

D-LINK CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2003 and 2004
(in thousands of New Taiwan dollars)

	2003	2004	2003	2004
Assets				
Current assets:				
Cash and cash equivalents (note 3)	\$ 3,074,750	3,826,361	\$ 2,587,598	4,642,867
Short-term investments (note 4)	3,511,432	1,364,172	4,694,414	3,293,077
Notes and accounts receivable, net (note 5)	4,478,961	5,643,083	718,177	1,435,409
Receivables from related parties (note 18)	208,365	148,327	2,405,966	235,533
Other financial assets - current	150,866	138,423	2,166,292	2,653,552
Inventories (note 6)	5,082,165	6,042,779	12,572,447	12,260,438
Other current assets (note 16)	939,073	855,923		
Restricted assets (note 19)	894,756	1,595,013		
Total current assets	<u>18,340,368</u>	<u>19,614,081</u>	<u>223,266</u>	<u>21,744</u>
Long-term investments (notes 7 and 18):				
Long-term investments under equity method	1,411,268	1,476,267	154,532	-
Long-term investments under cost method	806,490	675,006	71,265	1,686,789
Total long-term investments	<u>2,217,758</u>	<u>2,151,273</u>	<u>170,895</u>	<u>244,292</u>
Other financial assets - noncurrent (note 19)	<u>37,483</u>	<u>40,589</u>		
Property, plant and equipment (notes 9 and 19):				
Land	95,949	38,472	435,240	-
Buildings and improvements	2,183,773	1,729,264	831,932	1,931,081
Machinery and equipment	1,250,892	1,452,677	13,627,645	14,213,263
Other equipment	528,429	586,234		
	4,059,043	3,806,647	5,137,771	5,475,211
Less: accumulated depreciation	(1,315,717)	(1,498,797)	2,940,261	2,894,829
Construction in progress and prepayment for purchases of machinery and equipment	4,258	21,551	610,282	747,696
Net property, plant and equipment	<u>2,747,584</u>	<u>2,329,401</u>	<u>1,724,066</u>	<u>2,929,260</u>
Other assets:				
Assets held for lease and idle assets (notes 8 and 9)	-	1,222,722		(86,840)
Others (notes 13 and 16)	427,880	517,461	197,719	150,824
Total other assets	<u>427,880</u>	<u>1,740,183</u>	<u>(466,671)</u>	<u>(448,716)</u>
Total assets	<u>\$ 23,771,073</u>	<u>25,875,527</u>	<u>\$ 23,771,073</u>	<u>25,875,527</u>
Liabilities and Stockholders' Equity				
Current liabilities:				
Short-term borrowings (note 10)			\$ 4,694,414	3,293,077
Notes and accounts payable			718,177	1,435,409
Payables to related parties (note 18)			2,405,966	235,533
Current portion of long-term debts (notes 11 and 12)			2,166,292	2,653,552
Other current liabilities			12,572,447	12,260,438
Total current liabilities			<u>223,266</u>	<u>21,744</u>
Long-term liabilities bearing interest:				
Long-term debts and lease obligations payable, excluding current installments (note 12)			154,532	-
Other liabilities:				
Accrued pension (note 13)			71,265	1,686,789
Minority interest			170,895	244,292
Deferred income tax liability and others (notes 16 and 18)				
Advance receipts for capital increase from minority shareholders			435,240	-
Total other liabilities			<u>831,932</u>	<u>1,931,081</u>
Total liabilities			<u>13,627,645</u>	<u>14,213,263</u>
Stockholders' equity (note 14):				
Common stock			5,137,771	5,475,211
Capital surplus			2,940,261	2,894,829
Retained earnings:				
Legal reserve			610,282	747,696
Unappropriated earnings			1,724,066	2,929,260
			2,334,348	3,676,956
Unrealized valuation losses on long-term equity investment			-	(86,840)
Foreign currency translation adjustment			197,719	150,824
Treasury stock			(466,671)	(448,716)
Total stockholders' equity			<u>10,143,428</u>	<u>11,662,264</u>
Commitments and contingencies (note 20)				
Total liabilities and stockholders' equity	<u>\$ 23,771,073</u>	<u>25,875,527</u>	<u>\$ 23,771,073</u>	<u>25,875,527</u>

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2003 and 2004

(in thousands of New Taiwan dollars, except for net income per common share)

	2003	2004
Sales (note 18)	\$ 25,016,221	32,245,237
Cost of goods sold (note 18)	<u>17,201,907</u>	<u>21,437,524</u>
	7,814,314	10,807,713
Net changes in unrealized profit on inter-company sales	<u>362</u>	<u>-</u>
Gross profit	<u>7,814,676</u>	<u>10,807,713</u>
Operating expenses (note 18):		
Selling	4,688,883	6,257,406
Administrative	585,967	664,930
Research and development	<u>936,721</u>	<u>1,251,542</u>
	<u>6,211,571</u>	<u>8,173,878</u>
Operating income	<u>1,603,105</u>	<u>2,633,835</u>
Nonoperating income:		
Interest income	36,329	86,277
Investment income on long-term investments under equity method, net (note 7)	196,779	140,438
Gain on disposal of investments	311,732	1,056,218
Exchange gain, net	109,234	-
Rental income (note 18)	21,024	30,105
Gain on bad debt recoveries	-	50,149
Other income, net	<u>28,598</u>	<u>81,914</u>
	<u>703,696</u>	<u>1,445,101</u>
Nonoperating expenses:		
Interest expense (note 11)	157,974	193,136
Investment loss on long-term investments under cost method (note 7)	174,799	132,495
Exchange loss, net	-	128,411
Loss on inventory obsolescence and devaluation	419,383	374,366
Loss on idle assets' valuation loss	<u>-</u>	<u>35,268</u>
	<u>752,156</u>	<u>863,676</u>
Income before income taxes and minority interest	1,554,645	3,215,260
Income tax expenses (note 16)	<u>172,750</u>	<u>398,680</u>
Income before minority interest	1,381,895	2,816,580
Net income attributed to minority interest	<u>(7,760)</u>	<u>(215,645)</u>
Net income	<u>\$ 1,374,135</u>	<u>2,600,935</u>
Net income per common share (note 15)	Before taxes	After taxes
Basic earnings per common share	<u>\$ 3.03</u>	<u>2.75</u>
Diluted earnings per common share	<u>\$ 2.87</u>	<u>2.59</u>
Basic earnings per common share—retroactive	<u>\$ 2.83</u>	<u>2.57</u>
Diluted earnings per common share—retroactive	<u>\$ 2.69</u>	<u>2.43</u>

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows Years ended December 31, 2003 and 2004 (in thousands of New Taiwan dollars)

	2003	2004
Cash flows from operating activities:		
Net income	\$ 1,374,135	2,600,935
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain attributed to minority interest	7,760	(215,645)
Depreciation and amortization	560,573	586,008
Provision for inventory obsolescence and devaluation loss, allowance for doubtful accounts, and accrued pension	489,367	445,505
Investment income on long-term investments under equity method	(196,779)	(140,438)
Investment loss on long-term investments under cost method	174,799	132,495
Cash dividend received	72,045	103,744
Loss on idle assets' valuation loss	-	35,268
Gain on disposal of long-term investments	(264,085)	(71,483)
Other loss with no cash impacts	5,974	84,871
Net changes in unrealized inter-company profits	(362)	-
Provision for early redemption of convertible bonds	59,596	87,806
Increase in operation-related current assets	(2,649,066)	(2,511,491)
Increase (decrease) in operation-related current liabilities	<u>2,495,955</u>	<u>(223,170)</u>
Cash provided by operating activities	<u>2,129,912</u>	<u>914,405</u>
Cash flows from investing activities:		
Decrease in receivables from related parties	30,000	-
Decrease (increase) in short-term investments	(161,510)	2,135,278
Increase in long-term equity investments	(157,142)	(239,224)
Proceeds from disposal of long-term equity investments	405,413	196,676
Additions to property, plant and equipment	(381,179)	(1,528,797)
Proceeds from disposal of property and equipment	10,415	174,400
Increase in restricted assets	(896,256)	(700,257)
Increase in deferred expenses and other assets	<u>(106,685)</u>	<u>(254,020)</u>
Cash used in investing activities	<u>(1,256,944)</u>	<u>(215,944)</u>
Cash flows from financing activities:		
Increase in minority interest	9,776	1,896,164
Increase (decrease) in advance receipts for capital increase from minority interest	435,240	(435,240)
Increase in short-term borrowings	1,018,498	2,055,269
Decrease in long-term debts	(2,178)	(403,656)
Purchase of treasury stock	(648,159)	(506,820)
Redemption of convertible bonds	(10,645)	(1,700,982)
Payments of cash dividends, directors' and supervisors' remuneration, and employees' bonuses	(752,722)	(839,774)
Increase (decrease) in deposits in and others	<u>(44)</u>	<u>18,134</u>
Cash provided by financing activities	<u>49,766</u>	<u>83,095</u>
Effect of exchange rate changes on cash	<u>145,953</u>	<u>(29,945)</u>
Net increase in cash and cash equivalents	1,068,687	751,611
Cash and cash equivalents at beginning of year	<u>2,006,063</u>	<u>3,074,750</u>
Cash and cash equivalents at end of year	<u>\$ 3,074,750</u>	<u>3,826,361</u>
Supplemental disclosures of cash flow information:		
Cash payments of interest (excluding capitalized interest)	<u>\$ 97,335</u>	<u>90,245</u>
Cash payments of income tax	<u>\$ 54,208</u>	<u>173,294</u>
Supplementary disclosures of noncash investing and financing activities:		
Convertible bonds applying for conversion	<u>\$ 409,383</u>	<u>352,669</u>
Current portion of long-term debts	<u>\$ 2,405,966</u>	<u>235,533</u>
Purchase of treasury stock	\$ 579,045	506,820
Other payables	69,114	-
Cash paid in purchase of treasury stock	<u>\$ 648,159</u>	<u>506,820</u>

See accompanying notes to consolidated financial statements.