



Spokesperson:

A.P. Chen  
Chief Finance Officer

## **D-Link Reports 2Q 06 Pro Forma Consolidated Financials**

- Second quarter 2006 net revenue was NT\$9.631bln, up 18.6% year-over-year.
- Second quarter 2006 gross margin was 30.41% compared to 31.60% in 2Q/05.
- Second quarter 2006 operating margin was 5.65% compared to 5.40% in 2Q/05.
- Second quarter 2006 tax rate was 24.19%, up from 14.84% in 1Q/06 due to NT\$77mln one time accrual of 10% earning retention tax imposed on the undistributed earnings of 2005.
- Second quarter 2006 net income was NT\$ 393mln, up by 58% from NT\$248mln in 2Q/05.
- Second quarter 2006 EPS, on post-dividend-distribution fully diluted basis, was NT\$0.59, up by 58% from NT\$0.37 per share in 2Q/05.

**Taipei, Taiwan, August 4, 2006** - D-Link Corporation ("D-Link", "the Company", or "the Group") (TAIEX 2332) today announces its global pro forma consolidated financial results for the second quarter of 2006.

The first half of FY2006 pro forma revenue of NT\$19.174bln marked a 15.0% growth over the first half of FY2005 net revenue of NT\$16.675bln. Gross margin was 31.51%, slightly up from 31.43% for the same period of FY2005. Operating margin was 6.68%, also up from 6.62% in 1H/05. Net margin of 5.09% was significantly improved from 3.60% of 1H/05, a result of successful implementation of global operation process re-engineering.

For the second quarter of 2006, D-Link beat its sequential revenue guidance by posting net revenue of NT\$9.631bln, or slightly up by 0.9% over 1Q06, or up by 18.6% compared to the year-ago figure. On year-over-year basis, D-Link reached its target range of 15-20% sale growth for the first half of FY2006. Also remarkably achieved is the 58.5% YoY growth of profitability in 2Q/06 which came with even stronger momentum than the top-line growth.

Owing to more Alpha's ODM/OEM sales to third parties which averaged down consolidated margin, slower-than-expected seasonality in the period of Football World Cup and RoHS

products transition in Europe, gross margin dropped to 30.41% in 2Q/06 from 32.61% in 1Q/06, or 31.60% in the year-ago comparable quarter. Operating expenses of 24.76% of net revenue were well under control compared to 24.89% of the previous quarter, or compared to 26.20% in 2Q05. Operating margin came down to 5.65% in 2Q/06 when compared to 7.73% in 1Q06, but still slightly better than 5.40% in the comparable quarter of 2005.

On the non-op side, the major gains included NT\$40mln equity method recognition gains from long-term investment, NT\$79mln capital gain mainly from disposal of Alpha's shares, and NT\$ 84mln of other income. The gains were offset by NT\$97mln provisional inventory loss which includes a special provision of NT\$23mln against NT\$62mln worth of the non-RoHS compliance inventory in Europe. To sum up, D-Link enjoyed NT\$108mln non-operating profit in 2Q/06.

The profit before tax amounted to NT\$653mln, or equivalent to NT\$0.98 per share by adopting NT\$6,634mln post-distribution diluted capital. The pre-tax profit was knocked out by NT\$158mln tax expenses and NT\$102mln minority interests, leaving net income of NT\$393mln in the bottom line of the second quarter, or diluted EPS of NT\$0.59. The relatively higher tax expense of NT\$158mln was mainly brought about by the one time accrual of NT\$77mln earning retention tax on undistributed profit of 2005. If stripped out the one time earnings retention tax, the regular business tax rate would be 12.4% of PBT, generally consistent to 14.8% in 1Q/06, demonstrating sustainability of the tax benefit out of the execution of new global tax strategy.

D-Link's balance sheet remained healthy as of June 30, 2006. NT\$4,400mln Cash and NT\$1,635mln short term money market investment totaling NT\$6,035mln, increased by NT\$1,044mln from NT\$4,991mln at the March quarter, primarily due to Alpha's additional cash borrowed from FX hedging loans. The June quarter Account Receivables increased to NT\$7,679mln from NT\$7,085mln from previous quarter owing mainly to relatively stronger sales in June. Therefore, Days A/R was slightly lengthened to 70 days from 67 days at the end of March 2006. Inventory went up marginally to NT\$7.36bln from NT\$7.28bln as of March 31, 2006. QoQ Days Inventory was shortened from 100 days to 98 days. Cash was cycled at 89 days, slightly longer than 87 days as of March 31, 2006. The current ratio and debt/equity ratio were slightly deteriorated in June quarter due to one time re-classification of retained earnings to dividends payable per AGM resolution in last June. In short, D-Link financial standing maintained sound and liquid as usual.

To break down 2Q/06 revenue by regions, D-Link's global operation cast 27%, 21%, and 52% of consolidated sales on North America, Europe, and APAC & Emerging markets

respectively. For the Group, North America's sales was flat sequentially but down 1.0% YoY, due primarily to North America slower consumer purchasing, and Europe's went up 2.5% YoY but down 16.3% QoQ owing to which was further fatigued seasonality by the down market during the course of Football World Cup and RoHS products transition. APAC & Emerging markets', to the contrary, posting strong growth for 8 consecutive quarters, significantly rose by 42.3% YoY or up 11.0% QoQ and for the first time, superseded Europe plus N.A., and became the most important contributor. In 2Q/06, D-Link's revenue geographic diversification remained well balanced. D-Link's sales maintained its true global position.

By product categories, WLAN remained to rank the No.1 item, accounting for 30% of 2Q/06 consolidated revenue, followed by Broadband 27%, Switch 26%, Digital Home 11%, and NIC & Others 6%. Switch grew 31.8% on year-over-year basis or up 3.1% QoQ, WLAN grew 12.9% YoY but down 4.0% on QoQ, Broadband rose by 21.0 YoY or up 6.9% QoQ, and Digital home increased 12.5% YoY but down 4.3% QoQ.

According to the in-Stat 1Q 2006 statistics, in unit terms, D-Link remained at the helm as the global connectivity leader in SMB/SOHO/Consumer segments, commanding 23.9% of global market shares, ahead of Linksys and Netgear whose shares were 20.9% and 15.7% respectively. D-Link kept its solid position in global SMB/SOHO/Consumer networking connectivity.

As to product updates, D-Link rolled out 22 new models during 2Q/06, including Xstack Switches, KVM Switches, Wireless Router, Wireless Internet Camera, Wireless Printer Server, VoIP Gateway, Network Storage Array, Security Adapter, and etc. Highlighting on D-Link's Xstack Storage iSCSI SAN Arrays, the storage product line offers SMB and mid-market companies affordable high performance enterprise class solution for network storage. By utilizing existing Ethernet technology, the per Gigabyte cost for storage is significantly reduced. We anticipate the Xstack family of high performance storage products will be another driver for SMB sector.

Ken Kao, Chairman & CEO of D-Link noted "In 2Q/06, D-Link's profitability was in line with our expectation for the slow season and one-time tax impact, we are glad to see that the bottom line growth would outperform the sales growth on year over year basis. Due to back to school effects, we anticipate 3Q/06 revenue to rise by 10-15% sequentially, maintaining the similar sales pattern as the past several years. Gross margin in 3Q/06 is projected to be back to the range of 31-32%." Mr. Kao added, "By regions, we project SMB and consumer demands would gradually warm up in North America and Europe in 3Q/06. The Emerging markets and Asia Pacific will keep its upper hand position over all other regions. For

consumers, we are ready to offer Pre-N and more new Digital Home products. For SMB, we have already launched a series of Xstack family of Switch & Storage products to provide SMB with the total network solution. For the telcos/ISP segment, deployment of VoIP & Triple Play products will keep expanding. Our view of showing a backend-loaded within the second half of 2006 remains unchanged”

### **About D-Link**

D-Link is the global leader in total products shipped for consumer networking connectivity according to reports published by the Synergy Research Group. D-Link is the worldwide leader and award winning designer, developer, and manufacturer of networking, broadband, digital electronics, voice and data communications solutions for the digital home, Small Office/Home Office (SOHO), Small to Medium Business (SMB), and Workgroup to Enterprise environments. With more than a million square feet of manufacturing capacity and millions of Ethernet adapters, hubs and switch ports, manufactured and shipped, D-Link is a dominant market participant and price/performance leader in the networking and communications market. D-Link Corporation headquarter is located at No.289, Sinhu3rd Road, Neihu District, Taipei City 114, Taiwan. Phone: 886-2-6600-0123; FAX 886-2-6600-9898; Internet [www.dlink.com.tw](http://www.dlink.com.tw)

{ Copyright © 2006 D-Link Corporation, All Rights Reserved. }