D-Link®

Annual Report

2001

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Financial Highlights 2001

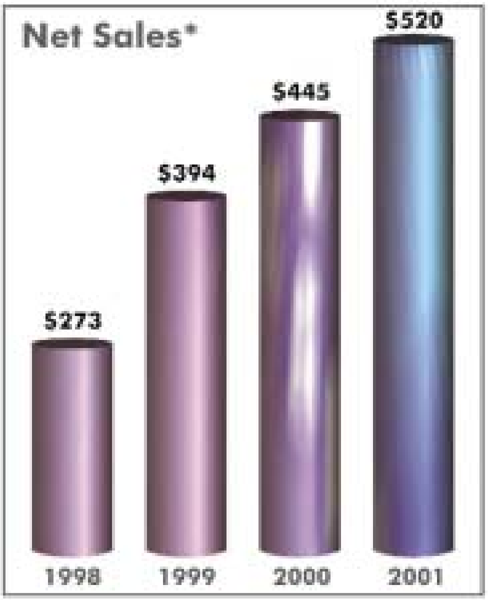
(U.S. Dollars in Thousands)	2001	2000	1999
Net Sales	$519,898	$445,302	$393,508
Operating Income	$15,256	$13,016	$23,682
Net Income before tax	$30,044	$26,500	$21,976
Net Income after tax	$28,196	$26,563	$21,787

*Amounts are expressed in U.S. Dollars solely for reader's convenience, at the rate of: NT$33.87=US$1, the average annual exchange rate for 2001
NT$31.29=US$1, the average annual exchange rate for 2000
NT$32.34=US$1, the average annual exchange rate for 1999

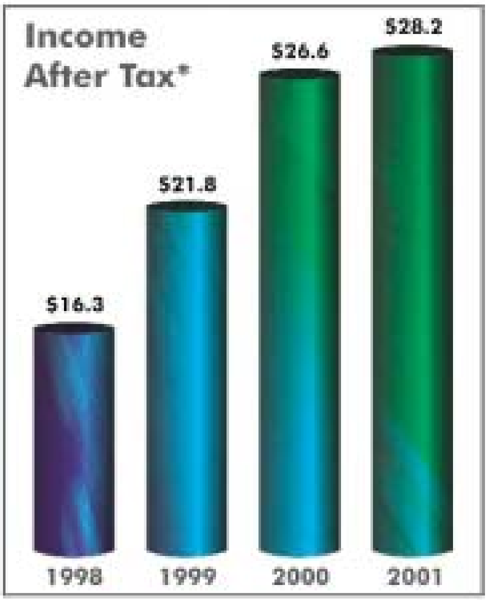
(U.S. Dollars in Thousands)	2001	2000	1999
Cash & Cash Equivalents	$90,394	$75,337	$58,676
Total Assets	$503,998	$447,990	$364,730
Working Capital	$179,903	$125,117	$145,306
Long-Term Loans	$85,160	$28,966	$48,521
Total Shareholders Equity	$264,801	$256,237	$209,736
Shares Outstanding**	445,941	378,847	305,012

*Amounts are expressed in U.S. Dollars solely for reader's convenience, at the rate of: NT$35.04=US$1, the prevailing rate on December 31, 2001
NT$33.20=US$1, the prevailing rate on December 31, 2000
NT$31.44=US$1, the prevailing rate on December 31, 1999

**In Thousands



*Amount in U.S. Millions



*Amount in U.S. Millions

Letter to Shareholders

Year Two Thousand and One has been another year of growth in both net sales and profit for the Group. It has been a year in which we strengthened our position as one of the world's leading developers and manufacturers of data networking, broadband and communication solutions in the small and medium enterprise sector.

Globally consolidated revenues for Fiscal Year (FY) 2001 grew to an all time high of US$520 million, a surge of 17 percent over the US$445 million in Fiscal Year 2000. Net income rose to $28.2 million, up from $26.6 million last year, an increase of 6 percent. Net income per share was US$0.06, compared to US$0.072 for the same period last year.

D-Link Group managed to post these spectacular growth results by successfully executing its vision and product strategies in a most challenging economic environment and undaunted competitive landscape. The events of September 11th, global economic downturn, cutback of enterprise IT spending, and continued industry consolidation created challenges that have never been experienced before.

Geographically, we continued to penetrate all major markets. In the US, D-Link wireless and home gateway products made a splash by being one of the top 4 vendors in merely a year's time. D-Link gained even more exposure and visibility in all of the top tier retail IT stores and market share was greatly enhanced as a result. In Asia, we made major progress by being the leading broadband Customer Premise Equipment (CPE) or Wide Area Network (WAN) solution provider in the Japanese market. We continued to win new business mandates from our blue-chip Japanese Original Design Manufacturing (ODM) partners. Sales to Japan grew an astonishing 57% during the year. In China, it has been another year of fruitful revenue growth, or 30% Year over Year (YoY). D-Link Local Area Network (LAN) solutions continue to beat global competitors and clinched a number two seat in the Chinese data networking market. The Group made its first step by pitching Metro Ethernet technology to help deploy cost-effective last mile solutions for the Chinese telecommunication industry.

Product wise, D-Link took advantage of the quick convergence of voice and data by providing connectivity solutions over the Ethernet platform. While the wired LAN solutions continued to be core product offerings, we also strengthened our wireless LAN (802.11a, 802.11b and bluetooth), broadband access (Asynchronous Digital Subscriber Line and Cable Modems), Voice over Internet Protocol(VoIP), and residential gateway product lines. Together these new technologies contributed 35% of FY2001's revenue and continued to prosper well into FY2002.

In order to provide top notch LAN, Wireless LAN (WLAN) and home solutions, the D-Link Group has established a significant multi-layered distribution channel in all major market territories. To extend the best level of local support and technological assistance to our customers worldwide, the Group has opened more overseas subsidiaries, branch offices, technical support centers and warehousing facilities during the year. With a well-established global distribution network and 50 sales offices in 23 countries, D-Link products now are available in more than 100 countries. Most noteworthy, was the public listing of our Indian subsidiary in April of 2001. It not only demonstrated D-Link's commitment to that market, but also echoed the overwhelming market acceptance of the Brand.

In 2001, we continued to beef up our Research & Development teams in China and India to further expedite innovative next generation solutions for emerging technologies. China, in particular, saw the fastest growth in R&D given the potential and proprietary nature of that market. Our talented engineers in the four R&D centers worldwide continue to do an excellent job of designing and developing cutting edge communications products, allowing D-Link to deliver the most integrated, advanced and tailor-made networking solutions from wired LAN, to digital home, WLAN, and broadband.

Despite the ever-challenging global economic outlook, I believe that D-Link has positioned itself to be a strong player in the global data networking industry in the coming year. By strategically targeting emerging standards-based Internet connectivity growth market segments for business-to-business, and business-to-consumer applications, D-Link has been able to leverage its product rights whenever the need arises.

I look forward to seeing great potential in Asia. With the continued outsourcing trend from Japan of WAN and broadband CPE devices, and deeper penetration in China, a place we call "home" for D-Link LAN and Metropolitan Area Network (MAN) products, we should continue to see higher revenue streams from Asia in FY2002. The US market will still benefit from the faster adoption of WLAN 802.11 products and the popularity of the digital home solutions.

We are excited to see the non-stop, aggressive adoption of 802.11 WLAN, the quick integration of broadband CPE's, the improved infrastructure for VoIP, deployments of Gigabit Ethernet within enterprises and power users. In particular, we are optimistic about wireless technology, which should be the key revenue driver in terms of growth for the Group and the whole networking arena in 2002. With a projected growth to $4.5 billion by the end of 2006 per Allied Business Intelligence, this technology clearly has much room for further growth. The Group is committed to aggressively competing in this emerging technology arena with our widest and most integrated 802.11a and 802.11b product offerings.

We remain fully committed to delivering world-class quality products for accessing the Internet. Our development and delivery of Gigabit Ethernet adapters and switches, WLAN adapters, access points and routers, digital home gateways, and integrated broadband devices have led the way for a wide range of small and medium enterprises, homes, and services providers worldwide.

D-Link's balance sheet remained sound and intact despite the very challenging industry environment. The management team made great efforts to bring down global inventory during this tough period to the lowest level in the past three years, with the implementation of a global Enterprise Resource Planning (ERP) system. As a result, cash cycle improved to merely 82 days, the best in three years. This tremendous effort in cash flow management has enabled the Group to generate positive cash flow from operations since the second quarter of FY200I, which is a key matrix in measuring operation efficiency. The Income Statements also showed stability in FY2001. Most noteworthy, the Group managed to register a 27% consolidated gross margin, up from 26% in FY2000, due to a better product mix. Return on Equity (ROE) was stabilized at 10%, it may not be the best we opted for, but it certainly was not easy considering a very tough business environment for FY2001.

Looking forward, I firmly believe that the diverse channel structure combined with an advanced product mix, deeper penetration and a stronger foothold in major markets, precise execution of tailor-made product strategies in each geographic region, and solid financial performances, shall all provide concrete assurance for D-Link customers and investors worldwide. D-Link is well positioned to participate in all major markets through its strong global presence, and benefits from outsourcing to many major ODM partners based on the Company’s leading technological edge. Financially, given the strategic migration towards the higher end and integration sides of the networking value chain, I anticipate better profit margins at both the gross and operating levels in FY2002.

I wish to thank all of our shareholders, customers, and employees for their support in 2001 and look forward to meeting the challenges in 2002 and beyond. I remain confident in the long-term strategy for the company. D-Link is ready to embrace all of the opportunities that lie ahead as we direct our resources to the fastest growing areas, unleash the spirit and energy within each and every D-Link employee, and strive to achieve an even more competitive and successful D-Link.

Ken Kao
Chairman and CEO
D-Link Group

Sales/Marketing

D-Link is an engineering driven company that has built a strong brand name for delivering high quality, reliable products. With a commitment to Research and Development, the Company continues to deliver leading edge, standards-based technology solutions. Industry awards and accolades underscore the quality, reliability and technical excellence that D-Link engineers build into the Company's products.

This past year, the Company reshaped its consumer look to reflect the quality inside the products by creating a new design for its retail line that employs a futuristic Titanium theme. This state-of-the-art design integrated new stackable product moldings, user-friendly software-based graphical user interfaces, and new retail point of purchase packaging.

We market our products through multi-tiered distribution channels from a business to consumers and business to business model structure.

This D-Link brand equity provides D-Link with sustained sales growth opportunities, balancing it from declining revenues at times of global economic downturns and extending the quality product and manufacturing with consumers at large as well as industry vendors and contractors.

A strong global presence and aggressive price points allow the Company to build a solid following while even further extending brand image and brand equity.

New product casings and packaging designs deliver strong brand presence

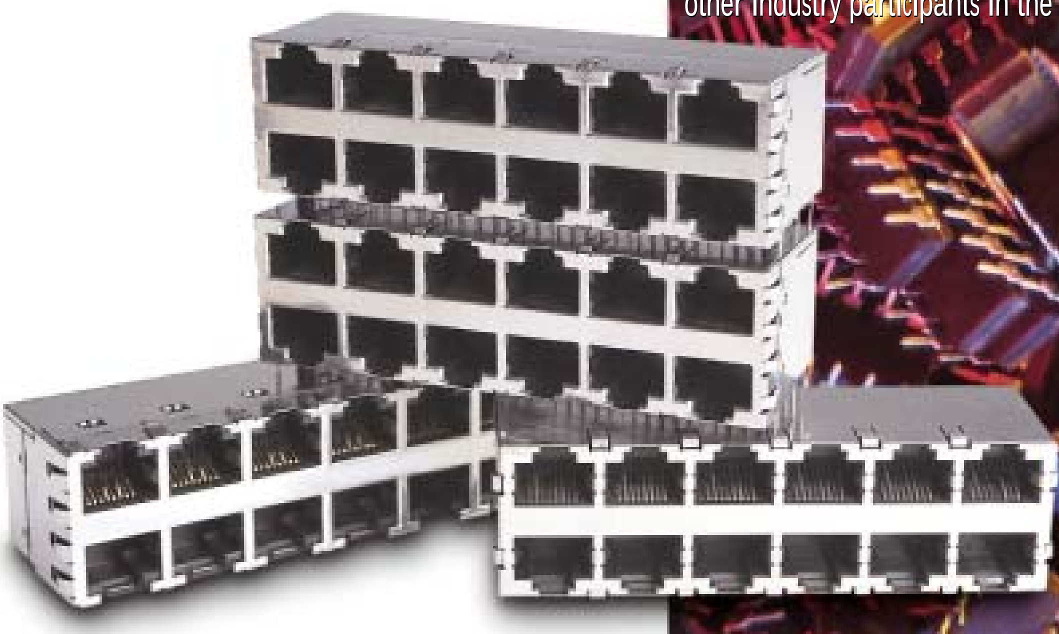
D-Link extends its engineering resources and sells to other industry participants through private label, Original Equipment Manufacturing (OEM) and Original Design Manufacturing (ODM) agreements. Both D-Link branded product and OEM/ODM D-Link designed and manufactured products have one thing in common: Quality.

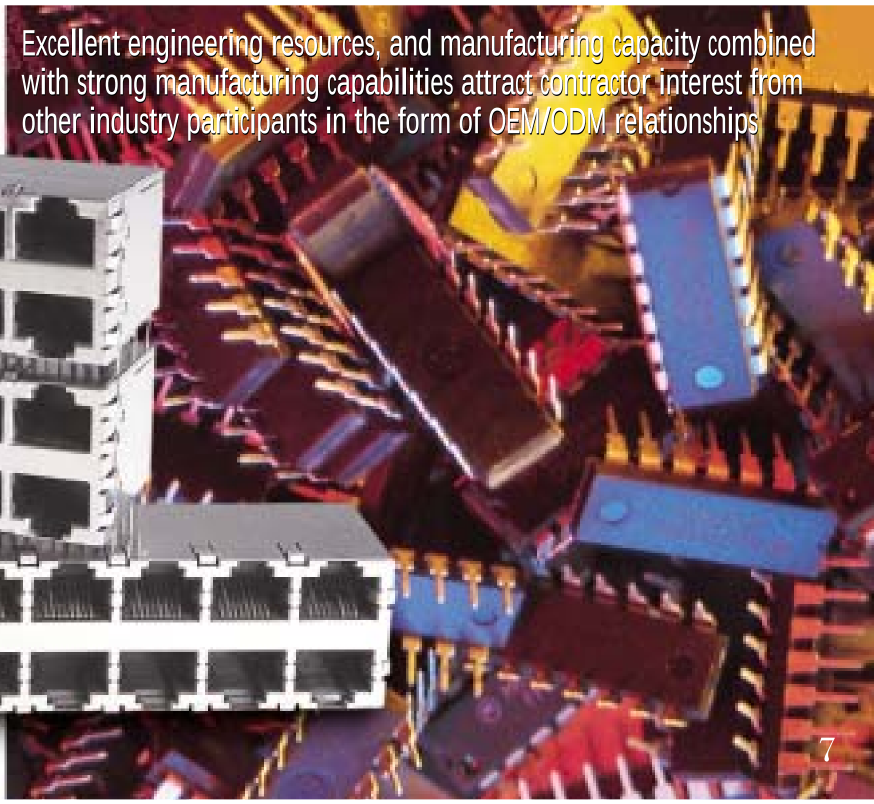
Some of the most prestigious companies in the industry contract with D-Link to create the reference design for silicon or to deliver a completely D-Link manufactured product as finished goods with an OEM private label attached to the product.

Industry chipmakers and silicon manufacturers contract with us to help design and develop technology. We have teams of engineers who are dedicated to developing the reference designs for new chip technologies.

The chipmakers then deploy these D-Link designs under a private label of their respective name in addition to the silicon chip itself to finished goods manufacturers. In this way, D-Link is helping the industry as a whole, all the way down to the consumer, to get the best possible performance and functionality out of a new silicon or technology product.

It is this total commitment to driving technology to the edge that is at the heart of the company's success.





Excellent engineering resources, and manufacturing capacity combined with strong manufacturing capabilities attract contractor interest from other industry participants in the form of OEM/ODM relationships

Manufacturing

World Class

D-Link is a world-class manufacturing company. With more than a million two hundred thousand square feet of manufacturing space and capability, an equally impressive range of high-tech manufacturing machinery and test equipment, and extremely well trained people, the Company is in a good position to meet the challenges of growth that lay ahead.

Whether D-Link begins by creating the reference design for a chipmaker, or for the development of a specific technology, the Company is capable of providing every step of the manufacturing process from design concepts to the delivery of finished goods with unsurpassed quality.

Our engineers work up advanced concepts, detailed designs and advance the development of standards-based technology. Then, the process is carried to the next level from prototype to pilot creations and onto the massive manufacturing processes.

With our highly skilled and knowledgeable labor force we execute manufacturing efficiency programs that leverage production and raw material sourcing techniques for greater cost savings.

To increase the core equity, and future capability of the company, D-Link has continually invested profits back into the company to buy sophisticated manufacturing and test equipment. This commitment to manufacturing allows D-Link to control the quality, reliability and compatibility of the products its sells.

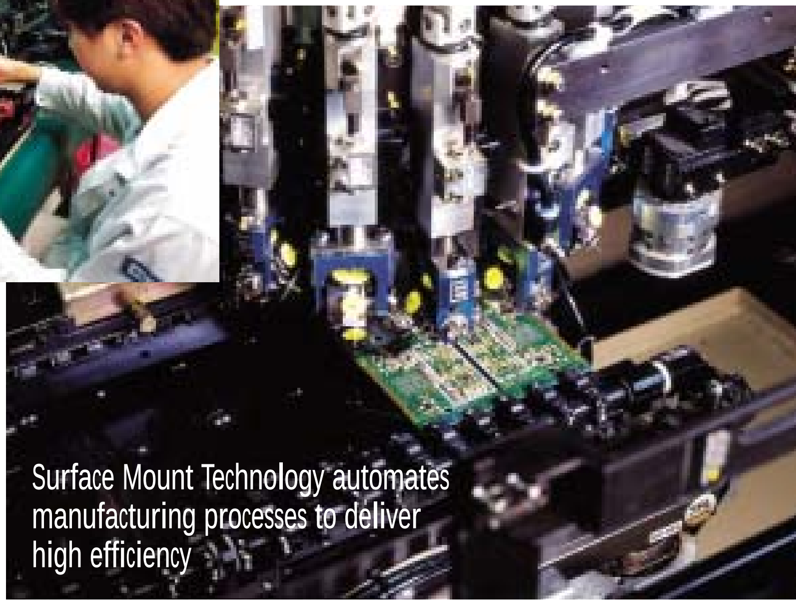
Facilities

D-Link now has seven state-of-the-art facilities in four countries. They are: Hsin-chu, Taiwan; Dongguan, China; Wujiang, China; three in Goa, India; and Irvine, California, United States.

The Hsin-chu facility has a total floor area of 452,000 square feet

The Wujiang manufacturing facility has a total floor space of 70,500 square feet

Computer aided testing ensures the highest quality products



Surface Mount Technology automates manufacturing processes to deliver high efficiency

D-Link's main production facilities are located in Hsin-chu, Taiwan, Dongguan, China and Wujiang, China. The Company has three manufacturing plants in Goa, India and one in Irvine, California, USA.

D-Link's production line in Irvine, California is engaged in the manufacturing of high-end products for the U.S. market, as well as the world market. The D-Link plants in Goa produce timely shipments in the subcontinent and to nearby markets.

The Hsin-chu facility in Taiwan has a total floor area of 452,000 square feet. The plant has seven Surface Mount Technology (SMT) lines, which can be joined together to produce three extra long SMT lines if required. It also has four through-hole (manual insertion) lines, six final assembly lines and an automated warehouse system. The facility runs three full shifts per day.

The Dongguan facility in China has a total floor space of 426,000 square feet, with six SMT and through-hole lines, and five final assembly lines and can be expanded to accommodate up to fourteen SMT lines. The plant's most important advantage to D-Link is its proximity to Taiwan headquarters.

The China plant also provides the benefits of inexpensive labor and cost-effective product components. In addition, a common language and culture with the head office enables the company to easily achieve expansion and economy of scales.

The Goa manufacturing facility in India has a total floor space of 49,837 square feet

The Dongguan facility has a total floor space of 426,000 square feet

Manufacturing

Quality

Achieving world-class quality manufacturing is a challenge that D-Link has embraced with great success. Signifying a strong dedication to the art of making superior finished goods, the company employs quality procedures and processing, advanced manufacturing techniques, and rigorous testing before the D-Link name is stamped on the product.

Engineers, technicians and quality specialists closely examine the products as they are manufactured to ensure that all products leaving the facility are fully functional and without defect.

Industry Certifications

On June 22, 1994, D-Link became Taiwan's first network equipment manufacturer to earn the International Organization for Standardization (ISO) certification for quality assurance in design/development, production, installation and servicing.

The ISO is a worldwide federation that has created a set of certifications that are based on universal rules for governing stable quality in manufacturing that transcends all languages, interpretations, and equivocations.

D-Link manufacturing facilities have earned the ISO 9001, ISO 9002, and the ISO 14001 certifications.

ISO 9001 and ISO 9002 certifications designate that the Company has defined processes for establishing and maintaining an effective, quality system for manufacturing. These certifications outline a guide for quality products and have become an international reference for quality requirements in business to business dealings.

D-Link's ISO certifications assure quality

The ISO 14001 designation certifies that the Company has demonstrated a successful Environmental Management Systems (EMS) and underscores D-Link's serious concern to make environmentally friendly products. The certification requires strict adherence to existing environment protection laws, expansion of in-plant recycling and improvement of the production process, to reduce harmful effects on the environment.

Investment in state-of-the-art test equipment allows D-Link to ensure quality, while building a foundation for future capabilities.

SYMBOL OF EXCELLENCE
WINNER

D-Link's commitment to quality manufacturing has repeatedly earned the coveted Symbol of Excellence Award

D-Link continues to invest in advanced testing gear like this optical testing machine

Technical Excellence

The Symbol of Excellence is an award that honors Taiwan's best-designed, most innovative and highest quality products. It is awarded annually to a select group of products and is considered to be the most prestigious recognition program in Asia. Each year, hundreds of Taiwan companies compete for the award and are evaluated in five distinct categories: quality system, product design, R&D/innovation, market position and brand awareness.

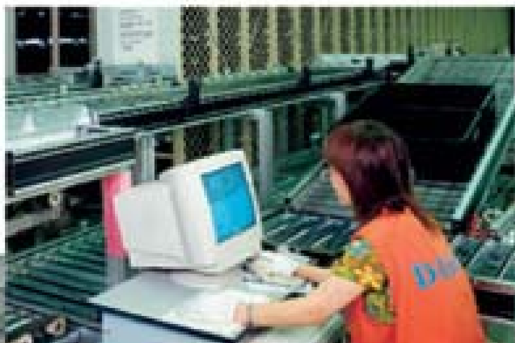
Since the inception of the Symbol of Excellence Award in 1993, D-Link has won twenty-four Symbol of Excellence awards for outstanding products; five of which went on to win the Gold National Award of Excellence. In 2001, D-Link garnered three Symbol of Excellence Awards and one Gold National Award of Excellence.

Quality Assurance Testing

D-Link has established comprehensive quality testing methods that are part of our Quality Assurance Center to monitor and control product quality in strict adherence with international standards.

Quality control procedures include: a burn-in period for finished products, production reliability audits, failure analysis for identification of production problems and customer service. The testing systems assure the quality of D-Link's products and help control manufacturing costs.

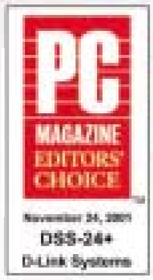
D-Link people are well trained and use advanced testing equipment to deliver quality



Technology

With strengths in chip design, technology development, and high-volume manufacturing, D-Link is an established leader in Ethernet networking technology. The Company has repeatedly delivered best-of-class products and powerful end-to-end Ethernet networking solutions.

This Ethernet segment of the market is fundamentally sound and we are extremely well positioned to take advantage of the changes and technology migration that will occur in the coming years.



PC Magazine recognized the quality D-Link delivers with an Editors' Choice

Networks

D-Link engineers are continually developing next generation solutions and reshaping future technology innovation. Whether it is pushing the envelope on an emerging technology, designing pilot samples of alternative chip solutions, developing the next evolution of existing technical capabilities, or costing down mainstream technical solutions, D-Link engineers are hard at work scientifically pushing technology to its outermost limits and capabilities.

Networking is a core technology for the future of data communications. As the most scalable, flexible and cost-effective networking standard, Ethernet is well established as the dominant networking technology. In fact, nearly all traffic on the Internet originates or ends with an Ethernet connection.

10/100 Fast Ethernet

First proposed in 1992, Fast Ethernet has become the high-speed technology for today's LANs and corporate desktop users. This IEEE standards-based technology has been so successful because it is easy to use and readily upgradeable. Fast Ethernet is also highly reliable and has repeatedly proven it can be trusted with mission-critical applications.

D-Link produces a wide range of powerful high-end and backbone Ethernet switches that are designed for the enterprise and departmental processing

D-Link Ethernet switches deliver performance and scalability that is critical for enterprise network environments

D-Link Fast Ethernet products are a dominant force in home and business environments alike; delivering increased network performance, increased network scalability, and decreased costs over time. Working closely with Internet Service Providers allows the Company to deliver Ethernet NICs directly into consumers' PCs at the time of broadband installation. In addition, D-Link has worked closely with Value Added Resellers since the Company's inception and has a strong hold on network infrastructure in the business environments.

Gigabit Ethernet

Just as Fast Ethernet provided a low-cost incremental migration from 10Mbps Ethernet, Gigabit Ethernet provides a low-cost incremental migration from 10/100Mbps Fast Ethernet.

As a leading supplier of Ethernet technology, D-Link provides a broad range of standards-based, high performance Gigabit Ethernet solutions designed to lower enterprise IT costs and simplify the transition. In general, upgrading to Gigabit Ethernet over copper is ideal even when budgets are tight; it will increase performance and breathe new life into older networks that now have extended needs by building on a company's current investment in cabling.

Initially focusing on uplinks to the backbone, switch-to-switch links, and switch-to-server connections, shrinking price deltas and increased use of bandwidth intensive applications are ramping the growth of desktop Gigabit connections and continuing a familiar path as businesses upgrade to 1000Mbps from 100Mbps.

10 Gigabit Ethernet

The migration to Gigabit Ethernet on the desktop is in turn helping to drive the need for 10 Gigabit Ethernet in servers and enterprise backbones. Currently, D-Link is focusing on 10 Gigabit Ethernet products that provide local backbone interconnections between large-capacity switches. As the demand for bandwidth increases, D-Link will be ready to deliver solutions that will allow 10 Gigabit Ethernet to be deployed throughout the entire network and will include server farm, backbone and campus wide connectivity.

10 Gigabit Ethernet operates over optical fiber lines, while meeting several key requirements for high-speed networks, including flexibility, lower cost of ownership, and interoperability with existing Ethernet networks. Ideal for building Metropolitan Area Networks, this emerging technology will allow the connection of geographically dispersed LANs between campuses or points of presence.

Wireless

Wireless networking takes up a small portion of the full electromagnetic spectrum

Expanding on D-Link's core competency of Ethernet networking, the Company began developing high-rate wireless Ethernet technology. Ultimately, the company introduced products in 2000 as the Institute of Electrical and Electronic Engineers (IEEE) agreed upon a high rate standard, which was initially named the IEEE 802.11HR (High Rate).

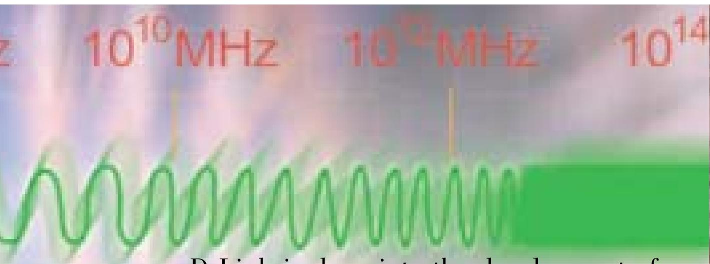
Today, wireless networking has emerged as a mainstream set of technologies and is growing in popularity among resellers and consumers. This is due in large part to its scalability and seamless interoperability with Ethernet - the most widely used networking technology.

D-Link was the first to recognize the huge potential for wireless networking in the digital home and the small to medium business markets. That is why the Company was first to deliver a SOHO IEEE 802.11b 11Mb wireless network to the consumer market. Since then D-Link*Air* has taken the market by storm, driving this technology to an affordable level.

Digital Home

D-Link*Air* wireless offers a wide range of connectivity solutions for the home with multiple interface technologies such as PCI, USB, PC Card and Ethernet. Strict compliance to the IEEE 802.11b networking standard within the 2.4GHz frequency range for wireless connectivity, means that the D-Link wireless products are very compatible and interoperable in a multi-vendor environment that is standard compliant.

D-Link wireless networking provides home users with the freedom to compute from the back yard to the bed room

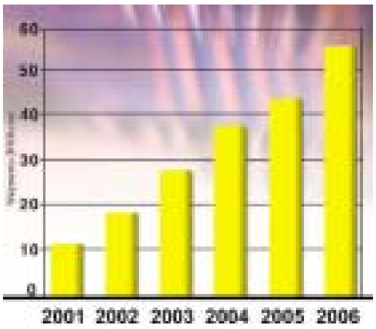


D-Link is deep into the development of next generation wireless solutions. The Company is pushing to achieve even higher rated bandwidths in the 2.4GHz spectrum for greater performance and to create more integrated solutions like the D-Link*Air* Wireless Internet Camera for extended functionality.

The roaming capabilities of D-Link wireless allows business users to bring their work to their meetings

Business and Enterprise

In order to better address the enterprise and departmental connectivity needs, D-Link introduced a high-performance 54Mbps bandwidth standards-based 5GHz wireless line of products called D-Link *Air*Pro.



Total WLAN Node Shipments, World Market: 2001 to 2006
(Source: Allied Business Intelligence Inc)

Industry Analysts are forecasting excellent growth in the wireless market

The D-Link *Air*Pro series is fully standard compliant with the IEEE 802.11a specification for high-speed wireless networking. These powerful new D-Link *Air*Pro products offer high-speed data rates at up to 54Mbps in standard mode, and 72Mbps in "Turbo" mode.

Typical IT professionals at the enterprise and departmental level deploy wireless technology to extend and support users. This means that most high-speed wireless products are worked into a core multi-technology network with an Ethernet base. The D-Link wireless products are completely interoperable with Ethernet.

Bluetooth

D-Link has entered the 2.4GHz Bluetooth networking arena as well, with its DWB-120M adapter. Bluetooth technology provides a simple wireless connectivity experience with seamless Wireless Personal Area Network connectivity.

Delivering zero-configuration wireless capabilities, users can choose to connect up to seven Bluetooth devices together simultaneously in peer to peer or ad hoc mode to create a piconet. As the ideal solution for short-range wireless data communications, Bluetooth allows users to share data on their PC with other Bluetooth enabled computers, PDAs, printers, cellular phones, digital cameras, and other electronic devices.

Broadband

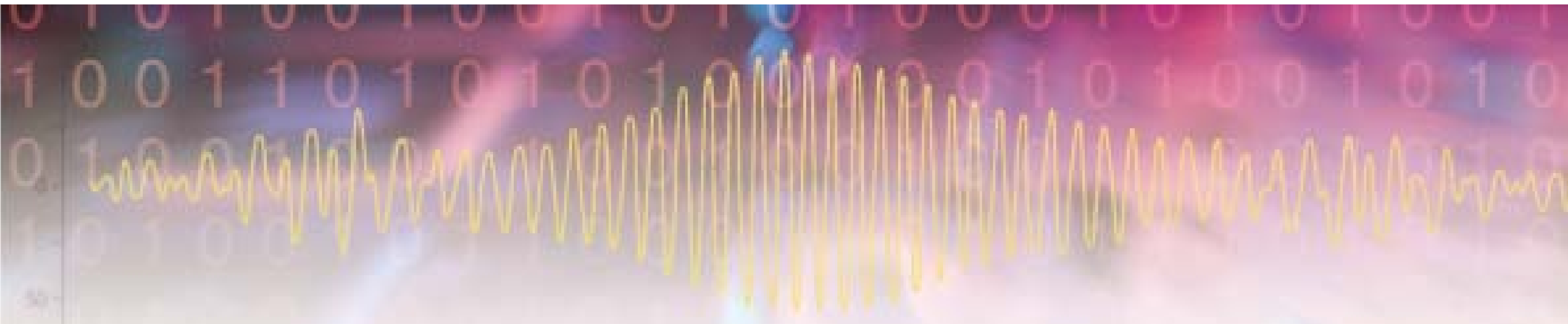
The emergence of the Internet in daily life and its ability to deliver a wide range of services, entertainment, information and e-mail for business and home users have created a need for faster and easier access.

The demand for faster access and instant data is driving large-scale technology manufacturers like D-Link to provide better, faster, and more affordable Digital Home and business solutions to these markets. The digital home market consists of individuals and families who want easy and low-cost connections that are secure at home and on the move.

As the Internet is the driving force behind user demand for connectivity products, broadband Internet access becomes the key. Service providers such as Telephone Companies, Internet Service Providers and Cable companies offer a wide range of broadband connections to a wide range of subscribers, home users, and businesses over various access infrastructures. Connectivity manufacturers like D-Link, design, engineer and manufacture the technology that provides the physical access.

Today, D-Link high-speed modem products find their way to many consumers in the home and business through network service providers.

The Company also sells broadband and Internet connectivity products through a multi-channel structure that includes consumer retail, e-commerce, catalog and dealers. This vast channeling system provides access to sharing and security devices designed to complement the broadband connection and directly address the needs and concerns of broadband customers. These products, which include routers, residential gateways, firewalls and integrated



broadband access devices that combine firewall, routing, access points, switching and even printer sharing functionality into one convenient value-added product, continually set new standards for price and performance.

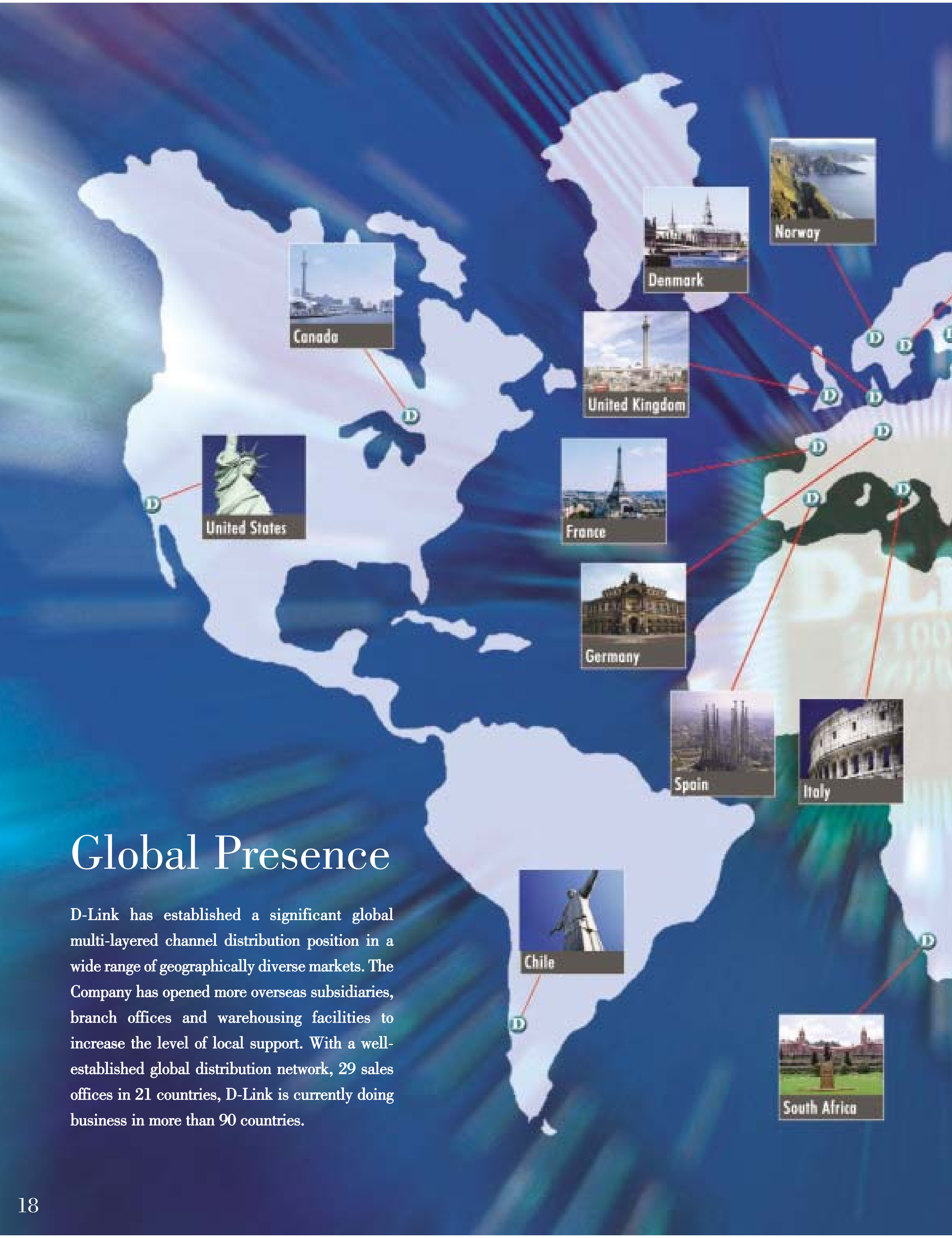
With a close watch on the future, D-Link is deep into the development of emerging technologies. In 2001, D-Link was one of the first to deliver a Universal Plug-n-Play enabled residential gateway and an affordable Virtual Private Networking router solution. The Company works closely with service providers and existing distribution channels to bring its broadband products to market.

The cost benefits of IP Telephony are driving this emerging technology to mainstream market segments

IP Telephony

Internet Protocol Telephony is an important emerging technology that provides significant cost advantages and affordable solutions. The Voice over Internet Protocol (VoIP) carries voice signals in the IP packet format, which allows the packet to be transmitted digitally over an IP network. This VoIP technology links traditional telephony networks to IP networks.

D-Link currently manufactures and sells voice communications products that include a range of VoIP gateways and telephone solutions — all of which have their foundation in Ethernet, yet operate for users in the same manner as the premises distribution carrier telephone system that is deployed in homes and business today. With this series of IP telephony devices that provide connection paths between the plain old telephone service (POTS) lines and the Internet Service Provider (ISP) via the global Internet network, D-Link is rapidly becoming a key supplier of end-user equipment for Telecom companies and ISPs offering worldwide IP-based services.



Global Presence

D-Link has established a significant global multi-layered channel distribution position in a wide range of geographically diverse markets. The Company has opened more overseas subsidiaries, branch offices and warehousing facilities to increase the level of local support. With a well-established global distribution network, 29 sales offices in 21 countries, D-Link is currently doing business in more than 90 countries.


Sweden
Finland
Russia
Egypt
India
China
Japan
Taiwan
Singapore
Australia
D-Link

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Oakville, Ontario, L6H 5W1
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FAX: 1-905-829-5095
URL: www.dlink.ca

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FAX: 44-20-8731-5511
URL: www.dlink.co.uk

Germany
Schwalbacher Strasse 74
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Germany
TEL: 49-6196-779900
FAX: 49-6196-7799300
URL: www.dlink.de

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Le Florilege No. 2, Allee de la Fresnerie
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FAX: 33-1-30 23 86 89
URL: www.dlink-france.fr

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The Netherlands
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FAX: 31-40-2668666
URL: www.dlink-benelux.nl/

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FAX: 39-02-2900-1723
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D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2000 and 2001
(With Independent Auditors' Report Thereon)

安侯建業會計師事務所
KPMG Certified Public Accountants
台北市松山區105民生東路三段156號6樓
6th Fl., No. 156, Sec. 3, Min-Sheng East Road,
Taipei, 105, Taiwan, R.O.C.
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Independent Auditors' Report

The Board of Directors
D-Link Corporation:

We have audited the consolidated balance sheets of D-Link Corporation and subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of D-Link management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries included in the consolidated financial statements. The total assets of these subsidiaries was NT$538,188 thousand and NT$683,855 thousand as of December 31, 2000 and 2001, respectively, and their total revenue was NT$1,302,226 thousand and NT$1,543,710 thousand for the years ended December 31, 2000 and 2001, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for D-Link Corporation, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of D-Link Corporation and subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

KPMG

Hsinchu, Taiwan (the Republic of China)

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

March 25, 2002

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2000 and 2001
(In thousands of New Taiwan dollars, except for net income per common share)

	2000	2001
Sales (note 17)	$ 13,933,500	17,608,949
Cost of goods sold (note 17)	10,253,787	12,830,488
	3,679,713	4,778,461
Net changes in unrealized inter-company profits	(372)	(27,423)
Gross profit	3,679,341	4,751,038
Operating expenses (note 17):		
Selling	2,381,233	3,134,104
Administrative	398,315	423,339
Research and development	492,532	676,870
	3,272,080	4,234,313
Operating income	407,261	516,725
Non-operating income:		
Interest income (note 17)	41,936	70,901
Gain on disposal of investments, net	369,596	236,845
Investment income, net (note 7)	238,502	324,119
Exchange gain, net	53,171	207,370
Other income (note 19)	41,310	-
	744,515	839,235
Non-operating expenses:		
Interest expense (note 12)	191,353	130,328
Loss on inventory obsolescence and devaluation	131,243	176,145
Other loss (note 19)	-	31,904
	322,596	338,377
Income before income tax and minority interest	829,180	1,017,583
Income tax expense (note 15)	6,502	68,031
Income before minority interest	822,678	949,552
Net loss attributed to minority interest	8,492	5,456
Net income	**$ 831,170**	**955,008**
Net income per common share	**$ 2.26**	**2.15**

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2000 and 2001
(In thousands of New Taiwan dollars)

Assets	2000	2001
Current assets:		
Cash and cash equivalents (note 3)	$ 2,501,182	3,167,421
Short-term investments (note 4)	61,355	1,328,376
Notes and accounts receivable (note 5)	2,859,591	2,739,590
Receivables from related parties (note 17)	180,715	273,338
Inventories (note 6)	3,233,080	2,993,675
Prepaid expenses and other current assets (note 15)	505,584	664,105
Total current assets	9,341,507	11,166,505
Long-term equity investments (notes 7 and 17)	2,456,835	3,135,798
Property, plant and equipment (note 9):		
Land	100,922	95,949
Buildings and improvements	1,718,751	1,991,399
Machinery and equipment	1,011,679	1,107,712
Other equipment	434,849	413,057
Construction in progress and prepayment of machinery and equipment	250,752	42,249
	3,516,953	3,650,366
Less: accumulated depreciation	(659,659)	(858,694)
Net property, plant and equipment	2,857,294	2,791,672
Other assets:		
Assets held for lease (note 8)	-	162,648
Deferred expenses and other assets (notes 15 and 18)	217,635	403,469
Total other assets	217,635	566,117
Total assets	**$ 14,873,271**	**17,660,092**

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	2000	2001
Current liabilities:		
Short-term borrowings (note 10)	$ 1,945,993	1,022,062
Commercial paper payable (note 11)	335,683	166,801
Notes and accounts payable	1,675,865	2,049,944
Payables to related parties (note 17)	426,573	679,930
Accrued expenses and other current liabilities (note 16)	803,501	943,957
Total current liabilities	5,187,615	4,862,694
Bonds payable (note 12)	961,672	2,984,009
Other non-current liabilities (notes 13 and 19)	150,667	424,287
Total liabilities	6,299,954	8,270,990
Minority interest	66,264	110,492
Stockholders' equity (note 14):		
Common stock	3,788,466	4,459,414
Certificates for conversion of convertible bonds	-	25
Capital surplus	3,200,537	2,821,407
Legal reserve	344,784	427,753
Special reserve	275,530	275,530
Unappropriated earnings	846,557	1,194,350
Foreign currency translation adjustment	51,179	100,131
Total stockholders' equity	8,507,053	9,278,610
Commitments and contingent liabilities (notes 17 and 19)		
Total liabilities and stockholders' equity	**$ 14,873,271**	**17,660,092**

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 1999 and 2000
(In thousands of New Taiwan dollars)

		Common stock	Certificates for conversion of convertible bonds
Balance at January 1, 2000	$	3,050,119	-
Appropriation of earnings:			
Legal reserve		-	-
Directors and supervisors' remuneration		-	-
Stock dividends		226,644	-
Cash dividends		-	-
Employees' bonuses		75,000	-
Capital surplus transferred to common stock		232,769	-
Issuance of common stock for cash		93,600	-
Convertible bonds applying for conversion		110,334	-
Net income for 2000		-	-
Gain on disposal of property and equipment transferred to capital surplus		-	-
Foreign currency translation adjustment		-	-
Effect of disproportionate participation in investee's capital increase		-	-
Balance at December 31, 2000		3,788,466	-
Appropriation of earnings:			
Legal reserve		-	-
Directors' and supervisors' remuneration		-	-
Stock dividends		189,423	-
Cash dividends		-	-
Employees' bonuses		93,000	-
Capital surplus transferred to common stock		378,847	-
Convertible bonds applying for conversion		9,678	25
Net income for 2001		-	-
Effect of disposal of long-term equity investments on capital surplus		-	-
Foreign currency translation adjustment		-	-
Effect of disproportionate participation in investee's capital decrease		-	-
Balance at December 31, 2001		**4,459,414**	**25**

See accompanying notes to consolidated financial statements.

	Retained Earnings				
Capital surplus	Legal reserve	Special reserve	Unappro-priated earnings	Foreign currency translation adjustment	Total stockholders' equity
2,278,484	274,396	275,530	712,026	3,546	6,594,101
-	70,388	-	(70,388)	-	-
-	-	-	(12,670)	-	(12,670)
-	-	-	(226,644)	-	-
-	-	-	(306,275)	-	(306,275)
-	-	-	(79,187)	-	(4,187)
(232,769)	-	-	-	-	-
552,240	-	-	-	-	645,840
529,463	-	-	-	-	639,797
-	-	-	831,170	-	831,170
1,475	-	-	(1,475)	-	-
-	-	-	-	47,633	47,633
71,644	-	-	-	-	71,644
3,200,537	344,784	275,530	846,557	51,179	8,507,053
-	82,969	-	(82,969)	-	-
-	-	-	(14,934)	-	(14,934)
-	-	-	(189,423)	-	-
-	-	-	(189,423)	-	(189,423)
-	-	-	(93,341)	-	(341)
(378,847)	-	-	-	-	-
31,186	-	-	-	-	40,889
-	-	-	955,008	-	955,008
(8,563)	-	-	-	-	(8,563)
-	-	-	-	48,952	48,952
(22,906)	-	-	(37,125)	-	(60,031)
2,821,407	**427,753**	**275,530**	**1,194,350**	**100,131**	**9,278,610**

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2000 and 2001
(In thousands of New Taiwan dollars)

		2000	2001
Cash flows from operating activities:			
Net income	$	831,170	955,008
Adjustments to reconcile net income to net cash provided by operating activities:			
Net loss attributed to minority interest		(8,492)	(5,456)
Depreciation, amortization and gain on disposal of property and equipment, net		265,362	544,171
Provision for inventory obsolescence and devaluation, allowance for doubtful accounts and pension payable		183,351	366,699
Provision for other loss		-	210,240
Investment income from long-term equity investments		(238,502)	(324,119)
Gain on disposal of long-term equity investments		(156,670)	(229,974)
Net changes in unrealized inter-company profits		372	27,423
Provision for early redemption of convertible bonds		78,560	65,333
Increase in current assets		(1,483,958)	(220,742)
Increase in current liabilities		1,047,731	833,288
Cash provided by operating activities		518,924	2,221,871
Cash flows from investing activities:			
Decrease (increase) in short-term investments		459,788	(1,255,621)
Additions to property, plant and equipment		(625,168)	(593,981)
Proceeds from disposal of property and equipment		48,775	7,107
Increase in long-term equity investments		(1,195,032)	(545,754)
Proceeds from sale of long-term equity investments		195,347	353,075
Increase in other assets		(21,772)	(247,770)
Cash used in investing activities		(1,138,062)	(2,282,944)
Cash flows from financing activities:			
Increase in minority interest		-	32,400
Issuance of common stock for cash		645,840	-
Payments of cash dividend, directors and supervisors' remuneration and employees' bonuses		(323,132)	(204,698)
Increase (decrease) in short-term borrowings and commercial paper payable		978,600	(1,092,813)
Issuance of bonds payable			1,900,800
Others		2,895	1,954
Cash provided by financing activities		1,304,203	637,643
Effect of exchange rate changes on cash		(28,663)	89,669
Net increase in cash and cash equivalents		656,402	666,239
Cash and cash equivalents at beginning of year		1,844,780	2,501,182
Cash and cash equivalents at end of year	**$**	**2,501,182**	**3,167,421**
Supplemental disclosures of cash flow information:			
Cash payments of interest (excluding capitalized interest)	**$**	**85,321**	**42,228**
Cash payments of income tax	**$**	**37,481**	**71,287**
Supplementary disclosures of non-cash investing and financing activities:			
Convertible bonds applying for conversion	**$**	**639,797**	**40,889**
Short-term investment transferred from long-term equity investment	**$**	**-**	**11,400**

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2000 and 2001
(Amounts expressed in thousands of New Taiwan dollars,
except for per share information and unless otherwise noted)

1. Organization and Principal Activities

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

D-Link's subsidiaries are summarized below according to their primary business activities.

(a) Sale of local area network systems and maintenance service:

	Percentage of Ownership at December 31, 2000	2001
D-Link Systems, Inc. ("DSI")	89	90
D-Link Europe Ltd. ("DEL")	100	100
D-Link Canada Inc. ("DCI")	100	100
D-Link International Pte. Ltd. ("DIL")	100	100
D-Link Japan K.K. ("DJKK")	100	100
D-Link Australia Pty Ltd. ("DAPL")	100	100
D-Link Taiwan Inc. ("DTI")	88	84

(b) Investing and holding companies:

	Percentage of Ownership at December 31, 2000	2001
Yeo-Mao Investment Inc. ("YMI")	100	100
Yeo-Chia Investment Ltd. ("YCI")	100	100
D-Link Asia Investment Pte. Ltd. ("DAIPL")	100	100
D-Link Holding Company Ltd. ("DHCL")	100	100
D-Link Technology Venture Capital Investment Inc. ("DTVCI")	100	100

(c) Other

D-Link Asia established a factory in Donguan, China.

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies

(1) Accounting principles and consolidation policy

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the ROC. These consolidated financial statements are not intended to present the financial position of D-Link and the related results of operations and cash flows based on accounting principles and practices generally accepted in countries and jurisdictions other than the ROC.

The consolidated financial statements include the accounts of D-Link and subsidiaries in which D-Link directly or indirectly owns greater than 50 percent of the subsidiary's voting shares and is able to exercise control over the subsidiary's operations and financial policies.

The difference between the net purchase price and the net equity of the acquired subsidiary is accounted for as consolidated debit or credit (included in "deferred expense and other assets" or "other non-current liabilities" on the accompanying consolidated balance sheet) and amortized over 10 years using the straight-line method.

The subsidiaries included in the accompanying consolidated financial statements as of and for the year ended December 31, 2001 and 2000, include DSI, DEL, DCI, DIL, DJKK, DAPL, DAIPL, DHCL, YMI, YCI, DTI and DTVCI.

All significant inter-company balances and transactions are eliminated in consolidation.

(2) Foreign currency transactions and translation

D-Link and its subsidiaries record transactions in their respective local currencies. Foreign currency transactions are recorded at the exchange rate prevailing on the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates on that date. The resulting exchange gains or losses from settlement of such transactions or translation of monetary assets and liabilities are reflected in the accompanying consolidated statements of income.

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

(3) Cash equivalents

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

D-Link considers all highly liquid investments, such as investments in bonds with repurchase agreements, with a maturity of three months or less to be cash equivalents.

(4) 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 non-listed securities on the last day of the period, and the average closing price of the last month of the period for publicly listed securities.

(5) Allowance for doubtful accounts

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

(6) Inventories

Inventories are stated at the lower-of-cost-or-market value. Except for DCI, D-Link and its subsidiaries determine cost by using the weighted-average method. DCI determines cost by using the first-in, first-out method. The market value of raw materials is determined on the basis of replacement cost, and the market values of finished goods and work in process are determined on the basis of net realizable value.

(7) Long-term equity investments

Long-term equity investments in which D-Link 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 consolidated statements of income.

Long-term equity investments in which D-Link, directly or indirectly, owns between 20 percent and 50 percent of the investee's voting shares, or less than 20 percent of the investee's voting shares but is able to exercise significant influence over the investee's operations and financial policies, are accounted for by the equity method. The difference between the acquisition cost and the net equity of the investee as of the acquisition date is deferred and amortized over ten years using the straight-line method, and the amortization is recorded as investment income (loss) in the accompanying consolidated statements of income.

All significant inter-company 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.

For investees whose year-end is not December 31st, D-Link's share of the earnings or losses of the investee is recorded based on D-Link's weighted-average ownership percentage of its shareholding in the investee during the calendar year-end period.

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(8) 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. Except for DCI's depreciation, which is calculated using the declining-balance method, depreciation by D-Link and its subsidiaries is provided using the straight-line method over the estimated useful lives of the respective assets.

Gains or losses on the disposal of property, plant and equipment are accounted for as non-operating income or losses in the accompanying consolidated statements of income. Before 2001, such gains, net of related income taxes, were transferred to capital surplus in the year of disposal in accordance with the Company Law of the ROC.

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.

(9) 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.

Issue 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 issue costs not yet amortized are recognized at that date.

(10) 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 issue costs, forfeited unpaid interest, reserve for redemption premium and par value of the extinguished bonds are transferred to stockholders' equity. The excess of such amounts over the par value of the certificates for conversion of convertible bond is recorded as capital surplus in the accompanying consolidated balance sheets.

(11) Financial derivatives

(a) 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 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 contract.

(b) Foreign currency option contracts

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

(12) Retirement plan

D-link and DTI have established employee noncontributory retirement plans (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. D-link and DTI contribute 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.

D-Link and DTI have adopted ROC Statement of Financial Accounting Standards ("SFAS") No. 18 "Accounting for Pensions." SFAS No. 18 requires D-Link and DTI to perform an actuarial calculation on their pension obligation as of each fiscal year-end. Based on the actuarial calculation, D-Link and DTI recognize net periodic pension costs. In certain cases, an additional minimum liability may be recognized through a direct charge to stockholders' equity.

Certain of D-Link's foreign subsidiaries have defined contribution retirement plans. These plans are funded in accordance with the regulations of their respective countries. Contributions to these plans are expensed as incurred.

(13) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards and income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 asset's or liability's expected realization date.

According to the ROC Income Tax Law, undistributed earnings of D-Link and its subsidiaries in the ROC are 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.

(14) Government grants

Government grants are recognized as non-operating income in the accompanying 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.

(15) Net income per common share

Net income per common share is computed based on the weighted-average number of common shares outstanding during the period. The effect on net income per common share from the increase of stock through the issuance of stock dividends from unappropriated earnings, capital surplus and employee bonuses is computed retroactively.

Convertible bonds are included in the computation of net income per common share if the bonds have a dilutive effect on net income per common share of more than 3 percent.

For primary earnings per share, the numerator should be calculated by adding back interest expense, net of tax, of convertible bonds that are common stock equivalents and have dilutive effects on net income. The denominator is the weighted-average number of shares outstanding of common stock and potentially dilutive common stock equivalents that are assumed to be fully converted. The zero coupon convertible bonds issued in 2001 are included in the calculation. However, the convertible bonds issued in 1999 are not common stock equivalents.

For fully diluted earnings per share, the denominator should include common stocks, potentially dilutive common stock equivalents and potentially dilutive securities assumed to be totally converted that are not common stock equivalents. In addition to common stock, both the zero coupon convertible bonds issued in 2001 and the convertible bonds issued in 1999 are included in the calculation.

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Cash and Cash Equivalents

	December31, 2000	2001
Cash on hand, checking and saving accounts	$ 1,249,900	1,011,396
Time deposits	1,071,282	2,155,470
Promissory notes with repurchase agreements	180,000	555
	$ 2,501,182	**3,167,421**

4. Short-term Investments

The components of short-term investments as of December 31, 2000 and 2001, are summarized below:

	2000	2001
Publicly listed stocks	$ 36,635	28,373
Mutual funds	52,121	1,315,356
Less: allowance for decline in market value	(27,401)	(15,353)
	$ 61,355	**1,328,376**
Market value	**$ 61,355**	**1,328,376**

5. Notes and Accounts Receivable

The components of notes and accounts receivable as of December 31, 2000 and 2001, are summarized below:

	2000	2001
Notes receivable	$ 99,690	48,589
Accounts receivable	2,840,163	2,857,630
Less: allowance for doubtful accounts	(80,262)	(166,629)
	$ 2,859,591	**2,739,590**

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6. Inventories

The components of inventories as of December 31, 2000 and 2001, are summarized below:

	2000	2001
Finished goods	$ 1,774,929	2,251,053
Work in process	614,158	518,260
Raw materials	1,097,817	627,985
Provision for obsolescence and net realizable value	(253,824)	(403,623)
	$ 3,233,080	**2,993,675**
Insurance coverage on inventories	**$ 2,914,898**	**3,224,595**

7. Long-term Equity Investments

Long-term equity investments and related investment income or loss as of and for the years ended December 31, 2000 and 2001, are summarized below:

	December 31, 2000			2000
Investee	Percentage of ownership	Acquisition cost	Book value	Investment income (loss)
Equity method:				
D-Link India Ltd.	45	$ 32,111	120,441	32,317
Digital China Networks, Ltd. (DCNL)	43	132,397	211,200	83,070
Cameo Communication, Inc. (CCI)	39	202,983	399,451	35,799
Abocom Systems, Inc. (ACS)	29	225,136	509,344	90,552
Dray Tek Corp.	30	135,367	136,657	575
Bothand Enterprise Inc. (BEI)	35	133,840	134,218	(353)
Others		304,481	248,642	(3,458)
		1,166,315	1,759,953	238,502
Cost method:				
Z-Com,Inc. (Z-Com)		104,300	104,300	-
Tamarack Micro electronics Inc.		168,838	168,838	-
Others		388,544	388,544	-
		661,682	661,682	-
Advance payment for investment		-	35,200	-
		$ 1,827,997	**2,456,835**	**238,502**

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investee	December 31, 2001 Percentage of ownership	Acquisition cost	Book value	2001 Investment income (loss)
Equity method:				
D-Link India Ltd.	35	$ 32,111	256,356	126,930
Digital China Networks, Ltd. (DCNL)	43	132,397	352,755	49,253
Cameo Communication, Inc. (CCI)	37	337,165	493,286	112,035
Abocom Systems, Inc. (ACS)	24	154,898	442,747	95,542
Dray Tek Corp.	29	125,612	136,992	15,711
Bothand Enterprise Inc. (BEI)	35	129,796	121,323	21,583
Others		331,824	284,747	(96,935)
		1,243,803	2,088,206	324,119
Cost method:				
Articula Corporation		309,260	309,260	-
Z-Com,Inc. (Z-Com)		104,300	104,300	-
Tamarack Micro electronics Inc.		168,838	168,838	-
Others		477,209	465,194	-
		1,059,607	1,047,592	-
		$ 2,303,410	**3,135,798**	**324,119**

In July 2000, in order to expand the business related to voice over Internet protocol products, D-Link invested in a convertible promissory note issued by Articula Corp. From the date of the investment to July 3, 2004, D-Link 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.

During 2000 and 2001, CCI and ACS increased their capital for cash. Differences due to disproportionate subscription totaled $72,808 and $60,031, respectively, and were recorded as an increase and a decrease in capital surplus and retained earnings.

During 2000 and 2001, the capital surplus decreased by $1,164 and $8,563, respectively, due to the disposal of the equity investment in ACS.

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

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8. Assets Held for Lease

In order to expand future capacity, D-Link 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 re-construction work, the plant is held for lease. As of December 31, 2001, the components of the leased assets were as below:

	2001
Cost	
Building	$ 80,984
Building improvement	84,790
	165,774
Accumulated depreciation	
Building	300
Building improvement	2,826
	3,126
Net carrying amount	**$ 162,648**

9. Insurance Coverage of Property, Plant and Equipment

As of December 31, 2000 and 2001, insurance coverage for depreciable property, plant and equipment amounted to $2,111,159 and $3,054,470, respectively.

10. Short-term Borrowings

Short-term borrowings consisted of the following as of December 31, 2000 and 2001:

	2000		**2001**	
	Amount	**Rate %**	**Amount**	**Rate %**
Unsecured borrowings under lines of credit	$ 1,032,641	5.60%~ 9.40%	891,117	0.99%~ 7.7%
Usance letters of credit	913,352	3.66%~ 7.79%	130,945	2.75%~ 2.93%
	$ 1,945,993		**1,022,062**	
Unused credit facilities	**$ 3,502,001**		**5,965,156**	

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11. Commercial Paper Payable

The components of commercial paper payable as of December 31, 2000 and 2001, are summarized below:

	2000		2001	
	Amount	**Rate %**	**Amount**	**Rate %**
Commercial paper payable	$ 337,500	5.5%~ 8.1%	167,000	3.30%~ 3.50%
Less: unamortized discount	(1,817)		(199)	
	$ 335,683		166,801	

12. Bonds Payable

A summary of the major terms of the bonds payable outstanding as of December 31, 2000 and 2001, is as follows:

(1) The second issuance of domestic convertible bonds

- Par value: $1.5 billion.
- Issue date: September 28, 1999.
- Issue price: at par value.
- Duration: seven-years, maturing on September 27, 2006.
- Coupon rate: 0%
- Conversion objective: D-Link’s common stock.
- Conversion price:

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

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- 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 transferring the certificate to 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.

(2) The first issuance of foreign convertible bonds

- Par value: US$40 million.

- Issue date: March 21, 2001.

- Issue price: at par value.

- Duration: five-years, maturing on March 21, 2006.

- Coupon rate: 0%

- Conversion objective: D-Link's common stock or global depository receipts (GDRs).

- 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 transferring the certificates to common stock or GDRs.

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- 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, D-Link has the right to redeem all the outstanding bonds at a redemption price equal to their par value.

(3) The first issuance of domestic guaranteed straight bonds

- Par value: $600 million.
- Issue date: December 24, 2001.
- Issue price: at par value.
- Duration: three-years, maturing on December 24, 2004.
- Coupon rate: 2.65%, interest paid annually on December 24.
- Issue terms: the principal of the bonds will be fully paid at one time upon the maturity of the bonds.

(4) The components of bonds payable as of December 31, 2000 and 2001, are summarized below:

	2000	**2001**
Bonds payable	$ 884,600	2,841,700
Provision for early redemption	77,072	142,309
	$ 961,672	**2,984,009**

Interest expense on bonds payable in 2000 and 2001 amounted to $78,560 and $65,616, respectively.

In 2000 and 2001, convertible bonds amounting to $615,400 and $41,350, respectively, had been converted. The excess of the conversion price over the par value of the certificates for conversion of the convertible bond issued amounted to $529,463 and $31,186 in 2000 and 2001, respectively, and was included in capital surplus in the accompanying consolidated balance sheets.

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The bondholders of the second issuance of domestic convertible bonds may redeem their bonds within the first thirty days after September 28, 2002, based on the redemption terms prescribed in the bond issuance agreement. D-Link intends to use long-term credit facilities to finance such redemption if needed.

13. Retirement Plans

The following table sets forth the benefit obligation and accrued pension balance related to D-Link's and DTI's retirement plan as of December 31, 2000 and 2001:

		2000	2001
Benefit obligation:			
Vested benefit obligation	$	(1,487)	(5,504)
Non-vested benefit obligation		(66,098)	(99,186)
Accumulated benefit obligation		(67,585)	(104,690)
Projected compensation increases		(86,657)	(116,880)
Projected benefit obligation		(154,242)	(221,570)
Fair value of plan assets		109,405	127,830
Funded status		(44,837)	(93,740)
Unrecognized net transition obligation		15,075	14,149
Unrecognized pension gain		(49,114)	(13,030)
Additional minimum liability		-	(1,921)
Accrued pension	$	(78,876)	(94,542)

The components of D-Link's and DTI's net periodic pension cost for 2000 and 2001, are summarized as follows:

		2000	2001
Service cost	$	28,166	27,925
Interest cost		8,030	9,183
Expected return on pension fund assets		(6,943)	(4,683)
Amortization		1,098	(2,862)
Net pension cost	$	30,351	29,563

Actuarial assumptions at December 31,2000 and 2001, are summarized as follows:

	2000	2001
Discount rate	6.0%	4.50%
Rate of increase in future compensation levels	5.0%	4.50%
Expected long-term rate of return on plan assets	6.0%	4.50%

Except for the rate of increase in future compensation levels as of December 31, 2001 is 3.00%, the above-mentioned actuarial assumptions are also applicable to DTI.

14. Stockholders' Equity

(1) Common stock

In 1998, D-Link issued 5 million Global Depository Receipts ("GDRs"). Each GDR represents 5 common shares and was offered at ten U.S. dollars and thirteen cents per GDR. 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 25, 2000, D-Link increased its common stock by $534,413 through the transfer of capital surplus, unappropriated earnings and employee bonuses of $232,769, $226,644 and $75,000, respectively. The capital increase was registered in June 2000. Based on a resolution at the meeting of the board of directors held on June 28, 2000, D-Link issued 9,360,000 shares of common stock for cash at sixty-nine New Taiwan dollars per share. The capital increase was concluded in October 2000.

Pursuant to a stockholders' resolution on May 24, 2001, D-Link 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.

As of December 31, 2000 and 2001, the authorized capital totaled $5,800,000 (including $1,000,000 authorized for the conversion of convertible bonds), and the issued capital amounted to $3,788,466 and $4,459,414, respectively. The par value of D-Link's common stock is ten New Taiwan dollars per share.

(2) 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.

(3) Distribution of earnings and dividends policy

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

According to the ROC Company Law, D-Link must retain 10% of its annual income as a legal reserve until such retention equals the amount of authorized common stock. The retention is accounted for by transfers to a legal reserve upon approval at a stockholders' meeting. The legal reserve can only be used to offset an accumulated deficit and may be distributed 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.

(3) Distribution of earnings and dividends policy

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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.

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

15. Income Taxes

(1) D-Link is subject to a maximum income tax rate of 25 percent. D-Link's subsidiaries are subject to the current tax rate of countries in which they operate.

Income tax benefit (expense) for 2000 and 2001, consisted of the following:

		2000	**2001**
Current	$	38,419	125,677
Deferred		(38,378)	(71,273)
Additional 10% income surtax on undistributed earnings		6,461	13,627
	$	**6,502**	**68,031**

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(2) D-Link meets the requirements of a "scientific industry" as prescribed by the Statute for the Establishment and Administration of the Science-based Industrial Park. Therefore, D-Link is entitled to an income tax exemption on the profits generated from certain operations over a period of four or five years. Such operations relate to the expanded operations accompanying the following capital increases:

	Duration of tax exemption
1996 capital increase	March 1, 1996 ~ February 28, 2000
1997 capital increase	January 1, 1997 ~ December 31, 2000
2000 capital increase	January 1, 2001 ~ December,31,2004

The components of deferred income tax assets (liabilities) as of December 31, 2000 and 2001, are summarized as follows:

		2000	**2001**
Current:			
Investment tax credits	$	31,461	48,284
Unrealized inter-company profits		55,619	99,978
Unrealized foreign currency exchange (gain) loss, net		(17,970)	20,210
Inventory provisions		43,012	83,132
Allowance for doubtful accounts		28,608	55,072
Others		9,642	4,537
		150,372	311,213
Less: valuation allowance		(20,000)	(125,433)
Net deferred income tax assets - current	**$**	**130,372**	**185,780**
Non-current:			
Investment tax credits	$	136,328	244,710
Loss carryforward		-	230,423
Accrued pension		14,725	23,155
Provision for loss on foreign investment		-	(27,409)
Investment (gain) loss on long-term equity investments in foreign entities		(20,570)	61,486
Foreign currency translation adjustment		-	(33,376)
Others		857	14,828
		131,340	513,817
Less: valuation allowance		(62,297)	(462,285)
Net deferred income tax assets - non-current	**$**	**69,043**	**51,532**
Total deferred income tax assets	**$**	**320,252**	**885,815**
Total deferred income tax liabilities	**$**	**38,540**	**60,785**
Total valuation allowance for deferred income tax assets	**$**	**82,297**	**587,718**

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Certain deferred income tax assets may not be realized in future years because D-Link 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.

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 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, D-Link and YMI's unused investment tax credits and related expiration dates were as follows:

Unused investment tax credit	Expiration date
$ 48,284	December 31, 2002
83,666	December 31, 2003
152,857	December 31, 2004
78,187	December 31, 2005
$ 362,994	

(c) As the December 31, 2001, the ROC income tax authorities had examined and assessed the income tax returns of D-Link for all fiscal years through December 31, 1998.

(d) According to the local Income Tax Law, losses of D-Link Europe as assessed by tax authorities can be carried forward to set off future years' taxable profits. As of December 31, 2001, the unused loss carryforwards of D-Link Europe was $230,423.

(e) 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. D-link and its subsidiaries in the ROC are 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 dividend 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 of D-Link as of December 31, 2000 and 2001, is summarized as follows:

	2000	**2001**
Unappropriated retained earnings:		
Earned prior to January 1, 1998	$ 8,145	8,145
Earned after December 31, 1997	838,412	1,186,205
Total	**$ 846,557**	**1,194,350**
ICA balance	**$ 2,459**	**47,248**
Expected creditable ratio for earnings distribution to resident stockholders	**3.18% (Actual)**	**11.52% (Estimated)**

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16. Financial Instruments

(a) Derivative Financial Instruments

D-Link used foreign currency option contracts and forward foreign currency exchange contracts to hedge existing assets and liabilities denominated in foreign currencies. The counter-parties of the derivative contracts are reputable financial institutions. Therefore, management believes that the risk of default by the counter-parties is remote.

(a) Foreign currency option contracts

As of December 31, 2000 and 2001, D-Link had the following foreign currency option contracts outstanding:

2000

Contract	Contract Amount (in thousands)	Carrying Value	Fair Value	Maturity
Call option (sell)	USD77,000	(16,006)	(49,742)	Jan. 2001~Sep. 2001
Call option (sell)	EUR14,000	(1,276)	(18,067)	Jan. 2001~Mar. 2001
Put option (buy)	USD14,000	2,528	1,935	Feb. 2001
Put option (buy)	EUR2,000	-	225	Jan. 2001~Mar. 2001

2001

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

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(b) Currency and interest swap agreements

As of December 31, 2000 and 2001, D-Link had several currency and interest swap agreements outstanding. The details of the currency and interest swap contracts as of December 31, 2000 and 2001, are as follows:

2000			
Notional principal (in thousands)	**Maturity 2001**	**Pay rate**	**Receive rate**
USD3,000	01.18	Three month USD LIBOR	5.00%
USD3,000	01.19	Three month USD LIBOR	5.00%
USD6,000	01.29	Three month USD LIBOR	5.08%
USD3,000	01.29	Three month USD LIBOR	5.05%
USD3,000	02.27	Three month USD LIBOR	5.17%

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, 2000 and 2001, the details of currency and interest swap balances were as follows:

	December 31, 2000	December 31, 2001
Currency and interest swap receivable	$ 483,210	241,500
Currency and interest swap payable	501,638	241,500
	$ (18,428)	-
Fair value	$ 3,041	(4,132)

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(c) Forward foreign currency exchange contracts

D-Link used foreign currency forward contracts to hedge existing accounts receivable denominated in foreign currencies. As of December 31, 2001, the notional principal of outstanding forward foreign currency exchange contracts D-Link entered into was USD 8,000 thousand. The details of the above forward foreign currency exchange contracts balance as of December 31, 2001, are as follows:

	2000
Forward contracts receivable	$ 275,975
Forward contracts payable	276,146
	$ (171)
Fair value	**$ (1,756)**

(d) Fair value and risk

(i) Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter-parties failed to perform as contracted. Credit risk will increase as the derivative instruments become more profitable. D-Link entered into the above derivative contracts with reputable financial institutions. The likelihood of default on the part of the counter-parties is remote.

(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 D-Link'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.

(iii) Liquidity risk

Liquidity risk is the risk of being unable to settle derivative contracts on schedule. The purpose of these instruments held by D-Link was to manage and hedge the floating interest rate and foreign currency rate. 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. D-Link does not believe a significant loss on the above financial derivative contracts will occur.

(2) Non-derivative financial instruments

D-Link and subsidiaries' non-derivative financial assets include cash and cash equivalents, short-term investment, accounts receivable, receivables from related parties, pledged time deposits and long-term investments. D-Link and subsidiaries' non-derivative financial liabilities consist of short-term borrowings, accounts payable, payables to related parties and bonds payable.

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

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

(b) The fair value of short-term investments is based on publicly quoted market prices. Refer to note 4 for the fair value of short-term investments as of December 31, 2000 and 2001.

(c) It is not practicable to determine the fair value of long-term investments when these investments are not publicly traded.

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

The fair values of non-derivative financial instruments as of December 31, 2000 and 2001, are shown below:

	2000		2001	
	Carrying value	**Fair Value**	**Carrying value**	**Fair Value**
Financial asset:				
Long-term investments				
Fair value (available)	$ 509,344	1,713,625	699,103	1,668,098
Fair value (not available)	1,947,491	-	2,436,695	-
Financial liabilities:				
Bonds payable				
Fair value (available)	961,672	1,179,972	2,384,009	2,795,847
Fair value (not available)	-	-	600,000	-

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17. Related Party Transactions

(1) The name and relationship of the related parties with which D-Link and its subsidiaries had significant transactions are shown below:

Name	Relationship
D-Link India Ltd. (DIL)	Investee
Abocom Systems, Inc. (ACS)	Investee
Cameo Communications, Inc. (CCI)	Investee
Bothand Enterprise Inc. (BEI)	Investee
Digital China Networks, Ltd. (DCNL)	Investee
W-Link System Inc. (WSI)	Investee
PowerCom Technology Co., Ltd. (PCTCL)	Yeo-Chia Investment Ltd. is a director of the investee
Cellvision System Inc. (CSI)	Investee
Dray Tek Corp. (DTC)	Investee

(2) Significant transactions with related parties as of and for the three years ended December 31, 2000 and 2001, are summarized below:

(a) Sales

	2000		2001	
	Amount	Percentage of net sales	Amount	Percentage of net sales
CCI	$ 240,413	2	83,438	-
ACS	184,858	1	138,957	1
DIL	237,784	2	265,804	2
DCNL	845,700	6	1,243,110	7
Others	1,184	-	158,032	1
	$ 1,509,939	**11**	**1,889,341**	**11**

The average credit terms extended to related parties and third-party customers were approximately 30-90 days and 30-60 days, respectively. Except for the aforementioned situation, there were no significant differences in sales and credit terms between related parties and third-party customers.

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(b) Purchases

	2000		2001	
	Amount	**Percentage of net purchases**	**Amount**	**Percentage of net purchases**
CCI	$ 1,026,989	6	1,560,419	13
ACS	750,289	5	543,542	4
BEI	5,566	-	79,223	1
CSI	-	-	151,654	1
PCTCL	-	-	100,886	1
DTC	-	-	87,498	1
Others	42,623	-	159,071	1
	$ 1,825,467	**11**	**2,682,293**	**22**

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

(c) Accounts receivable/payable

	2000		2001	
	Amount	**Percentage**	**Amount**	**Percentage**
Accounts receivable:				
DCNL	$ 131,088	4	212,040	7
DIL	16,529	1	28,559	1
Others	33,098	1	32,739	-
	$ 180,715	**6**	**273,338**	**8**

	2000		2001	
	Amount	**Percentage**	**Amount**	**Percentage**
Accounts payable:				
ACS	$ 143,404	7	26,439	1
CCI	202,119	10	412,620	15
CSI	-	-	40,374	2
PCTCL	-	-	26,972	1
DTC	-	-	43,831	2
WSI	-	-	29,113	1
Others	81,050	4	68,519	2
	$ 426,573	**21**	**647,868**	**24**

(d) Service

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D-Link paid service fee to DIL amounted to $32,062 in 2001. As of December 31, 2001, the related balance was not yet paid.

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(e) Guarantees

As of December 31, 2000, D-Link provided guarantees for related parties to secure their bank loans. The details are as follows:

Borrower	Credit line (in thousands)	
DIL	USD	2,000
WSI	USD	2,000
	NTD	30,000
DCNL	HKD	2,150

The total amount of the above guarantees was approximately NT$179,878 as of December 31, 2001.

18. Pledged Assets

Assets pledged as collateral as of December 31, 2000 and 2001 are summarized as follows:

Pledged assets	Pledged to secure	2000	2001
Time deposits	Customs guarantees of the Science-based Industrial Park	$ 7,300	7,300

19. Commitments and Contingencies

(1) Major Operating Leases
According to current leasing contracts, the minimum future leasing expenses of the land and offices leased by D-Link and subsidiaries are as below:

Years	Amount
2002	$ 66,322
2003	56,573
2004	48,835
2005	46,555
After 2006	285,758
	$ 504,043

(2) As of December 31, 2000 and 2001, D-Link had outstanding letters of credit amounting to approximately $25,735 and $76,851, respectively.

(3) As of December 31, 2000 and 2001, D-Link provided a guarantee for the payment of Javarock Ltd's bank loans amounting to $99,600 and $105,120, respectively. Javarock Ltd., a Hong Kong shipping

agent, is responsible for D-Link’s triangular trading activities with D-Link’s affiliates located in the People’s Republic of China (“PRC”).

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(4) In 1998, D-Link entered into a "Technology Research and Development Project" agreement with the ROC Ministry of Economic Affairs ("MOEA") for the second phase of the "MPLS" research plan. The effective period of this agreement was from July 1, 1999 to October 31, 2000, with a budget of $36,102. D-Link and the MOEA will receive the benefits generated by the newly developed technology in proportion to their investment ratio of 35% for D-Link and 65% for the MOEA. In accordance with the agreement, D-Link has issued a promissory note amounting to $36,102 to the MOEA as a performance bond. As of December 31, 2001, D-Link had received grants amounting to $52,049 under the first and second phases of the plan.

(5) D-Link entered into several royalty agreements with certain companies. According to these agreements, D-Link is obligated to pay royalties when D-Link sells products using the technologies specified in the royalty agreements. Total royalty expenses incurred under these agreements for the years ended December 31, 2000 and 2001 amounted to $68,149 and $63,988, respectively.

(6) In 2000, D-Link acquired a new plant in the Science-based Industrial Park. As a result, several contracts were entered into with construction companies. As of December 31, 2000 and 2001, the fixed fees included in these contracts amounted to $25,760 and $1,696,respectively.

(7) In November 2001, Clarent Corp. failed to comply with the listing requirements of NASDAQ and its common stock 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. D-Link alleged that Clarent Corp. breached an OEM Sales Agreement, a Purchase Agreement and a Loan and Guaranty Agreement related to D-Link's investment in the Convertible Promissory Note of Articula Corp. and requested Clarent Corp. to compensate D-Link for its damages.

The final results of the above-mentioned lawsuits are still a waiting determination of the court. The attorney's letter from COUDERT BROTHERS LLP, the law firm retained by D-Link, with regard to the lawsuits, stated on March 7, 2002, "…Each of these three contracts is in our opinion a valid agreement. Clarent has not to date raised any defense or issue that any of these contracts was not properly executed or otherwise not enforceable...".

Clarent Corp. also filed and served a cross-complaint for breach of contract and related claims against D-Link, asserting that certain products sold by D-Link to Clarent Corp. were "defective". According to the above-mentioned letter from COURDERT BROTHERS LLP "… Clarent waited nearly 1 1/2 years before "complaining" that there was an issue and that fact is likely to preclude any claim against D-Link for supposed product "defect"...".

As of December 31, 2001, receivables due from returns of purchases from Clarent Corp. amounted to US$6,000, the convertible promissory note guaranteed by Clarent Corp. amounted to US$9,000 and an advance from Clarent Corp. was US$3,000. Based on the above-mentioned lawyer's letter, the understanding of Clarent Corp.'s current financial situation and the collateral that might obtained, an allowance for possible business dispute loss amounting to US$4,500 was recorded in other liabilities.

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20. Other information

In accordance the Statue for Upgrading industries, D-Link recorded a provision for loss on foreign investment of 20% of the foreign investment made and registered with the authority in 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 D-Link's book. As a result, the unappropriated earnings shown in the accompanying consolidated financial statements exceeds that in D-Link's books by $109,636.

21. Segment Financial Information

(1) Industry information

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

(2) Geographic information

The geographical breakdown of sales for the years ended December 31, 2000 and 2001, is summarized as follows:

	2000					
	Americas	**Europe**	**Asia**	**Australia**	**Adjustments and eliminations**	**Total**
Area revenue:						
Third-party customers	$ 534,429	839,233	12,481,844	77,994	-	13,933,500
Inter-company	2,724,877	2,353,029	1,980,471	266,222	(7,324,599)	-
	$ 3,259,306	**3,192,262**	**14,462,315**	**344,216**	**(7,324,599)**	**13,933,500**
Area profit (loss) before taxes and minority interest	**10,055**	**(24,651)**	**1,179,781**	**17,753**	**(353,758)**	**829,180**
Area identifiable assets	**$ 1,640,293**	**1,806,506**	**16,962,230**	**190,780**	**(5,726,538)**	**14,873,271**

	2001					
	Americas	**Europe**	**Asia**	**Australia**	**Adjustments and eliminations**	**Total**
Area revenue:						
Third-party customers	$ 433,028	1,118,714	15,953,099	104,108	-	17,608,949
Inter-company	3,799,221	2,730,781	1,812,040	253,272	(8,595,314)	-
	$ 4,232,249	**3,849,495**	**17,765,139**	**357,380**	**(8,595,314)**	**17,608,949**
Area profit (loss) before taxes and minority interest	**(205,642)**	**(392,747)**	**1,585,053**	**13,239**	**17,680**	**1,017,583**
Area identifiable assets	**$ 2,193,111**	**1,820,070**	**21,126,000**	**185,706**	**(7,664,795)**	**17,660,092**

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Board of Directors

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Ken Kao
D-Link Corporation

Vice Chairman of the Board
John Lee
D-Link Corporation

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DLK Holding Company LLC

Director
Delta Electronics, Inc.

Director
Chia-Hwa Investments Co., LTD.

Director
An-Ping Chen, CFO and Spokesman
D-Link Corporation

Director
T.J. Huang
D-Link Corporation

Supervisor
Jeisie Nie

Supervisor
Charley Chang

CFO and Spokesman
An-Ping Chen
D-Link Corporation