D-Link®

Building Networks for People

"I am proud to report that we are now a $1 billion dollar company. Our record-breaking year in 2005 is the cumulative result of our steady growth in worldwide revenue, shareholder equity and sales in every product category and region. "

— Ken Kao
Chairman and CEO

Annual Report 2005

We are proud of the many milestones D-Link has reached throughout our history as a worldwide leader in networking and communications. Reaching $1 billion in revenue for 2005 is our crowning achievement to date. Our dedication to excellence and quality has resulted in award-winning products that improve the lives of individuals around the world. Our past successes have positioned D-Link for continued growth and innovation. We will continue to be a global leader in networking and connectivity, delivering affordable, standards-based products to consumers and business.

D-Link Financial Highlights

(U.S. Dollars in Thousands)	2005 (US$)	2004	% Change	2003	2002	2001
Net Sales	**$1,131,954**	$966,584	**17.1%**	$728,062	$583,560	$510,291
Operating Income	**$79,241**	$78,592	**0.8%**	$46,655	$18,745	$15,256
Income Before Tax	**$70,885**	$96,381	**-26.5%**	$45,246	$28,749	$30,044
Net Income	**$50,897**	$77,966	**-34.7%**	$39,992	$25,075	$28,196

*Amounts are in U.S. Dollars solely for the readers' convenience, at the rate of:

NT$32.14=US$1. The average annual exchange rate for 2005
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
NT$33.87=US$1. The average annual exchange rate for 2001

(U.S. Dollars in Thousands)	2005 (US$)	2004	% Change	2003	2002	2001
Cash & Cash Equivalents	**$67,922**	$120,515	**-43.6%**	$90,620	$57,762	$90,394
Total Assets	**$734,822**	$814,977	**-9.8%**	$700,592	$541,990	$503,998
Working Capital	**$256,011**	$231,611	**10.5%**	$169,995	$215,405	$215,405
Long Term Loans	**336**	$685	**-50.9%**	$6,580	$86,632	$85,160
Shareholder's Equity	**$368,623**	$367,315	**0.4%**	$298,952	$276,619	$276,619
Shares Outstanding **	**$597,162**	$535,521	**11.5%**	$501,777	$494,378	$445,944

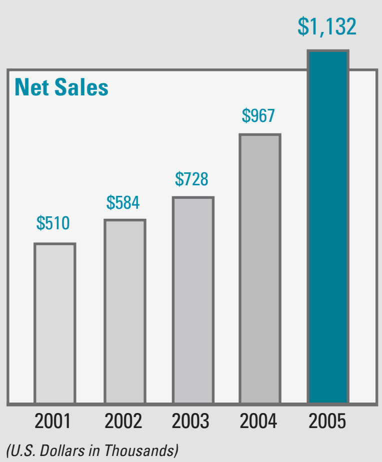
*Amounts are in U.S. Dollars solely for the readers' convenience, at the rate of:

NT$32.85=US$1. The prevailing rate on December 31, 2005
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
NT$34.45=US$1. The prevailing rate on December 31, 2001

** in Thousands

Letter To Shareholders, Customers, Partners & Employees

Ken Kao
Chairman and
Chief Executive Officer
D-Link Group



2005 has been an impressive year as D-Link successfully crossed an important milestone in this industry: US$1 billion in revenue. This performance was a result of our organization's aggressive push forward into lucrative, high-potential, emerging markets like Eastern Europe, Latin America and South East Asia via strong local partnerships, further enhancement of our already strong brand equity and our unyielding pursuit of innovation in our products and services. This dynamic, global-oriented approach to growth and solid customer service has translated into a milestone revenue achievement and further proves our long-time philosophy that when you take care of the customer, the customer will take care of you.

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

-Ken Kao

Financial Highlights

Across the board, all financial metrics were healthy. Most notably, revenues in 2005 topped US$1.132 billion, representing a 17.1% (or 12.8% in Taiwan Dollar terms) increase over the previous year. Net income was down, however, from US$77.9 million in 2004, to US$50.8 million in 2005. This decrease is primarily attributed to the absence of a significant one-time gain of share disposal following the 2004 IPO of one of our manufacturing subsidiaries, as well as relatively high operating and tax expenses. Despite continued challenges inherent in mature, competitive retail markets such as North America and Western Europe, it seems clear that the foundations we are laying in new, emerging markets have begun to pay off and point to a more bountiful harvest in years to come.

Global Presence

As D-Link celebrates its 20th anniversary in 2006, we have many reasons to be optimistic, from our new state-of-the-art headquarters in Taipei, Taiwan to strong partnerships in key new markets with opportunities for growth at every turn. Revenues from emerging markets, such as Russia, Asia Pacific, Middle East, Latin America and elsewhere in the world, rose 27%. Even relatively mature markets such as North America and Europe were both up 11%. While we are realistic about the challenges facing further expansion in saturated markets, we remain very optimistic about economic and infrastructure expansion in emerging markets that will translate into strong demand for our GigE Switches, xDSL, VoIP and Digital Home products. As such, we expect to see double-digit growth in these exciting economies going forward, as well as continued growth in North America and Europe in the small-to-medium business (SMB) sector.

In terms of product categories, sales in WLAN products saw a 19% rise in 2005, and represented our leading product group, accounting for 33% of total revenue. Sales of Broadband products, which represent 28% of sales, climbed 16%, while Switches, which represent 24% of sales, grew 10%, and Digital Home products, which represent 10% of sales, rose 26%.

D-Link's broad product range, strong brand and innovation continue to be the key drivers of our success. Equally important, however, are the close bonds we form and maintain with our international partners in over 100 countries. Through our own global presence, D-Link remains steadfastly committed to providing international channel partners with adequate training, efficient and timely technical support, region-specific marketing collaboration, and, most importantly, clear two-way communication so our product development is in step with the needs of customers in all the regions we service. It is this down-to-earth strategy and the resulting customer satisfaction and brand loyalty that allowed our products to reach customers around the globe in 2005.

Poised for continued growth

Bolstered by the global sales momentum generated in 2005 and the debut of more than 100 new products, we are confident in our ability to maintain market dominance going forward. Allow me to take a moment to outline our key market regions and the proud achievements that the close cooperation with our international partners has created.

Asia-Pacific and Other Areas

High-growth markets in Asia-Pacific and Latin American resulted in a significant 39 percent (US$439 million) of D-Link's overall consolidated revenue in 2005, a full 33% rise over the previous year. We are now a dominant player in the Latin American telecommunications market and are also seeing our market share consistently rising in India's lucrative, high-growth networking and structured cabling sectors. In Japan, a large but often very competitive market, D-Link, through its manufacturing subsidiary, held strong as one of the top three broadband equipment suppliers.

North America

Revenues from North America in 2005 accounted for approximately 31 percent (US$352 million) of worldwide sales. We are realistic about price competition and resulting margin constraints that we face in such mature retail markets, and we continue to market our products aggressively to capture market share in consumer networking categories. North America realized an increase in sales of business products including managed switching and wireless connectivity, resulting from a continued focus on reseller education and increased marketing to the IT influencer. The business solution product line also strengthened in North America with the addition of security appliances, IP telephony and next-generation storage.

Europe, the Middle East and Africa

Western Europe continues to be a consistent, yet mature market for D-Link products. Meanwhile, Eastern Europe, most notably Russia, has D-Link excited about future growth. These emerging markets, particularly the metropolitan areas, have generated double-digit growth over the past several years, and prove that our decision to move into these markets early and work closely with our local partners was a correct strategy. In 2005, revenues from this region reached US$343 million, driven by strong demand for our WLAN, broadband and switch products. We have no doubt that the energy we are seeing now in these markets is a glimpse at the larger potential still to come.

In Summary

Overall, we are very pleased with the progress made in 2005. Key foundations have been established for the future. Aggressive price and marketing strategies in mature markets, such as North America and Europe, are allowing us to hold solid ground in existing market segments and tap into new consumer groups which have long been anxious to experience broadband and wireless connectivity. Furthermore, D-Link will continue to penetrate the SMB market with its advanced switching and security solutions.

At the same time, we are aggressively expanding our presence in what we believe to be a key to the future of our organization—emerging markets. By forging strong local partnerships and working closely with them we are meeting key objectives: 1) ensuring success of our existing products in these markets, 2) obtaining timely feedback from the front lines of consumers, and 3) incorporating this market intelligence directly into new product development. The result of this approach is consistent innovation that meets the needs of our international partners and their customers, further strengthening of our global brand equity and strong dedication by our international teams. Combine these factors and you have our formula for success as we continue to pursue these high-potential, high-growth markets for years to come.

A Word of Thanks

I want to take this opportunity to thank you – our loyal customers, our devoted employees, our dedicated partners and our trusting shareholders – for contributing to our continued success and making us all proud to be part of a winning team.

Ken Kao

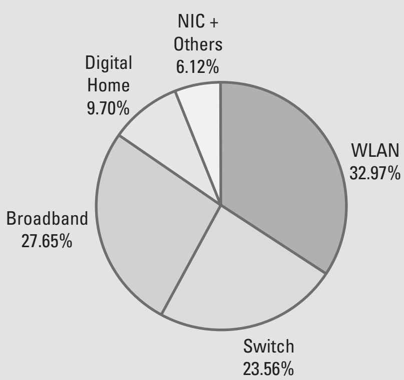
Ken Kao
Chairman and Chief Executive Officer
D-Link Group

Worldwide Strength

Offices and Distribution Around the Globe

D-Link's ability to ride the cutting-edge of developing technology has helped us sustain global growth throughout our company history.

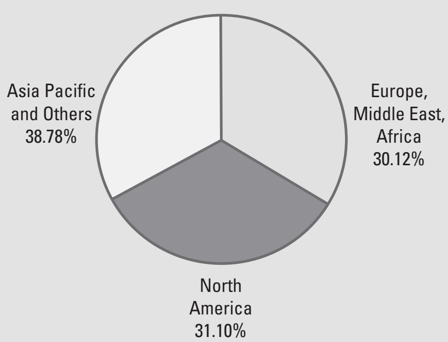
Sales By Product Category



FX rate: 1 US Dollar = 32.14 Taiwan

WLAN, a product category that D-Link helped pioneer, continues to lead sales in all regions.

Sales By Region



FX rate: 1 US Dollar = 32.951 Taiwan

In 2005, D-Link continued to develop business in emerging markets around the globe, highlighted by explosive growth in Asia and Eastern Europe.

D-Link Operational Headquarters: Taipei, Taiwan
D-Link North America: Fountain Valley, U.S.A.
D-Link Europe: London, U.K.
D-Link APAC and Others: Singapore
D-Link Greater China: Shanghai, China

Success means thinking on a global-scale

Through our worldwide network of local, regional, and national offices, D-Link develops technologies and provides innovative, interoperable products that meet the needs of customers in nearly every major population center on the globe. This worldwide product presence demands a strict adherence to international standards and, at the same time, a clear emphasis on customization to local market application requirements. As a frequent winner of awards in design, development, and manufacturing, D-Link has been a consistent leader in "Building Networks for People," providing a variety of wireless and Ethernet networking solutions for both home and business.

Our worldwide network serves over 90 countries from 100 offices staffed by more than 1800 professional sales, marketing, engineering, technical and customer support representatives.

North America

North America accounts for 47% of worldwide industry wireless LAN equipment revenue.

Source: Infonetics Research

D-Link North America revenue grew to US$352 million, up 11% for the year, representing 31.10% of global revenue for 2005.

D-Link North America includes business units in the U.S., Canada and Mexico. Canada and Mexico demonstrated tremendous development in 2005.

Growth in D-Link's wireless networking outpaced the overall market in North America in 2005, and accounted for 63% of our revenue from this region. D-Link North America markets to business customers through a strategy of strong channel partnerships, end-user education and customer support programs. Despite the challenges inherent in the competitive consumer market, we carved out successes by focusing on the retail channel business and strengthening our brand image. Going forward, we will continue efforts to maintain our strong position in the consumer space by expanding into nontraditional retail channels with superior marketing support, while also increasing our emphasis on small, medium and enterprise business markets which promise expanded growth in this region.

As this market grows increasingly competitive, D-Link North America has reinforced its position through original product designs that incorporate emerging technologies. Leveraging these technologies, and providing standards-based, next-generation networking solutions has translated into increased market share. In addition, recognizing the tremendous growth potential in the Canadian and Mexican markets, D-Link North America has deployed significant investment into these markets so as to seize the burgeoning opportunities.

As D-link's global leadership in the SMB and SOHO markets has been a key driver for the growth in this region, D-Link Headquarters in Taipei will continue to call upon D-Link North America's know-how and marketing execution expertise, which are instrumental in our formulation of strategies and policies for D-link's various global operations.

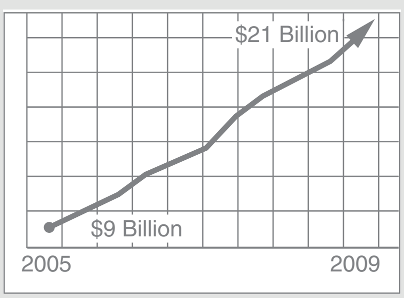
"The worldwide SMB market has approximately 80 million potential customers, all of which are in need of network and Internet connectivity to run their day to day business operations. According to our Q2 2005 reports, D-Link has once again shown leadership in this extremely competitive market segment.

- Norm Bogen, Director of Networking,
In-Stat Research

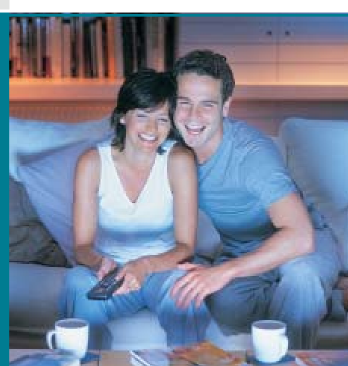
varBusiness 5 STAR PARTNER PROGRAM

D-Link Partner Programs Earned a Five-Star Rating from CMP's VARBusiness Magazine.

Network Hardware Revenue Forecast
(U.S. $ in Billions)



Revenue derived from annual networking hardware shipments and from equipment that incorporated a home networking connection will jump from almost US$9 billion in 2005 to over US$21 billion in 2009, reports In-Stat.



D-Link continues to drive adoption of digital home technology with products that enable anytime, anywhere access to data.

D-Link enables powerful connectivity for business ranging from small to enterprise.

D-Link saw consistent enterprise networking growth in North America — transitioning from SOHO into SMB — and remained a major player in home networking and the emerging digital home market.

Europe, The Middle East & Africa

The penetration of wireless LAN (WLAN) solutions in Europe was strong as organizations opened up to the benefits of hot-desking and greater internal mobility.

Source: Datamonitor Research

D-Link EMEA grew sales to US$343 million, representing 30.12% of global revenue for 2005.

D-Link EMEA consists of business units throughout the region, with the most exciting growth coming from Eastern Europe, particularly Russia, where strong economic expansion and infrastructure development is fueling demand for high-margin switches, ADSL modems, and WLAN access points.

D-Link EMEA also saw stable and consistent growth in Ethernet networking in 2005, with switch sales accounting for 23% of revenue.

As both wired and wireless networking continued to take hold, especially in Eastern Europe, the need for network security also grew. In order to meet these demands, D-Link continues to work closely with local channel partners, providing training and support, so that they will have the expertise to keep pace with market forces and changing technologies. D-link and its partners are, therefore, well-armed to continue meeting present demand for WLAN and Broadband products, as Broadband subscriptions continue to grow.

For our mature markets, D-Link will concentrate on developing its switch and security solutions as well as fueling demand for Digital Home products.

"D-Link's brand strength in the consumer space affords it a level of visibility that will open doors in its quest to find mid-market focused European VARs. The centralized European structure that D-link has built in the past 18 months at least gives it a solid base to drive channel growth, which can't necessarily be said of some of its struggling rivals."

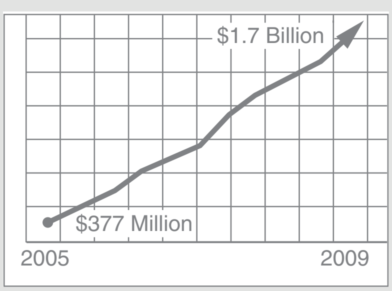
- Channel Business Magazine November 2005

SUPPLIER EXCELLENCE AWARDS 2005 WINNER

Supplier Excellence Award 2005

For the second year running D-Link has won the Best Networking Manufacturer 2005 at the Computer Trade Shopper Supplier Excellence Awards.

Western European Security Applications Market Forecast

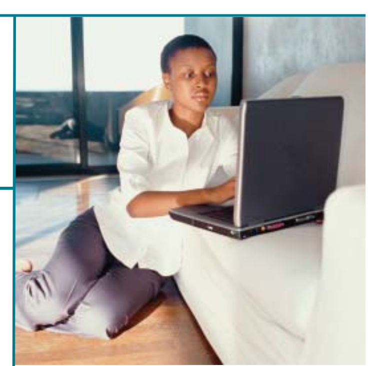


In the wake of increased information threats and rising instances of intrusion and hacking, the worldwide market for Network Security Appliance & Software is expected to grow from US$377 million in 2005 to US$1.7 billion by 2009.

Source: Infonetics Research

D-Link business-class networking provides end-to-end solutions, leveling the playing field for small - to medium - sized businesses.

D-Link puts the digital home within everyone's reach for productivity and entertainment.



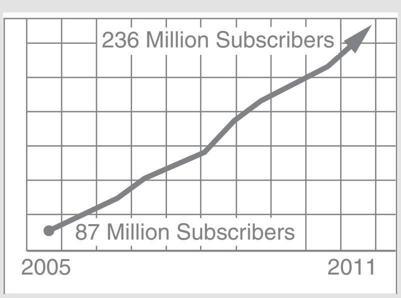
D-Link EMEA aggressively worked to further cement our position as the dominant networking and connectivity equipment supplier in the region.

Asia Pacific & Other Areas

> *"D-Link has shown the strength and flexibility to provide products to meet the ever-changing needs of both business and consumers."*
>
> *- Aaron Vance, Senior Analyst*
> *Synergy Research Group*

D-Link Selected as the 2005 Most Admired Brand in Wireless LAN from IT 168.

APAC Broadband Access Market Forecast



The total Asia/Pacific broadband access service market is envisaged to reach a subscriber population of 236 million by 2011, up from 87 million in 2005, representing a CAGR of 18.2%.

Source: In-Stat

The telecom equipment market in the Asia Pacific region is growing at high-speed. Collectively, equipment vendors realized US$43 billion from sales of telecom equipment in 2005 and expect continuing market growth to US$47 billion by 2007.

Source: In-Stat

D-Link saw revenues from APAC and Other Areas grow by 33% to US$439 million, or 38.78% of total revenues for the year, representing D-Link's fastest growing market in 2005.

Markets in Asia Pacific, Latin America, Australia, New Zealand and surrounding regions continued to lead the company in growth. Vast potential remains untapped in Korea and Japan, where we have only recently secured a presence. With expanding sales channels and growing presence across this fragmented market, D-Link's advances in these regions has been a direct result of the close working relationships we maintain with our local partners. These solid relationships with key distributors and sales networks have allowed us to tap into leading companies and key government agencies that provide communications services in these developing areas.

Economic development in these countries is also bringing a widespread adoption of Broadband, making it more of a standard than a luxury. This translated into strong demand for our telecommunications products in this region in 2005.

As these trends in both the private industry and government sectors continue in these emerging nations, D-Link is well-positioned to capitalize on opportunities in these expanding markets. We are proud of the successes achieved in these regions thus far and excited about the high potential that lies ahead. We are equally aware that we can only realize this potential by continued introduction of innovative, new products to the market coupled with close cooperation with, and strong support for, our local partners.

D-Link is positioned to gain significant WLAN marketshare in APAC.

D-Link has the product mix to support demand for faster Broadband access throughout APAC.

D-Link enjoys continued market leadership in Asia Pacific, our fastest growing region.

Consumers & The Digital Home

Digital Home 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 standards-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 with a home entertainment system.

Voice & IP Communications
D-Link VoIP products are sold through retail, partners and service providers, delivering 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.

Internet Security
D-Link's Internet security products offer complete all-in-one security including network protection, firewall protection, virus protection, spyware protection, identity protection, pop-up blocker, SPAM blocker, and parental control.

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

The number of Broadband subscribers grew to 125.5 million worldwide, in 2005, a 27% increase from 2004, and is forecast to increase 96%, by 2009, when it will reach 245.4 million.

Source: Infonetics Research

D-Link puts the Digital Home within the reach of the average consumer for productivity and entertainment, through innovative yet affordably priced products. Indeed, D-Link is a worldwide leader and award-winning designer, developer and manufacturer of networking and connectivity solutions for the consumer.

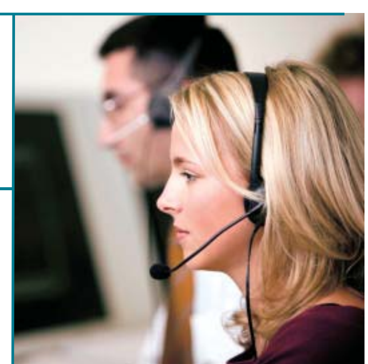
D-Link rides the cutting-edge of networking technology with next-generation networking solutions that include storage, multimedia, gaming, VoIP and security solutions. The future promises the ability to connect all networking devices for seamless interoperability and anytime, anywhere access. Our advanced communications products provide the ability to stream data wirelessly throughout one's home and to control various devices remotely.

The interactive home is the next step on the evolution of the Digital Home concept. It is important for technology to be within reach of all consumers, both logistically and economically. D-Link helped pioneer products like digital media players, IP-based remote security cameras and video conferencing for consumers, and will continue to develop networked automation solutions that enhance the life of a digital home consumer.

Because of our global reputation for technological innovation, D-Link is a welcome partner for other companies working to provide content and services to consumers in the Digital Home. In 2005, D-Link strengthened its relationships with such partners as Microsoft®, Intel® and Yahoo®, while aggressively creating new partnerships with emerging players in the technology sector.

D-Link wireless networking allows consumers access to high-speed Internet anywhere in their homes.

Education before and after the sale are hallmarks of D-Link's commitment to customer service.



D-Link continues to pioneer digital home solutions. We design and manufacture products that provide seamless interoperability for connecting peripherals to a home network for easy access to data, music and entertainment throughout your home, anytime, anywhere.

Business Class Solutions

The worldwide Ethernet switch market will continue to show strong results over the next several years. Total Layer 2/3/4-7 switch manufacturers' revenue will rise from $14.9 billion in 2005 to $17.7 billion in 2009.

Source: In-Stat

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

Increased network performance, scalability and decreased costs over time are key considerations for information technology (IT) managers and decision makers. D-Link provides dynamic solutions at reasonable costs, making them accessible to company budgets of all levels.

D-Link is the number one global provider of networking and connectivity solutions to SMBs, with powerful solutions for deploying or upgrading to Gigabit Ethernet throughout an entire network, including server farms, ISP backbones and campus-wide connectivity.

As a true designer and manufacturer, D-Link engineers are constantly developing next-generation business solutions that are priced within the reach of SMBs, in areas such as enterprise-class switches, security, storage and wireless switching.

2005 saw D-Link build upon its award-winning line of xStack switches with the introduction of the 3000-Series. This product line integrates wired and wireless switching into a single device, with powerful wireless security, easy deployment, the ability to detect rogue access points and centralized management for all compatible WLAN components. In addition, these switches provide secure, seamless roaming between access points to ensure clear, uninterrupted in 2005 data and voice communication throughout a wireless network infrastructure.

The D-Link xStack line of products expanded in 2005 with two iSCSI-based Storage Area Network (SAN) Arrays. Each device is designed to provide a reliable network data storage solution for customers in entry-level and SMB segments. They can easily be implemented as near-line storage to supplement an organization's primary IP network storage solution , or as a basic backup and recovery device. This evolutionary advancement in performance is a testament to the tightly integrated xStack Storage architecture and is a sharp contrast to the discrete implementation of competing products.

D-Link is always conscious of the fact that strong partners are critical to getting these exciting new products into the hands of consumers and, thus, to our success. We offer attractive incentives and programs to our valued partners and resellers, designed to ensure that the needs of the end users are being met and that they then become repeat customers.

Business Class Product Solutions

Network Switching
xStack™ switching includes a multi-layer stackable Gigabit switch solution with integrated 10-Gigabit support, providing up to 1.4 Terabits of switching capacity in a single stack.

Network Security
The D-Link NetDefend® family of products effectively protect networks, corporate resources and data communication from outside intrusion.

Network Storage
D-Link's award-winning xStack® Storage line is a iSCSI solution providing a high-performance enterprise-class storage for business.

Wireless Networking
D-Link *Air*Premier® business class wireless components provide flexible and affordable solutions to expand existing business networks quickly and securely.

Network IP Telephony
The xStack® IP Telephony communication solution is an expandable phone system providing advanced functionality for any small business with multiple extensions, in a single location or throughout a campus environment.

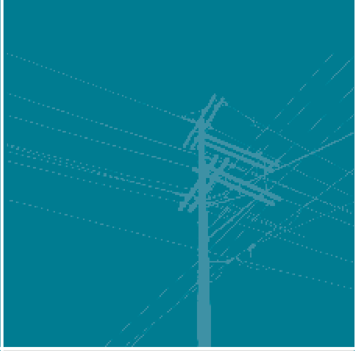
IP Surveillance
D-Link's full-featured camera surveillance systems provide remote video and audio monitoring, recording and pan/tilt/zoom over the Internet for business.

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 the worldwide leader in networking and connectivity solutions for small - to medium - sized businesses.

xStack switching, storage and IP telephony products keep D-Link at the forefront of business technology convergence.

D-Link products cover the gamut of networking and connectivity with complete end-to-end solutions for small - to medium - sized businesses looking for a robust, standards-based infrastructure solution.



Broadband

The worldwide broadband CPE market totaled $4.9 billion in 2005, up 123% from 2004, and units grew 64% to 115 million as enterprises increasingly turned to broadband for their network connectivity needs and service providers enticed customers with voice, data, and video service bundles. Annual revenue is forecast to grow to $6.5 billion by 2009.

Source: Infonetics Research

D-Link designs and manufactures technologically-advanced solutions for Broadband providers and the end users they serve.

Broadband is becoming so mainstream as to almost yield the term itself obsolete. With the widespread demand for high-speed communication, D-Link is prepared to help consumers and end users take advantage of Broadband in the home and office. This expansive demand for high-speed communications fostered the development of a range of new products and opened up new market segments for both home and office.

D-Link also develops and builds the equipment service providers need to provide high-speed communications reliably to their customers. Much more than just opening a tap of data for users, Broadband service providers market business applications, such as virtual private networks, network storage and integrated voice. VoIP is now coming into its own as an economical way to take advantage of network convergence, prompting business users to layer voice services on top of their IP VPN circuits.

The breadth of products D-Link offers allows service providers to design systems tailor-made to their unique needs. This diversity and strength makes it possible for D-Link to provide innovative solutions today that will adapt to the needs of emerging markets tomorrow and beyond.

D-Link enjoys a worldwide reputation for dependable Broadband solutions, providing quality and value to service providers in both developed and emerging markets. The explosive growth of Broadband in Eastern Europe is an unmistakable example of the demand for, and the importance of, this technology. In addition, D-Link turns the demand for high-speed communications into a reality for millions around the world by providing high-quality, reliable home and small business networking solutions at affordable prices.

D-Link Broadband Products

Broadband Modems
D-Link modems are standards-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, delivering affordable calling options over an Internet connection.

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

Video Conferencing
D-Link videophones represent another value-added solution for service providers selling to the home consumer.

Internet Cameras
D-Link SecuriCam® Internet cameras represent another value-added 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 drives Broadband development worldwide by providing service providers with the equipment they need at prices they can afford.

No longer a luxury, Broadband Internet access has changed the way we work, study and relax.

With the help of high-quality, affordable Broadband access solutions and digital home/office connectivity devices, D-Link's Broadband team works to provide solutions that cater to the specific needs of DSL and cable Broadband networks.

Product Design, Development & Delivery

D-Link has succeeded through visionary leadership: build innovative products, price them within reach of the average consumer/end user and create a distribution network to make them readily accessible.

D-Link does not design "me-too products." Rather, from the beginning, D-Link has been a technology innovator. That is, we have not merely taken advantage of an emerging wireless networking market—we helped to create it.

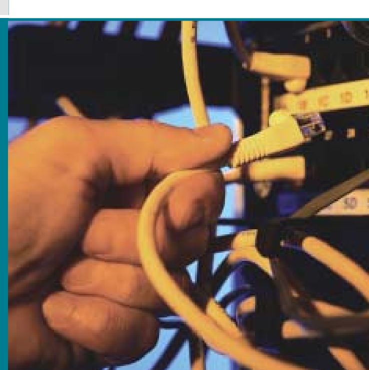
D-Link began with a focus on innovative products for enterprise, then went on to help pioneer the home and SMB networking and connectivity markets. To be sure, the company has a history of innovation, constantly looking for ways to make communications and connectivity faster, easier and more affordable. From enterprise-class switches that match up feature-for-feature with competing products that sometimes cost considerably more, to the creation of affordable, high-speed home networking, to media players that stream content from your computer to your entertainment center, D-Link is committed to innovation and value.

Continuing to meet the needs of consumers and continuing to innovate are things that cannot be achieved in a vacuum. D-Link maintains close ties with its international partners to make sure they are supplied with all of the knowledge, expertise, and support that they need to succeed in their markets. We also make sure that we are current with market intelligence about what consumers want, what prices they are prepared to pay and where the markets are heading. With this important knowledge in hand, D-Link can continue to innovate, enhance its brand equity, expand new and existing markets and continue "Building Networks for People."

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

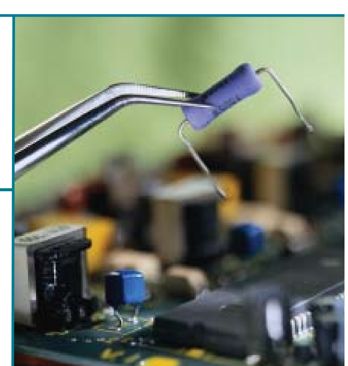
The D-Link manufacturing plant in Goa, India is a modern facility tailored to the rapid manufacture of complex networking products.

Dongguan, China is home to D-Link's large 426,000-square-foot high-tech manufacturing facility.



D-Link's ability to design sophisticated new technologies and successfully mass produce these products has made the company a global leader in networking solutions.

D-Link's engineers continue to pioneer the convergence of new technologies into small, user-friendly products.



D-Link's unique advantage of manufacturing our own products is complemented by complete and experienced channel networks, worldwide resources and experienced people in each area of our business.

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Board of Directors

Ken Kao
Chairman & CEO

J.C. Liao
Director & President

A.P. Chen
Director & CFO

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, 2005 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, 2005 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 $1,761,366 thousand and $1,415,984 thousand as of December 31, 2005 and 2004, respectively, and their total revenue was $4,112,339 thousand and $3,018,760 thousand for the years ended December 31, 2005 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 Republic of China generally accepted auditing standards and the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants. 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, 2005 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.

As discussed in Notes 3 and 4(6) to the financial statements, D-Link Corporation and subsidiaries have adopted Republic of China Statement of Financial Accounting Standards No. 35 "Accounting for Asset Impairment" starting from January 1, 2005, and recognized impairment loss amounting to $84,500 thousand for the year ended December 31, 2005. Net income and net income per share decreased by $84,500 thousand and $0.14 New Taiwan dollars, respectively.

Taipei, Taiwan (the Republic of China)
April 14, 2006

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 financial statements are those generally accepted and applied in the Republic of China.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2005 and 2004
(in thousands of New Taiwan dollars)

Assets	2005	2004
Current assets:		
Cash and cash equivalents (note 4(a))	$ 2,231,228	3,826,361
Short-term investments (note 4(b))	393,600	1,364,172
Notes and accounts receivable, net (note 4(c))	6,793,764	5,643,083
Receivables from related parties (note 5)	159,817	148,327
Other financial assets - current (note 4(n))	429,711	138,423
Inventories (note 4(d))	6,798,202	6,042,779
Other current assets (notes 4(m) and 5)	765,678	855,923
Restricted assets (note 6)	194,540	1,595,013
Total current assets	17,766,540	19,614,081
Long-term investments (notes 4(e)):		
Long-term investments under equity method	1,540,853	1,476,267
Long-term investments under cost method	675,624	675,006
Total long-term investments	2,216,477	2,151,273
Other financial assets - noncurrent (note 6)	78,178	40,589
Property, plant and equipment (note 4(f)):		
Land	569,925	38,472
Buildings and improvements	2,072,674	1,729,264
Machinery and equipment	1,196,289	1,452,677
Other equipment	593,597	586,234
	4,432,485	3,806,647
Less: accumulated depreciation	(1,189,593)	(1,498,797)
Construction in progress and prepayment for purchases of machinery and equipment	96,801	21,551
Net property, plant and equipment	3,339,693	2,329,401
Other assets:		
Assets held for lease and idle assets (notes 3 and 4(f))	250,212	1,222,722
Deferred expenses and others (note 4(j))	487,795	517,461
Total other assets	738,007	1,740,183
Total assets	$ 24,138,895	25,875,527

Liabilities and Stockholders' Equity	2005	2004
Current liabilities:		
Short-term borrowings (note 4(g))	$ 921,647	4,642,867
Notes and accounts payable	3,742,735	3,293,077
Payables to related parties (note 5)	1,599,083	1,435,409
Income tax payable	507,614	361,405
Accrued expenses	2,382,304	1,567,077
Current portion of long-term debts (notes 4(h) and (i))	5,938	235,533
Other current liabilities	638,303	725,070
Total current liabilities	9,797,624	12,260,438
Long-term lease obligations payable (note 4i)	11,049	21,744
Other liabilities:		
Deferred income tax liability and others (notes 4(m) and 5)	262,770	244,292
Total liabilities	10,071,443	12,526,474
Stockholders' equity (notes 4(h) and (k))**:**		
Common stock	6,091,618	5,475,211
Capital surplus	2,435,023	2,894,829
Retained earnings:		
Legal reserve	1,007,789	747,696
Unappropriated earnings	2,943,650	2,929,260
	3,951,439	3,676,956
Other adjustments to stockholders' equity:		
Unrealized loss on market value decline of long-term equity investments	(56,617)	(86,840)
Accumulated translation adjustment	136,533	150,824
Treasury stock	(448,716)	(448,716)
	(368,800)	(384,732)
Total parent company stockholders' equity	12,109,280	11,662,264
Minority interest	1,958,172	1,686,789
Total stockholders' equity	14,067,452	13,349,053
Commitments and contingencies (note 7)		
Total liabilities and stockholders' equity	$ 24,138,895	25,875,527

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2005 and 2004
(in thousands of New Taiwan dollars, except for net income per common share)

	2005	2004
Sales (note 5)	$ 36,380,989	32,245,237
Cost of goods sold (notes 5 and 10)	25,050,017	21,437,524
Gross profit	11,330,972	10,807,713
Operating expenses (notes 5 and 10):		
Selling	6,909,231	6,257,406
Administrative	705,166	664,930
Research and development	1,169,779	1,251,542
	8,784,176	8,173,878
Operating income	2,546,796	2,633,835
Non-operating income:		
Interest income	60,384	86,277
Investment income recognized under equity method, net (note 4(e))	211,399	140,438
Gain on disposal of investments (note 4(e))	263,225	1,056,218
Exchange gain, net	39,308	-
Gain on market price recovery of short-term investment	11,982	-
Rental income (note 5)	-	30,105
Gain on reversal of bad debts	-	50,149
Other income (note 5)	173,981	81,914
	760,279	1,445,101
Non-operating expenses:		
Interest expense (note 4(h))	95,820	193,136
Investment loss recognized under cost method (note 4(e))	5,460	132,495
Loss on disposal of property, plant and equipment	44,838	-
Exchange loss, net	-	128,411
Loss on inventory obsolescence and devaluation	356,349	374,366
Loss on idle assets' valuation loss (note 4(f))	-	35,268
Loss on impairments of assets (note 4(f))	84,500	-
Other loss	59,548	-
	646,515	863,676
Income before income taxes	2,660,560	3,215,260
Income tax expenses (note 4(m))	642,406	398,680
Consolidated net income	2,018,154	2,816,580
Net income attributed to:		
Parent company stockholders	**1,635,825**	**2,600,935**
Minority interest	**382,329**	**215,645**
	2,018,154	**2,816,580**

	2005 Before taxes	2005 After taxes	2004 Before taxes	2004 After taxes
Net income per common share (note 4(l))				
Basic earnings per common share	$ 3.82	2.74	5.56	4.82
Basic earnings per common share－retroactive			5.00	4.34
Diluted earnings per common share			5.54	4.80
Diluted earnings per common share－retroactive			4.98	4.32

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2005 and 2004
(in thousands of New Taiwan dollars)

			Retained Earnings						
	Common stock	**Capital surplus**	**Legal reserve**	**Unappropriated earnings**	**Unrealized loss on market value decline of long-term investment**	**Accumulated translation adjustment**	**Treasury stock**	**Minority interest**	**Total stockholders' equity**
Balance at January 1, 2004	$ 5,137,771	2,940,261	610,282	1,724,066	-	197,719	(466,671)	71,265	10,214,693
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)	-	-	-	-	-	-	-
Effect of disposal of long-term equity investments on capital surplus	-	(49,854)	-	-	-	-	-	-	(49,854)
Convertible bonds applying for conversion	122,716	229,953	-	-	-	-	-	-	352,669
Effect of disproportionate participation in investee's capital increase	-	103,204	-	(7,789)	-	-	-	-	95,415
Unrealized loss on market value decline of long-term equity investment	-	-	-	-	(86,840)	-	-	-	(86,840)
Net income for 2004	-	-	-	2,600,935	-	-	-	215,645	2,816,580
Accumulated translation adjustment	-	-	-	-	-	(46,895)	-	-	(46,895)
Purchase of treasury stock	-	-	-	-	-	-	(506,820)	-	(506,820)
Cancellation of treasury stock	(138,760)	(75,251)	-	(310,764)	-	-	524,775	-	-
Net changes in minority interest	-	-	-	-	-	-	-	1,399,879	1,399,879
Balance at December 31, 2004	5,475,211	2,894,829	747,696	2,929,260	(86,840)	150,824	(448,716)	1,686,789	13,349,053
Appropriation of earnings:									
Legal reserve	-	-	260,093	(260,093)	-	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	(46,817)	-	-	-	-	(46,817)
Stock and cash dividends	107,339	-	-	(1,180,724)	-	-	-	-	(1,073,385)
Employees' bonuses	68,000	-	-	(117,042)	-	-	-	-	(49,042)
Capital surplus transferred to common stock	429,354	(429,354)	-	-	-	-	-	-	-
Convertible bonds applying for conversion	11,714	20,682	-	-	-	-	-	-	32,396
Effect of disproportionate participation in investee's capital increase	-	(51,134)	-	(16,759)	-	-	-	66,938	(955)
Reversal for unrealized loss on market value decline of long-term equity investment	-	-	-	-	30,223	-	-	-	30,223
Net income for 2005	-	-	-	1,635,825	-	-	-	382,329	2,018,154
Accumulated translation adjustment	-	-	-	-	-	(14,291)	-	15,739	1,448
Net changes in minority interest	-	-	-	-	-	-	-	(193,623)	(193,623)
Balance at December 31, 2005	**$ 6,091,618**	**2,435,023**	**1,007,789**	**2,943,650**	**(56,617)**	**136,533**	**(448,716)**	**1,958,172**	**14,067,452**

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2005 and 2004
(in thousands of New Taiwan dollars)

	2005	2004
Cash flows from operating activities:		
Net income	$ 1,635,825	2,600,935
Adjustments to reconcile net income to net cash provided by operating activities:		
Net income attributed to minority interest	382,329	215,645
Depreciation and amortization	631,088	586,008
Provision for inventory obsolescence and devaluation loss, allowance for doubtful accounts, and accrued pension liabilities	243,677	445,505
Investment income recognized under equity method	(211,399)	(140,438)
Investment loss recognized under cost method	5,460	132,495
Cash dividends received	66,166	103,744
Loss on lease and idle assets' valuation and impairment	84,500	35,268
Gain on disposal of long-term investments	(232,890)	(71,483)
Provision for early redemption of convertible bonds	-	87,806
Other loss with no cash impacts	36,354	84,871
Increase in operation-related current assets	(1,995,850)	(2,511,491)
Increase (decrease) in operation-related current liabilities	1,390,859	(223,170)
Net cash provided by operating activities	2,036,119	1,345,695
Cash flows from investing activities:		
Decrease in short-term investments	648,709	2,135,278
Increase in long-term equity investments	(150,249)	(239,224)
Proceeds from disposal of long-term equity investments	445,538	196,676
Proceeds from disposal of property and equipment	29,207	174,400
Additions to property, plant and equipment, and lease assets	(639,381)	(1,528,797)
Decrease (increase) in restricted assets	1,400,473	(700,257)
Increase in deferred expenses and other assets	(166,524)	(254,020)
Net cash provided by (used in) investing activities	1,567,773	(215,944)
Cash flows from financing activities:		
Increase (decrease) in minority interest	(193,623)	1,464,874
Decrease in advance receipts for capital increase from minority interest	-	(435,240)
Increase (decrease) in short-term borrowings	(3,721,220)	2,055,269
Decrease in long-term debts	(194,720)	(403,656)
Purchase of treasury stock	-	(506,820)
Redemption of convertible bonds	-	(1,700,982)
Payments of cash dividends, directors' and supervisors' remuneration, and employees' bonuses	(1,169,244)	(839,774)
Increase in guarantee deposits received and others	255	18,134
Net cash used in financing activities	(5,278,552)	(348,195)
Effect of exchange rate changes on cash and cash equivalents	70,859	(29,945)
Effect of initial consolidation of subsidiaries	8,668	-
Net increase (decrease) in cash and cash equivalents	(1,595,133)	751,611
Cash and cash equivalents at beginning of year	3,826,361	3,074,750
Cash and cash equivalents at end of year	$ 2,231,228	3,826,361
Supplemental disclosures of cash flow information:		
Cash payments of interest (excluding capitalized interest)	$ 68,023	90,245
Cash payments of income tax	$ 377,923	173,294
Supplementary disclosures of noncash investing and financing activities:		
Convertible bonds applying for conversion	$ 32,520	352,669
Current portion of long-term debts	$ 5,938	235,533

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2005 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 local area computer network systems, wireless local area computer networks ("LANs"), 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 has focused on self-branding business since January 1, 2004.

As of December 31, 2005, D-Link and subsidiaries had about 6,677 employees.

2. **Summary of Significant Accounting Policies**

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

(a) Status of consolidation

(1) For the purpose of preparing the annual and semi-annual 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:

Name of Investee	Name of Investor	Percentage of the direct and indirect ownership by the Company at December 31 2005	2004
1. D-Link Systems, Inc. ("DSI")	the Company	94.30	94.30
2. D-Link Canada Inc. ("DCI")	the Company	100.00	100.00
3. D-Link Holding Company Ltd. ("DHCL")	the Company	100.00	100.00
4. Yeo-Chia Investment Ltd. ("YCI")	the Company	100.00	100.00

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of Investee	Name of Investor	Percentage of the direct and indirect ownership by the Company at December 31 2005	2004
5. Yeo-Mao Investment Ltd. (“YMI”)	the Company	100.00	100.00
6. D-Link Technology Venture Capital Investment Inc. (“DTVCI)	the Company	100.00	100.00
7. D-Link China Inc. (“DC”)	the Company and DHCL	100.00	100.00
8. D-Link International Pte. Ltd. (“DLI”)	the Company and DHCL	100.00	100.00
9. D-Link Australia Pty Ltd. (“DAPL”)	the Company and DLI	100.00	100.00
10. D-Link Taiwan Inc. (“DTI”)	the Company, Yeo-Chia, Yeo-Mao and Yeo-Tai	100.00	100.00
11. Alpha Networks Inc. (“Alpha”)	the Company, Yeo-Chia, Yeo-Mao and Yeo-Tai	58.75	59.70
12. D-Link (Holding) Ltd. (“DHL”) and subsidiaries	DHCL	100.00	100.00
13. D-Link (Europe) Ltd. (“DEL”)	DHCL	100.00	100.00
14. D-Link Deutschland (“DD”) and subsidiaries	DHCL	100.00	100.00
15. D-Link Shang-Hai Co., Ltd. (“DSCL”)	DHCL	100.00	100.00
16. D-Link Mauritius (“DM”)	DHCL	100.00	100.00
17. D-Link Latin America (“DLA”)	DHCL	100.00	100.00
18. D-Link Holding Brazil (“DB”)	DHCL	100.00	100.00
19. OOO D-Link Russia (“DR”)	DHCL	100.00	100.00
20. D-Link Hong Kong (“DHK”)	DHCL	100.00	100.00
21. D-Link Japan K.K. (“DJ”)	DHCL	100.00	-
22. D-Link Electronics (Wujiang) Co., Ltd. (“DECL”)	DC	100.00	100.00
23. D-Link Middle East FZCO (“DMEFZCO”)	DLI	50.00	50.00
24. D-Link Sudamerica S.A. (“DSA”)	DLI	100.00	100.00
25. Xtramus Technology Corporation (“XTC”)	Yeo-Chia and Yeo-Tai	78.20	78.20

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of Investee	Name of Investor	Percentage of the direct and indirect ownership by the Company at December 31 2005	2004
26. D-Link Denmark A.S. (“DDAS”)	DEL	100.00	100.00
27. D-Link France (“DF”)	DEL	100.00	100.00
28. D-Link Scandinavia AB (“DSAB”)	DEL	100.00	100.00
29. D-Link Iberia SL (“DI”)	DEL	100.00	100.00
30. D-Link Mediterraneo SRL (“DMSRL”)	DEL	100.00	100.00
31. D-Link Netherlands (“DN”)	DEL	100.00	100.00
32. D-Link Electronics Equipment (Shang-Hai) Co., Ltd. (“DEECL”)	DSCL	100.00	100.00
33. Netpro International Trading (Shanghai) Co., Ltd.	DSCL	100.00	100.00
34. Alpha Solutions Co., Ltd. (“Alpha Solutions”)	Alpha	100.00	100.00
35. Redsonic Technology Co., Ltd.	Alpha	100.00	100.00
36. Des Voeux Ltd. (“DVL”)	Alpha	100.00	100.00
37. Alpha Holding Inc. (“AHI”)	Alpha	100.00	100.00
38. D-Link Asia Investment Pte. Ltd. (“DAIPL”)	AHI	100.00	100.00
39. D-Link Dongguan Ltd. (“DDL”)	DAIPL	100.00	100.00
40. Tong Ying Trading (Shenzhen) Co., Ltd.	AHI	100.00	100.00
41. Alpha Networks (Chengdu) Co., Ltd.	AHI	100.00	100.00
42. Alpha Investment Pte. Ltd. (“AIPL”)	AHI	100.00	-
43. Alpha Network Inc.	DVL	100.00	100.00

(2) The additions of subsidiaries in the 2005 consolidated financial statements are shown below:

In conformity with the revised ROC Statement of Financial Accounting Standards (SFAS) No. 7 “Consolidated Financial Statements” effective from January 2005, the additional subsidiaries consolidated in the Company’s consolidated financial statements are as follows:

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of Investee	Name of Investor	Percentage of the direct and indirect ownership by the Company at December 31 2005	2004
1. OOO D-Link Russia ("DR")	DHCL	100.00	100.00
2. D-Link Hong Kong ("DHK")	DHCL	100.00	100.00
3. Netpro International Trading (Shanghai) Co., Ltd.	DSCL	100.00	100.00

The total assets and total revenue of each above subsidiary were less than 10% of D-Link's respective assets and revenues, and therefore the subsidiaries were not consolidated in the accompanying consolidated financial statements as of and for the year ended December 31, 2004. In 2005, the revised ROC SFAS No. 5 "Long-term Investment Accounting Principles" and No. 7 "Consolidated Financial Statements" were applied. This revised standard requires consolidations of all subsidiaries in which the Company has a controlling interest regardless of the size of the subsidiary in comparison to the parent company. In compliance with the revised ROC SFAS No. 7, the 2004 consolidated financial statements were not retroactively restated for the change in consolidated entities, and the impact on the 2004 consolidated financial statements is not significant.

The Company invested in D-Link Japan K.K. in 2005. The subsidiary is included in the consolidated financial statements for the first time.

Alpha Networks Inc. invested in Alpha Investment Pte. Ltd. in 2005. The subsidiary is included in the consolidated financial statements for the first time.

(b) 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 or is able to exercise control over the subsidiary's operations and financial policies. 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 over 5 to 10 years using the straight-line method.

(Continued)

(c) 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 an accumulated translation adjustment, a separate component of stockholders' equity.

(d) Distinction between current and non-current items

Assets to be realized within 12 months subsequent to the balance sheet date or to be available for sale or for consumption during the normal course of an operating cycle are classified as current assets. Liabilities to be redeemed within 12 months subsequent to the balance sheet date, and obligations incurred but to be redeemed during the normal course of an operating cycle are classified as current liabilities. Items not classified as current assets (liabilities) are classified as non-current assets (liabilities).

(e) 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.

(f) 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, 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.

(g) Allowance for doubtful accounts and accrued warranty liability for maintenance

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

The warranty liability for maintenance is accrued based on historical experience, sales revenue, and the warranty period of products.

(Continued)

(h) Inventories

Inventories are stated at the lower of cost or market value. 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.

(i) 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 over 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 their 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 investment accounts.

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.

(j) 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. 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. 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.

(Continued)

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: 2~10 years.

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.

(k) Deferred expenses

The purchase costs of software and mold development costs 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.

(l) 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.

(m) Financial derivatives

(1) 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

(Continued)

unrealized gains and losses on these contracts resulting from actual settlement or balance sheet date translation are charged or credited to current operations.

(2) Foreign currency option contracts

Foreign currency option contracts are not for trading purposes. For those contracts entered into to hedge the risk related to 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 into to hedge such risk but do not meet the relevant criteria are marked to market on the balance sheet date. The differences between the market value and book value are charged or credited to current operations.

(n) Retirement plan

D-Link, DTI and Alpha have established employee noncontributory defined benefit 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 the number of service years 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.

Effective July 1, 2005, D-Link, DTI and Alpha became subject to the “Labor Pension Act” (the “Act”), which prescribes a defined contribution pension scheme for those employees who were covered by the Labor Standards Law prior to the enforcement of the Act but elect to be subject to the pension mechanism under the Act and for those employees who are employed after the enforcement of the Act. In accordance with the Act, D-Link, DTI and Alpha contribute monthly to the Labor Pension Fund for the employee individual pension fund accounts at the minimum rate of 6% of the employee's monthly wages. However, D-Link, DTI and Alpha have not yet revised their pension plans to reflect the Act, thus any matter that is not covered by their pension plans is transacted in accordance with the Act.

In accordance with the Labor Standards Law, D-Link, DTI and Alpha contribute 2% of wages to a pension fund maintained with the Central Trust of China on a monthly basis. Retirement benefits are paid firstly from the pension fund. After transferring the ODM/OEM operations and employees to Alpha, D-Link suspended its contribution to the pension fund until October 2006.

Under the defined benefit pension plan, 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. YMI, YCI, DTVIC and DHCL did not recognize pension expense since they have no employees.

(Continued)

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.

For their defined contribution pension plans, D-Link and its subsidiaries contribute to the Labor Pension Fund at the rate of 6% of each employee's monthly wages and recognize the contribution as current pension expense.

(o) 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.

(p) 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.

Income tax of D-Link and its subsidiaries is based on the tax laws of various countries. Income tax is declared on an individual company basis. Income tax expense of D-Link and its subsidiaries is the sum of income tax expense of the companies included in the consolidation.

(Continued)

(q) 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 appl,ied 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.

(r) 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.

(s) Impairment of assets

Effective January 1, 2005, D-Link and its subsidiaries adopted Statement of Financial Accounting Standards No. 35 “Accounting for Asset Impairment”. According to SFAS 35, D-Link and its subsidiaries assess at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, D-Link and its subsidiaries estimate the recoverable amount of the asset. D-Link and its subsidiaries recognize impairment loss for an asset whose carrying value is higher than the recoverable amount.

D-Link and its subsidiaries reverse impairment losses recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

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3. Reasons for and effect of the accounting changes

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.

D-Link and its subsidiaries have adopted ROC SFAS No. 35 "Accounting for Asset Impairment" starting from January 1, 2005. D-Link recognized impairment losses amounting to $84,500 thousand, including $36,000 thousand impairment loss on lease assets and $48,500 thousand impairment loss on idle assets. Net income and net income per share decreased by $84,500 thousand and 0.14 New Taiwan dollars, respectively, for the year ended December 31, 2005.

4. Significant Account Disclosures

(a) Cash and Cash Equivalents

		December31,	
		2005	**2004**
Cash on hand; checking and savings accounts	$	979,334	1,722,488
Time deposits		971,885	2,089,870
Bonds with repurchase agreements		280,009	14,003
	$	**2,231,228**	**3,826,361**

(b) Short-term Investments

		December31,	
		2005	**2004**
Publicly listed stocks	$	-	14,684
Mutual funds		393,600	1,361,470
		393,600	1,376,154
Less: allowance for decline in market value		-	(11,982)
	$	**393,600**	**1,364,172**
Market value	**$**	**395,095**	**1,366,218**

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Notes and Accounts Receivable

	December31, 2005	December31, 2004
Notes receivable	$ 78,758	51,536
Accounts receivable	6,872,242	5,719,909
	6,951,000	5,771,445
Less: allowance for doubtful accounts	(157,236)	(128,362)
	$ 6,793,764	**5,643,083**

(d) Inventories

	December31, 2005	December31, 2004
Finished goods	$ 5,772,632	5,150,566
Work in process	422,049	422,542
Raw materials	1,409,410	1,060,757
	7,604,091	6,633,865
Provision for obsolescence and devaluation	(805,889)	(591,086)
	$ 6,798,202	**6,042,779**
Insurance coverage on inventories	**$ 5,647,716**	**5,699,921**

(e) Long-term Investments

	December 31, 2005		December 31, 2004	
Investee	**Book value**	**Percentage of ownership**	**Book value**	**Percentage of ownership**
Equity method:				
D-Link India Ltd.(DIL)	$ 466,663	36	393,973	36
Cameo Communication, Inc. (CCI)	487,032	18	525,906	29
Bothhand Enterprise Inc. (BEI)	214,880	29	206,958	32
Cellvision System Inc. (CSI)	182,405	36	154,913	36
Quie Tek Corp. (QTC)	114,367	35	123,938	35
Others	75,506		70,579	
	1,540,853		1,476,267	
Lower-of-cost-or-market method:				
Abocom Systems, Inc. (ACS)	120,169	10	122,525	13
Dray Tek Corp.(DTC)	90,185	10	95,653	11
Lanner Electronics Inc.(LEI)	54,869	12	54,029	14
	265,223		272,207	

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31,			
	2005		2004	
Investee	Book value	Percentage of ownership	Book value	Percentage of ownership
Cost method:				
Z-Com, Inc. (Z-Com)	43,804	6	43,804	7
IC Plus Corp.	67,506	13	92,457	13
Azure Venture Partners I, L.P.	153,913	3	97,474	3
Purple	32,850	4	31,750	4
Wi Harper International Investment Limited	29,768	5	29,768	5
Others	82,560	-	107,546	-
	410,401		402,799	
	$ 2,216,477		2,151,273	

The total investment gains related to investment accounted for under the equity method were $211,399 thousand and $140,438 thousand for the years ended December 31, 2005 and 2004, respectively.

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.

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

In 2005, D-Link and subsidiaries sold a portion of their investment in CCI to other companies; the selling price was $281,725 thousand, and the disposal gain was $156,531 thousand.

In 2005, D-Link and subsidiaries found there was a permanent impairment in the value of their cost-method investment in Oneplus Inc. An investment loss equal to the carrying amount of $5,460 thousand was recognized to reflect such decline.

In 2004, D-Link and subsidiaries found there was a permanent impairment in the value of their cost-method investment in Triumph Technology Inc., Z-COM Inc., IC Plus Corporation, Max Edge Electronics Corporation, Wi Harper International Investment Limited, Best 3C, E2O, etc. An investment loss of $132,495 thousand was recognized to reflect such decline.

In 2004, ACS was valued using the lower-of-cost-or-market method, and unrealized loss on market value of long-term investment of $86,840 thousand under stockholders' equity was recognized. In 2005, a reversal for market price recovery of long-term investment amounting to

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$30,223 thousand was recognized. As of December 31, 2005, the balance of unrealized loss on market value decline of long-term investment under stockholders' equity was $56,617 thousand.

(f) 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 in June 2004. The plant was temporarily leased to Globe Sun Electronic Inc. and was recorded as assets held for lease as of December 31, 2004. In 2005, D-Link moved into the plant, and the plant was no longer leased to Globe Sun Electronic Inc., hence the plant was recorded as property, plant and equipment as of December 31, 2005.

In 2005, D-Link recognized impairment loss on assets held for lease amounting to $36,000 thousand based on the appraisal report. As of December 31, 2005 and 2004, the components of assets held for lease were as below:

		December 31, 2005	December 31, 2004
Cost			
Land	$	-	588,930
Building		230,544	617,920
		230,544	1,206,850
Less: Accumulated depreciation		(55,160)	(59,413)
Accumulated impairment loss		(36,000)	-
Net carrying amount	$	**139,384**	**1,147,437**

D-Link transferred certain plants and machinery and equipment not in use for operations to idle assets and recognized impairment loss and idle asset valuation loss based on the appraisal report or estimated net realizable value. As of December 31, 2005 and 2004, the components of idle assets were as below:

		December 31, 2005	December 31, 2004
Cost			
Land	$	57,477	-
Building		205,364	167,499
Machinery and equipment		5,741	5,741
Other equipment		1,804	2,600
		270,386	175,840
Accumulated depreciation			
Building		87,934	59,646
Machinery and equipment		4,121	3,680
Other equipment		1,557	1,961
		93,612	65,287
		176,774	110,553
Less: Allowance for losses on idle asset valuation		(17,446)	(35,268)
Accumulated impairment loss		(48,500)	-
Net carrying amount	$	**110,828**	**75,285**

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Effective January 1, 2005, D-Link adopted ROC SFAS No. 35 “Accounting for Asset Impairment” and recognized impairment loss amounting to $36,000 thousand for lease assets and $48,500 thousand for idle assets in 2005. As of December 31, 2005, the components of accumulated impairment loss were as below:

Items	Amount
Assets held for lease - building	$ 36,000
Idle assets - land	23,100
Idle assets - building	25,400
	$ 84,500

As of December 31, 2005 and 2004, insurance coverage of property, plant and equipment, assets held for lease, and idle assets amounted to $4,653,848 thousand and $2,854,328 thousand, respectively.

(g) Short-term Borrowings

	December 31, 2005		December 31, 2004	
	Amount	**Rate %**	**Amount**	**Rate %**
Usance letters of credit	$ -	-	1,285,263	1.68%~3.24%
Unsecured borrowings under lines of credit	491,891	0.57%~4.9%	70,000	1.25%~1.35%
Secured loans	429,756	2.52%~4.25%	3,287,604	0.79%~4.25%
	$ 921,647		4,642,867	
Unused credit facilities	$ 10,088,043		5,630,638	

Short-term borrowings were secured by time deposits. Please refer to Note 6.

(h) Bonds Payable

The components of bonds payable as of December 31, 2005 and 2004, are summarized below:

	December 31, 2005	December 31, 2004
Bonds payable	$ -	31,750
Less: current portion of bonds payable	-	(31,750)
	$ -	-

A summary of the major terms of the bonds payable outstanding as of December 31, 2005 and 2004, is as follows:

(Continued)

(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:

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).

(Continued)

- 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 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.
- Commitment: The bonds are guaranteed by Chiao Tung Bank. D-Link is 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 retired.

Interest expense on bonds payable in 2005 and 2004 amounted to $0 thousand and $103,706 thousand, respectively.

(Continued)

In 2005 and 2004, convertible bonds amounting to $32,520 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 $20,682 thousand and $229,953 thousand as of December 31, 2005 and 2004, respectively, and was included in capital surplus in the accompanying consolidated balance sheets.

(i) Long-term Debts and Lease Obligations Payable

(1) Long-term debts

Bank	Credit Line and Purpose	Period and Redemption		December 31, 2005	December 31, 2004
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	$	-	200,000
Less: current portion of long-term debts				-	(200,000)
			$	-	-
Rate				-	5.20%

D-Link agreed to maintain a current ratio (current assets/current liabilities) over 150% and a debt ratio (liabilities/equities) lower than 100% during the outstanding period of the long-term debt. These financial ratios should be determined based on D-Link's audited financial statements. If D-link could not keep the financial ratios, Chiao Tung Bank could change the rate to the prime loan rate. The long-term debts were fully repaid in March 2005.

(2) Lease obligations payable

		December 31, 2005	December 31, 2004
Lease obligations payable	$	16,987	25,527
Less: current portion of lease payable		(5,938)	(3,783)
	$	11,049	21,744

In accordance with the agreement, D-Link Systems issued some notes payable to the leasing company. The par value of the unpaid notes as of December 31, 2005, is summarized below:

Year ending December 31,		
2006	$	6,012
2007		3,778
2008		3,558
2009		3,558
2010 and after		2,965
	$	19,871

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(j) Retirement Plans

The following table sets forth the benefit obligation and accrued pension balance as of December 31, 2005 and 2004:

		December 31, 2005	2004
Benefit obligation:			
Nonvested benefit obligation	$	(276,644)	(205,138)
Vested benefit obligation		(5,776)	(20,850)
Accumulated benefit obligation		(282,420)	(225,988)
Projected future salary increase		(182,034)	(153,208)
Projected benefit obligation		(464,454)	(379,196)
Fair value of plan assets		413,789	393,031
Funded status		(50,665)	13,835
Unrecognized net transition obligation		236	9,696
Unrecognized net gain (loss)		60,197	14,815
Additional minimum pension liability		8,709	(325)
Prepaid pension cost (Accrued pension cost)	**$**	**18,477**	**38,021**

The components of D-Link's, DTI's and Alpha's net periodic pension cost for 2005 and 2004 are summarized as follows:

		2005	2004
Service cost	$	35,196	46,532
Interest expenses		13,272	11,506
Actual returns on pension fund		(5,987)	(3,581)
Amortization		(7,453)	(1,078)
	$	**35,028**	**53,379**

Actuarial assumptions at December 31, 2005 and 2004, are summarized as follows:

	December 31, 2005	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%

The pension costs of D-Link and subsidiaries were $75,595 thousand under their defined contribution pension plans.

(Continued)

(k) 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. The GDRs were publicly listed on the Luxembourg Stock Exchange at September 24, 1998.

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.

Pursuant to a stockholders' resolution on June 17, 2005, D-Link increased its common stock by $604,693 thousand through the transfer of stockholders' bonuses, employees' bonuses and capital surplus of $107,339 thousand, $68,000 thousand and $604,693 thousand, respectively. The capital increase was registered with the government authorities in August 2005.

As of December 31, 2005 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, 2005 and 2004, the issued capital amounted to $6,091,618 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, a board of directors resolution revised the amount authorized for the conversion of convertible bonds to $0.

D-Link applied to the Securities and Futures Bureau (SFB) 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 SFB on June 6, 2003, but the employee stock options had not been issued as of December 31, 2005.

(2) 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 SFB 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.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Legal reserve

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.

(4) 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: 2% as remuneration to directors and supervisors and 5%~10% as employee bonuses. An additional reserve on certain earnings may also be retained. The remaining earnings may be distributed as stockholders' dividends.

According to ROC SFB 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.

Information about the dividends to shareholders, directors' and supervisors' remuneration, and employees' bonuses of 2004 and 2003 that were distributed from unappropriated earnings is as follows:

		2004	**2003**
Dividends distributed per common share (in dollars):			
Cash	$	2.00	1.50
Stock (par value)		0.20	-
	$	**2.20**	**1.50**

		2004	**2003**
Employees' bonuses—stock (par value)	$	68,000	100,000
Employees' bonuses—cash		49,042	54,590
Directors' and supervisors' remuneration		46,817	24,734
	$	**163,859**	**179,324**

(Continued)

The distributions stated above fulfilled the resolutions of the board of directors meetings. Assuming that employees' bonuses and directors' and supervisors' remuneration were recognized as periodic expenses, net income per common share for 2004 and 2003 would decrease from $4.83 and $2.57 to $4.52 and $2.23, respectively, in New Taiwan dollars. D-Link distributed employees' stock bonuses constituting 1.27% and 1.99% of its outstanding shares as of December 31, 2004 and 2003, respectively.

The actual distribution of employees' bonuses and directors' and supervisors' remuneration for 2005 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.

(5) Treasury stock

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.

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, 2005, 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 2005, the maximum number of shares and the maximum amount D-Link could buy back on December 31, 2005, were 60,916 thousand shares and $6,386,462 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.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(l) Net Income per Common Share

	2005 Before taxes	2005 After taxes	2004 Before taxes	2004 After taxes
Basic net income per common share:				
Income applicable to common stockholders	$ 2,278,231	1,635,825	2,999,615	2,600,935
Weighted-average common shares outstanding (thousand shares)	597,064	597,064	539,060	539,060
Basic net income per common share (New Taiwan dollars)	$ 3.82	2.74	5.56	4.82
Weighted-average common shares outstanding (thousand shares)—retroactive			599,529	599,529
Basic net income per common share (New Taiwan dollars)—retroactive			$ 5.00	4.34
Diluted net income per common share:				
Income applicable to common stockholders			$ 2,999,615	2,600,935
Weighted-average common shares outstanding (thousand shares)			539,060	539,060
Convertible bonds assumed converted on issue day (thousand shares)			2,768	2,768
Diluted weighted-average common shares outstanding (thousand shares)			541,828	541,828
Diluted net income per common share (New Taiwan dollars)			$ 5.54	4.80
Weighted-average common shares outstanding (thousand shares)—retroactive			602,397	602,397
Basic net income per common share (New Taiwan dollars)—retroactive			$ 4.98	4.32

(m) Income Taxes

(1) Income taxes of D-Link and its subsidiaries are declared on an individual company basis. 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 2005 and 2004 consisted of the following:

		2005	2004
Current	$	444,463	231,740
Deferred		95,174	63,888
Additional 10% surtax on undistributed earnings		102,769	103,052
	$	642,406	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.

Alpha's investment plan to produce high-performance computer systems and browser terminals conforms to the ROC Statute for Upgrading Industries and is eligible for a tax benefit. According to the resolution of Alpha's 2004 shareholders' meeting, the tax benefit of shareholders' investment credit was selected.

(3) The components of deferred income tax assets (liabilities) as of December 31, 2005 and 2004, are summarized as follows:

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		December 31, 2005	2004
Deferred tax assets — current:			
Investment tax credits	$	27,099	80,929
Unrealized inter-company profits		61,447	155,311
Unrealized foreign exchange loss (gain), net		8,122	11,931
Allowance for decline in value of inventories		168,025	134,029
Provision for doubtful accounts over statutory limitation		106,699	71,933
Allowance for maintenance service cost		125,656	31,485
Unrealized expenses		83,438	-
Others		27,229	9,914
		607,715	495,532
Less: valuation allowance		(311,675)	(120,576)
		296,040	374,956
Deferred tax liabilities — current:			
Unrealized foreign exchange gain, net		(8,100)	-
Others		(13,710)	-
		(21,810)	-
Net current deferred tax assets	**$**	**274,230**	**374,956**
Deferred tax assets — noncurrent:			
Investment tax credits	$	132,298	90,110
Loss carryforward		346,080	473,500
Accrued pension cost		19,139	14,675
Investment loss on long-term equity investments in foreign entities		47,844	26,927
Others		28,137	16,063
		573,498	621,275
Less: valuation allowance		(509,124)	(576,999)
		64,374	44,276
Deferred tax liabilities — noncurrent:			
Prepaid pension cost		-	(24,153)
Allowance for loss on foreign investments		(170,388)	(131,689)
Foreign currency translation adjustment		(57,146)	(50,274)
		(227,534)	(206,116)
Net noncurrent deferred tax liabilities	$	**(163,160)**	**(161,840)**
Total deferred tax assets	$	**913,269**	**1,116,807**
Total deferred tax liabilities	$	**(249,344)**	**206,116**
Valuation allowance for deferred tax assets	$	**552,855**	**697,575**

(Continued)

(4) According to the ROC Statute for Upgrading Industries, the purchase of machinery, and expenditures on research and development and training of professional personnel entitle 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 capital 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.

As of December 31, 2005, the unused investment tax credits and related expiration dates were as follows:

Unused investment tax credits	Expiration date
$ 10,098	2006
37,209	2007
71,185	2008
40,905	2009
$ 159,397	

(5) According to 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, 2005, the unused loss carryforwards of D-Link Europe were $267,944 thousand with full 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, 2005, 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 (reported)	2009	126,453
2005 (estimated)	2010	39,593
		$ 312,543

(7) As of the December 31, 2005, the ROC income tax authorities had examined and assessed the income tax returns of D-Link for all fiscal years through December 31, 2002.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

D-Link disagreed with the assessments made by the tax authorities for its 1999 to 2002 income tax returns regarding tax exemptions, a research and development tax credit, etc., and has filed for rechecks with the tax authority. Please see note 7(i).

(8) Information relating to the imputation tax system of D-Link as of December 31, 2005 and 2004, is summarized as follows:

	December 31, 2005	December 31, 2004
Unappropriated retained earnings:		
Earned prior to January 1, 1998	$ 194,476	194,476
Earned after December 31, 1997	2,749,174	2,734,784
Total	**$ 2,943,650**	**2,929,260**
Imputation credit account balance	**$ 234,281**	**66,499**
Expected creditable ratio for earnings distribution to resident stockholders	**12.44% (estimated)**	**7.58% (actual)**

(n) 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.

(a) Non-trading-purpose derivative financial instruments

(i) Foreign currency option contracts

As of December 31, 2005 and 2004, D-Link and subsidiaries had the following foreign currency option contracts outstanding:

Contract	December 31, 2005 Contract Amount (in thousands)	Maturity
Put option (buy)	USD 55,000	Jan. 2006
Call option (buy)	USD 13,644	Jan. ~ Mar. 2006
Call option (sell)	USD 55,000	Jan. ~ Feb. 2006
Call option (sell)	EUR 20,000	Jan. 2006
Put option (sell)	USD 23,644	Jan. ~ Mar. 2006
Put option (buy)	EUR 20,000	Jan. 2006

(Continued)

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

As of December 31, 2005 and 2004, the aforementioned options' fair value was $31,779 thousand and $(13,481) thousand, respectively.

According to an interpretation 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 such realized expense of about $4,561 thousand and $15,000 thousand in 2005 and 2004, respectively.

The realized gain resulting from foreign currency option contracts was $18,520 thousand and $6,019 thousand in 2005 and 2004, respectively.

(ii) Forward foreign currency exchange contracts

As of December 31, 2005 and 2004, the notional principals of outstanding forward foreign currency exchange contracts were as follows:

		December 31, 2005	2004
USD	$	125,998	93,779
CAD		12,000	-

The details of the above forward foreign currency exchange contracts' balance as of December 31, 2005 and 2004, were as follows:

		December 31, 2005	2004
Forward foreign currency exchange contract receivable	$	4,527,149	3,022,903
Forward foreign currency exchange contract payable		(4,476,761)	(2,957,007)
Discount on forward foreign currency exchange contract		1,424	1,871
Forward foreign currency exchange contract receivable	**$**	**51,812**	**67,767**
Fair value	**$**	**49,628**	**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 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.

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, 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, lease obligations 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, receivables from related parties, other financial assets (pledged time deposits), short-term borrowings, notes and accounts payable, and payables to related parties 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.

(c) The fair value of long-term investments is based on quoted market prices. It is not practicable to estimate 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.

Except for those disclosed in the relevant notes to the consolidated financial statements, the fair values of non-derivative financial instruments as of December 31, 2005 and 2004, are shown below:

	December 31,			
	2005		2004	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial asset:				
Short-term investments	$ 393,600	395,095	1,364,172	1,366,218
Long-term investments				
Fair value (available)	1,433,798	3,382,674	1,217,038	2,489,403
Fair value (not available)	782,679	-	934,235	-
Financial liabilities:				
Bonds payable	-	-	31,750	36,989
Long-term debts	-	-	200,000	200,000
Lease payable	16,987	16,987	25,527	25,527

(Continued)

5. Related-party Transactions

(a) 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
Cellvision System Inc. (CSI)	Investee
Bothhand Enterprise Inc. (BEI)	Investee
Quie Tek Corp. (QTC)	Investee
Abocom Systems, Inc. (ACS)	YCI has one seat on ACS's board of directors
Lanner Electronics Inc.(LEI)	YCI has one seat on LEI's board of directors
Z-Com, Inc. (Z-Com)	YCI has one seat on Z-Com's board of directors
Dray Tek Corp. (DTC)	YCI has one seat on DTC's board of directors
Global Sun Electronic Inc. (GSEI)	GSEI and CCI signed a stock-exchange contract in May 2005

(b) Significant transactions with related parties as of and for the years ended December 31, 2005 and 2004, are summarized below:

(1) Sales

	2005		2004	
	Amount	**Percentage of net sales**	**Amount**	**Percentage of net sales**
DIL	$ 329,482	1	298,104	1
CCI	90,065	-	129,267	-
Others	49,908	-	67,429	-
	$ 469,455	**1**	**494,800**	**1**

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.

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Purchases and others

	2005		2004	
	Amount	**Percentage of net purchases**	**Amount**	**Percentage of net purchases**
CCI	$ 6,374,062	25	1,952,772	9
CSI	599,631	2	588,387	3
GSEI	111,339	-	4,576,920	20
DIL	17,851	-	13,645	-
BEI	141,071	1	111,669	-
Z-Com	203,991	1	-	-
LEI	168,364	1	-	-
Others	70,202	-	79,109	-
	$ 7,686,511	30	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.

(3) Accounts receivable/payable

	December 31,			
	2005		2004	
	Amount	**Percentage**	**Amount**	**Percentage**
Accounts receivable:				
DIL	$ 109,320	2	79,033	1
Others	50,497	1	69,294	1
	$ 159,817	3	148,327	2

	December 31,			
	2005		2004	
	Amount	**Percentage**	**Amount**	**Percentage**
Accounts payable:				
CCI	$ 1,357,995	28	436,899	9
CSI	114,835	2	127,622	3
BEI	39,940	1	30,739	1
GSEI	-	-	817,054	17
LEI	37,732	1	-	-
Z-Com	28,331	1	-	-
Others	20,250	-	23,095	-
	$ 1,599,083	33	1,435,409	30

(4) 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 2005 and 2004, the rental income of $15,757 thousand and $16,303 thousand, respectively, had been received. GSEI provided a guarantee deposit amounting to $8,000 thousand, which was returned at the expiry of the lease agreement.

6. Pledged Assets

Assets pledged as collateral as of December 31, 2005 and 2004, are summarized as follows:

Pledged assets	Pledged to secure	December 31, 2005	December 31, 2004
Time deposits (recorded in restricted assets)	Guarantees of credit lines	$ 194,540	1,595,013
Time deposits (recorded in other financial assets–noncurrent)	Guarantees of import tax	15,500	4,000
		$ 210,040	1,599,013

7. Significant Commitments and Contingencies

(a) 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 are as below:

Lease	Lessor	Description	Rental expense in 2005	Payment method
Land	Hsinchu Science Park	Sept. 1989-Sept. 2009	$4,800 thousand	Monthly
Land	Hsinchu Science Park	Aug. 2001-Dec. 2020	$5,469 thousand	Monthly
Land	Hsinchu Science Park	Nov. 2003-Dec. 2022	$7,290 thousand	Monthly

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
2006	$ 178,661
2007	148,364
2008	123,318
2009	112,620
2010 and after	244,974
	$ 807,937

(Continued)

(b) Alpha entered into several royalty agreements with certain companies. According to these agreements, Alpha is obligated to pay royalties when Alpha sells products using the technologies specified in the royalty agreements. Total royalty expenses incurred under these agreements for the years ended December 31, 2005 and 2004, amounted to $6,590 thousand and $12,745 thousand, respectively.

(c) 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 three defendants were subjected to public prosecution for breach of copyright, breach of faith, and revealing 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 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.

(d) TC Bank brought a suit against D-Link for the reason that TC Bank had obtained an account receivable due from 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.

(e) 3Com Corporation (“3Com”) asserted that D-Link Systems, a D-Link subsidiary, sold a chip that was included in products that infringed certain 3Com patents relating to network interface technology, and brought suit against D-Link and its subsidiary. D-Link is pursuing the suit with the chip suppliers, and the result of the suit is still uncertain. However, D-Link believes that the abovementioned event will not have a significant effect on operations.

(f) Network 1 Security Solution, Inc. (“Network 1”) asserted that D-Link sold products that infringed certain Network 1 patents, and brought suit against D-Link and D-Link Systems, a D-Link subsidiary. D-Link is pursuing the suit with the product suppliers, and the result of the suit is still uncertain. However, D-Link believes that the abovementioned event will not have a significant effect on operations.

(g) Handlink Technologies Inc. (“Handlink”) asserted that D-Link sold products that infringed certain Handlink patents, and brought suit against D-Link. Handlink asked for compensation amounting to $20 million plus 5% interest accrued during the period from D-Link’s receiving the indictment to the compensation being paid. The suit is still being processed by Handlink in the Shilin District Court, and the court suspended the suit because some patents needed the ROC Intellectual Property Office’s clarification. D-Link is pursuing the suit with the product suppliers. D-Link believes that the abovementioned event will not have a significant effect on operations.

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

(Continued)

(i) D-Link disagreed with the assessments made by the tax authorities for its 1999 to 2002 income tax returns regarding a tax exemption, a research and development tax credit, etc., and has filed for rechecks with the tax authority. D-Link's 1999, 2001 and 2002 income tax returns have been assessed by the tax authorities for additional income tax payable amounting to $31,468 thousand, $55,364 thousand, and $161,179 thousand, respectively. The tax authorities reduced investment tax credits amounting to $33,056 thousand in D-Link's 2000 income tax return.

(j) D-Link has entered into decoration contracts for the Neihu office building. As of December 31, 2005, payables amounting to $39,782 thousand had not been recorded by D-Link.

8. Major Casualty Losses: None

9. Significant Subsequent Events

In January 5, 2006, Alpha issued the first domestic convertible bonds amounting to $1,200 million with 0% coupon rate to develop the market and upgrade its research ability. The maturity period of the bonds is five years, and the conversion price is 37 New Taiwan dollars per share.

10. Other Information

(a) The information on employee, depreciation, and amortization expenses by function for the years ended December 31, 2005 and 2004, is summarized as follows:

	2005			2004		
Account	**Cost of goods sold**	**Operating expense**	**Total**	**Cost of goods sold**	**Operating expense**	**Total**
Employee expenses						
Salaries	589,033	2,997,454	3,586,487	395,176	2,279,755	2,674,931
Labor and health insurance	23,938	110,382	134,320	28,072	106,251	134,323
Pension	20,256	90,367	110,623	14,550	73,569	88,119
Others	20,226	218,968	239,194	20,600	241,737	262,337
Depreciation	118,587	324,457	443,044	123,336	294,056	417,392
Amortization	10,072	146,854	156,926	5,685	136,998	142,683

(b) 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 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 2005 and 2004 consolidated

(Continued)

financial statements exceed those in D-Link's books by $681,551 thousand and $526,757 thousand, respectively.

(c) Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2004, have been reclassified to conform with the 2005 presentation for comparative purposes. These reclassifications do not have significant impact on the presentation of the consolidated financial statements.

11. Segment Financial Information

(a) Industry information

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

(b) Geographic information

The geographical breakdown of sales for the years ended December 31, 2005 and 2004, is summarized as follows:

	2005					
	Americas	Europe	Asia	Australia	Adjustments and eliminations	Total
Area revenue:						
Third-party customers	$ 9,210,988	7,760,561	17,876,822	1,532,618	-	36,380,989
Inter-company	338,028	8,515	25,861,880	6,441	(26,214,864)	-
	$ 9,549,016	7,769,076	43,738,702	1,539,059	(26,214,864)	36,380,989
Area profit (loss) before taxes and minority interest	$ (37,663)	49,087	3,600,838	(10,364)	(941,338)	2,660,560
Area identifiable assets	$ 4,824,009	2,754,951	36,419,183	563,782	(20,423,030)	24,138,895

	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

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Export sales

The export sales of D-Link and its subsidiaries in the ROC for the years ended December 31, 2005 and 2004, are summarized below:

	2005	2004
Asia	$ 9,276,400	8,101,169
Americas	11,328,281	10,541,476
Europe	9,228,174	8,135,364
Others	2,458,257	2,253,459
	$ 32,291,112	**29,031,468**

(d) Major customers

There were no individual customers representing greater than 10% of consolidated revenue in 2005 and 2004.

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