D-LINK CORPORATION

Non-consolidated Financial Statements

December 31, 2001 and 2002

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
D-Link Corporation:

We have audited the accompanying non-consolidated balance sheets of D-Link Corporation as of December 31, 2001 and 2002, and the related non-consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain investee companies of the Company accounted for under the equity method. The Company's investment in these companies was $138,155 thousand and $153,444 thousand as of December 31, 2001 and 2002, respectively, and its equity in income was $5,580 thousand and $5,500 thousand for the years ended December 31, 2001 and 2002, respectively. Those 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 the investee companies, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of D-Link Corporation as of December 31, 2001 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

Hsinchu, Taiwan (the Republic of China)

March 20, 2003

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

D-LINK CORPORATION

Non-consolidated Balance Sheets

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

Assets	**2001**	**2002**
Current assets:		
Cash and cash equivalents (note 3)	$ 2,346,821	1,039,717
Short-term investments (note 4)	1,166,563	3,203,841
Notes and accounts receivable (note 5)	1,028,778	1,002,963
Receivables from related parties (note 18)	3,138,682	3,433,078
Inventories (note 6)	1,256,489	1,093,851
Prepaid expenses and other current assets (note 16)	361,939	218,070
Total current assets	9,299,272	9,991,520
Long-term investments (notes 7 and 18)	4,541,469	4,125,503
Property, plant and equipment (notes 9 and 19)**:**		
Land	95,949	95,949
Buildings and improvements	1,386,569	1,396,236
Machinery and equipment	735,435	781,950
Other equipment	253,747	211,894
	2,471,700	2,486,029
Less: accumulated depreciation	(554,968)	(659,052)
Construction in-progress and prepayment for purchases of machinery and equipment	37,225	15,983
Net property, plant and equipment	1,953,957	1,842,960
Other assets:		
Assets held for lease (note 8)	162,648	143,891
Long-term accounts receivable – related parties (note 18)	-	229,840
Others (notes 16 and 19)	238,573	216,820
Total other assets	401,221	590,551
Total assets	**$ 16,195,919**	**16,550,534**

Liabilities and Stockholders' Equity	**2001**	**2002**
Current liabilities:		
Short-term borrowings (not 10)	$ 130,945	-
Notes and accounts payable	1,800,138	1,958,475
Payables to related parties (note 18)	757,032	686,078
Accrued expenses and other current liabilities (note 17)	493,615	577,150
Deferred credits – unrealized intercompany profits	399,910	565,423
Total current liabilities	3,581,640	3,787,126
Long-term liabilities:		
Bonds payable (note 11)	2,984,009	2,401,164
Long-term borrowings (note 12)	-	600,000
Total long-term liabilities	2,984,009	3,001,164
Other non-current liabilities (notes 13 and 20)	351,660	155,249
Total liabilities	6,917,309	6,943,539
Stockholders' equity (notes 14 and 21)**:**		
Common stock	4,459,414	5,163,307
Certificates for conversion of convertible bonds	25	-
Capital surplus	2,821,407	2,790,203
Retained earnings:		
Legal reserve	427,753	523,254
Special reserve	275,530	275,530
Unappropriated earnings	1,194,350	1,379,825
Foreign currency translation adjustment	100,131	117,972
Treasury stock	-	(643,096)
Total stockholders' equity	9,278,610	9,606,995
Commitments and contingencies (notes 18 and 20)		
Total liabilities and stockholders' equity	**$ 16,195,919**	**16,550,534**

See accompanying notes to non-consolidated financial statements.

D-LINK CORPORATION

Non-consolidated Statements of Income

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

	2001	2002
Sales (note 18)	$ 14,806,636	16,211,118
Cost of goods sold (note 18)	11,987,820	13,295,091
	2,818,816	2,916,027
Net change in unrealized profit on intercompany sales	(121,818)	(165,513)
Gross profit	2,696,998	2,750,514
Operating expenses (note 18)**:**		
Selling	743,744	523,821
Administrative	419,330	452,954
Research and development	618,610	779,382
	1,781,684	1,756,157
Operating income	915,314	994,357
Non-operating income:		
Interest income	56,066	28,214
Long-term investment income, net (note 7)	121,766	-
Exchange gain, net	171,306	187,515
Rental income	37,287	35,168
Gain on disposal of short-term investment	-	76,194
Other income, net	5,626	51,251
	392,051	378,342
Non-operating expenses:		
Interest expense (note 11)	79,501	104,828
Long-term investment loss, net (note 7)	-	187,763
Loss on inventory obsolescence and devaluation	42,000	116,009
Other loss, net (note 20)	130,690	-
	252,191	408,600
Income before income taxes	1,055,174	964,099
Income tax expenses (note 16)	100,166	96,000
Net income	**$ 955,008**	**868,099**

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

See accompanying notes to non-consolidated financial statements.

D-LINK CORPORATION

Non-consolidated Statements of Changes in Stockholders' Equity

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

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

See accompanying notes to non-consolidated financial statements.

D-LINK CORPORATION

Non-consolidated Statements of Cash Flows

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

	2001	2002
Cash flows from operating activities:		
Net income	$ 955,008	868,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and gain on disposal of property and equipment, net	286,253	352,215
Provision for inventory obsolescence and devaluation loss, allowance for doubtful accounts and pension payable	140,479	291,786
Investment loss on long-term equity investments	9,429	188,610
Gain on disposal of long-term equity investments	(131,195)	(847)
Net changes in unrealized intercompany profits	121,818	165,513
Provision for early redemption of convertible bonds	65,333	60,999
Provision for other loss	210,240	-
Increase in operation related current assets	(442,151)	(521,537)
Increase in operation related current liabilities	760,370	289,369
Cash provided by operating activities	1,975,584	1,694,207
Cash flows from investing activities:		
Increase in receivables from related parties	(241,115)	(131,885)
Increase in short-term investments	(1,116,084)	(2,037,278)
Proceeds from disposal of long-term equity investments	195,725	107,720
Additions to property, plant and equipment	(341,351)	(151,619)
Proceeds from disposal of property and equipment	6,843	2,394
Increase in long-term equity investments	(1,057,342)	(159,975)
Increase in other assets	(219,443)	(54,470)
Cash used in investing activities	(2,772,767)	(2,425,113)
Cash flows from financing activities:		
Payments of cash dividends, directors' and supervisors' remuneration, and employees' bonuses	(204,698)	(474,615)
Decrease in short-term borrowings	(499,619)	(130,945)
Increase in long-term borrowings	-	600,000
Purchase of treasury stock	-	(573,982)
Issuance of bonds payable	1,900,800	-
Others	1,954	(1,400)
Cash provided by (used in) financing activities	1,198,437	(580,942)
Effect of exchange rate change on cash	43,901	4,744
Net increase (decrease) in cash and cash equivalents	445,155	(1,307,104)
Cash and cash equivalents at beginning of year	1,901,666	2,346,821
Cash and cash equivalents at end of year	**$ 2,346,821**	**1,039,717**
Supplemental disclosure of cash flow information:		
Cash payments of interest (excluding capitalized interest)	**$ 15,404**	**41,568**
Cash payments of income tax	**$ 20,888**	**83,884**
Supplementary disclosure of non-cash investing and financing activities:		
Convertible bonds applying for conversion	**$ 40,889**	**592,649**
Short-term investment transferred from long-term equity investment	**$ 11,400**	**-**
Long-term accounts receivable-related parties transferred from accounts receivable- related parties	**$ -**	**229,840**
Purchase of treasury stock	**$** -	643,096
Other payables	-	(69,114)
Cash paid in purchasing of treasury stock	**$** -	**573,982**

See accompanying notes to non-consolidated financial statements.

D-LINK CORPORATION

December 31, 2001 and 2002

(Amounts expressed in thousands of New Taiwan dollars,

except for per share information and unless otherwise noted)

1. Organization and Business Scope

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

2. Summary of Significant Accounting Policies

(a) Accounting principles

The accompanying non-consolidated financial statements are prepared in accordance with accounting principles generally accepted in the ROC. These non-consolidated financial statements are not intended to present the financial position of the Company and the related results of operations and cash flows based on accounting principles generally accepted in countries and jurisdictions other than the ROC. The financial statements of the Company's subsidiaries are not consolidated in the accompanying non-consolidated financial statements. These investments are accounted for using the equity method as described in point (g) to this note.

The major accounting principles adopted in preparing the accompanying non-consolidated financial statements are summarized below.

(b) Foreign currency transactions and translation

The Company maintains its books in New Taiwan dollars. 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 into New Taiwan dollars using the exchange rates on that date. The resulting exchange gains or losses from settlement of such transactions or translation of foreign monetary assets or liabilities are reflected in the accompanying non-consolidated statements of income.

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

(c) Cash equivalents

The Company considers all highly liquid investments, such as investments in promissory notes with repurchase agreements, with a maturity of three months or less to be cash equivalents.

(d) Short-term investments

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

(e) Allowance for doubtful accounts

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

(f) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the weighted-average method. The market value of raw materials is determined on the basis of replacement cost. Market value of work in process and finished goods are determined on the basis of net realizable value.

(g) Long-term equity investments

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

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

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

(Continued)

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

(h) Property, plant and equipment

Property, plant and equipment are stated at cost. Cost associated with significant additions, improvements, and replacements to property, plant and equipment are capitalized. Interest costs related to the construction of property, plant and equipment are capitalized and included in the cost of the related asset. Depreciation of property, plant and equipment is provided for by using the straight-line method over the estimated useful lives of the assets.

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

(i) Deferred expenses

The purchased costs of software and intellectual property are recorded as deferred expenses and are amortized over periods ranging from three to five years, on a straight-line basis.

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

(j) 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 certificate for conversion of the convertible bonds is recorded as capital surplus in the accompanying non-consolidated balance sheets.

(Continued)

(k) Financial derivatives

(1) Forward foreign currency exchange contracts

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

(2) Foreign currency option contracts

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

(l) Retirement plan

The Company has established an employee noncontributory retirement plan (the "Plan") covering all regular employees in Taiwan. In accordance with the Plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on years of service and the average salary for the six-month period before the employees' retirement. Each employee earns two months of salary for the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is 45 months of salary. The Company contributes 2 percent of wages and salaries to a pension fund maintained with the Central Trust of China on a monthly basis. Retirement benefits are paid to eligible participants on a lump-sum basis upon retirement.
The Company has adopted ROC Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions." SFAS No. 18 requires the Company to perform an actuarial calculation on its pension obligation as of each fiscal year-end. Based on the actuarial calculation, the Company recognizes net periodic pension costs. In certain cases, an additional minimum liability may be recognized through a direct charge to stockholders' equity.

(m) Sales

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

(Continued)

D-LINK CORPORATION

Notes to non-consolidated Financial Statements

(n) 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 the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

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

According to the ROC Income Tax Law, the Company's undistributed income earned after December 31, 1997, is subject to an additional 10 percent corporate income surtax. The surtax is charged to income tax expense after the appropriation of earnings is approved by the stockholders in the following year.

(o) Government grants

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

(p) Treasury stock

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

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

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

(q) Earnings per common share

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

Overseas convertible bonds and domestic convertible bonds issued by the Company in 2001 and 2002, respectively, are potential common stock. Basic earnings per common share will be disclosed if there is no dilutive effect in the potential common stock. If there is a dilutive effect, both dilutive and basic earnings per common share will be disclosed. For dilutive earnings per common share, the net income and the weighted-average number of common shares outstanding during the period should be adjusted to include the dilutive effects of the potential common stock, assuming that they are outstanding during the whole period.

3. Cash and Cash Equivalents

	December31,	
	2001	**2002**
Cash on hand, checking and savings accounts	$ 284,984	81,405
Time deposits	2,061,837	848,112
Cash equivalents	-	110,200
	$ 2,346,821	**1,039,717**

4. Short-term Investments

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

	2001	**2002**
Publicly listed stocks	$ 11,400	11,400
Mutual funds	1,159,969	3,138,184
Credit-linked deposits	-	69,460
Less: allowance for decline in market value	(4,806)	(15,203)
	$ 1,166,563	**3,203,841**
Market value	**$ 1,166,563**	**3,203,841**

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D-LINK CORPORATION

Notes to non-consolidated Financial Statements

5. Notes and Accounts Receivable

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

	2001	2002
Notes receivable	$ 1,542	16,774
Accounts receivable	1,137,884	1,048,337
Less: allowance for doubtful accounts	(110,648)	(62,148)
	$ 1,028,778	1,002,963

6. Inventories

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

	2001	2002
Finished goods	$ 316,213	322,816
Work in process	518,260	343,571
Raw materials	555,657	636,244
Provision for obsolescence and net realizable value	(133,641)	(208,780)
	$ 1,256,489	1,093,851
Insurance coverage on inventories	$ 1,600,000	1,600,000

(Continued)

D-LINK CORPORATION

Notes to non-consolidated Financial Statements

7. Long-term Equity Investments

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

Investee	December 31, 2001 Percentage of ownership	Acquisi- tion cost	Book value	2001 Investment income (loss)
Equity method:				
D-Link Systems, Inc. (DSI)	90	$ 280,355	313,220	(133,498)
D-Link Europe Ltd. (DEL)	100	804,894	312,258	(409,235)
Yeo-Mao Investment, Inc. (YMI)	100	190,000	506,965	88,684
D-Link Holding Company Ltd. (DHCL)	100	258,218	644,289	179,219
Yeo-Chia Investment Ltd. (YCI)	100	600,000	1,091,959	212,869
D-Link Technology Venture Capital Investment Inc. (DTVCI)	100	350,000	313,981	(26,947)
D-Link Taiwan, Inc. (DTI)	54	140,559	177,906	21,862
D-Link Australia Pty Ltd. (DAPL)	100	51,419	112,083	11,695
Cameo Communications, Inc. (CCI)	13	154,372	171,907	40,215
Others		294,553	203,168	32,839
		3,124,370	3,847,736	17,703
Cost method:				
Broadmedia Inc.	14	61,094	61,094	-
Articula Corporation	-	309,260	309,260	-
Others		74,951	47,819	(27,132)
		445,305	418,173	(27,132)
Advance payment for investment		275,560	275,560	-
		$ 3,845,235	**4,541,469**	**(9,429)**

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D-LINK CORPORATION

Notes to non-consolidated Financial Statements

Investee	December 31, 2002 Percentage of ownership	Acquisition cost	Book value	2002 Investment income (loss)
Equity method:				
D-Link Systems, Inc. (DSI)	93	$ 555,915	532,093	(59,178)
D-Link Europe Ltd. (DEL)	-	-	-	(296,660)
D-Link Deutschland	-	120,050	120,050	-
Yeo-Mao Investment, Inc. (YMI)	100	190,000	634,154	141,885
D-Link Holding Company Ltd. (DHCL)	100	258,218	620,614	(37,183)
Yeo-Chia Investment Ltd. (YCI)	100	600,000	1,155,669	67,578
D-Link Technology Venture Capital Investment Inc. (DTVCI)	100	350,000	283,330	(30,747)
D-Link Taiwan, Inc. (DTI)	53	140,559	180,242	5,880
D-Link Australia Pty Ltd. (DAPL)	100	51,419	139,380	17,249
Cameo Communications, Inc. (CCI)	13	154,372	200,576	39,823
Others		283,828	174,605	(37,257)
		2,704,361	4,040,713	(188,610)
Cost method:				
Azure Venture Partners I, L.P.	-	65,947	65,947	-
Others		18,843	18,843	-
		84,790	84,790	-
		$ 2,789,151	4,125,503	(188,610)

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

In 2001, the Company found there was a permanent impairment in the value of its equity investment in Ehoo Technology Holding Ltd. An investment loss equal to its carrying amount of $27,132 was recognized to reflect such decline.

D-LINK CORPORATION

Notes to non-consolidated Financial Statements

8. Assets Held for Lease

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

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

9. Insurance Coverage of Property, Plant and Equipment

As of December 31, 2001 and 2002, insurance coverage for depreciable property, plant and equipment amounted to $1,776,700 and $1,984,500, respectively.

10. Short-term Borrowings

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

	2001		2002	
	Amount	**Rate %**	**Amount**	**Rate %**
Usance letters of credit	**$ 130,945**	2.75%~ 2.93%	**-**	-
Unused credit facilities	**$ 3,197,480**		**2,798,848**	

(Continued)

D-LINK CORPORATION

Notes to non-consolidated Financial Statements

11. Bonds Payable

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

(a) 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: the Company’s common stock.

- Conversion price:

  The conversion price was 64.2 New Taiwan dollars per share when the bonds were issued. As of July 18, 2001, the conversion price was adjusted to 40.4 New Taiwan dollars per share based on the prescribed formula.

- Conversion period:

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

- Redemption right:

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

(Continued)

(b) 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: the Company’s common stock or global depository receipts (GDRs)
- Conversion period:

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

- Conversion price:

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

- Redemption right:

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

(Continued)

D-LINK CORPORATION

Notes to non-consolidated Financial Statements

(c) The first issuance of domestic guarantee 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.

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

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

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

In 2001 and 2002, convertible bonds amounting to $41,350 and $575,648, respectively, were converted. The excess of the conversion price over the par value of the certificates for conversion of the convertible bond issued amounted to $31,186 and $452,768 in 2001 and 2002, respectively, and was included in capital surplus in the accompanying non-consolidated balance sheets.

12. Long-term Borrowings

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

(Continued)

13. Retirement Plan

As of December 31, 2001 and 2002, the funded status was as follows:

	2001	2002
Benefit obligation:		
Vested benefit obligation	$ (5,504)	(8,809)
Nonvested benefit obligation	(90,822)	(121,836)
Accumulated benefit obligation	(96,326)	(130,645)
Projected future salary increase	(108,992)	(85,887)
Projected benefit obligation	(205,318)	(216,532)
Plan assets at fair value	123,813	141,515
Projected benefit obligation in excess of plan assets	(81,505)	(75,017)
Unrecognized net obligation at transition	3,500	3,000
Unrecognized net gain	(12,190)	(37,955)
Accrued pension	$ (90,195)	(109,972)

The net pension cost for 2001 and 2002 consisted of the following components:

	2001	2002
Service cost	$ 24,897	30,647
Interest expenses	8,389	9,160
Actual returns on pension fund	(4,564)	(2,978)
Amortization	(3,245)	(2,328)
Net pension cost	$ 25,477	34,501

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

	2001	2002
Discount rate	4.5%	3.75%
Rate of increase in future compensation levels	4.5%	3.00%
Expected long-term rate of return on plan assets	4.5%	3.75%

(Continued)

14. Stockholders' Equity

(a) Common stock

In 1998, the Company issued 5 million Global Depository Receipts ("GDRs"). Each GDR represents 5 common shares and was offered at ten U.S. dollars and thirteen cents per GDR. Net proceeds of approximately NT$1,674,042 were raised in September 1998. The GDRs are publicly listed on the Luxembourg Stock Exchange. The capital increase was registered in October 1998.

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

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

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

(b) Capital surplus

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

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

(c) Distribution of earnings and dividends policy

After establishing the legal and special reserve, earnings may be distributed in the following order in accordance with the Company's articles of incorporation: 2% as remuneration to directors and supervisors and 12.5% as employee bonuses. An additional reserve on certain earnings may also be retained. The remaining earnings may be distributed as stockholders' dividends.

(Continued)

D-LINK CORPORATION

Notes to non-consolidated Financial Statements

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

According to ROC SFC regulations, a ROC publicly listed company should retain a special reserve equal to any deductions made to stockholders' equity, related to items such as foreign currency translation adjustments, before distribution of earnings which were generated after 1998. If the aforementioned deduction of stockholders' equity is reversed, the same amount could be removed from special reserve and transferred to unappropriated earnings.

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

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

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

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

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

(Continued)

D-LINK CORPORATION

Notes to non-consolidated Financial Statements

(d) Treasury stock

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

Pursuant to the ROC Securities and Exchange Law, the number of treasury stock should not exceed 10% of a company's total issued shares, and the total amount of the treasury stock should not exceed the aggregation of retained earnings, capital surplus derived from paid-in capital in excess of par value plus other realized capital surplus. Based on the financial statements of the Company in 2002, the maximum number of shares and the maximum amount the Company could buy back on December 31, 2002 were 51,633 thousand shares and $4,953,418, respectively.

15. Earnings Per Common Share

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

(Continued)

D-LINK CORPORATION

Notes to non-consolidated Financial Statements

16. Income Taxes

(a) The Company meets the requirements of a "scientific industry" as prescribed by the Statute for the Establishment and Administration of the Science-based Industrial Park. Therefore, the Company 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

The statutory income tax rate of companies in the ROC is 25%. However, the income tax expense for a company that resides in the Science-based Industrial Park shall not exceed 20% of its annual taxable income before January 20, 2001. The components of income tax expense (benefit) as of December 31, 2001 and 2002, are summarized as follows:

	2001	**2002**
Current	$ 104,834	15,200
Deferred	(18,177)	25,449
Additional 10% income surtax on undistributed earnings	13,509	55,351
	$ 100,166	**96,000**

(b) For 2001 and 2002, the differences between the expected income tax based on the pre-tax income at enacted income tax rates and the actual income tax expense reported in the statements of income are summarized as follows:

	2001	**2002**
Expected income tax expense	$ 263,794	241,025
Tax effect of permanent differences	(42,298)	(43,977)
Tax-exempt income	(126,112)	(61,484)
Investment tax credits	(280,482)	(160,806)
Valuation allowance for deferred tax assets	263,253	40,128
Prior year's adjustment	8,502	25,763
Additional 10% income surtax on the undistributed earnings	13,509	55,351
Income tax expense	**$ 100,166**	**96,000**

(Continued)

D-LINK CORPORATION

Notes to non-consolidated Financial Statements

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

	2001		2002	
	Amount	**Tax effect**	**Amount**	**Tax effect**
Current:				
Investment tax credits	$ 39,882	39,882	49,208	49,208
Unrealized intercompany profits	399,910	99,978	565,423	141,356
Allowance for decline in value of inventories	133,641	33,410	208,780	52,195
Provision for doubtful accounts over statutory limitation	68,214	17,053	177,363	44,341
Unrealized foreign exchange loss (gain), net	80,842	20,210	(51,595)	(12,899)
		210,533		274,201
Less: valuation allowance		(117,031)		(170,980)
Net current deferred tax assets		$ 93,502		103,221
Noncurrent:				
Investment tax credits	$ 244,710	244,710	275,464	275,464
Provision for pension reserve	90,195	22,548	109,972	27,493
Allowance for loss on foreign investment	(109,636)	(27,409)	(63,588)	(15,897)
Investment (gain) loss on long-term equity investments in foreign entities	245,943	61,486	(138,850)	(34,713)
Foreign currency translation adjustment	(133,507)	(33,376)	(157,296)	(39,324)
		267,959		213,023
Less: valuation allowance		(228,519)		(214,698)
Net noncurrent deferred tax assets		$ 39,440		(1,675)
Total deferred tax assets		$ 539,277		590,057
Total deferred tax liabilities		$ 60,785		102,833
Valuation allowance for deferred tax assets		$ 345,550		385,678

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

(Continued)

(d) According to the ROC Statute for Upgrading Industries, the total amount of investment tax credits that can be utilized per year is limited to 50 percent of the year's current income tax expense. However, the foregoing limit does not apply to the last year of the investment tax credit's expiration period. As of December 31, 2001, the estimated unused investment tax credits and related expiration dates were as follows:

Unused investment tax credit	Expiration date
$ 49,208	December 31, 2003
160,391	December 31, 2004
33,515	December 31, 2005
81,558	December 31, 2006
$ 324,672	

(e) As of December 31, 2002, the ROC income tax authorities have examined and assessed the income tax returns of the Company for all fiscal years through December 31, 1998.

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

Information relating to the ICA as of December 31, 2001 and 2002, is summarized as follows:

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

17. Financial Instruments

(a) Derivative financial instruments

The Company 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 counterparties is remote.

(Continued)

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Notes to non-consolidated Financial Statements

(1) Non-trading purposes derivative financial instruments

(i) Foreign currency option contracts

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

2001

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

2002

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

(Continued)

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Notes to non-consolidated Financial Statements

(ii) Currency and interest swap agreements

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

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

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

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

(iii) Forward foreign currency exchange contracts

As of December 31, 2001, the notional principal of outstanding forward foreign currency exchange contracts the Company entered into was USD8,000 thousand. The details of the above forward foreign currency exchange contracts' balance as of December 31, 2001, are as follows:

	2001	2002
Forward contracts receivable	$ 275,975	345,941
Forward contracts payable	276,146	347,300
	$ (171)	(1,359)
Fair value	$ (1,756)	(1,521)

(Continued)

(2) Trading purposes derivative financial instruments

(i) Credit-linked deposits

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

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

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

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

(ii) Market price risk

Market price risk represents the accounting loss that would be recognized at the reporting date for the derivative financial instruments due to the changes in market interest rates or foreign exchange rates. As the Company’s derivative financial instruments are for hedging purposes, the gains or losses due to changes in the interest rates or foreign exchange rates will be naturally offset by the hedged items. As a result, market price risk is considered low.

(Continued)

(iii) Liquidity risk

Liquidity risk is the risk of being unable to settle derivative contracts on schedule. The purpose of these instruments held by the Company was to manage and hedge the floating interest rates and foreign currency exchange rates. There is no significant liquidity risk for the related cash flows.

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

(b) Non-derivative financial instruments

The Company’s non-derivative financial assets include cash and cash equivalents, short-term investment, accounts receivable, receivables from related parties, pledged time deposits and long-term investments. The Company’s non-derivative financial liabilities consist of short-term borrowings, notes and accounts payable, payables to related parties, bonds payable, and long-term borrowings.

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

(1) The carrying amounts of cash and cash equivalents, accounts receivable, pledged time deposit, accounts payable, and short-term borrowings approximate their fair value due to the short-term nature of these items.

(2) The fair value of short-term investments is based on publicly quoted market prices. Refer to note 4 for the fair value of short-term investments as of December 31, 2001 and 2002.

(3) It is not practicable to determine the fair value of long-term investments when these investments are not publicly traded. As of December 31, 2001 and 2002, the accumulated investment costs for long-term investments amounted to $3,845,235 and $2,789,151, respectively.

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

(5) The fair values of long-term receivables-related parties and long-term borrowings are based on the discount value of expected cash flows.

(Continued)

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

	2001		2002	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial asset:				
Long-term investments:				
Fair value (available)	$ 6,716	23,797	205,862	373,491
Fair value (not available)	4,534,753	-	3,919,641	-
	-	-	229,840	223,136
Financial liabilities:				
Bonds payable	2,984,009	3,395,847	2,401,164	2,503,102
Long-term borrowings	-	-	600,000	620,941

18. Related-party Transactions

(a) The name and relationship of the related parties with which the Company had significant transactions are shown below:

Related party	**Relationship with the Company**
D-Link Europe Ltd. ("DEL")	A subsidiary of DHCL
D-Link Canada Inc. ("DCI")	Subsidiary
D-Link Australia Pty. Ltd. ("DAPL")	Subsidiary
D-Link Japan K. K. ("DJKK")	Subsidiary
D-Link Systems, Inc. ("DSI")	Subsidiary
D-Link Asia Investment Pte Ltd. ("DAIPL")	Subsidiary
D-Link International Pte. Ltd. ("DLI")	Subsidiary
D-Link India Ltd. ("DIL")	Minority-held investee
D-Link Deutschland GmbH ("DDG")	Subsidiary
D-Link Taiwan Inc. ("DTI")	Subsidiary
D-Link Middle East (DME)	A subsidiary of DLI
D-Link Holding Company Ltd.("DHCL")	Subsidiary
D-link Sudamerica S.A. (DSA)	A subsidiary of DLI and DHCL
Yeo-Chia Investment Ltd. ("YCI")	Subsidiary
Yeo-Mao Investment, Inc. ("YMI")	Subsidiary
D-Link Technology Venture Capital Investment Inc. ("DTVCI")	Subsidiary
Dray Tek Corp. (DTC)	Minority-held investee of DTVCI, YCI and YMI

(Continued)

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Notes to non-consolidated Financial Statements

Related party	Relationship with the Company
Abocom Systems, Inc. ("ACS")	Minority-held investee
Cameo Communications, Inc. ("CCI")	Minority-held investee
D-Link Dongguan Ltd. ("DDL")	A subsidiary of DAIPL
Digital China Networks, Ltd. (DCNL)	Minority-held investee of DHCL (original name "LNL")
Cellvision System Inc.(CSI)	Minority-held investee of DTVCI, YCI and YMI.
W-Link System Inc. (WSI)	Minority-held investee of YCI and YMI
QuieTek Corp.(QTC)	Minority-held investee of YCI
D-Link Hong Kong Co., Ltd. (DHKL)	A subsidiary of DHCL
D-Link Electronics (Wujiang) Co., Ltd. (DECL)	A subsidiary of DHCL
Video tranXmission Integrated System Technology Co., Ltd. (VXISTCL)	Minority-held investee of DTVCI, YCI and YMI.

(b) Significant transactions with related parties, and related receivables and payables are summarized below:

(1) Sales

	2001		2002	
	Amount	**Percentage of net sales**	**Amount**	**Percentage of net sales**
DSI	$ 2,758,764	19	3,793,144	24
DEL	1,691,113	11	2,081,775	13
DDG	1,060,020	7	1,060,877	7
DTI	538,639	4	247,727	2
DCNL	1,243,110	8	-	-
DCI	663,894	4	1,109,459	7
DLI	514,685	3	577,661	4
DAPL	251,030	2	509,262	3
DIL	262,320	2	187,624	1
CCI	81,331	1	57,693	-
ACS	138,957	1	85,002	-
DME	198,657	1	194,297	1
DSA	165,433	1	135,236	1
DECL	-	-	497,542	3
WSI	78,064	-	233,274	1
Others	80,162	1	215,257	1
	$ 9,726,179	65	10,985,830	68

(Continued)

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Notes to non-consolidated Financial Statements

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

(2) Service revenue

The revenue from the technical service or royalties with related parties are summarized below:

	2001		2002	
	Amount	**Percentage of net sales**	**Amount**	**Percentage of net sales**
DAPL	$ 10,496	-	-	-
DME	21,024	-	-	-
DTI	108,000	1	108,000	1
CCI	-	-	14,733	-
	$ 139,520	**1**	**122,733**	**1**

(3) Purchase

	2001		2002	
	Amount	**Percentage of net purchases**	**Amount**	**Percentage of net purchases**
DSI	$ 42,591	-	47,523	-
ACS	542,549	5	225,487	2
CCI	1,502,923	14	1,436,132	11
CSI	151,332	1	286,505	2
PCT	100,886	1	180,331	1
WSI	-	-	411,479	3
DTC	-	-	123,465	1
Others	325,123	3	373,700	3
	$ 2,665,404	**24**	**3,084,622**	**23**

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

(Continued)

(4) Accounts receivable/payable

	2001 Amount	2001 Percentage	2002 Amount	2002 Percentage
Accounts receivable:				
DSI	$ 734,690	18	995,784	23
DEL	427,806	10	520,367	12
DDG	549,035	14	340,938	8
DTI	90,721	2	107,183	2
DCNL	212,040	5	-	-
DCI	279,586	7	207,172	5
DLI	156,808	4	155,844	3
DAPL	68,716	2	123,667	3
DIL	28,403	-	22,695	1
DSA	137,472	3	108,068	2
DME	81,228	2	56,739	1
DECL	-	-	197,184	4
WSI	-	-	140,637	3
Others	644	-	93,873	2
	2,767,149	67	3,070,151	69
Less: allowance for doubtful accounts	-	-	(120,000)	(3)
	$ 2,767,149	**67**	**2,950,151**	**66**

	2001 Amount	2001 Percentage	2002 Amount	2002 Percentage
Accounts payable:				
ACS	$ 25,921	1	40,850	2
CCI	397,393	16	348,337	14
Others	175,753	7	120,577	5
	$ 599,067	**24**	**509,764**	**21**

(5) Shareholding transfer

In December 1997, the Company’s holding in D-Link Deutschland GmbH was transferred to D-Link Europe Ltd. at a price of $17,637. An adjustment to the transfer price amounting to $1,050 was made in 1998.

In June 1998, the Company’s holding in D-Link Scandinavia AB was transferred to D-Link Europe Ltd. at a price of $5,574.

(Continued)

In October 2002, the Company's holding in D-Link Europe Ltd. was transferred to D-Link Holding Company Ltd. at a price of New Taiwan dollars 1.

As of December 31, 2001, the proceeds of the above-mentioned shareholding transfers had not yet been collected. No gain or loss was recorded by the Company from the above-mentioned transactions.

In October 2000, the Company's holding in D-Link India was transferred to D-Link Holding Company Ltd. at a price of $61,349. The proceed was collected in 2002.

(6) Commission expense

The Company paid commissions to related parties for performing certain purchasing functions on behalf of the Company. The total commission expense for the years ended December 31, 2001 and 2002, and the related unpaid balance as of December 31, 2001 and 2002, are summarized below:

	2001		2002	
	Commission expense	Accrued commission	Commission expense	Accrued commission
DJKK	$ 20,139	9,160	-	-

(7) Service

The company paid service fees to related parties for warranty services, product advertisements, and exhibitions. The total service fees for the years ended December 31, 2001 and 2002, and the related unpaid balance as of December 31, 2001 and 2002, are summarized below:

	2001		2002	
	Current expense	Accrued expense	Current expense	Accrued expense
DSI	$ 303,903	78,348	113,785	57,256
DDG	15,259	15,259	-	-
DIL	32,062	32,062	-	-
	$ 351,224	125,669	113,785	57,256

The Company entered into an OEM service agreement with DAIPL. Total fees related to these services amounted to $117,122 and $0 in 2001 and 2002, respectively. As of December 31, 2001 and 2002, the related unpaid balance amounted to $9,603 and $0, respectively.

(Continued)

The Company also subcontracted certain services related to export sales to DDL in 2001 and 2002. The subcontract service fees amounted to $44,377 and $62,330 in 2001 and 2002, respectively. As of December 31, 2001 and 2002, the prepaid service fee amounted to $6,345 and $14,119, respectively.

(8) Other transactions

As of December 31, 2001 and 2002, receivables (payables) with related parties resulting from certain payments paid by the Company on behalf of related parties or paid by related parties on behalf of the Company were as follows:

	2001	2002
DAPL	$ 10,858	(85)
DHCL	-	(47,726)
DLI	(585)	(1,261)
DSI	(70)	(27,442)
QTC	3,844	(1,146)
DDG	708	(4,515)
DAIPL	-	(16,956)
DEL	-	17,242
DIL	-	36,415
DHKL	-	10,839
Others	(12,878)	(19,927)
	$ 1,877	**(54,562)**

(Continued)

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Notes to non-consolidated Financial Statements

(9) Guarantees

As of December 31, 2002, the Company had provided guarantees to financial institutions for related parties' bank loans and lines of credit, as summarized below:

Borrower	Credit line (thousands)	
DEL	USD	14,000
	GBP	800
	USD	10,000
DCI	USD	4,700
	CAD	2,368
DSI	USD	15,000
DAIPL	USD	20,000
DHCL	USD	9,500
DDG	EUR	8,000
	USD	3,000
YCI	NTD	550,000
VXISTCL	NTD	40,000
DTI	NTD	320,000
YMI	NTD	400,000
DDL	USD	2,000

The total amount of the above guarantees was approximately $4,449,268 as of December 31, 2002.

(10) Financing

The Company had lent related parties working capital with no interest as of December 31, 2001 and 2002, summarized as follows:

	2001		2002	
	Maximum Amount	Ending Amount	Maximum Amount	Ending Amount
DEL	$ -	-	343,000	343,000
WSI	-	-	30,000	30,000
DDG	-	-	229,840	229,840
DAIPL	241,115	241,115	241,115	-
	$ 241,115	241,115	843,955	602,840

Except for the term of the loan to DDG is ten years, which was recorded in long-term receivable-related parties, others' term was one year.

(Continued)

19. Pledged Assets

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

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

20. Commitments and Contingencies

(a) As of December 31, 2001 and 2002, the Company had outstanding letters of credit amounting to approximately $76,851 and $5,207, respectively.

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

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

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

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

(Continued)

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Notes to non-consolidated Financial Statements

21. Significant Subsequent Events

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

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

22. Other information

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

Such provision is not allowed by generally accepted accounting principles in the ROC. However, for local tax purposes, the adjustment is not posted to the Company's books. As a result, the unappropriated earnings shown in the accompanying 2001 and 2002 non-consolidated financial statements exceed that in the Company's books by $109,636 and $63,588, respectively.

23. Segment Information

(a) Industry segment

The Company principally operates in one industry segment, network communication products.

(b) Export sales

Export sales, amounting to $12,945,600 and $14,621,859 in 2001 and 2002, respectively, are summarized below:

	2001	2002
Asia	$ 4,290,064	5,132,973
Americas	5,337,845	5,531,446
Europe	2,867,274	3,253,898
Others	450,417	703,542
	$ 12,945,600	**14,621,859**

(Continued)

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Notes to non-consolidated Financial Statements

(c) Major customers

Sales to customers individual constituting over 10% of the Company's revenues are summarized below:

	2001		2002	
	Amount	**Percentage**	**Amount**	**Percentage**
DSI	$ 2,758,764	19	3,793,144	24
DEL	1,619,113	11	2,081,775	13