D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2001 and 2002
(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, 2001 and 2002, 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 D-Link 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$683,855 thousand and NT$552,749 thousand as of December 31, 2001 and 2002, respectively, and their total revenue was NT$1,543,710 thousand and NT$1,322,354 thousand for the years ended December 31, 2001 and 2002, 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, 2001 and 2002, 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 20, 2003

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 review 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, 2001 and 2002
(In thousands of New Taiwan dollars)

Assets	2001	2002
Current assets:		
Cash and cash equivalents (note 3)	$ 3,167,421	2,006,063
Short-term investments (note 4)	1,328,376	3,349,922
Notes and accounts receivable (note 5)	2,739,590	3,415,341
Receivables from related parties (note 18)	273,338	312,094
Inventories (note 6)	2,993,675	3,697,408
Prepaid expenses and other current assets (note 16)	664,105	599,956
Total current assets	11,166,505	13,380,784
Long-term equity investments (notes 7 and 20)	3,135,798	2,311,404
Property, plant and equipment (notes 9 and 19):		
Land	95,949	95,949
Buildings and improvements	1,991,399	2,006,719
Machinery and equipment	1,107,712	1,192,953
Other equipment	413,057	453,655
	3,608,117	3,749,276
Less: accumulated depreciation	(858,694)	(1,079,926)
Construction in progress and prepayment of machinery and equipment	42,249	15,983
Net property, plant and equipment	2,791,672	2,685,333
Other assets:		
Assets held for lease (note 8)	162,648	143,891
Others (notes 16 and 19)	403,469	301,897
Total other assets	566,117	445,788
Total assets	**$ 17,660,092**	**18,823,309**

Liabilities and Stockholders' Equity	2001	2002
Current liabilities:		
Short-term borrowings (note 10)	$ 1,188,863	1,561,538
Notes and accounts payable	2,049,944	2,555,609
Payables to related parties (note 18)	679,930	553,470
Accrued expenses and other current liabilities (note 17)	943,957	1,229,143
Total current liabilities	4,862,694	5,899,760
Long-term liabilities		
Bonds payable (note 11)	2,984,009	2,401,164
Long-term borrowings and lease payable (notes 12 and 19)	-	607,565
Total Long-term liabilities	2,984,009	3,008,729
Other non-current liabilities (note 13)	424,287	160,074
Total liabilities	8,270,990	9,068,563
Minority interest	110,492	147,751
Stockholders' equity (notes 14 and 21):		
Common stock	4,459,414	5,163,307
Certificates for conversion of convertible bonds	25	-
Capital surplus	2,821,407	2,790,203
Legal reserve	427,753	523,254
Special reserve	275,530	275,530
Unappropriated earnings	1,194,350	1,379,825
Foreign currency translation adjustment	100,131	117,972
Treasury stock	-	(643,096)
Total stockholders' equity	9,278,610	9,606,995
Commitments and contingencies (notes 18 and 20)		
Total liabilities and stockholders' equity	**$ 17,660,092**	**18,823,309**

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2001 and 2002
(In thousands of New Taiwan dollars, except for earnings per common share)

	2001	2002
Sales (note 18)	$ 17,283,553	20,202,860
Cost of goods sold (note 18)	12,830,488	14,934,373
	4,453,065	5,268,487
Net changes in unrealized profit on intercompany sales	(27,423)	26,913
Gross profit	4,425,642	5,295,400
Operating expenses (note 18):		
Selling	2,808,708	3,326,180
Administrative	423,339	497,446
Research and development	676,870	822,827
	3,908,917	4,646,453
Operating income	516,725	648,947
Non-operating income:		
Interest income	70,901	43,349
Gain on disposal of investments, net	236,845	370,525
Long-term investment income, net (note 7)	324,119	-
Exchange gain, net	207,370	151,338
Other income, net	-	134,786
	839,235	699,998
Non-operating expenses:		
Interest expense (note 11)	130,328	135,275
Long-term investment loss, net (note 7)	-	84,462
Loss on inventory obsolescence and devaluation	176,145	133,916
Other loss, net (note 20)	31,904	-
	338,377	353,653
Income before income taxes and minority interest	1,017,583	995,292
Income tax expenses (note 16)	68,031	123,060
Income before minority interest	949,552	872,232
Net (income) loss attributed to minority interest	5,456	(4,133)
Net income	$ 955,008	868,099

	2001 Income before income taxes	2001 Net Income	2002 Income before income taxes	2002 Net Income
Earnings per common share (note 15)				
Basic earnings per common share	$ 2.10	1.90	1.88	1.69
Diluted earnings per common share	$ 1.98	1.80	1.81	1.63

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2001 and 2002
(In thousands of New Taiwan dollars)

				Retained Earnings					
	Common stock	Certificates for conversion of convertible bonds	Capital surplus	Legal reserve	Special reserve	Unappro-priated earnings	Foreign currency translation adjustment	Treasury stock	Total stockholders' equity
Balance at January 1, 2001	$ 3,788,466	-	3,200,537	344,784	275,530	846,557	51,179		8,507,053
Appropriation of earnings:									
Legal reserve	-	-	-	82,969	-	(82,969)	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	-	(14,934)	-	-	(14,934)
Stock dividends	189,423	-	-	-	-	(189,423)	-	-	-
Cash dividends	-	-	-	-	-	(189,423)	-	-	(189,423)
Employees' bonuses	93,000	-	-	-	-	(93,341)	-	-	(341)
Capital surplus transferred to common stock	378,847	-	(378,847)	-	-	-	-	-	-
Convertible bonds applying for conversion	9,678	25	31,186	-	-	-	-	-	40,889
Net income for 2001	-	-	-	-	-	955,008	-	-	955,008
Effect of disposal of long-term equity investments on capital surplus	-	-	(8,563)	-	-	-	-	-	(8,563)
Foreign currency translation adjustment	-	-	-	-	-	-	48,952	-	48,952
Effect of disproportionate participation in investee's capital increase	-	-	(22,906)	-	-	(37,125)	-	-	(60,031)
Balance at December 31, 2001	4,459,414	25	2,821,407	427,753	275,530	1,194,350	100,131	-	9,278,610
Appropriation of earnings:									
Legal reserve	-	-	-	95,501	-	(95,501)	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	-	(17,190)	-	-	(17,190)
Cash dividends	-	-	-	-	-	(456,987)	-	-	(456,987)
Employees' bonuses	107,000	-	-	-	-	(107,438)	-	-	(438)
Capital surplus transferred to common stock	456,987	-	(456,987)	-	-	-	-	-	-
Gain on disposal of property and equipment transferred to retained earnings	-	-	(2,184)	-	-	2,184	-	-	-
Convertible bonds applying for conversion	139,906	(25)	452,768	-	-	-	-	-	592,649
Net income for 2002	-	-	-	-	-	868,099	-	-	868,099
Effect of disposal of long-term equity investments on capital surplus	-	-	(13,479)	-	-	-	-	-	(13,479)
Foreign currency translation adjustment	-	-	-	-	-	-	17,841	-	17,841
Purchase of treasury stock	-	-	-	-	-	-	-	(643,096)	(643,096)
Effect of disproportionate participation in investee's capital increase	-	-	(11,322)	-	-	(7,692)	-	-	(19,014)
Balance at December 31, 2002	$ 5,163,307	-	2,790,203	523,254	275,530	1,379,825	117,972	(643,096)	9,606,995

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2002
(In thousands of New Taiwan dollars)

		2001	2002
Cash flows from operating activities:			
Net income	$	955,008	868,099
Adjustments to reconcile net income to net cash provided by operating activities:			
Net gain (loss) attributed to minority interest		(5,456)	4,133
Depreciation, amortization, and gain on disposal of property and equipment, net		544,171	509,371
Provision for inventory obsolescence and devaluation loss, allowance for doubtful accounts and pension payable		366,699	371,513
Provision for other loss		210,240	-
Investment income from long-term equity investments		(324,119)	84,462
Gain on disposal of long-term equity investments		(229,974)	(289,971)
Net changes in unrealized inter company profits		27,423	(26,913)
Provision for early redemption of convertible bonds		65,333	60,999
Increase in operation related current assets		(220,742)	(1,740,469)
Increase in operation related current liabilities		833,288	724,883
Cash provided by operating activities		2,221,871	566,107
Cash flows from investing activities:			
Increase in receivables from related parties		-	(30,000)
Increase in short-term investments		(1,255,621)	(2,021,546)
Additions to property, plant and equipment		(593,981)	(276,212)
Proceeds from disposal of property and equipment		7,107	5,304
Increase in long-term equity investments		(545,754)	(110,359)
Proceeds from sale of long-term equity investments		353,075	806,206
Increase in other assets		(247,770)	(76,321)
Cash used in investing activities		(2,282,944)	(1,702,928)
Cash flows from financing activities:			
Increase in minority interest		32,400	12,000
Payments of cash dividends, directors' and supervisors' remuneration, and employees' bonuses		(204,698)	(474,615)
Increase (decrease) in short-term borrowings and commercial paper payable		(1,092,813)	372,675
Issuance of bonds payable		1,900,800	-
Increase in long-term borrowings and lease payable		-	607,565
Purchase of treasury stock		-	(573,982)
Others		1,954	(1,400)
Cash provided by (used in) financing activities		637,643	(57,757)
Effect of exchange rate changes on cash		89,669	33,220
Net increase (decrease) in cash and cash equivalents		666,239	(1,161,358)
Cash and cash equivalents at beginning of year		2,501,182	3,167,421
Cash and cash equivalents at end of year	**$**	**3,167,421**	**2,006,063**
Supplemental disclosures of cash flow information:			
Cash payments of interest (excluding capitalized interest)	**$**	**42,228**	**60,933**
Cash payments of income tax	**$**	**71,287**	**127,544**
Supplementary disclosures of non-cash investing and financing activities:			
Convertible bonds applying for conversion	**$**	**40,889**	**592,649**
Short-term investment transferred from long-term equity investment	**$**	**11,400**	**-**
Purchase of treasury stock	$	-	643,096
Other payables		-	(69,114)
Cash paid in purchasing of treasury stock	**$**	**-**	**573,982**

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2001 and 2002
(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-based Industrial 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, and spare parts for integrated circuits.

D-Link's subsidiaries are summarized below according to their primary business activities.

(a) Sale of local area network systems and maintenance service:

	Percentage of Ownership at December 31,	
	2001	2002
D-Link Systems, Inc. ("DSI")	90	93
D-Link Europe Ltd. ("DEL")	100	100
D-Link Canada Inc. ("DCI")	100	100
D-Link International Pte. Ltd. ("DIL")	100	100
D-Link Japan K.K. ("DJKK")	100	100
D-Link Australia Pty Ltd. ("DAPL")	100	100
D-Link Taiwan Inc. ("DTI")	84	82

(b) Investing and holding companies:

	Percentage of Ownership at December 31,	
	2001	2002
Yeo-Mao Investment Inc. ("YMI")	100	100
Yeo-Chia Investment Ltd. ("YCI")	100	100
D-Link Asia Investment Pte. Ltd. ("DAIPL")	100	100
D-Link Holding Company Ltd. ("DHCL")	100	100
D-Link Technology Venture Capital Investment Inc. ("DTVCI")	100	100

(Continued)

(c) Other

D-Link Asia established a factory in Dongguan, China.

2. Summary of Significant Accounting Policies

(1) Accounting principles and consolidation policy

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the ROC. 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.

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 non-current liabilities" on the accompanying consolidated balance sheet) and amortized over 10 years using the straight-line method.

The subsidiaries included in the accompanying consolidated financial statements as of and for the years ended December 31, 2002 and 2001, include DSI, DEL, DCI, DIL, DJKK, DAPL, DAIPL, DHCL, YMI, YCI, DTI and DTVCI.

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

(2) 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.

(Continued)

(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) 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 publicly listed securities.

(5) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the expected collectibility of trade receivables.

(6) 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. 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.

(7) Long-term equity investments

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

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 over ten years using the straight-line method, and the amortization is recorded as investment income or loss in the accompanying consolidated statements of income.

(Continued)

For long-term equity investments in which D-Link owns less than 50% of an investee's voting shares and is not able to obtain the investee's current year financial statements, D-Link shall recognize its share of the incomes or losses of the investee in the following year when such financial statements are obtained. Such delay in recording the investee's incomes or losses shall be consistently applied afterward.

All significant inter company 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 sold through a related-party transaction.

(8) Property, plant and equipment

Property, plant and equipment are stated at cost. Cost associated with significant additions, improvements, and replacements to property, plant and equipment are capitalized. 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 by D-Link and its subsidiaries is provided using the straight-line method over the estimated useful lives of the respective assets.

Property, plant and equipment held for lease are recorded as other assets and are stated at the lower of carrying amount or net realizable value.

(9) Deferred expenses

The purchased costs of software and intellectual property are recorded as deferred expenses and are amortized over periods ranging from three 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.

(10) 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.

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.

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(11) Financial derivatives

(a) Forward foreign currency exchange contracts

Forward foreign currency exchange contracts committed to hedge foreign currency receivables and payables are translated into New Taiwan dollars using exchange rates prevailing on the balance sheet date. The translation difference is recorded as an exchange gain or loss in the accompanying consolidated statements of income. The difference between the forward and the spot rate on the date the contract is entered is amortized as an exchange gain or loss over the term of the contract.

(b) Foreign currency option contracts

Foreign currency option premiums are deferred and recorded as an exchange gain or loss in the accompanying consolidated statements of income when the contract expires or is settled.

(12) Retirement plan

D-Link and DTI have established employee noncontributory retirement plans (the "Plan") covering all regular employees in Taiwan. In accordance with the Plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on years of service and the average salary for the six-month period before the employees' 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 and DTI contribute 2 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.

D-Link and DTI have adopted ROC Statement of Financial Accounting Standards ("SFAS") No. 18 "Accounting for Pensions." SFAS No. 18 requires D-Link and DTI to perform an actuarial calculation on their pension obligation as of each fiscal year-end. Based on the actuarial calculation, D-Link and DTI recognize net periodic pension costs. In certain cases, an additional minimum liability may be recognized through a direct charge to stockholders' equity.

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.

(13) Sales

Sales were recognized as soon as the inventories were delivered and the related risk and rewards of ownership were transferred to the customers.

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(14) 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 non-current is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the asset's or liability's expected realization date.

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

(15) Government grants

Government grants are recognized as non-operating income in the accompanying consolidated statements of income based on the ratio of actual costs incurred to date to the most recent estimate of total costs which they are intended to compensate.

(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 or retired.

If treasury stock is disposed 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 transaction of treasury stock, any insufficiency is applied to retained earnings. The carrying amount of the treasury stock is calculated by using the weighted-average method.

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D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 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 is applied to retained earnings; when the situation is reversed, the difference is recorded as capital surplus.

(17) Earnings per common share

Earnings per common share are calculated based on the weighted-average number of common shares outstanding during the period. The effect on earnings 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 2002, respectively, are potential common stock. Basic earnings per common share will be disclosed if there is no dilutive effect in the potential common stock. If there is a dilutive effect, both dilutive and basic earnings per common share will be disclosed. For dilutive earnings 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.

3. Cash and Cash Equivalents

	December31,	
	2001	**2002**
Cash on hand, checking and saving accounts	$ 1,011,396	592,222
Time deposits	2,155,470	1,294,141
Promissory notes with repurchase agreements	555	119,700
	$ 3,167,421	**2,006,063**

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D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Short-term Investments

The components of short-term investments as of December 31, 2001 and 2002, are summarized below:

	2001	2002
Publicly listed stocks	$ 28,373	39,774
Mutual funds	1,315,356	3,274,668
Credit - linked deposits	-	69,460
Less: allowance for decline in market value	(15,353)	(33,980)
	$ 1,328,376	**3,349,922**
Market value	**$ 1,328,376**	**3,349,942**

5. Notes and Accounts Receivable

The components of notes and accounts receivable as of December 31, 2001 and 2002, are summarized below:

	2001	2002
Notes receivable	$ 48,589	137,727
Accounts receivable	2,857,630	3,398,353
Less: allowance for doubtful accounts	(166,629)	(120,739)
	$ 2,739,590	**3,415,341**

6. Inventories

The components of inventories as of December 31, 2001 and 2002, are summarized below:

	2001	2002
Finished goods	$ 2,251,053	2,922,167
Work in process	518,260	358,551
Raw materials	627,985	930,158
Provision for obsolescence and net realizable value	(403,623)	(513,468)
	$ 2,993,675	**3,697,408**
Insurance coverage on inventories	**$ 3,224,595**	**3,121,983**

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7. Long-term Equity Investments

Long-term equity investments and related investment income or loss as of and for the years ended December 31, 2001 and 2002, are summarized below:

Investee	December 31, 2001 Percentage of ownership	Acquisition cost	Book value	2001 Investment income (loss)
Equity method:				
D-Link India Ltd.	35	$ 32,111	256,356	126,930
Digital China Networks, Ltd. (DCNL)	43	132,397	352,755	49,253
Cameo Communication, Inc. (CCI)	37	337,165	493,286	112,035
Abocom Systems, Inc. (ACS)	24	154,898	442,747	95,542
Dray Tek Corp.	29	125,612	136,992	15,711
Bothhand Enterprise Inc. (BEI)	31	129,796	121,323	21,583
Others		331,824	284,747	(69,803)
		1,243,803	2,088,206	351,251
Cost method:				
Articula Corporation		309,260	309,260	-
Z-Com, Inc. (Z-Com)	7	104,300	104,300	-
Tamarack Micro Electronics Inc.	19	168,838	168,838	-
Others		477,209	465,194	(27,132)
		1,059,607	1,047,592	(27,132)
		$ 2,303,410	3,135,798	324,119

Investee	December 31, 2002 Percentage of ownership	Acquisition cost	Book value	2002 Investment income (loss)
Equity method:				
D-Link India Ltd.	35	$ 32,111	241,348	39,580
Cameo Communication, Inc. (CCI)	30	297,075	480,666	92,142
Abocom Systems, Inc. (ACS)	21	132,028	360,283	14,416
Dray Tek Corp.	24	102,962	143,108	37,242
Bothhand Enterprise Inc. (BEI)	33	198,125	198,933	1,512
Others		289,745	258,029	(147,372)
		1,052,046	1,682,367	37,520
Cost method:				
Z-Com, Inc. (Z-Com)	7	104,300	104,300	-
IC Plus Corp. (formally Tamarack Micro Electronics Inc.)	13	214,084	179,534	(46,002)
Others		370,366	345,203	(75,980)
		688,750	629,037	(121,982)
		$ 1,740,796	2,311,404	(84,462)

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In July 2000, in order to expand the business related to voice over Internet protocol products, D-Link invested in a convertible promissory note issued by Articula Corp. From the date of the investment to July 3, 2004, D-Link has the right to convert the outstanding principal of the note into preferred stock of Articula Corp. As of December 31, 2001, the outstanding principal of the note amounted to $309,260 (US$9,000K). The convertible promissory note was guaranteed by Clarent Corporation. D-Link and Clarent Corp. reached an agreement to clear the note in July 2002. Please see note 20.

In 2001, D-Link found there was a permanent impairment in the value of its equity investment of Ehoo Technology Holding Ltd. An investment loss equal to its carrying amount of $27,132 was recognized to reflect such decline. In 2002, YCI, YMI and DTVCI found there was a permanent impairment in the value of its equity investment of Integrated Technology Express, Inc. IC Plus Corporation, MaxEdge Electronics Corporation and PowerCom Technology Co., Ltd. An investment loss of $121,982 was recognized to reflect such decline.

8. Assets Held for Lease

In order to expand future capacity, D-Link purchased a plant located in Hsinchu Science-based Industrial Park and entered into a land lease agreement with the Science Park Bureau. The duration of the land lease agreement is from August 2001 to December 2020. Before the commencement of construction work, the plant is held for lease. As of December 31, 2002, the components of the leased assets were as below:

		2001	2002
Cost			
Building	$	80,984	80,984
Building improvement		84,790	84,790
		165,774	165,774
Accumulated depreciation			
Building		300	2,099
Building improvement		2,826	19,784
		3,126	21,883
Net carrying amount	**$**	**162,648**	**143,891**

9. Insurance Coverage of Property, Plant and Equipment

As of December 31, 2001 and 2002, insurance coverage for depreciable property, plant and equipment amounted to $3,054,470and $3,585,143, respectively.

(Continued)

10. Short-term Borrowings

Short-term borrowings consisted of the following as of December 31, 2001 and 2002:

	2001		2002	
	Amount	Rate %	Amount	Rate %
Unsecured borrowings under lines of credit	$ 891,117	0.99%~ 7.7%	1,269,037	0.022%~ 5.04%
Secured loans	-	-	292,501	4.536~ 5.04%
Usance letters of credit	130,945	2.75%~ 2.93%	-	-
Commercial paper payable	167,000	3.30% 3.50%	-	-
Less: unamortized discount	(199)		-	
	$ 1,188,863		1,561,538	
Unused credit facilities	$ 4,213,156		4,872,297	

11. Bonds Payable

A summary of the major terms of the bonds payable outstanding as of December 31, 2001 and 2002, 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.

(Continued)

- Conversion price:

  The conversion price was 64.2 New Taiwan dollars per share when the bonds were issued. As of July 18, 2001, the conversion price was adjusted to 40.4 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% of the par value of the bonds at such dates, respectively, plus interest accrued to the date of redemption. The bondholders my 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.

(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 certificates in common stock or GDRs.

(Continued)

- Conversion price:

  The conversion price was 50 New Taiwan dollars per share when the bonds were issued. Starting from July 18, 2001, the conversion price was adjusted to 42.57 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.

(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.

(4) The components of bonds payable as of December 31, 2001 and 2002, are summarized below:

	2001	**2002**
Bonds payable	$ 2,841,700	2,221,322
Provision for early redemption	142,309	179,842
	$ 2,984,009	**2,401,164**

Interest expense on bonds payable in 2001 and 2002 amounted to $65,616 and $76,899, respectively.

(Continued)

In 2001 and 2002, convertible bonds amounting to $41,350 and $575,648, 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 $31,186 and $452,768 in 2001 and 2002, respectively, and was included in capital surplus in the accompanying consolidated balance sheets.

12. Long-term Borrowings and Lease Payable

(1) Long-term borrowings

Bank	Credit Line and Purpose	Period and Redemption	December 31, 2001	December 31, 2002	Rate	Pledged Assets
Chiao Tung Bank	$600,000 for the redemption of convertible bonds	Due by March 26, 2005; the principal will be paid by 3 half-year installments starting from March 26, 2004	$ -	600,000	4.65%	Plant (refer to note 19)

(2) Lease payable

The components of lease payable as of December 31, 2002, are summarized below:

Lease payable	$ 9,998
Less: current portion of lease payable	(2,433)
	$ 7,565

According to the agreement, D-Link Systems issued some payable notes to the leasing company. The par value of the unpaid notes as of December 31, 2002, are summarized below:

Year ending December 31,	
2003	$ 2,604
2004	2,604
2005	2,604
2006	2,604
	$ 10,416

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

13. Retirement Plans

The following table sets forth the benefit obligation and accrued pension balance related to D-Link's and DTI's retirement plan as of December 31, 2001 and 2002:

	2001	2002
Benefit obligation:		
Vested benefit obligation	$ (5,504)	(8,809)
Non-vested benefit obligation	(99,186)	(134,046)
Accumulated benefit obligation	(104,690)	(142,855)
Projected compensation increases	(116,880)	(97,547)
Projected benefit obligation	(221,570)	(240,402)
Fair value of plan assets	127,830	147,414
Funded status	(93,740)	(92,988)
Unrecognized net transition obligation	14,149	13,223
Unrecognized pension gain	(13,030)	(35,148)
Additional minimum liability	(1,921)	(1,370)
Accrued pension	**$ (94,542)**	**(116,283)**

The components of D-Link's and DTI's net periodic pension cost for 2001 and 2002, are summarized as follows:

	2001	2002
Service cost	$ 27,925	33,986
Interest cost	9,183	9,891
Actual return on pension fund assets	(4,683)	(3,088)
Amortization	(2,862)	(2,001)
Net pension cost	**$ 29,563**	**38,788**

Actuarial assumptions at December 31, 2001 and 2002, are summarized as follows:

	2001	2002
Discount rate	4.50%	3.75%
Rate of increase in future compensation levels	4.50%	3.00%
Expected long-term rate of return on plan assets	4.50%	3.75%

Except for DTI's rate of increase in future compensation levels as of December 31, 2001 being 3.00%, the above-mentioned actuarial assumptions are also applicable to DTI.

(Continued)

14. Stockholders' Equity

(1) 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. Net proceeds of approximately NT$1,674,042 were raised in September 1998. The GDRs are publicly listed on the Luxembourg Stock Exchange. The capital increase was registered in October 1998.

Pursuant to a stockholders' resolution on May 24, 2001, D-Link increased its common stock by $661,270 through the transfer of capital surplus, unappropriated earnings and employee bonuses of $378,847, $189,423 and $93,000, respectively. The capital increase was registered in June 2001.

Pursuant to a stockholders' resolution on May 31, 2002, D-Link increased the authorized capital from $5,800,000 to $6,600,000 and increased its common stock by $563,987 through the transfer of capital surplus and employee bonuses of $456,987 and $107,000, respectively. The capital increase was registered in July 2002.

As of December 31, 2001 and 2002, the authorized capital totaled $5,800,000and $6,600,000 (including $1,000,000 authorized for the conversion of convertible bonds), and the issued capital amounted to $4,459,414and $5,163,307, respectively. The par value of D-Link's common stock is ten New Taiwan dollars per share.

(2) Capital surplus

Pursuant to the ROC Company Law, 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.

Pursuant to a stockholders' resolution on May 31, 2002, D-Link resolved to transfer the capital surplus that was derived from gain on disposal of property, plant and equipment amounting to $2,184 to unappropriated earnings.

(3) Distribution of earnings and dividends 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: 2% as remuneration to directors and supervisors and 12.5% as employee bonuses. An additional reserve on certain earnings may also be retained. The remaining earnings may be distributed as stockholders' dividends.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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, a 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 1998. 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 base on the industry environment, business growth and long-term financial plan. 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.

Information about directors' and supervisors' remuneration and employees' bonuses which were distributed from unappropriated earnings of 2001 is as follows:

Employees' bonuses - common stock (par value)	$ 107,000
Employees' bonuses - cash	438
Directors' and supervisors' remuneration	17,190
	$ 124,628

D-Link distributed 10,700 thousand shares for employees' bonuses, constituting 2.4% of its outstanding shares as of December 31, 2002. Assuming that employees' bonuses and directors' and supervisors' remuneration were recognized as periodic expenses, earnings per common share for 2001 would be adjusted to $1.87 New Taiwan dollars.

The actual distribution of employees' bonuses and directors' and supervisors' remuneration for 2002 is subject to a resolution of the directors and approval of the stockholders.

(4) Treasury stock

D-Link had bought back 21,953 thousand common shares, amounting to $643,096, as of December 31, 2002, to maintain its credit and stockholders' equity.

Pursuant to the ROC Securities and Exchange Law, the number of 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 2002, the maximum number of shares and the maximum amount D-Link could buy back on December 31, 2002, were 51,633 thousand shares and $4,953,418, respectively.

15. Earnings per common share

	2001		2002	
	Income before income taxes	**Net Income**	**Income before income taxes**	**Net Income**
Basic earnings per common share:				
Income applicable to common stockholders	$ 1,055,174	955,008	964,099	868,099
Weighted-average common shares outstanding (thousand shares)	444,981	444,981	513,929	513,929
Basic earnings per common share (New Taiwan dollars)	$ 2.37	2.15	1.88	1.69
Diluted earnings per common share:				
Income applicable to common stockholders	$ 1,055,174	955,008	964,099	868,099
Dilutive effect of potential common stock: overseas convertible bonds	-	-	-	-
	$ 1,055,174	955,008	964,099	868,099
Weighted-average common shares outstanding (thousand shares)	444,981	444,981	513,929	513,929
Convertible bonds assumed being converted on issue day (thousand shares)	25,464	25,464	19,440	19,440
Diluted weighted-average common shares outstanding (thousand shares)	470,445	470,445	533,369	533,369
Diluted earnings per common share (New Taiwan dollars)	$ 2.24	2.03	1.81	1.63

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 countries in which they operate.

Income tax benefit (expense) for 2001 and 2002, consisted of the following:

	2001	2002
Current	$ 125,677	44,047
Deferred	(71,273)	22,447
Additional 10% income surtax on undistributed earnings	13,627	56,566
	$ 68,031	**123,060**

(2) D-Link meets the requirements of a "scientific industry" as prescribed by the Statute for the Establishment and Administration of the Science-based Industrial 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

(3) The components of deferred income tax assets (liabilities) as of December 31, 2001 and 2002, are summarized as follows:

	2001	2002
Current:		
Investment tax credits	$ 48,284	49,208
Unrealized inter-company profits	99,978	141,356
Unrealized foreign currency exchange (gain) loss, net	20,210	(12,918)
Inventory provisions	83,132	119,298
Allowance for doubtful accounts	55,072	107,929
Others	4,537	4,204
	311,213	409,077
Less: valuation allowance	(125,433)	(194,834)
Net deferred income tax assets - current	**$ 185,780**	**214,243**

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2001	2002
Non-current:		
Investment tax credits	$ 244,710	290,210
Loss carryforward	233,539	338,682
Accrued pension	23,155	28,728
Provision for loss on foreign investment	(27,409)	(15,897)
Investment (gain) loss on long-term equity investments in foreign entities	61,486	(34,142)
Foreign currency translation adjustment	(33,376)	(39,324)
Others	14,828	5,315
	516,933	573,572
Less: valuation allowance	(465,401)	(572,827)
Net deferred income tax assets - non-current	$ 51,532	745
Total deferred income tax assets	$ 888,931	1,084,930
Total deferred income tax liabilities	$ 60,785	102,281
Total valuation allowance for deferred income tax assets	$ 590,834	767,661

Certain deferred income tax assets may not be realized in future years because D-Link is entitled to certain tax holidays as mentioned in point (2) of this note. Therefore, a valuation allowance has been provided if it is considered more likely than not that such assets will not be realized.

(4) According to the ROC Statute for Upgrading Industries, the total amount of investment tax credits that can be utilized per year is limited to 50 percent of the year's current tax expense. However, the foregoing limit does not apply to the last year of the investment tax credit's expiration period. As of December 31, 2002, D-Link's, YCI's, YCI investee – Xtramus Technologies' and YMI's unused investment tax credits and related expiration dates were as follows:

Unused investment tax credit	Expiration date
$ 49,208	December 31, 2003
161,387	December 31, 2004
38,931	December 31, 2005
89,892	December 31, 2006
$ 339,418	

(5) As of the December 31, 2002, the ROC income tax authorities had examined and assessed the income tax returns of D-Link for all fiscal years through December 31, 1998.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) 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, 2002, the unused loss carryforwards of D-Link Europe were $324,512.

(7) According to the ROC Income Tax Law, losses of Xtramus Technologies as assessed by the tax authorities can be carried forward to offset the future 5 years' taxable profits. As of December 31, 2002, Xtramus Technologies' unused loss carryforwards and related expiration dates were as follows:

Years	**Expiry year**	**Amount**
2001	2006	$ 12,462
2002	2007	44,220
		$ 56,682

(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, 2001 and 2002, is summarized as follows:

	2001	**2002**
Unappropriated retained earnings:		
Earned prior to January 1, 1998	$ 8,145	8,145
Earned after December 31, 1997	1,186,205	1,371,680
Total	**$ 1,194,350**	**1,379,825**
ICA balance	**$ 47,248**	**68,346**
Expected creditable ratio for earnings distribution to resident stockholders	**12.18% (Actual)**	**5.10% (Estimated)**

(Continued)

17. Financial Instruments

(1) Derivative financial instruments

D-Link 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.

(a) Non-trading purposes derivative financial instruments

(i) Foreign currency option contracts

As of December 31, 2001 and 2002, D-Link had the following foreign currency option contracts outstanding:

2001				
Contract	**Contract Amount (in thousands)**	**Carrying Value**	**Fair Value**	**Maturity**
Call option (sell)	USD116,900	(31,083)	(84,632)	Jan.~Dec. 2002
Call option (sell)	EUR29,000	(1,678)	(2,549)	Jan.~Apr. 2002
Put option (buy)	USD46,000	12,612	2,105	Jan.~Jun. 2002
Call option (buy)	USD6,000	1,901	540	Jan.~Feb. 2002
Put option (buy)	EUR6,000	-	2,581	Jan.~May. 2002

2002				
Contract	**Contract Amount (in thousands)**	**Carrying Value**	**Fair Value**	**Maturity**
Call option (sell)	USD103,330	(9,372)	(25,125)	Oct. 2002 ~ Nov. 2003
Put option (sell)	USD36,137	(346)	(58,515)	Sept. 2002 ~ Oct. 2003
Call option (buy)	USD19,000	3,800	4,561	Oct. 2002 ~ Mar. 2003
Put option (buy)	USD11,010	3,264	502	Nov. 2002 ~ Mar. 2003

(Continued)

(ii) Currency and interest swap agreements

There were no currency and interest swap agreements as of December 31, 2002. The details of the currency and interest swap contracts as of December 31, 2001, are as follows:

2001			
Notional principal (in thousands)	**Maturity 2002**	**Pay rate**	**Receive rate**
USD3,000	02.27	Three-month USD LIBOR	2.10%
USD2,000	02.27	Three-month USD LIBOR	3.20%
USD2,000	03.04	Three-month USD LIBOR	2.08%

As of December 31, 2001, the details of currency and interest swap balances were as follows:

Currency and interest swap receivable	$ 241,500
Currency and interest swap payable-foreign	241,500
	$ -
Fair value	$ (4,132)

(iii) Forward foreign currency exchange contracts

As of December 31, 2001 and 2002, the notional principal of outstanding forward foreign currency exchange contracts D-Link and DTI entered into was USD8,000 thousand and USD11,026 thousand, respectively. The details of the above forward foreign currency exchange contracts' balance as of December 31, 2001 and 2002, are as follows:

	2001	2002
Forward contracts receivable	$ 275,975	381,722
Forward contracts payable	276,146	383,061
	$ (171)	(1,339)
Fair value	$ (1,756)	(1,521)

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Trading purposes derivative financial instruments

(i) Credit-linked deposits

Currency	Contract Amount (in thousands)	Contract Period	Interest Rate	Reference Entities	Issuer
USD	2,000	February 2002~ March 2003	USD LIBOR+1.50%	D-Link (ECB)	Citibank

The carrying amount of the credit-linked deposits abovementioned as of December 31, 2002, was $69,460.

(c) 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 entered into the above derivative contracts with reputable financial institutions. The likelihood of default on the part of the counter-parties is remote.

Credit risk of credit-linked deposits depends upon the occurrence of the constraint events. The constraint events that apply to each reference entity include bankruptcy, restructuring, repudiation or moratorium and failure to pay. The contracts will be settled and the banks will deliver all or part of the portfolio to D-Link if any constraint events occur. D-Link carefully chose the invested target according to the reference company's credit worthiness. As a result, D-Link believes that there is no concentration of credit risk in such investments.

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

(Continued)

(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 and DTI was to manage and hedge the floating interest rates and foreign currency exchange rates. There is no significant liquidity risk for the related cash flows.

The 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 does 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 investment, accounts receivable, receivables from related parties, pledged time deposits, 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 borrowings.

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, accounts receivable, pledged time deposits, 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, 2001 and 2002.

(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 borrowings are based on the discount value of expected and cash flows.

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

(Continued)

The fair values of non-derivative financial instruments as of December 31, 2001 and 2002, are shown below:

	2001		2002	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial asset:				
Long-term investments				
Fair value (available)	$ 699,103	1,668,098	1,095,581	1,551,330
Fair value (not available)	2,436,695	-	1,215,823	-
Financial liabilities:				
Bonds payable	2,984,009	2,795,847	2,401,164	2,503,102
Long-term borrowings	-	-	600,000	620,941
Lease payable	-	-	7,565	7,565

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
Abocom Systems, Inc. (ACS)	Investee
Cameo Communications, Inc. (CCI)	Investee
Digital China Networks, Ltd. (DCNL)	Investee
Cellvision System Inc. (CSI)	Investee
PowerCom Technology Co., Ltd. (PCTCL)	Yeo-Chia Investment Ltd. is a director of the investee
Dray Tek Corp. (DTC)	Investee
W-Link System Inc. (WSI)	Investee
Video tranXmission Integrated System Technology Co., Ltd. (VXISTCL)	Investee
D-Link (Shanghai) Limited Corporation (DSLC)	An indirectly held subsidiary of D-Link

(Continued)

(2) Significant transactions with related parties as of and for the years ended December 31, 2001 and 2002, are summarized below:

(a) Sales

	2001		2002	
	Amount	**Percentage of net sales**	**Amount**	**Percentage of net sales**
CCI	$ 83,438	-	81,926	-
ACS	138,957	1	85,002	-
DIL	265,804	2	187,705	1
DCNL	1,243,110	7	-	-
WSI	78,064	-	233,524	1
DSLC	-	-	108,103	1
Others	79,968	1	168,248	1
	$ 1,889,341	**11**	**864,508**	**4**

The average credit terms extended to related parties and third-party customers were approximately 30-90 days and 30-60 days, respectively.

(b) Purchases

	2001		2002	
	Amount	**Percentage of net purchases**	**Amount**	**Percentage of net purchases**
CCI	$ 1,560,419	13	1,479,778	9
ACS	543,542	4	225,487	2
CSI	151,654	1	286,505	2
PCTCL	100,886	1	185,523	1
DTC	87,498	1	123,465	-
WSI	-	-	411,479	3
Others	238,294	2	294,606	2
	$ 2,682,293	**22**	**3,006,843**	**19**

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

(Continued)

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Notes to Consolidated Financial Statements

(c) Accounts receivable/payable

	2001		2002	
	Amount	**Percentage**	**Amount**	**Percentage**
Accounts receivable:				
DCNL	$ 212,040	7	-	-
DIL	28,559	1	59,417	1
WSI	-	-	140,637	4
DSLC	-	-	106,913	3
Others	32,739	-	95,127	3
	273,338	8	402,094	11
Less: allowance for doubtful accounts	-	-	(120,000)	(3)
	$ 273,338	8	282,094	8

	2001		2002	
	Amount	**Percentage**	**Amount**	**Percentage**
Accounts payable:				
ACS	$ 26,439	1	41,123	1
CCI	412,620	15	354,992	11
CSI	40,374	2	23,175	1
PCTCL	26,972	1	7,768	1
DTC	43,831	2	16,950	-
WSI	29,113	1	-	-
Others	68,519	2	109,462	4
	$ 647,868	24	553,470	18

(d) Service

D-Link paid service fees to DIL amounting to $32,062 in 2001. As of December 31, 2001, the related balance was not yet paid.

(e) Guarantees

As of December 31, 2002, D-Link had provided guarantees of $40,000 for VXISTCL to secure its bank loans.

(f) Financing

As of December 31, 2002, D-Link's receivables from related parties resulting from settlement of bank loans for WSI due to endorsement and guarantee responsibilities was $30,000 (also the maximum amount in 2002)

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19. Pledged Assets

Assets pledged as collateral as of December 31, 2001 and 2002 are summarized as follows:

Pledged assets	Pledged to secure	2001	2002
Plant	Long-term borrowings	$ -	717,103
Time deposits	Customs guarantees of the Science-based Industrial Park	7,300	7,300
		$ 7,300	724,403

20. Commitments and Contingencies

(1) Major operating leases

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
2003	$ 125,115
2004	91,048
2005	80,393
2006	70,082
After 2007	268,211
	$ 634,849

(2) As of December 31, 2001 and 2002, D-Link had outstanding letters of credit amounting to approximately $76,851and $5,207, respectively.

(3) As of December 31, 2001 and 2002, D-Link had provided a guarantee for the payment of Javarock Ltd's bank loans amounting to $105,120 and $69,660, respectively. Javarock Ltd., a Hong Kong shipping agent, is responsible for D-Link's triangular trading activities with D-Link's affiliates located in the People's Republic of China ("PRC").

(4) D-Link entered into several royalty agreements with certain companies. According to these agreements, D-Link is obligated to pay royalties when D-Link sells products using the technologies specified in the royalty agreements. Total royalty expenses incurred under these agreements for the years ended December 31, 2001 and 2002, amounted to $63,988and $6,204, respectively.

(Continued)

(5) In November 2001, Clarent Corp. had failed to comply with the listing requirements of NASDAQ and its common stock ceased trading on NASDAQ. Due to this uncertainty over Clarent Corp.'s future developments, D-Link filed two lawsuits against Clarent Corp. in the Superior Court of the State of California and in the County of San Mateo. D-Link alleged that Clarent Corp. breached an OEM sales agreement, a purchase agreement and a loan and guaranty agreement related to D-Link's investment in the convertible promissory note of Articula Corp. and requested Clarent Corp. to compensate D-Link for its damages.

As of December 31, 2001, receivables due from returns of purchases from Clarent Corp. amounted to USD6,000 thousand, the convertible promissory note guaranteed by Clarent Corp. amounted to USD9,000 thousand and an advance from Clarent Corp. was USD3,000 thousand. D-Link and Clarent Corp. reached an agreement in July 2002 and Clarent Corp. paid cash, inventories, investments and other assets amounting to USD8,473 thousand. After deducting the allowance for possible business dispute loss amounting to USD4,500 thousand recognized by D-Link in 2001, the paid assets were sufficient to cover the claim of D-Link.

21. Significant Subsequent Events

(1) D-Link bought back 4,067 thousand common shares, amounting to $112,374 from January 1 to February 20, 2003, to maintain its credit and stockholders' equity. As of February 20, 2003, D-Link had bought back 26,020 thousand common shares, amounting to $755,470. D-Link retired all the treasury stock by eliminating common stock of $260,200, capital surplus amounting to $139,851 and retained earnings amounting to $355,419 on February 24, 2003. The capital decrease was registered. After retiring the treasury stock, the issued capital amounted to $4,903,107.

(2) Pursuant to a directors' resolution on February 10, 2003, D-Link proposed to spin off its OEM/ODM department as a subsidiary. The primary purpose of the restructure and reorganization is to separate D-Link's branded business from its OEM/ODM business. The proposal will be discussed and resolved by D-Link's annual shareholders' meeting in 2003.

22. Other information

In accordance with the Statue for Upgrading industries, D-Link recorded a provision for loss on foreign investment based on 20% of the foreign investment amount made and registered with the authority starting from 2001.

Such provision is not allowed by generally accepted accounting principles in the ROC. 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 2001 and 2002 consolidated financial statements exceed that in D-Link's books by $109,636 and $63,588, respectively.

(Continued)

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Notes to Consolidated Financial Statements

24. 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, 2001 and 2002, is summarized as follows:

	2001					
	Americas	**Europe**	**Asia**	**Australia**	**Adjustments and eliminations**	**Total**
Area revenue:						
Third-party customers	$ 3,425,082	3,823,053	9,678,710	356,708	-	17,283,553
Inter-company	481,771	26,442	8,086,429	672	(8,595,314)	-
	$ 3,906,853	**3,849,495**	**17,765,139**	**357,380**	**(8,595,314)**	**17,283,553**
Area profit (loss) before taxes and minority interest	**$ (205,642)**	**(392,747)**	**1,585,053**	**13,239**	**17,680**	**1,017,583**
Area identifiable assets	**$ 2,193,111**	**1,820,070**	**21,126,000**	**185,706**	**(7,664,795)**	**17,660,092**

	2002					
	Americas	**Europe**	**Asia**	**Australia**	**Adjustments and eliminations**	**Total**
Area revenue:						
Third-party customers	$ 5,910,806	4,028,147	9,687,096	576,811	-	20,202,860
Inter-company	209,331	45,225	10,429,419	829	(10,684,804)	-
	$ 6,120,137	**4,073,372**	**20,116,515**	**577,640**	**(10,684,804)**	**20,202,860**
Area profit (loss) before taxes and minority interest	**$ (63,064)**	**(285,760)**	**1,111,282**	**29,067**	**203,767**	**995,292**
Area identifiable assets	**$ 2,708,442**	**2,272,757**	**21,845,998**	**282,707**	**(8,286,595)**	**18,823,309**