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## **D-Link Reports Q2 & 1H/05 Pro Forma Consolidated Financials**

- Second quarter 2005 net revenue was NT\$ 8.13bln, up 6% year-over-year.
- Second quarter 2005 gross margin rose to 32.1% from 31.3% in Q1/05.
- Second quarter 2005 operating margin was 5.7%, as compared to 7.8% in Q1/05.
- Second quarter 2005 pre-tax profit was NT\$ 459mln or NT\$ 0.77 per share, as compared to NT\$ 521mln or NT\$ 0.95 per share in Q2/04.
- Second quarter 2005 tax rate decreased to 24% of pre-tax profit, from 29% in Q1/05.
- Second quarter 2005 net income was NT\$ 271mln, as compared to NT\$ 353mln in Q1/05
- Second quarter 2005 diluted EPS was NT\$ 0.46, compared to NT\$ 0.59 in Q1/05

**Taipei, Taiwan, July 29, 2005** - D-Link Corporation ("D-Link Group" or "the Group Company") (TAIEX 2332) today announces its pro forma consolidated financial results for the second quarter and the first half of 2005.

For the first half of 2005, pro forma net revenue totaled NT\$ 16.69bln, a 8% increase over the first half of year 2004 net revenue of NT\$ 15.48bln. Pro forma gross margin was 31.7%, as compared to 33.4% for the comparable period of 2004. Pro forma operating margin was 6.8%, as compared to 8.8% in 1H/04. Pro forma net margin was 3.7%, as compared to 10.5% for the same period of 2004, due primarily to the absence of huge disposal gain from Alpha and higher effective tax rate.

For the 2<sup>nd</sup> quarter of 2005, net revenue was NT\$ 8.13bln, up by 6% from Q2/04, or down 5% compared to the 1<sup>st</sup> quarter of 2005. The 2<sup>nd</sup> quarter has been seasonally slow, and 2005 was no exception. We believe Q2 should be the bottom of 2005. On year-on-year basis, D-Link was able to report 6% growth due primarily to better sales in Asia Pacific (excluding Great China), and Emerging markets. Those areas combined sales grew around 40% YoY. Russia and Brazil in particular have grown 59% and 46% YoY respectively due to strong

demands of Broadband products.

Due to product mix change towards more Switching and less Broadband sales, gross margin increased to 32.1% in Q2/05 from 31.3% in Q1/05, but down from 35.5% in the year ago comparable quarter. Operating margin was 5.7% in the second quarter of 2005, as compared to 7.8% in the previous quarter and 9.1% in the year ago comparable quarter. In the 2<sup>nd</sup> quarter of 2005, operating expenses were 26.4% of net revenue, as compared to 23.5% in the prior quarter and at par with 26.4% in the year ago comparable quarter. This can be attributed to the increases of selling and R&D expenses by 2.9% and 0.6% in Q2/05, as compared to the previous quarter. The increase in selling expense was caused by higher promotion and show & advertising fees during the Easter and Labor Day holidays.

On the non-op side, D-Link realized NT\$ 110mln capital gain in Q2 due mainly to disposal of Cameo and Draytek's shares, but accrued NT\$ 122mln inventory loss. The inventory loss was primarily due to D-Link US's scrapped inventory of NT\$ 71mln or around US\$ 2.26mln. This resulted in a non-operating loss of NT\$ 1mln in Q2/05.

The profit before tax was NT\$ 459mln or equivalent to NT\$ 0.77 per share. By applying tax rate of 24% of pretax profit, and adjusting for Alpha's minority interests of NT\$ 77mln, the company reported net income of NT\$ 271mln in 2<sup>nd</sup> quarter, or EPS of NT\$ 0.46. The lower EPS compared to the comparable prior year quarter was due mainly to lower gross margin and higher effective tax rate.

D-Link's balance sheet remained sound as of June 30<sup>th</sup>, 2005. NT\$ 3.4bln of Cash and NT\$ 2.2 of S-T investment totaled NT\$ 5.6bln, virtually equivalent to NT\$ 5.5bln at end of March. Almost all of D-Link's S-T investments were parked in money market funds. Days A/R remained 65 at par with end of March. Days Inventory was lengthened to 96 from 89 at end of March since D-Link stocked up gradually in preparation for stronger sales in the second half. Cash Cycle was 81 days, at par with 80 days at end of March. The company was able to sit on a net cash position of NT\$ 3.224bln for the 11<sup>th</sup> consecutive quarter as end of June 2005.

To breakdown Q2/05 revenue by regions, D-Link remained a truly global player with 32%, 24%, and 44% of consolidated sales from North America, Europe, and APAC & others respectively. For the Group, North America's sales grew approximately 3% YoY but down 5% QoQ, Europe's sales grew 6% YoY but down 19% QoQ, and APAC & Emerging Market's revenue was up over 8% YoY or 5% QoQ.

By product categories, WLAN remained to rank No.1, accounting for 32% of Q2/05 consolidated revenue, followed by Broadband 27%, Switch 23%, and Digital Home 11%. In \$ terms, Switch grew 2% YoY and 4% QoQ, WLAN grew 21% on year-on-year basis but down 8% QoQ, Broadband grew 6% YoY but down 12% QoQ, and Digital home grew significantly 30% YoY and slightly down 5% QoQ.

As to product updates of D-Link's branding business, In North America, we have benefited from higher business adoption of Gigabit Switches, which contributes to switch sales growth. With strong interests in MediaLounge and GamerLounge products, Digital Home products remain one of the key growth drivers for the consumer market. In EMEA and Asia Pacific & other areas, xStack Switch, EoVDSL Switch & Modem, and Information Security Gateway, benefiting from increasing adoptions of Broadband & WLAN, will take off to lead the growth. In New Zealand we remain No.1 position in XDSL products. With D-Link's leading technology, we believe the switch and security products will further drive the sales growth in the second half of the year.

Ken Kao, Chairman & CEO of D-Link Group said "We have clearly bottomed out and are encouraged to see momentum is building." Mr. Kao added, "Stepping into the second half, D-Link already launched a series of new products in each segment. In the business sector, aside from the already launched X-Stack Gigabit Ethernet Switch, Wireless Switch will be another growth driver for business sector. D-Link also debuted ISCSI based IP storage for business use during Supercomm in June. The Enterprise storage is very competitively priced with 2 to 3 times the performance that of any major peers. We foresee IP storage to drive D-Link's sales & profits growth going into 2006 and 2007. In the consumer sector, the Digital Home products such as Media Adapter, Wireless Internet Camera, IP Video Phone, TV Tuner, and etc., will continue to contribute to D-Link's sales growth."

Mr. Kao continued, "Looking forward, relatively stronger demand should rise in all fronts where we expect 5-10% growth on quarter-on-quarter basis. With the debut of several new products during the quarter, including EoVDSL Switch & Modem, Wireless Switch, 1U&3U IP Storage, New Version Media Adapter, Security products, and etc., we are confident that the Group will be able to grow 10-15% in 2H compare to 1H. With the help of product mix change toward more Switching & Digital Home, and more business sector sales in 2H, gross margin is expected to improve.

### **About D-Link**

D-Link is the global leader in total products shipped for consumer networking connectivity according to reports published by the Synergy Research Group. D-Link is the worldwide

leader and award winning designer, developer, and manufacturer of networking, broadband, digital electronics, voice and data communications solutions for the digital home, Small Office/Home Office (SOHO), Small to Medium Business (SMB), and Workgroup to Enterprise environments. With more than a million square feet of manufacturing capacity and millions of Ethernet adapters, hubs and switch ports, manufactured and shipped, D-Link is a dominant market participant and price/performance leader in the networking and communications market. D-Link Corporation headquarter is located at 2F, No.233-2, Pao-Chiao Road, Hsin-Tien, Taipei, Taiwan. Phone: 886-2-29161600; FAX 886-2-29146299; Internet [www.dlink.com.tw](http://www.dlink.com.tw)

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