



News Release

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D-Link Announced 1H/2004 Results

Taipei, Taiwan, July 30, 2004 D-Link Corporation ("D-Link" or "the Company") (TAIEX 2332) announced its 1H/04 pro forma consolidated financials: revenue was NT\$ 15.5bln, up 37% from 1H/03, gross profit was NT\$ 5.2bln, up 43% YoY, after-tax income was NT\$ 1,624mln, and EPS was NT\$ 3, up 111% from same period last year. For 2Q/04, D-Link reported NT\$ 7,657mln in sales, representing 37% YoY growth.

Thanks to the strong sales in Broadband products, D-Link was able to maintain its revenue level in this data networking players' traditional weak quarter. While most technology players facing margin pressure, D-Link, as a system company, continues improving its gross margin to 2Q's 35.6%. The operating margin was 9.2% in 2Q, which is better than 1Q's 8.5% and Year 2004's goal of 8%.

To be more conservative, D-Link appropriated provision on some investments, which amounted to NT\$ 57mln of unrealized loss. Besides, Alpha Networks, D-Link's ODM/OEM division previously, in the process of trimming down product offering, adopts a more aggressive inventory write-off policy, which leads to a slightly higher non-operating loss in the reported period. There's no foreign exchange loss in 2Q, so the total non-operating loss was NT\$ 172mln, slightly higher than 1Q's loss of NT\$ 136mln.

The profit-before-tax in 2Q was NT\$ 513mln. By applying an effective tax rate of 15% of pretax profit, and adjusting Alpha's minority interests, the company reported net income of NT\$ 381mln in 2Q, or NT\$ 0.7 of EPS. As the shareholders' meeting approved 5% of stock dividend and 10mln shares of employee bonus, the outstanding share after distribution will be 540mln.

D-Link's balance sheet remained sound as of June 2004. In order to save shipping costs, the overseas sales offices begin to place longer forecast and increase the portion of ocean

shipment. As it takes additional 3 weeks for shipping, inventory inevitable built up during the interim. The inventory turnover slightly decreased from 4.1 turns at end of 1Q to 3.7 turns, and cash cycle prolonged to 68 from 59 days.

However, by commanding the largest share of global consumer connectivity market, Management is confident to deplete the inventory at end of 3Q, after the back-to-school season, and drive down the cash cycle to around 60 days. Debt level was up due to 1) about NT\$ 1bln of dividend payable is booked as payable for the distribution in 3Q, and 2) short-term borrowing increased by NT\$ 2bln. We believe these are temporary effects, and the adjusted debt-to-equity ratio would come down to normal as less than 70% at end of 3rd quarter, from 91% in 2nd quarter.

By product categories, Wireless LAN ranked #1, accounting for 29% of 2Q/04 revenue, followed by Broadband 27% and Switch 24%. By geographic regions, North America was 32% in 2Q, Europe was 24%, Asia Pacific and emerging market was 44%.

D-Link is recognized by Synergy Group as the #1 global consumer connectivity leader over Linksys and Netgear, and as one of the top 5 Gigabit Ethernet vendor in EMEA by IDC. D-Link expands broadband territory by winning AT&T's VoIP project and Hungary's MATAV Telcom's contract. Around 30 new products were released during the 2Q, including a complete line of business-class networking solutions.

Moreover, D-Link also merchandizes the world's first Intel validated media player, DSM-320. In order to offer total digital home solution to consumers, D-Link also allies with America on Line. D-Link's products continued to win numerous awards, not limited to only Wireless LAN products, but also VPN router, digital home appliance and high-end switches.

Going forward, the Management expects the strong demand will continue, from the further deployment in home networking, penetration in Broadband, and more adoption in Wi-Fi. Both the booking and forecasting orders for 3Q are up 10% sequentially. North America's are well prepared for back-to-school sales, while Europe for late-August higher business season. Emerging market, demonstrating the strongest growing momentum in 2Q, will continued to drive the sales, including Australia, Russia and Latin America. Gross margin will maintain at the level of 33%, and operating margin is expected to be at 8-9% in 3Q.