets (liabilities) as of December 31, 2003 and 2004, are summarized as follows:

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		December 31, 2003	December 31, 2004
Deferred tax assets—current:			
Investment tax credits	$	163,460	80,929
Unrealized inter-company profits		117,491	155,311
Unrealized foreign exchange loss (gain), net		(25,468)	11,931
Allowance for decline in value of inventories		162,376	134,029
Provision for doubtful accounts over statutory limitation		114,374	71,933
Allowance for maintenance service cost		-	31,485
Others		11,728	9,914
		543,961	495,532
Less: valuation allowance		(212,531)	(120,576)
Net current deferred tax assets	**$**	**331,430**	**374,956**
Deferred tax assets—noncurrent:			
Investment tax credits		160,213	90,110
Loss carry forward		486,355	473,500
Accrued pension cost		63,388	14,675
Investment loss on long-term equity investments in foreign entities		33,819	26,927
Others		404	16,063
		744,179	621,275
Less: valuation allowance		(688,571)	(576,999)
		55,608	44,276
Deferred tax liabilities—noncurrent:			
Prepaid pension cost		(25,005)	(24,153)
Allowance for loss on foreign investments		(41,304)	(131,689)
Investment income on long-term equity investments in foreign entities		(910)	-
Foreign currency translation adjustment		(65,906)	(50,274)
		(133,125)	(206,116)
Net noncurrent deferred tax liabilities	$	**(77,517)**	**(161,840)**
Total deferred tax assets	$	**1,313,608**	**1,116,807**
Total deferred tax liabilities	$	**158,593**	**206,116**
Valuation allowance for deferred tax assets	$	**901,102**	**697,575**

(Continued)

According to the ROC Statute for Upgrading Industries, the purchase of machinery, expenditure of research and development and training of professional personnel entitles D-link and its subsidiaries in the ROC to investment tax credits. The capital investments in high tech companies, significant emerging strategic industries and venture capitals also entitle D-link and its subsidiaries in the ROC to shareholders' investment tax credits. The total amount of investment tax credit can be deducted from income tax payable over a period of five years, and the amount of the credit that can be utilized per year is limited to 50% of the year's current income tax payable. However, the foregoing limit does not apply to the last year of the investment tax credit's expiration period.

(4) As of December 31, 2004, the unused investment tax credits and related expiration dates were as follows:

Unused investment tax credits	Expiration date
$ 3,207	2005
9,302	2006
11,829	2007
3,064	2007
12,800	2008
130,837	2008
$ 171,039	

(5) According to the local income tax law, losses of D-Link Europe as assessed by the tax authorities can be carried forward to offset future years' taxable profits. As of December 31, 2004, the unused loss carryforwards of D-Link Europe were $404,770 thousand with fully valuation allowance for deferred tax assets.

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

Year	Expiry year	Amount
2001 (assessed)	2006	$ 12,462
2002 (assessed)	2007	37,889
2003 (reported)	2008	96,146
2004 (estimated)	2009	128,422
		$ 274,919

(7) As of the December 31, 2004, the ROC income tax authorities had examined and assessed the income tax returns of D-Link for all fiscal years through December 31, 2002, except 2000 and 2001.

D-Link disagreed with the assessments made by the tax authorities for its 1999 and 2002 income tax returns regarding tax exemption, a research and development tax credit, etc. As of December 31, 2004, the related appeals had not been approved by the tax authorities (please see note 20).

(8) In 1998, an integrated income tax system was implemented in the ROC. Under the new tax system, the income tax paid at the corporate level can be used to offset the ROC resident stockholders' individual income tax. D-link and its subsidiaries in the ROC are required to establish an imputation credit account ("ICA") to maintain a record of the corporate income taxes paid and imputation credit that can be allocated to each stockholder. The credit available to the ROC resident stockholders is calculated by multiplying the dividend by the creditable ratio. The creditable ratio is calculated as the balance of the ICA divided by earnings retained since January 1, 1998.

Information relating to the ICA of D-Link as of December 31, 2003 and 2004, is summarized as follows:

	December 31, 2003	December 31, 2004
Unappropriated retained earnings:		
Earned prior to January 1, 1998	$ 194,476	194,476
Earned after December 31, 1997	1,529,590	2,734,784
Total	**$ 1,724,066**	**2,929,260**
ICA balance	**$ 97,462**	**81,792**
Expected creditable ratio for earnings distribution to resident stockholders	**13.87% (actual)**	**12.46% (estimated)**

17. Financial Instruments

(1) Derivative financial instruments

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

(Continued)

(a) Non-trading purpose derivative financial instruments

(i) Foreign currency option contracts

As of December 31, 2003 and 2004, D-Link and subsidiaries had the following foreign currency option contracts outstanding:

Contract	December 31, 2003 Contract Amount (in thousands)	Maturity
Call option (buy)	USD34,000	Jan. ~ Mar. 2004
Call option (sell)	USD22,000	Jan. 2004
Call option (buy)	EUR23,250	Jan. ~ Sept. 2004
Put option (sell)	USD18,250	Jan. ~ Sept. 2004

Contract	December 31, 2004 Contract Amount (in thousands)	Maturity
Put option (sell)	USD 13,000	Jan. 2005
Put option (sell)	EUR 4,000	Jan. ~ Feb. 2005
Put option (buy)	USD 67,000	Jan. ~ Mar. 2005
Put option (buy)	AUD 6,000	Jan. ~ Feb. 2005
Put option (buy)	EUR 11,000	Jan. ~ Feb. 2005
Put option (buy)	CAD 3,000	Mar. 2005

As of December 31, 2003 and 2004, the aforementioned options' fair value was $(2,234) thousand and $(13,481) thousand, respectively.

According to a ruling issued by the Accounting Research and Development Foundation, foreign currency option contracts that do not qualify as hedges are marked-to-market, with changes in value recognized in other unrealized expense. D-Link recognized this loss of about $15,000 thousand under unrealized exchange loss.

The realized gain resulting from foreign currency option contracts was $821 thousand and $6,019 thousand in 2003 and 2004, respectively.

(Continued)

(ii) Forward foreign currency exchange contracts

As of December 31, 2003 and 2004, the notional principal of outstanding forward foreign currency exchange contracts entered into was US$43,807 thousand and US$93,779 thousand, respectively. The details of the above forward foreign currency exchange contracts' balance as of December 31, 2003 and 2004, were as follows:

	December 31, 2003	December 31, 2004
Forward foreign currency exchange contract receivable	$ 1,488,890	3,022,903
Forward foreign currency exchange contract payables	(1,486,459)	(2,957,007)
Discount on forward foreign currency exchange contract	-	1,871
Forward foreign currency exchange contract receivables	**$ 2,431**	**67,767**
Fair value	**$ (125)**	**64,767**

(b) Fair value and risk

(i) Credit risk

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

(ii) Market price risk

Market price risk represents the accounting loss that would be recognized at the reporting date for the derivative financial instruments due to the changes in market interest rates or foreign exchange rates. As D-Link 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.

(iii)Liquidity risk

Liquidity risk is the risk of being unable to settle derivative contracts on schedule. The purpose of these instruments held by D-Link, DTI and Alpha was to manage and hedge the changes and risks associated with foreign currency exchange rates. There is no significant liquidity risk for the related cash flows.

(Continued)

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

(2) Non-derivative financial instruments

D-Link and subsidiaries' non-derivative financial assets include cash and cash equivalents, short-term investments, notes and accounts receivable, receivables from related parties, restricted assets, other financial assets, and long-term investments. D-Link and subsidiaries' non-derivative financial liabilities consist of short-term borrowings, notes and accounts payable, payables to related parties, bonds payable, and long-term debts.

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

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

(b) The fair value of short-term investments is based on publicly quoted market prices. Refer to note 4 for the fair value of short-term investments as of December 31, 2003 and 2004.

(c) It is not practicable to determine the fair value of long-term investments when these investments are not publicly traded.

(d) Except for the first issuance of domestic guaranteed straight bonds, the fair values of bonds payable are based on quoted market prices.

(e) The fair value of long-term debts is based on the discount value of expected cash flows.

(f) The fair value of lease obligations payable approximates their carrying value.

(Continued)

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Except for those disclosed in relevant footnotes, the fair values of non-derivative financial instruments as of December 31, 2003 and 2004, are shown below:

	December 31,			
	2003		2004	
	Carrying value	Fair value	Carrying value	Fair value
Financial asset:				
Long-term investments				
Fair value (available)	$ 1,241,137	3,589,660	1,217,038	2,489,403
Fair value (not available)	976,621	-	934,235	-
Financial liabilities:				
Bonds payable	1,999,994	2,004,915	31,750	36,989
Long-term debts	600,000	615,156	200,000	200,000
Lease payable	23,265	23,265	21,744	21,744

18. Related-party Transactions

(1) The name and relationship of the related parties with which D-Link and its subsidiaries had significant transactions are shown below:

Name	Relationship
D-Link India Ltd. (DIL)	Investee
Cameo Communications, Inc. (CCI)	Investee
Abocom Systems, Inc. (ACS)	YCI has one seat of ACS on board of directors of.
Cellvision System Inc. (CSI)	Investee
W-Link System Inc. (WSI)	Investee (currently go into liquidation)
Dray Tek Corp. (DTC)	YCI has one seat of DTC on board of directors of.
Bothhand Enterprise Inc. (BEI)	Investee
Globe Sun Electronic Inc. (GSEI)	GSEI and CCI signed a merger contract in October 2004

(Continued)

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(2) Significant transactions with related parties as of and for the years ended December 31, 2003 and 2004, are summarized below:

(a) Sales

	2003			2004	
		Amount	Percentage of net sales	Amount	Percentage of net sales
DIL	$	230,562	1	298,104	1
CCI		76,069	-	129,267	-
Others		550,367	2	67,429	-
	$	**856,998**	**3**	**494,800**	**1**

The above sales amount of CCI included the royalty income of $2,390 thousand and $0 thousand in the years 2003 and 2004, respectively.

The average credit terms extended to related parties and third-party customers were approximately 30-90 days. However, credit terms to related parties might be further extended when necessary.

(b) Purchases and others

	2003			2004	
		Amount	Percentage of net purchases	Amount	Percentage of net purchases
GSEI	$	4,187,699	22	4,576,920	20
CCI		1,704,833	10	1,952,772	9
CSI		401,989	2	588,387	3
DIL		15,382	-	13,645	-
BEI		67,410	-	111,669	-
Others		106,891	-	79,109	
	$	**6,484,204**	**34**	**7,322,502**	**32**

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

If D-Links' payable for purchases from GSEI is paid off early, there will be a discount.

(Continued)

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(c) Accounts receivable/payable

	December 31,			
	2003		2004	
	Amount	Percentage	Amount	Percentage
Accounts receivable:				
DIL	$ 26,270	1	79,033	1
Others	182,095	2	69,294	1
	$ 208,365	3	148,327	2

	December 31,			
	2003		2004	
	Amount	Percentage	Amount	Percentage
Accounts payable:				
GSEI	$ 1,368,060	23	817,054	17
CCI	489,740	9	436,899	9
CSI	129,324	2	127,622	3
BEI	29,638	-	30,739	1
Others	69,475	1	23,095	-
	2,086,237	35	1,435,409	30
Less: account payable to GSEI	(1,368,060)	(23)	-	-
	$ 718,177	12	1,435,409	30

(d) Financing

D-Link's interest-free loan to WSI in 2003 amounting to $30,000 thousand (also the maximum amount in 2003) has been repaid.

(e) Others

During the year ended December 31, 2003, D-Link had purchased certain computer software from DIL for $25,272 thousand, which was recorded in other current assets.

(f) Others

D-Link purchased a plant located in the Neihu district of Taipei and leased it to GSEI. The duration of the land lease agreement is from July 2004 to May 2005. In 2004, the rental income of $16,303 thousand had been received. GSEI provides an guarantee deposit amounted to $ 8,000 thousand, which was recorded in other liabilities.

(Continued)

19. Pledged Assets

Assets pledged as collateral as of December 31, 2003 and 2004, are summarized as follows:

Pledged assets	Pledged to secure	December 31, 2003	December 31, 2004
Time deposits (recorded in other financial assets–noncurrent)	Customs guarantees of the Science Park	$ 7,300	-
Time deposits (recorded in restricted assets)	Guarantees of credit lines	564,756	1,595,013
Time deposits (recorded in other financial assets–noncurrent)	Guarantees of import tax	-	4,000
Time deposits (recorded in restricted assets)	The first issuance of domestic guaranteed convertible bonds	330,000	-
		$ 902,056	**1,599,013**

20. Commitments and Contingencies

(1) Major operating leases

D-Link and Alpha purchased a plant located in the Hsinchu Science Park and entered into a land lease agreement with the Science Park Bureau. The leasing expenses for the land leased are as below:

Lease	Lessor	Description	Rental expense in 2004	Payment method
Land	Hsinchu Science Park	Sept. 1989-Sept. 2009	$4,255 thousand	Monthly
Land	Hsinchu Science Park	Aug. 2001-Dec. 2020	$6,009 thousand	Monthly
Land	Hsinchu Science Park	Nov. 2003-Dec. 2022	$6,840 thousand	Monthly

(Continued)

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According to current leasing contracts, the minimum future leasing expenses for the land and offices leased by D-Link and subsidiaries are as below:

Years	Amount
2005	$ 131,714
2006	114,353
2007	104,919
2008	157,378
2009 and after	80,959
	$ 589,323

(2) As of December 31, 2003 and 2004, D-Link had outstanding letters of credit amounting to approximately $4,498 thousand and $0 thousand, respectively.

(3) D-Link and Alpha entered into several royalty agreements with certain companies. According to these agreements, D-Link and Alpha are obligated to pay royalties when D-Link and Alpha sell products using the technologies specified in the royalty agreements. Total royalty expenses incurred under these agreements for the years ended December 31, 2003 and 2004, amounted to $13,321 thousand and $16,363 thousand, respectively.

(4) D-Link brought a suit for breach of copyright and breach of faith against Wang Xue-Hong, Chen Wen-Ji and Chang Zhi-Ha, who are a director, the general manager and an employee, respectively, of VIA Technology, Inc. in 2002. After investigation of the suit by the prosecutor, the result was that the three defendants were subjected to public prosecution for breach of copyright, breach of faith, and the offense of obstruction of business secrets. D-Link brought an additional civil action against the three abovementioned defendants and VIA Technology, Inc., and claimed for joint and several civil damages. However, D-Link has asked the court to cancel the private prosecution and civil damages, and agreed to a compromise with the three abovementioned defendants and VIA Technology, Inc. in August 2004.

(5) Accton Technology Company ("Accton") brought a suit for breach of the Fair Trading Law against D-Link. After public prosecution was begun by the prosecutor, Accton brought an additional civil action against D-Link and asked D-Link for civil indemnification amounting to $100 million on May 4, 2002, in the Hsin-chu District Court. D-Link was discharged from the decision of criminal case in 2003. Accton brought a level suit in the Taiwan High Court to decrease the indemnification amount to $10 million on July 17, 2003, but it was also dismissed without prejudice.

(6) TC Bank brought a suit against D-Link for the reason that TC Bank had obtained the credit of D-Link from Thesaurus Co., Ltd. and asked it to pay $ 10,714 thousand plus 5% interest from the day that the indictment was received by the process agent to the date of refunding. The suit is still being processed by TC Bank in the Hsin-chu District Court. D-Link believes that abovementioned event will not have a significant effect on operations.

(Continued)

(7) 3Com Corporation ("3Com") asserted that D-Link Systems, a D-Link's subsidiary, sold a chip that was included in products that infringed certain 3Com patents relating to network interface technology, and brought an assumpsit against D-Link and its subsidiary. D-Link is pursuing the suit with the chip suppliers. D-Link believes that the abovementioned event will not have a significant effect on operations.

(8) D-Link is discussing with certain companies regarding patent licensing. D-Link has made reasonable accrual for these expenses and believes that the abovementioned event will not have a significant effect on operations.

(9) D-Link disagreed with the assessments made by the tax authorities for its 1999 and 2002 income tax returns regarding a tax exemption, a research and development tax credit, etc. As of December 31, 2004, the tax authorities had not approved the appeals. D-Link's 1999 and 2002 income tax returns have been assessed by the tax authorities for additional income tax payable amounting to $31,468 thousand and $161,179 thousand, respectively.

21. Other Information

(1) The information on labor, depreciation, and amortization expenses by function for the years ended December 31, 2003 and 2004, is summarized as follows:

	2003			2004		
Account	**Cost of goods sold**	**Operating expense**	**Total**	**Cost of goods sold**	**Operating expense**	**Total**
Employee expenses						
Salaries	384,048	1,712,712	2,096,760	395,176	2,279,755	2,674,931
Labor and health insurance	26,014	91,959	117,973	28,072	106,251	134,323
Pension	14,949	54,047	68,996	14,550	73,569	88,119
Others	29,005	193,109	222,114	20,600	241,737	262,337
Depreciation	144,814	277,499	422,313	123,336	319,989	443,325
Amortization	10,926	127,334	138,260	5,685	136,998	142,683

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) In accordance with the Statute for Upgrading Industries, D-Link recorded a provision for loss on foreign investment equal on 20% of the foreign investment made and registered with the authority starting from 2001.

Such provision is not acceptable under the generally accepted accounting principles in the ROC. The provision has been reversed when preparing the accompanying consolidated financial statements. However, for local tax purposes, the adjustment is not posted to D-Link's books. As a result, the unappropriated earnings shown in the accompanying 2003 and 2004 consolidated financial statements exceed that in D-Link's books by $165,217thousand and $526,757 thousand, respectively.

22. Segment Financial Information

(1) Industry information

D-Link and its subsidiaries principally operate in one industry segment: network communication products.

(2) Geographic information

The geographical breakdown of sales for the years ended December 31, 2003 and 2004, is summarized as follows:

	2003					
	Americas	**Europe**	**Asia**	**Australia**	**Adjustments and eliminations**	**Total**
Area revenue:						
Third-party customers	$ 7,612,503	6,171,897	10,403,000	828,821	-	25,016,221
Inter-company	376,268	22,408	16,455,448	3,734	(16,857,858)	-
	$ 7,988,771	**6,194,305**	**26,858,448**	**832,555**	**(16,857,858)**	**25,016,221**
Area profit before taxes and minority interest	**$ 27,667**	**40,105**	**1,023,177**	**28,465**	**435,231**	**1,554,645**
Area identifiable assets	**$ 4,119,554**	**2,506,335**	**30,847,263**	**351,756**	**(14,053,835)**	**23,771,073**

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2004					
	Americas	Europe	Asia	Australia	Adjustments and eliminations	Total
Area revenue:						
Third-party customers	$ 8,896,913	8,040,556	14,069,862	1,237,906	-	32,245,237
Inter-company	21,435	936	26,151,641	700	(26,174,712)	-
	$ 8,918,348	8,041,492	40,221,503	1,238,606	(26,174,712)	32,245,237
Area profit (loss) before taxes and minority interest	$ 17,442	50,571	3,174,061	8	(26,822)	3,215,260
Area identifiable assets	$ 4,468,651	3,655,362	29,635,350	558,261	(12,442,097)	25,875,527

(3) Export sales

The export sales of D-Link and its subsidiaries in the ROC for the years ended December 31, 2003 and 2004, are summarized below:

	2003	2004
Asia	$ 5,428,905	8,101,169
Americas	7,699,983	10,541,476
Europe	4,304,964	8,135,364
Others	878,110	2,253,459
	$ 18,311,962	29,031,468

(4) Major customers

There were no individual customers representing greater than 10% of consolidated revenue in 2003 and 2004.

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