2008
Annual Report

connecting people through network solutions

D-Link®

Financial Highlights

U.S. Dollars in Thousands	**2008**	2007
Net Sales	1,048,069	1,103,283
Gross Profit	341,432	377,541
Operating Income	41,668	82,117
Income Before Tax	45,244	115,334
Net Income	38,067	101,680
FX Rate	**NT$31.53**	**NT$32.84**

U.S. Dollars in Thousands	**2008**	2007
Cash & Cash Equivalents	79,061	142,255
Total Assets	740,203	854,568
Working Capital	232,749	192,004
Long Term Loans	30,432	—
Shareholder's Equity	418,107	476,019
Shares Outstanding **	565,218	547,076
FX Rate	**NT$32.86**	**NT$32.44**

** in thousands

Letter to Our D-Link Family

John Lee
Chairman
D-Link Group

It is hard to believe that more than a year has gone by since my predecessor, Mr. Ken Kao, passed away. However, his legacy lives on. D-Link is built on his unwavering strength of leadership, determination and vision.

In fact, his business philosophy is largely responsible for D-Link's ability to withstand the recent global economic storm. Although the challenges are larger than most experts would have imagined at the end of 2008 and entering 2009, we are now in a better position to emerge into calmer waters with more optimism and opportunity than many of our competitors. Our new management team began with a clear set of goals, including our continued efforts to control expenses, a refreshed look at forming and maintaining global alliances, aggressively engaging our channels at all levels, consolidating and leveraging our supply chain along with other resources such as marketing, logistics and product planning.

Despite several recessions during our 23 years of existence, D-Link generated consistent year-to-year double-digit revenue growth along with continued global market share expansion. Even during the current downturn, we managed to be profitable.

Regionally, Europe focused on new telecom projects to generate new business, as did our Emerging Markets and APAC, while North America showed the SME market that it is not just a consumer/digital home power.

D-Link offers the best value proposition for computer networking solutions in both the business and home environments. We have world-class engineering, award-winning design, a diversified product portfolio, hands-on service and responsive support, unparalleled speed to market, aggressive sales and marketing, and the most competitive pricing the industry has to offer. If the world's economy had stayed on a steady course in 2008, D-Link was on track to continue its record-breaking year-to-year revenue growth, profit increases and market share dominance.

According to one of the world's leading market research companies, the Gartner Group, D-Link was the undisputed leader in 2008 of worldwide shipments of Ethernet small enterprise switch ports – 13 million for a 32 percent market share. The annual research study also revealed that we claimed the second spot in worldwide shipments of all switch ports – small enterprise and medium-to-large enterprise – with 16.3 percent, far surpassing the immediate competitor.

Another major area of strength can be summed up in one word – Green.

2008 was a major milestone for our D-Link Green initiative as we continued to expand our efforts to save energy without compromising performance. As the first networking company to pioneer Green networking, we expanded our energy-saving innovation which can be found almost across all product lines, from switches, Wi-Fi routers, network attached storage (NAS), digital photo frames, PowerLine network adapters and more. Our strict standards for Green compliance include incorporating energy-saving technology, working with government-regulated standards such as WEEE, RoHS and ENERGY STAR, and using eco-friendly sustainable packaging, such as sleeveless design, recyclable cardboard trays and soy ink.

In addition to our efforts and the prestigious awards we have received for them, we continue to support local programs for the recycling, reuse and reclamation of products and packaging. Building innovative Green technology into our products is part of our commitment to seek new avenues to protect our environment and help consumers save energy in the process.

Financial Update

Although the financial crisis suddenly turned around the global economy into the recessionary stage, D-Link managed to gain revenue totaling NT$33.050 billion, only half percent lower than in 2007. However, in US currency, D-Link revenues grew 3.5 percent from the previous year. Due to the tough economic circumstances, especially in the second half of 2008, our gross margin slipped to 32.6 percent, 1.7 percent lower than 2007.

Operating expenses of 28.6 percent of net revenue went up from 27.4 percent in 2007 due to relatively higher expansion expenses in emerging market countries in the first half of 2008 and the inclusion of NT$121 million in employee bonuses which formerly had been an off-balance sheet item. Operating profit and net margins decreased to 4 and 3.6 percent, respectively, from 2007 when they were 6.9 and 10 percent, due in large part to the global recession and global currency fluctuation resulting in profit margin erosion, foreign exchange loss and absence of one-time disposal gain of non-core holdings.

At the bottom line, we see EPS of NT$2.12 per share in 2008, compared to NT$5.91 per share in 2007, based on the 2008 year-end capital of NT$5.652 billion.

This economic downturn was bigger than expected. No one could foresee how fast the recession would adversely impact market performance. However, D-Link's previous growth record, its financial strength based on nearly a quarter century of revenue and profit increases and its outstanding leadership are the primary reasons why we have been able to cope with the current conditions and remain optimistic that D-Link's revenues and profits will be able to promptly rebound better than the industry average as the global economy gets back on a normal track.

Localized Global Presence

I am proud to report that we truly have the world's computer networking needs covered with 2,477 employees serving in 174 D-Link offices in 71 countries in 13 strategic global locations.

Emerging Markets and Asia Pacific

Let's start with our Emerging and Asia Pacific markets where a majority of our revenue was generated in 2008 (52 percent) with a 12 percent YoY growth rate. This can be attributed mainly to our ability to thoroughly understand such local markets as Russia, Latin America, the Middle East, Southeast Asia and Africa, and properly adjust to their unique needs with customized solutions. Our success in these important regions also centered upon our ability to maintain strong partnerships with our corporate customers and a continuing demand for D-Link networking equipment, specifically Broadband and Wi-Fi products, by builders of major infrastructure projects in the regions.

Europe

Similarly, understanding the market and providing custom solutions to meet its needs were the keys to some major accomplishments in Europe in 2008. Even with all of the global economic challenges, D-Link Europe was able to re-evaluate the shifting market and quickly adapt to end the year on stable footing. Prudent measures throughout the year, such as cost reductions, improved inventory management, pricing and operations control disciplines, combined to allow the region to contribute 25.4 percent to total global revenue. Its "Think Global, Act Local" approach resulted in significant wins, including continued leadership in the Wireless N market, creation of a new central sales and marketing Business Solutions team, further strong support for D-Link Green in an especially environment-conscious region, and continued focus on the service provider market by aligning with strategic vendor partners, such as TalkTalk and AOL Broadband. Also in 2008, D-Link Europe's logistics team reached and surpassed its performance levels of previous years, with nearly a 100 percent accuracy rating for shipping 6.5 million products to 29 European countries.

North America

One of the most noticeable effects of the recession is the renewed awareness among D-Link customers and potential customers regarding their buying habits. Selling solutions at a value is key in helping IT and networking managers, as well as small- to medium-sized business owners, decide where to spend their constricted budgets. The D-Link value proposition combines quality products, exceptional engineering and sales support, strong channel presence and highly competitive pricing. In North America, D-Link introduced several new programs in 2008, including a revamped Reseller Partner Program and the industry's first free switch test drive program. These and other special promotions have proved successful in enhancing the value of the D-Link brand for business customers.

Looking Ahead

As stated earlier, we are confident that D-Link is well prepared for the post-recessionary era. Technologically, we have taken our long-standing investment in D-Link 2.0 and turned it into products and applications that change the way businesses and consumers can understand and use them – seamlessly, with minimum effort. We call it "mydlink" and have launched a new dedicated website, along with an entire array of mydlink-enabled products, newly launched or in progress, that remove the once-daunting learning curve for people to set up and use digital home products. The devices are just a plug and click away from being manageable through the website. Beginning with our network cameras, users can tap into live video of their home or office, record feeds on their PCs and share these experiences with their friends and family. Rather than the old model of simply selling a product to a customer, we are creating stickiness with a series of devices, killer applications and a user experience that will be tied to the customer's livelihood and their extended social network.

We also expect the 802.11n Wi-Fi trend to continue deep into 2009 and beyond, as predicted by In-Stat in a report that shows the latest standard-based chipsets outselling 802.11g due to increased demand for mobile handsets and notebook PCs, as well as the transition in business from Ethernet wired installations to more 802.11n wireless solutions.

Thanks to You

I would like to take this opportunity to thank you – our family of dedicated shareholders, employees, customers, partners and friends – for your patience and confidence during these tumultuous times. Your support gives us increased optimism, and provides the foundation for a successful future. One thing is for sure – we are poised like never before to meet the needs of computer networking on a global stage. We look forward to more exciting times for all of us at D-Link.

Sincerely,

John Lee

John Lee
Chairman
D-Link Group

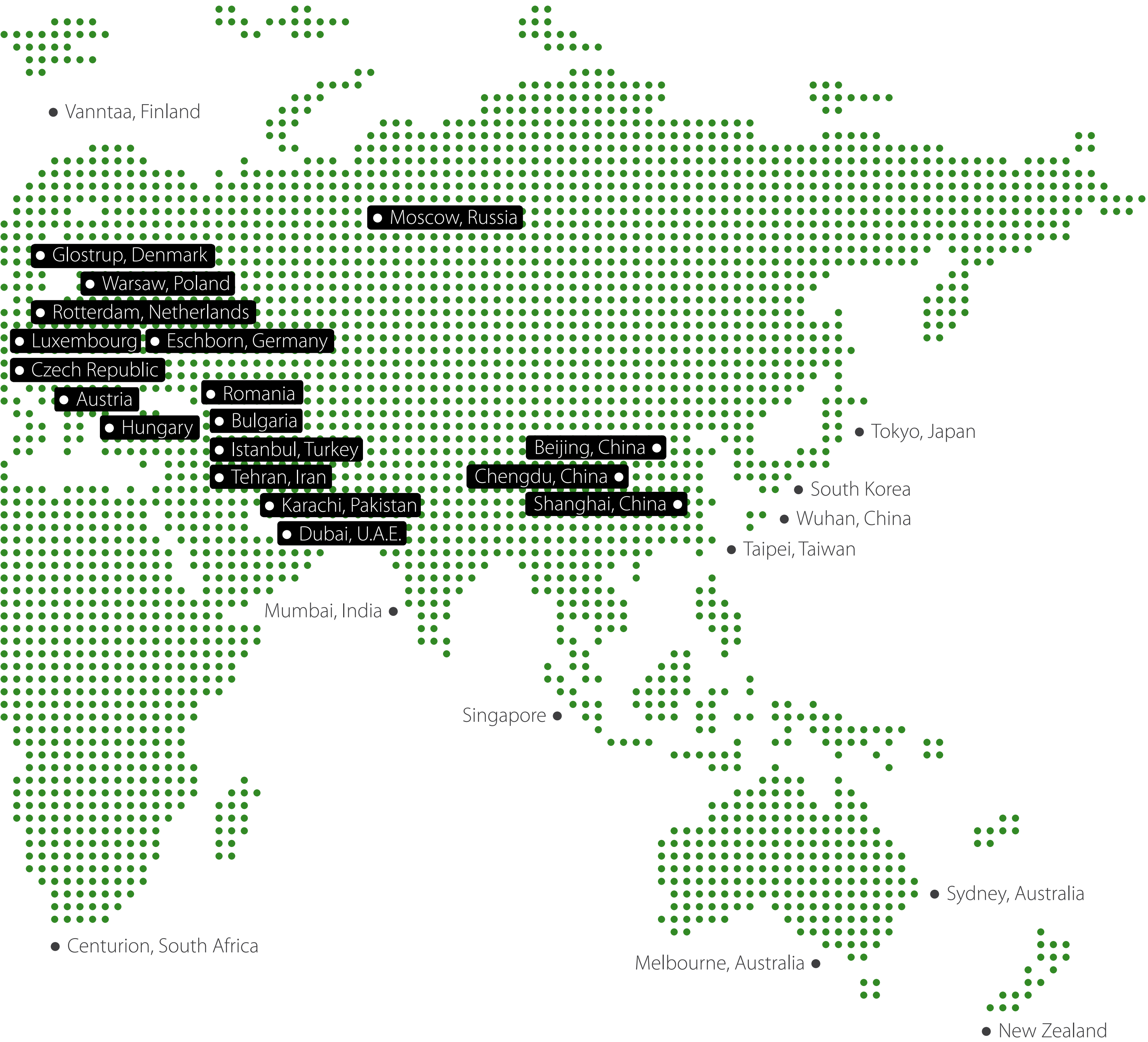
Globalization through Localization

Meeting the World's Needs through Local Units

Local Market Understanding; International Resources

Unity: a strategy for success executed on a global scale. D-Link is the worldwide leader and an award-winning designer, developer, and solution provider of Wi-Fi and Ethernet networking, broadband, multimedia, voice and data communications and digital electronics solutions. D-Link has systematically expanded its market share by penetrating geographic targets through a strategy of establishing local business units supported by a strong corporate foundation.

Confident in the resources of D-Link headquarters to develop and deliver state-of-the-art networking products, each local business unit – regardless of its location around the world – attacks its market aggressively. The Company's innovative technology products provide solutions for home and business, built with standards-based reliability. D-Link has become a trusted international brand that connects people to their lives, their work, and to each other.



Emerging and Asia Pacific Markets

D-Link's Emerging and Asia Pacific Markets continued to show a high level of promise and success displayed by the sales growth for fiscal 2008. The Emerging and Asia Pacific Markets generated the majority of Company revenue, with these areas accounting for 52% of total Company revenue, in addition to experiencing a year-over-year sales growth rate of 12%.

Effective penetration within these areas accounted for the aggressive pursuit in establishing and strengthening the Company's position in Emerging and Asia Pacific Markets, including Russia, Latin America, Middle East, Southeast Asia and Africa. More importantly, D-Link's ability to thoroughly understand these local markets allowed the Company to properly adjust to the varying needs of different regions to provide customized solutions.

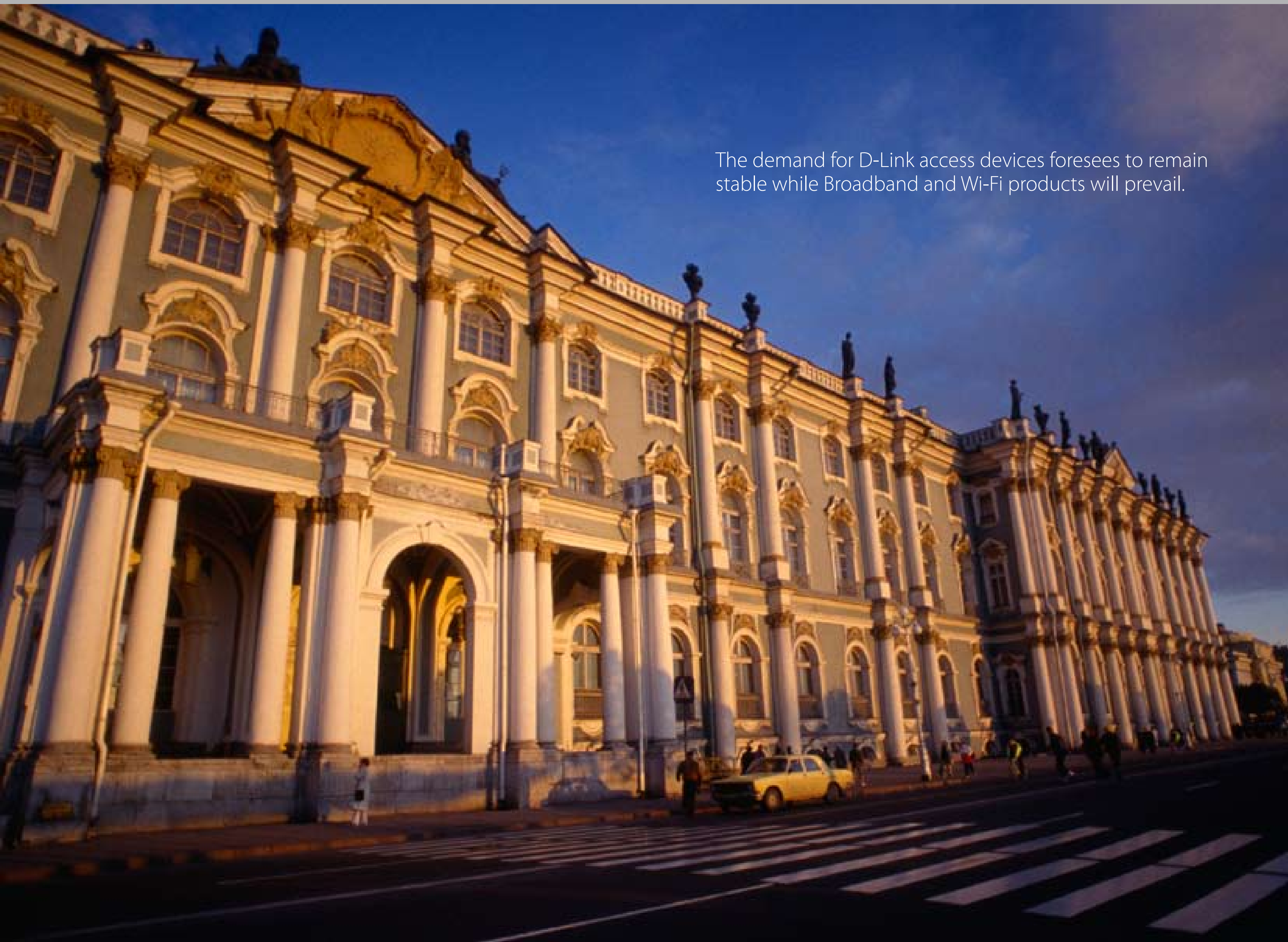
Russia continued to display opportunities for growth potential as sales performances exceeded expectations once again for 2008. Switch products continued to be a major contributor, especially with the larger selection of D-Link Green products made available. In addition, the Company's broadband line surpassed expectations due to the expansion of Telco infrastructures led by the government sector as well as private investment. Proper price positioning allowed for stable sales of wireless products.

Recognized for high performance at competitive price points, wireless and broadband product lines continued to surpass expectations in Latin America. In addition, D-Link products have begun to earn recognition for quality and service on an enterprise scale, previously winning a project to integrate Company switches into a major television network's call center which housed over 2,000 representatives. According to In-Stat, shipments to Latin America and Asia Pacific will contribute to nearly half of the world's 139-million port growth.

In Japan, D-Link products continue to be primarily driven by core-to-edge switch solutions. D-Link focused on the sales of switch products, more specifically within the hospital and educational markets. For Southeast Asia regions, while also concentrating on network switch sales, wireless products remained popular among consumer markets.

Competitive price points and the depth of D-Link products have allowed for a strong presence in Africa as well. The Company's strong sales performance of Broadband products can be related to the increasing popularity of 3G mobile in the region. With the depth of D-Link's product lines, the Company was able to penetrate a market that has a broad range of networking needs.

Performance in Emerging and Asia Pacific Markets can be credited to D-Link's ability to maintain strong partnerships with clients. Based on the wide range of computer networking devices as well as having strong communication with partners, D-Link has been able to consistently provide clients with solutions that feel like they are specifically created for the individual. With many of the Emerging Markets having infrastructure projects in the making, the demand for D-Link access devices is foreseen to remain stable while Broadband and Wi-Fi products will prevail.



The demand for D-Link access devices foresees to remain stable while Broadband and Wi-Fi products will prevail.

Case Study: Somerville House

Somerville House is an independent day and boarding school for girls. Established in 1899, the school is located in the inner city of South Brisbane, Queensland and has a student body of over 1,200 girls. Catering for students from years K-12, Somerville House is a leading example of integrating and utilizing the latest technology into the student learning process.

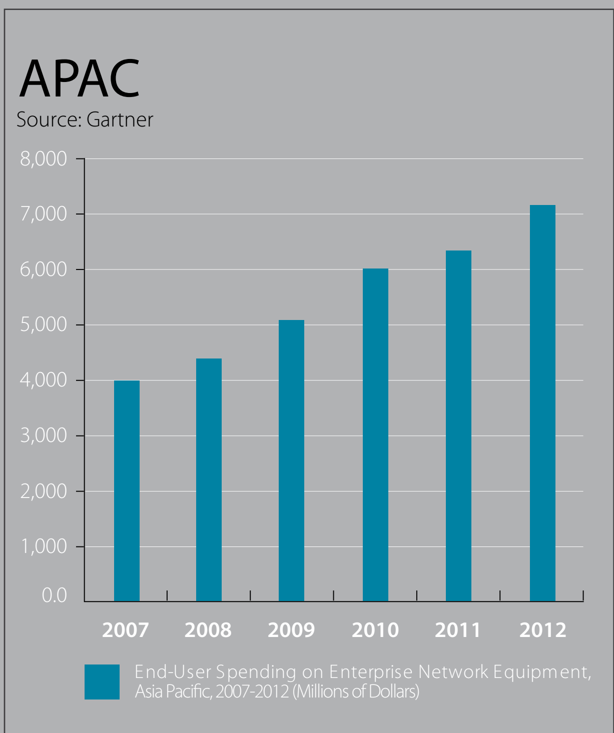
D-Link Products

DSN-3200 (Storage Area Network Array)
DWS-3024 (Gb Wireless PoE Switch)
DGS-3100/3426P/3624P (Gigabit Switches)
DWL-8500AP (Wireless Unified Access Point)

Key Benefits

Somerville's goal was to find a robust, scalable, enterprise-level solution providing high availability for all its users that met the project budget. A project team researched many of the major vendors' products and found that D-Link's DWS-3024 Gigabit Wireless Switch met all of its criteria.

D-Link also supplied an enterprise storage solution based on its xStack Storage Area Network (SAN) Array DSN-3200-10 to accommodate the school's expanding data storage demand. Somerville House introduced three 3200-10 SAN Arrays – with 15 available drive bays each – into its operations and fully populated each unit with 1.5 Terabyte disk drives.



Europe

Despite 2008 being a challenging year globally, through diligent management, D-Link Europe was able to re-evaluate the shifting market and quickly adapt to the changing needs of the region for a stable finish.

Anticipating the downturn in the economy, the region took prudent cost reduction actions throughout the year and continued to improve D-Link's inventory, pricing and operations cost management disciplines. All of these factors combined saw D-Link Europe contribute 25.4 percent of D-Link's total global revenue.

Restructuring of resources furthermore enabled D-Link Europe to work in a more streamlined, process-driven manner across its 23 local offices to continue in its 'Think Global, Act Local' approach; utilizing global resources and expertise to engineer solutions for local market requirements.

D-Link Europe enjoyed a series of accomplishments that can be attributed to its investment in new technology, a strong marketing push and an ability to adapt and cater to specific customer needs:

- In 2008, D-Link Europe once again retained the market leader position in the Wireless N market. The region, in addition, fully integrated a central sales and marketing Business Solutions team to roll out and drive Business Solutions strategy across Europe, a structure that has been translated across local teams to further support and strengthen Europe's presence in the B2B market space.

- D-Link Europe also met its core focus of targeting the service provider market by winning major tenders across Europe, such as TalkTalk and AOL Broadband, and is now one of the largest suppliers to Telco ISPs in the UK.

- Europe additionally supported the evolution of D-Link Green, promoting its incorporation into the wider product portfolio and committing to investing resources into improving green processes, thereby meeting the demands of an increasingly environmentally conscious customer base.

The region's European-wide logistics service furthermore continued to reach and surpass its performance levels of previous years; with a rise in delivery accuracy up to 98.4 percent on 6.5 million products, shipped to 29 European countries in 2008.

Following its achievements of 2008, D-Link Europe is now fully focused on its core objectives for 2009, using its solid and streamlined structure as a springboard. Europe is determined to:

- Continue to penetrate the Business sector with targeted partner programs, focused sales and marketing promotions and a superior product portfolio.

- Grow its consumer market share, through a targeted marketing and sales campaign promoting D-Link's wider consumer offering in the Digital Home space.

- Continuing in its commitment to become greener in its processes and products for both business and consumer markets.

To further improve operational efficiency in 2009, D-Link Europe will additionally focus on:

- Consolidating its Pan-European RMA Logistics to enhance its response to customer needs, implementing a function rich CRM system and partnering with a world-leading logistics service provider.

- Seeking avenues through which to minimize its environmental impact along the supply chain as awareness of environmental considerations continue to amplify in the region.

- Reducing physical constraints experienced when servicing the emerging Eastern European markets.

D-Link Europe met its core focus of targeting the service provider market by winning major tenders across Europe.

Case Study: Arts Alliance Media (AAM)

Arts Alliance Media (AAM), one of Europe's leading providers of digital film distribution services, has selected D-Link to supply the network infrastructure for each of the digital cinemas being rolled-out by AAM. The agreement will enable existing cinemas across Europe to make the transition to fully digital cinemas, thus providing an optimized viewing experience for film-goers.

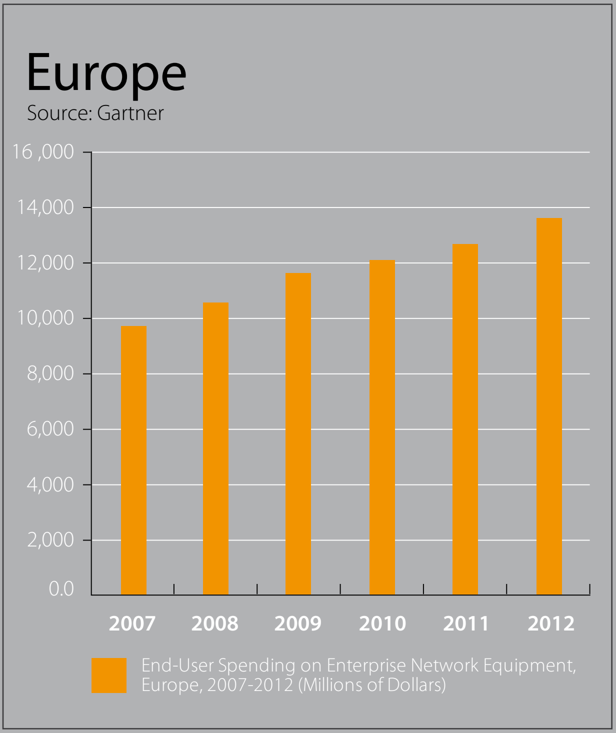
D-Link Products

DGS-3200-10/3427/3627 (Gigabit Switches)

Key Benefits

The network solution provided by D-Link includes its DGS-3627 24-port Layer3 Gigabit switches with 10Gbit/s interfaces, the DGS-3427 24-port Layer2 Gigabit switches and the DGS-3200-10 Layer2 Security Gigabit switches. The DGS-3427 and DGS-3627 form part of D-Link's xStack family of Gigabit switches that combine enterprise levels of performance and robust security with versatile management functions and scalable flexibility.

The DGS-3427 is used as a management switch, providing the main communications link between all screens and centralized equipment. This is supported at each screen by the DGS-3200-10. The Layer3 DGS-3627 switch is used for content management; rapidly distributing content to each screen via digital projection from the central library server, which is connected over a 10Gbit/s interface.



North America

D-Link North America leveraged brand recognition, market share gains, competitive pricing and aggressive sales incentives to shake off recessionary woes.

According to leading industry analysts like Gartner, In-Stat and Dataquest, economic recovery may begin as early as late 2009 and into 2010. However, there are already signs of progress for the North America region where D-Link's reputation and aggressive anti-recessionary measures are helping growing small to medium-sized business, enterprises and consumers get the most value out of their constricting budgets.

In the business sector especially, the recession has prompted SMBs and enterprises to seek cost-effective alternatives for purchasing vital networking equipment. In 2008, D-Link was chosen by value-conscious, brand-agnostic IT managers and small business owners who were attracted by a highly competitive pricing strategy, quality products, exceptional engineering, responsive sales support and a strong channel.

For 2008, D-Link took some giant steps, including revamping its Reseller Partner Program to help its more than 6,000 North America solution providers and value-added resellers (VARs) increase their profit margins through a wide range of discounts, training, rapid response bid desk, sales incentives and targeted promotions for industry verticals.

D-Link also introduced several new products to meet the business market demand and build revenue with cost-effective Ethernet and wireless switches, IP surveillance cameras, SAN and NAS storage and network security.

D-Link introduced the industry's first "Test Drive" promotion and was successful in allowing potential customers to try out our switches for free. This "try before you buy" concept was perceived as an act of confidence in our products and proved to be a significant factor in generating new revenues across all target markets – government, education, hospitality, retail, transportation, law enforcement and others.

In response to public demands for improvements in energy efficiency for networking equipment, in 2008 D-Link North America helped expand and build awareness of the D-Link Green initiative which launched in latter half of 2007, enhancing the global organization lead in the development of innovative, power-saving technology that doesn't sacrifice operational performance or functionality. With the introduction of D-Link Green routers and switches, D-Link has strengthened its commitment to protecting the environment with products that conserve resources, reduce the cost of ownership and include eco-friendly features such as reduced power consumption, less heat dissipation, extended product life, and reduced operating costs.

The Company remains the market share leader in Canada for consumer networking. Across North America, D-Link is a market leader in key markets such as 802.11n home networking routers, network cameras and storage enclosures. All of which serve as a foundation for the digital home. Routers provide both Internet access and connectivity to other devices such as storage devices, media players and network cameras. Much like its strategy in the business sector, D-Link is poised to emerge from the economic downturn with opportunities resulting from our broad range of home networking solutions and the fast-growing transition to 802.11n wireless technology.

On the global playing field, D-Link North America is an important partner with Headquarters in the consolidation of consumer marketing to be more consistent and efficient worldwide, as well as helping to present unified global business product messaging. The Company is focusing on offering specific industry solutions – Home and Office, Small and Medium Business, Large Business, Government and Education – to better meet the needs of specific market segments.

D-Link channel sales and products were recognized throughout the year with many honors, such as the Five-Star Vendor Award from VARBusiness Magazine, the Best Channel Vendor Award from Business Solutions Magazine and Gold and Silver Awards from the Wi-Fi Alliance. D-Link's 802.11n routers won 13 Editor's Choice Awards from leading industry publications.

D-Link's continuing popularity among the SMB and enterprise markets, and its time-sensitive adjustments to consumer buying habits, are reinforcing the Company's goal and ability to achieve greater market share, while preparing D-Link to be in an ideal position as the economy rebounds.

Across North America, D-Link is a leader in key markets such as 802.11n home networking routers, network cameras and storage enclosures.

Case Study: Bonnaroo Festival

The Bonnaroo Festival is essentially an instant population of 80,000 that materializes over night. The site becomes the 6th largest city in Tennessee during the show. The instant population needs sewage, water, electricity, phones and Internet connectivity. The first workers arrive on-site in mid-May, and 10 days after that, there's running water, office trailers, showers and, of course, Internet.

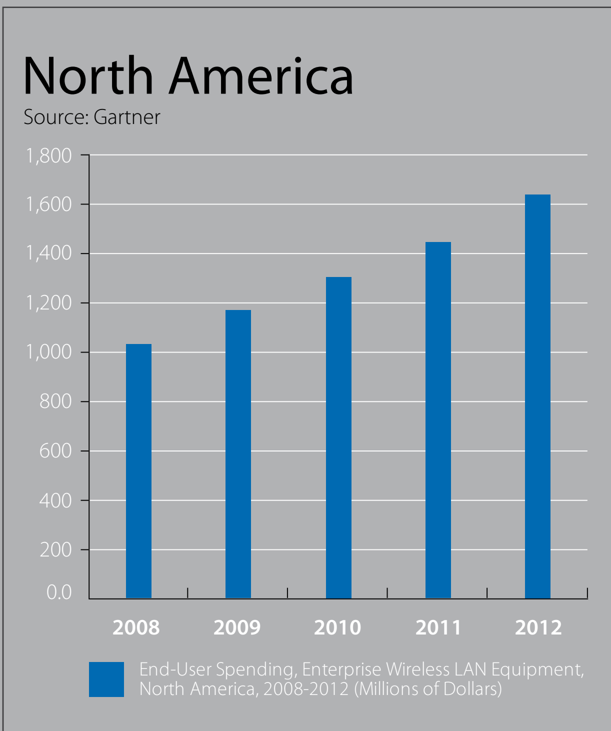
D-Link Products

DWL-3200AP/7700AP (Wireless Access Points)
DXS-3227P (PoE Gigabit Wireless-Ready Switch)
DES-3010PA (Managed 10/100 PoE Switch)

Key Benefits

Bonnaroo installed a mix of indoor and outdoor D-Link networking equipment to meet the demands of their trailer and farmland environment. They deployed ruggedized DWL-7700AP Wireless AG Outdoor AP/Bridges outside.

Inside the trailers, Bonnaroo used DWL-3200AP 802.11g Managed Access Points and DXS-3227P 24-Port PoE Gigabit Wireless-Ready Switches, which include Power over Ethernet (PoE). PoE equipment channels power over twisted pair wires in standard Ethernet cabling, rendering electrical wiring obsolete for a variety of applications. The DXS-3227P includes four combo SFP ports, one fixed XFP port and two optional 10-Gig Copper/Fiber Uplinks. Bonnaroo is also using the DES-3010PA Managed 8-Port 10/100 PoE Switch, which includes one Gigabit port and one SFP slot.



Consumers & the Digital Home

Broadband has already reached high levels of penetration in a large portion of the world. Gartner reports that the omnipresence of broadband will provide opening for new forms of business and applications, allowing people the ability to alter their lifestyle.

"Big expectations are being placed on bandwidth speeds and the potential applications and services that they can enable. High-definition video applications and gaming are the two applications that are creating the demand for bandwidth download speeds and the urge for service providers to increase their speed offerings," according to Gartner.

As broadband continues deployment at different speeds, users are finding new and different ways to use the Internet. Interactive applications that require higher bandwidth have allowed users to establish a relationship based on a digital lifestyle. By providing faster Internet connection, users have created a reliance on streaming and sharing music, video, and pictures in addition to forms of social networking.

D-Link has created solutions to make the entire digital experience more convenient. This year the Company announced D-Life technology, which will be implemented in a number of D-Link products to centralize the management of devices via the D-Life website. In addition, the site allows users to remotely share and access products, such as live viewing and sharing of Internet camera footage.

To accompany the applications for the home environment, D-Link released a number of wireless N routers that are available in either selectable or concurrent radio band frequency. In addition to D-Link offering a system of devices based on a good, better, best scale, the employment of these devices allows users to tailor their needs to their network.

One of the major factors behind the growth of consumer Internet-access relates to users and downstream transmission rates. D-Link has recognized that more users are downloading and backing up information as well as sharing it with others, thus the Company has made its network storage enclosures more convenient and flexible for users. The latest additional features of these devices include BitTorrent Software Development Kit and tool-less installation, as well as RAID protection to provide a secure and convenient experience.

Interest in Internet cameras grows as consumers continue to better understand their application as well as the competitive price points provided by D-Link. Internet cameras plug directly into an Ethernet network or provide the same functionality through Wi-Fi. D-Link software has also made it easy to set up and manage one or more cameras for remote viewing.

With the availability of new devices, D-Link has kept its commitment to the environment, becoming the first manufacturer to provide Green home network routers capable of saving up to 40% in power usage*. The Company proceeds to create innovative Green products that can be integrated into a number of solutions, an effort to help users make practical and responsible choices for computer networking.

D-Link constantly strives to provide innovative and unique designs for home entertainment. D-Link's MediaLounge® line continues to make it easier for consumers to stream additional Internet media from their TVs and home entertainment centers. D-Link also released a PC-on-TV player, a CODEC-independent player that allows users to wirelessly stream any form of media from the Internet and PC. D-Link also extended the line of home entertainment products with the DSM-210, a wireless Internet photo frame that can stream web content.

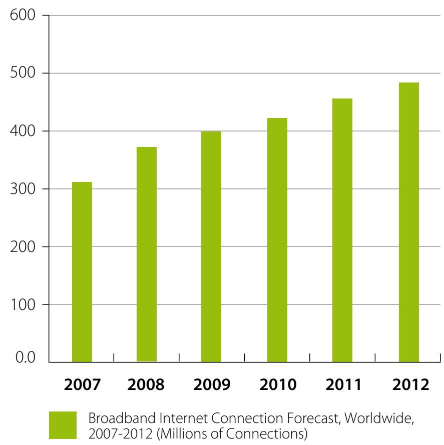
D-Link owns the digital home and finds itself well positioned to meet this growing demand for home network functionality.

* Under the most favorable conditions with no wired links active and Wi-Fi turned off, users may achieve this figure when compared to a D-Link conventional router without Green technology.

The DIR-655 is an excellent choice to connect computers, game consoles and media players to the Internet.

Consumer & Digital Home

Source: Gartner



Notable Consumer Awards for 2008:

D-Link Green Initiative, Gaming Gear Named Finalists in CEA Mark of Excellence Competition

D-Link MediaLounge Extender Wins Product of the Year Award from Electronic House Magazine

D-Link Xtreme N Duo Media Router Wins PC Magazine Editors' Choice Award

Home Networking
D-Link is a dominant player in home networking with award-winning products that are powerful and easy to use.

Switching
To add additional wired ports for Ethernet connectivity to a D-Link router, simply add a Green Ethernet 5- or 8-port desktop switch.

Multimedia
D-Link MediaLounge-branded products bring new options to the consumer in the digital home by connecting PCs and other devices to a home entertainment system.

Voice & IP Communications
D-Link VoIP products are sold through retail, partners and service providers, bringing affordable calling options over an Internet connection.

Home Network Storage
D-Link home storage enclosures for sharing hard drives are ideal for consumers to house their entire library of digital music, photos and data files for instant access.

Internet Cameras
D-Link SecuriCam cameras provide access to live video streams over the Internet to any PC in the world anytime, anywhere.

Cable/DSL Modems
D-Link broadband modems are standards-based connectivity solutions sold through the retail channel and service providers.

USB/Firewire
D-Link is a market leader in plug-and-play, high-bandwidth connectivity solutions for computers, peripherals, and consumer electronics products.

Business-Class Solutions

It is D-Link's strength as a true designer and planner of business-class networking equipment that makes it a worldwide leader with solutions for businesses and organizations of any size.

According to Gartner, Ethernet switch port shipments will grow at a compound annual rate of 7.6% from 2006 to 2012, and end-user spending will continue to grow during the same period. D-Link is uniquely positioned to secure more than its share of that projected growth with the strong market share it already possesses.

D-Link designs and distributes a wide range of networking solutions for businesses of all sizes and levels, including the small office home office (SOHO), small and medium sized business (SMB), large enterprise, government agencies and educational institutions.

With more and more mission critical applications running over today's networks, the protection of those network-attached resources from exploitation comes to the forefront for all business. D-Link NetDefend Network Security provides solutions to protect networks of any size.

The D-Link xStack family is the industry's most affordable multi-layer stackable Gigabit switch solution with integrated 10-Gigabit support. The Company's unique future-proofing designs – with impressive support for 10-Gigabit Ethernet core technology – are an ideal migration path for Gigabit Ethernet and Gigabit-to-the-desktop.

As businesses scale, users expect the convergence of wired and wireless networking for the ability to roam between access points. New applications like Wi-Fi Voice over Internet Protocol (VoIP) require the ability to roam seamlessly and securely. D-Link is at the forefront of switches and equipment for the convergence network.

D-Link Web Smart switches are ideal for small and medium-sized businesses that require advanced features like SNMP, VLAN, QoS and secure authentication. Smart switches blend plug-and-play simplicity with exceptional performance and reliability to create cost-effective solutions for bandwidth-starved workgroups and departments.

D-Link Green switches implement special power-saving features that detect link status and cable length to adjust power usage accordingly. D-Link has devoted itself to providing environmentally friendly options for businesses of all sizes with the addition of new Web Smart Green switching devices available in 16-port (DGS-1216T), 24-Port (DGS-1224T), and 48-Port (DGS-1248T) into its already robust Green switch line for 2008.

D-Link IP Telephony communication solutions are expandable phone systems providing advanced functionality for any small business with as many as 50 extensions, in a single location or throughout a campus environment. In 2008, D-Link released Response Point SP1 software as a download for VoiceCenter™, a Microsoft Response Point phone system that was integrated into D-Link IP phones the previous year to facilitate the transition from traditional phones to VoIP.

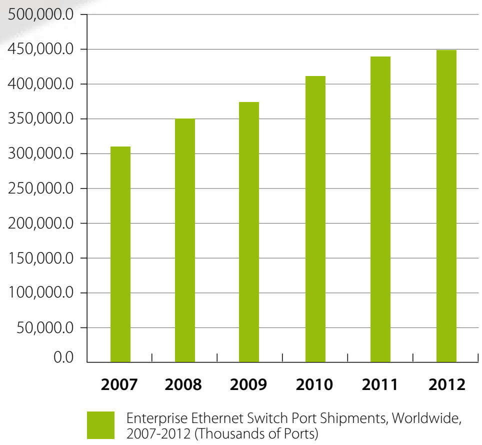
The xStack Storage iSCI Storage Area Networking (SAN) collection was designed to directly address the growing requirements for storage solutions: Application Performance, Data Backup and Recovery, Server Consolidation Disaster Recovery.

D-Link AirPremier wireless components provide flexible and affordable solutions to expand existing business networks quickly and securely. D-Link is the industry pioneer in wireless networking, providing performance breakthroughs in wireless connectivity that make integration with existing wired networks seamless and cost-effective.

The DGS-1024D was the most popular switch among the D-Link Green product line.

Business Class

Source: Gartner



Notable Business Awards for 2008:

D-Link xStack DGS-3627 Switch Earns 5-Star Rating from CRN Magazine

D-Link Earns Silver Five-Star Status for Partner Profitability from VARBusiness Magazine

D-Link xStack DGS-3627G Receives Product of the Year from NetWorld

Switching
D-Link business-class Ethernet switching products provide Small to Medium and Enterprise businesses with performance-leading solutions at competitive price points.

Enterprise Wireless
D-Link AirPremier wireless solutions are designed for medium to large businesses that require extensive feature sets for both indoor and outdoor WLAN applications.

VPNs
D-Link Virtual Private Network (VPN) products establish strong and secure connections to business headquarter networks for the remote office worker and business traveler.

Firewalls
D-Link NetDefend products effectively protect networks, corporate resources and data communication from outside intrusion.

Network Storage
The D-Link xStack Storage Area Network (SAN) line is designed to provide a reliable network data storage solution for customers in entry-level and SMB segments.

Internet Cameras
D-Link's full-featured camera surveillance systems provide remote video and audio monitoring, recording and pan/tilt/zoom over the Internet for business.

KVM Switches
D-Link Keyboard, Video, Mouse (KVM) switches allow for easy management of multiple PCs or servers for the IT manager and integrator.

Telecom

The introduction of new digital services has created a larger dependency for faster broadband speeds worldwide. While the adoption rate of these technologies that require higher bandwidth speeds continues to grow, consumers still expect cost-effective solutions.

In 2008, D-Link retained the second largest market share for the sales of worldwide broadband units at 24.5%, according to In-Stat. In addition to its many products that take advantage of the speed of broadband, D-Link continues to lead the market in solutions for service providers, meeting customer demands for broadband at home, work, and on the go. This demand for broadband shows no signs of slowing down, especially with the implementation of a number of services based on broadband connection.

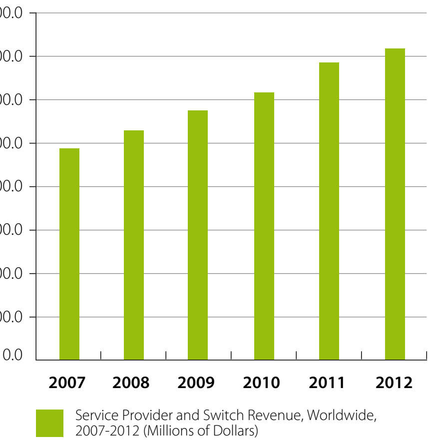
One of the key drivers in the growing demand for broadband is VoIP. D-Link's VoiceCenter, which released the Response Point SP1 downloadable software by Microsoft in 2008, is a feature-rich and cost-effective small business Internet Protocol phone system that provides ease of use and manageability for a simpler transition to VoIP telephony. Ideal for small businesses which may require up to 50 extensions, D-Link VoiceCenter together with Microsoft Response Point software supports both Voice over IP and traditional phone lines. D-Link VoiceCenter offers all of the essential telephony features required for small businesses, including sought after voice recognition and built-in Auto Provisioning configuration capabilities.

D-Link modems are standards-based connectivity devices that deliver strong, high-speed Internet connectivity. D-Link modems support both cable and DSL connections, as well as integrated access devices that house a high-performance cable or DSL modem and multi-port wireless router in one unit. D-Link remains on the crest of emerging technologies with its WiMAX routers, used by service providers as a "last mile" solution to economically deliver broadband to homes where hardwiring is cost-prohibitive due to geographical challenges.

D-Link's worldwide reputation for dependable broadband solutions helps to fuel the Company's continuing market penetration. Quality broadband solutions are offered at a real value to service providers in both Developed and Emerging Markets, and government-related initiatives expect to make a positive impact as well. The tremendous global growth of broadband demonstrates the importance of D-Link's leadership in this technology.

Telecom

Source: Gartner



The DIR-415 was one of D-Link's highest selling products for 2008.

Broadband Modems

D-Link modems are standards-based connectivity devices that deliver strong, high-speed Internet connectivity.

Broadband Routers

D-Link's strength in engineering brings customizable router solutions to the service provider selling to the end-user consumer.

Voice & IP Communications

D-Link VoIP products are primarily sold through VoIP service providers, bringing affordable calling options over an Internet connection.

Wireless Media Players

D-Link media players and set-top boxes are next-generation, value-adding devices for the service providers selling to the home consumer.

ADSL Modems

D-Link ADSL modems let you access a high-speed DSL Internet connection and offer Ethernet and USB ports for flexible connectivity.

Internet Cameras

D-Link SecuriCam Internet cameras represent another value-added option for service providers to bring access to live video streams over the Internet and to the home consumer.

Switching

D-Link business-class Ethernet switching products are robust solutions capable of providing worldwide service provider networks.

Product Design & Distribution

D-Link has largely contributed to what the world perceives networking to be, both in business and in the home. It is sometimes easy to overlook how quickly the Internet and computer networking have changed the way we do business and how we communicate.

For over 21 years, D-Link has taken the initiative in providing this technology, and making it accessible to businesses of any size, as well as consumers all over the world.

Throughout this journey, D-Link engineers have been the innovators. D-Link's core competency continues to remain in Ethernet networking. The Company drives innovation and development by producing a wide range of powerful devices for every type of consumer. D-Link products are available as wired and wireless solutions for home and businesses at the enterprise, workgroup, and departmental processing levels.

Thus, D-Link does more than sell competing products to those of other enterprise-class switch manufacturers — the Company continues to pioneer the industry. D-Link's xStack line, for example, includes world-class, fully-managed switches available at a fraction of the cost of its competitors, backed by D-Link's renowned reliability. D-Link engineers apply the same innovative drive to business-class WLAN, storage and security products for medium and large enterprises.

D-Link consumer products are known all over the world. Industry leading design and functionality – again supported by D-Link reliability – both create and serve a growing demand for networking at home and in the small office. With a foundation built upon the best-reviewed Wireless N routers in the industry, the digital home includes innovative network storage, Internet cameras, media players and IP telephony.

From fully-managed switches for enterprises to award-winning 802.11n routers for the home and SOHO, D-Link fuels and fills a global demand to work, communicate and recreate, by taking full advantage of the benefits of broadband. And because D-Link owns most of its supply chain, its products are feature-rich and competitively priced.

Producing goods for a global marketplace, D-Link expands each year to establish an ever-increasing number of localized business units. Being operated as a global brand, customers view D-Link products as being promoted and distributed by people they know, whether they are in Brazil, Russia, Japan, or any of the 174 offices around the world.

This means that there is coordinated teamwork to produce cutting-edge products distributed to every corner of the world. Local teams communicate their local needs that D-Link headquarters fills from its own state-of-the-art manufacturing facilities within timeframes that competitors cannot match.

D-Link's motto is "Building Networks for People." It is a way of doing business that continues to be proven one customer at a time.

D-Link Green Commitment

At D-Link, being "Green" starts with the proper eco-friendly mindset of each and every one of our world class staff. Whether it is at the office where ideas are generated, or at the manufacturing sites where our products are assembled, we strive to provide more energy-efficient products that allow consumers to upgrade their network equipment and immediately experience dramatic energy savings. We are proud of D-Link's current leadership position for Green products, and are committed to reaching even greater heights to protecting the environment.

Many consumers have already begun to make environmentally conscious decisions to reduce their energy consumption. Based on these needs, companies have been striving to create products that are more appropriate for the environment, reducing energy used and making the transition to Green products easier for the user.

We at D-Link are proud that we have been able to deliver on a suite of products that offer an eco-friendly alternative to our competitors in the market. When making the move to more energy efficient "Green" devices, however, it was paramount that achieving such goals did not come at a cost to performance and affordability of our products. We have succeeded in these goals, and offer devices that operate with low power, and are subsequently more environmentally friendly.

D-Link remains committed to strengthening its market leader position in developing high-quality Green networking solutions for the office and home. "Building Networks for People" has always been a motto that D-Link believes in, but the Company also believes in being a responsible leader. In conjunction with both new and previous environmental initiatives, D-Link strives to create environmentally-friendly solutions today for a better future.

Corporate Headquarters Board of Directors & D-Link Office Listing


John Lee, Chairman


Tony Tsao, CEO


D-Link Corporation Headquarter, Taiwan

Board of Directors

John Lee
Chairman, Director

A.P. Chen
CFO, Director

Hua-Lung Hsing
Director

Charley Chang
Director

Kenneth Tai
Director

Mason Liu
Director

Edward Shin
Director

Hui-Ci Hu
Supervisor

Joan Chen
Supervisor

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Investor Relations

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Taiwan
Tel: 886-6600-0123
Fax: 886-2-8791-4796
URL: ir.dlink.com

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
D-Link Corporation and subsidiaries:

We have audited the accompanying consolidated balance sheets of D-Link Corporation and subsidiaries as of December 31, 2008 and 2007, 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 the Company's 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 investee companies accounted for under the equity method in the consolidated financial statements, and our opinion on the amounts presented in the financial statements of certain investee companies is based on the reports of other auditors. The long-term equity investment accounted for under the equity method amounted to $935,341 thousand and $626,144 thousand, and constituted 3.85% and 2.26% of total assets, as of December 31, 2008 and 2007, respectively; and related investment income amounted to $40,820 thousand and $73,407 thousand, and constituted 2.86% and 1.94% of net income, for the years ended December 31, 2008 and 2007, respectively.

We conducted our audits in accordance with Republic of China generally accepted auditing standards and the Regulations Governing the Audit of Financial Statements by Certified Public Accountants. 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

KPMG

April 10, 2009

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

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2008 and 2007
(In thousands of New Taiwan dollars)

Assets	2008 Amount	%	2007 Amount	%
Current assets:				
Cash and cash equivalents (note 4(a))	$ 2,597,934	11	4,614,749	17
Financial assets at fair value through profit or loss – current (notes 4(b) and (c))	293,156	1	1,132,181	4
Notes and accounts receivable, net (note 4(d))	5,889,216	24	5,900,665	21
Receivables from related parties (note 5)	77,048	-	199,817	1
Other financial assets – current	53,182	-	37,163	-
Inventories, net (note 4(e))	7,401,809	31	6,730,342	25
Prepaid expenses and other current assets (notes 4(k) and 6)	1,173,466	5	964,673	3
	17,485,811	72	19,579,590	71
Funds and Investments:				
Available-for-sale financial assets – noncurrent (note 4(b))	665,174	3	1,516,447	5
Financial assets carried at cost – noncurrent (note 4(b))	359,399	1	654,403	2
Long-term investments under equity method (note 4(f))	4,130,862	17	4,305,847	16
	5,155,435	21	6,476,697	23
Property, plant and equipment (note 4(g)):				
Land	531,453	2	531,453	2
Buildings and improvements	703,586	3	689,593	2
Machinery and equipment	399,306	2	401,411	1
Other equipment	704,046	3	599,532	2
	2,338,391	10	2,221,989	7
Less: accumulated depreciation	(980,136)	(4)	(812,518)	(3)
Prepayment for purchases of equipment	2,974	-	1,928	-
	1,361,229	6	1,411,399	4
Intangibles and other assets:				
Assets held for lease (note 4(g))	26,029	-	26,425	-
Idle assets (note 4(g))	11,640	-	11,920	-
Other assets – others (note 4(j))	282,916	1	216,164	2
	320,585	1	254,509	2
Total assets	$ 24,323,060	100	27,722,195	100

Liabilities and Stockholders' Equity	2008 Amount	%	2007 Amount	%
Current liabilities:				
Short-term borrowings (note 4(h))	$ 196,987	1	429,043	2
Financial liabilities at fair value through profit or loss – current (notes 4(b) and (c))	58,103	-	67,728	-
Notes and accounts payable	1,096,178	5	1,336,042	5
Payables to related parties (note 5)	4,623,755	19	5,266,173	19
Income tax payable	510,590	2	566,487	2
Cash payable to shareholders on capital decrease (note 4(l))	-	-	1,367,691	5
Accrued expenses and other current liabilities	2,653,775	11	2,540,646	9
	9,139,388	38	11,573,810	42
Other liabilities:				
Long-term loans (note 4(i))	1,000,000	4	-	-
Deferred tax liabilities and others (note 4(k))	484,125	2	678,891	1
	1,484,125	6	678,891	1
Total liabilities	10,623,513	44	12,252,701	43
Stockholders' equity (note 4(l)):				
Common stock	5,652,180	23	5,470,765	20
Capital surplus	1,933,381	8	2,056,770	8
Retained earnings:				
Legal reserve	1,757,307	7	1,423,390	5
Unappropriated earnings	4,327,888	18	5,159,302	19
	6,085,195	25	6,582,692	24
Accumulated translation adjustment	305,650	1	474,195	2
Unrealized gain (loss) on available-for-sale financial assets (note 4(b))	(316,305)	(1)	857,635	3
	(10,655)	-	1,331,830	5
Minority interest	39,446	-	27,437	-
Total stockholders' equity	13,699,547	56	15,469,494	57
Commitments and contingencies (note 7)				
Total liabilities and stockholders' equity	$ 24,323,060	100	27,722,195	100

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2008 and 2007

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

	2008 Amount	%	2007 Amount	%
Net operating income (note 5)	$ 33,049,693	100	36,231,799	100
Cost of goods sold	22,283,008	67	23,833,341	66
Gross profit	10,766,685	33	12,398,458	34
Operating expenses (notes 4(j) and 10):				
Selling	6,722,385	20	6,661,548	18
Administrative	2,060,448	6	1,990,165	5
Research and development	669,886	2	1,050,037	3
	9,452,719	28	9,701,750	26
Operating income	1,313,966	5	2,696,708	8
Non-operating income and gains:				
Interest income	138,801	-	194,761	1
Investment income under equity method, net (note 4(f))	486,707	1	489,936	1
Gain on disposal of investments	24,224	-	545,986	2
Valuation gain on financial instruments, net (note 4(o))	12,234	-	-	-
Exchange gain, net	-	-	334,744	1
Other income	232,053	1	122,937	-
	894,019	2	1,688,364	5
Non-operating expenses and losses:				
Interest expense	15,765	-	26,342	-
Loss on inventory obsolescence and devaluation	497,120	2	465,800	1
Valuation loss on financial instruments, net (note 4(o))	-	-	43,784	-
Exchange loss, net	213,287	1	-	-
Other loss (notes 4(b) and (g))	55,092	-	61,574	-
	781,264	3	597,500	1
Income before income tax	1,426,721	4	3,787,572	12
Income tax expense (note 4(k))	226,018	1	304,671	1
Consolidated net income	$ 1,200,703	3	3,482,901	11
Net income attributable to:				
Shareholders of parent	$ 1,200,413	3	3,339,169	11
Minority interests	290	-	143,732	-
	$ 1,200,703	3	3,482,901	11

Net income per common share (note 4(n)):	2008 Before taxes	2008 After taxes	2007 Before taxes	2007 After taxes
Basic earnings per common share	$ 2.52	2.12	5.49	5.03
Basic earnings per common share – retroactive:			$ 5.34	4.90
Diluted earnings per common share	$ 2.50	2.11	5.49	5.03
Diluted earnings per common share – retroactive			$ 5.34	4.90

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2008 and 2007
(In thousands of New Taiwan dollars)

	Common stock	Capital surplus	Retained Earnings Legal reserve	Retained Earnings Unappropriated earnings	Unrealized gain (loss) on financial assets	Accumulated translation adjustment	Minority interest	Total
Balance at January 1, 2007	$ 6,633,780	2,074,570	1,171,372	3,954,256	559,414	273,991	3,069,463	17,736,846
Appropriation of earnings:								
Legal reserve	-	-	252,018	(252,018)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	(45,363)	-	-	-	(45,363)
Employees' bonuses	-	-	-	(62,000)	-	-	-	(62,000)
Cash dividends	-	-	-	(1,525,769)	-	-	-	(1,525,769)
Employees' bonuses transferred to common stock	72,000	-	-	(72,000)	-	-	-	-
Shareholders' bonuses transferred to common stock	132,676	-	-	(132,676)	-	-	-	-
Adjustment of capital surplus and retained earnings accounted for under equity method	-	(17,800)	-	(44,297)	-	-	-	(62,097)
Net income for 2007	-	-	-	3,339,169	-	-	143,732	3,482,901
Cash returned to shareholders on capital decrease	(1,367,691)	-	-	-	-	-	-	(1,367,691)
Unrealized gain on available-for-sale financial assets	-	-	-	-	3,555	-	-	3,555
Change in unrealized gain (loss) on available-for-sale financial assets accounted for under equity method	-	-	-	-	294,666	-	-	294,666
Change in accumulated translation adjustment	-	-	-	-	-	181,925	(186)	181,739
Change in accumulated translation adjustment accounted for under equity method	-	-	-	-	-	18,279	-	18,279
Adjustment for change in minority interest, net	-	-	-	-	-	-	(227,633)	(227,633)
Change in consolidated entities	-	-	-	-	-	-	(2,957,939)	(2,957,939)
Balance at December 31, 2007	5,470,765	2,056,770	1,423,390	5,159,302	857,635	474,195	27,437	15,469,494
Appropriation of earnings:								
Legal reserve	-	-	333,917	(333,917)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	(60,105)	-	-	-	(60,105)
Employees' bonuses	-	-	-	(78,263)	-	-	-	(78,263)
Cash dividends	-	-	-	(1,367,691)	-	-	-	(1,367,691)
Employees' bonuses transferred to common stock	72,000	-	-	(72,000)	-	-	-	-
Shareholders' bonuses transferred to common stock	109,415	-	-	(109,415)	-	-	-	-
Adjustment of capital surplus and retained earnings accounted for under equity method	-	(123,389)	-	(10,436)	-	-	-	(133,825)
Net income for 2008	-	-	-	1,200,413	-	-	290	1,200,703
Unrealized gain on available-for-sale financial assets	-	-	-	-	(234,388)	-	-	(234,388)
Change in unrealized gain (loss) on available-for-sale financial assets accounted for under equity method	-	-	-	-	(939,552)	-	-	(939,552)
Change in accumulated translation adjustment	-	-	-	-	-	(203,321)	-	(203,321)
Change in the accumulated translation adjustment accounted for under equity method	-	-	-	-	-	34,776	-	34,776
Adjustment for change in minority interest, net	-	-	-	-	-	-	11,719	11,719
Balance at December 31, 2008	$ 5,652,180	1,933,381	1,757,307	4,327,888	(316,305)	305,650	39,446	13,699,547

Note: Directors' and supervisors' remuneration and employees' bonuses amounting to $10,804 and $108,037, respectively, were recognized in the consolidated statements of income.

See accompanying notes to consolidated financial statements.

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007
(In thousands of New Taiwan dollars)

	2008	2007
Cash flows from operating activities:		
Consolidated total net income	$ 1,200,703	3,482,901
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	241,476	296,182
Inventory obsolescence and devaluation loss	497,120	465,800
Unrealized valuation loss (gain) on financial instruments, net	(12,234)	43,784
Gain on disposal of investments	(24,224)	(545,986)
Investment income under equity method, net	(486,707)	(489,936)
Acquisition of cash dividend from long-term investments under equity method	365,506	273,498
Decrease (increase) in financial assets at fair value through profit or loss	849,768	(238,384)
Decrease (increase) in notes and accounts receivable (including related parties)	131,766	(3,116,070)
Increase in inventories	(1,172,370)	(1,870,412)
Increase (decrease) in notes and accounts payable (including related parties)	(882,312)	3,459,380
Increase in other operation-related current assets	(346,898)	(362,388)
Increase (decrease) in other operation-related current liabilities	(83,140)	967,487
Others	40,553	26,960
Net cash provided by operating activities	319,007	2,392,816
Cash flows from investing activities:		
Cash received from capital decrease of long-term equity investments	68,187	7,024
Proceeds from disposal of long-term equity investments	12,789	1,172,613
Additions to property, plant and equipment	(163,830)	(284,300)
Decrease in refundable deposits	79,449	58,867
Proceeds from disposal of property, plant and equipment	311	187,935
Increase in long-term equity investments	-	(484,844)
Others	(38,687)	34,146
Net cash provided by (used in) investing activities	(41,781)	691,441
Cash flows from financing activities:		
Increase (decrease) in short-term loans	(232,056)	254,432
Increase in long-term loans	1,000,000	-
Cash refund to shareholders on capital decrease	(1,367,691)	-
Payments of directors' and supervisors' remuneration, and employees' bonuses	(138,368)	(107,363)
Payment of cash dividends	(1,367,685)	(1,525,769)
Decrease in minority interests	-	(227,633)
Others	(1,075)	(3,164)
Net cash used in financing activities	(2,106,875)	(1,609,497)
Effect of exchange rate changes on cash and cash equivalents	(187,166)	243,430
Change in consolidated entity	-	(3,206,584)
Net decrease in cash and cash equivalents	(2,016,815)	(1,488,394)
Cash and cash equivalents at beginning of year	4,614,749	6,103,143
Cash and cash equivalents at end of year	$ 2,597,934	4,614,749
Supplemental disclosures of cash flow information:		
Cash payments of interest	$ 6,574	5,641
Cash payments of income tax	$ 200,533	46,409
Supplemental disclosures of non-cash financing activities:		
Cash returned to shareholders on capital decrease	$ -	1,367,691

See accompanying notes to consolidated financial statements.

1. Organization and Principal Activities

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

Starting in December 2005, the Company began implementing its operations process improvement plan; as a result, foreign subsidiaries is purchasing directly from original suppliers, and the Company is focusing on brand marketing and development while providing subsidiaries around the world with financial management, marketing support, and research and technology support.

On August 4, 2006, the board of directors of D-Link decided to merge with its wholly owned subsidiary D-Link Taiwan Information Inc. on December 31, 2006, with D-Link being the surviving company. The merger was registered with the Ministry of Economic Affairs on March 20, 2007. Starting on December 31, 2006, all assets, liabilities, and obligations of D-Link Taiwan Information Inc. were assumed by D-Link.

As of December 31, 2008, the Consolidated Company had about 2,331 employees.

2. Summary of Significant Accounting Policies

The Consolidated Company prepares its consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and ROC generally accepted accounting principles.

The consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

The significant accounting policies and measurement basis adopted in preparing the accompanying consolidated financial statements are summarized as follows:

(a) Status of consolidation

(1) For the purpose of preparing the annual and semi-annual consolidated financial statements, an entity is deemed a subsidiary if D-Link directly or indirectly owns over 50% of its voting stock or has the power to control it. The consolidated subsidiaries are summarized below:

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of Investee	Name of Investor	Percentage of the direct and indirect ownership by D-Link at December 31 2008	2007	Nature of Operations
1. D-Link Holding Company Ltd. ("DHD")	D-Link	100.00	100.00	Holding company
2. D-Link Canada Inc. ("DCA")	D-Link	100.00	100.00	Marketing and after-sales service
3. D-Link Japan K.K. ("DJP")	D-Link	100.00	100.00	〃
4. D-Link Sudamerica S.A. ("DSA")	D-Link	100.00	100.00	〃
5. D-Link Brazil LTDA ("DBR")	D-Link	100.00	100.00	〃
6. D-Link Latin America Company Ltd. ("DLA")	D-Link	100.00	100.00	〃
7. D-Link Mexicana S.A. de C.V ("DMX")	D-Link and DSA	100.00	-	〃
8. D-Link Systems, Inc ("DUS")	D-Link and DHD	97.76	97.76	〃
9. D-Link International Pte. Ltd. ("DI")	D-Link and DHD	100.00	100.00	〃
10. D-Link Australia Pty Ltd. ("DAU")	D-Link and DI	100.00	100.00	〃
11. D-Link Middle East FZCO ("DME")	D-Link and DI	100.00	100.00	〃
12. Yeo-Chia Investment Ltd. ("YEOCHIA")	D-Link	100.00	100.00	Professional investment company
13. Yeo-Mao Investment Ltd. ("YEOMAO")	D-Link	100.00	100.00	〃
14. Yeo-Tai Investment Ltd. ("YEOTAI")	D-Link	100.00	100.00	〃
15. D-Link Shiang-Hai (Cayman) Inc. ("DNET")	DHD	100.00	100.00	Holding company
16. D-Link Holding Mauritius Ltd. ("DMU")	DHD	100.00	100.00	〃
17. D-Link Hong Kong Ltd. ("DHK")	DHD	100.00	100.00	〃
18. OOO D-Link Russia ("DRU")	DHD	100.00	100.00	Marketing and after-sales service
19. D-Link (Europe) Ltd. ("DEU")	DHD	100.00	100.00	〃
20. D-Link (Holding) Ltd. ("DEUC") and subsidiaries; D-Link UK Ltd.	DEU	100.00	100.00	Holding company
21. D-Link Denmark A.S. ("DDK")	DEU	-	100.00	Marketing and after-sales service
22. D-Link France SARL ("DFR")	DEU	100.00	100.00	〃
23. D-Link Scandinavia AB ("DSE")	DEU	100.00	100.00	〃
24. D-Link Iberia SL ("DIB")	DEU	100.00	100.00	〃
25. D-Link Mediterraneo SRL ("DMS")	DEU	100.00	100.00	〃
26. D-Link (Netherlands) BV ("DNL")	DEU	100.00	100.00	〃
27. D-Link (Deutschland) GmbH ("DDE")	DEU	100.00	100.00	〃
28. D-Link Polska Sp. Z.o.o. ("DPL")	DEU	100.00	100.00	〃
29. D-Link (Magyarorszag) Kfp ("DHU")	DEU	100.00	100.00	〃
30. D-Link (Shanghai) Co., Ltd. ("DCN")	DNET	100.00	100.00	Storage and international trading of computer networking parts
31. Netpro Trading (Shanghai) Co., Ltd. ("DWZ")	DNET	100.00	100.00	Transit trade and international trade
32. D-Link del Ecuador S.A. ("DEC")	DSA and DLA	100.00	100.00	Marketing and after-sales service
33. D-Link Peru S.A. ("DPE")	DSA and DLA	100.00	100.00	〃
34. D-Link Paraguay S.A. ("DPY")	DSA	100.00	100.00	〃
35. D-Link de Colombia Limitada ("DCD")	DSA	99.52	99.52	〃
36. D-Link Guatemala S.A. ("DGT")	DSA	99.00	99.00	〃

Note: D-Link together with its subsidiaries are hereinafter referred to collectively as the "Consolidated Company".

(Continued)

(2) The additions of subsidiaries in the 2008 consolidated financial statements are shown below:

(i) As of March 31, 2007, holdings by the Consolidated Company in Alpha Networks Inc. ("ALPHA") were reduced to 45.14%, and the Consolidated Company no longer had controlling power over ALPHA. Starting in the second quarter of 2007, ALPHA is no longer included in the Company's consolidated financial statements.

(ii) In October 2007, the Consolidated Company's holding in Xtramus Technologies (XTRAMUS) was reduced to 41.83%. XTRAMUS elected new directors during its special shareholders' meeting on December 20, 2007, and the Consolidated Company is represented by only one director and therefore no longer has controlling power over XTRAMUS. Starting on December 31, 2007, the Consolidated Company no longer includes XTRAMUS in its consolidated financial statements; only the 2007 revenues and expenses are included in the consolidated financial statements.

(iii) D-Link (Europe) Ltd. established D-Link (Magyarorszag) Kfp in 2007.

(iv) In the fourth quarter of 2007, DSA and DLA established DEC, DPE, DPY, DCD, DGT and DMX. In addition, 99% shares of DMX were purchased from DSA for $657 in December 2008.

(b) Accounting principles and consolidation policy

The consolidated financial statements are composed of the Company and subsidiaries in which the Company directly or indirectly holds more than half of the voting shares or over which the Company has controlling power. The significant unrealized internal gains/losses from significant internal transactions are offset in the consolidated financial statements.

The differences between the investment cost and the net asset value calculated based on holding percentage is recorded under goodwill and consolidation credit when preparing consolidated financial statements, and are not amortized.

(c) Use of estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(Continued)

(d) Distinction between current and non-current items

Assets to be realized within 12 months subsequent to the balance sheet date or to be available for sale or for consumption during the normal course of an operating cycle are classified as current assets. Liabilities to be redeemed within 12 months subsequent to the balance sheet date, and obligations incurred but to be redeemed during the normal course of an operating cycle are classified as current liabilities. Items not classified as current assets (liabilities) are classified as non-current assets (liabilities).

(e) Foreign currency transactions and translation

The entities of the Consolidated Company record transactions in their respective local currencies. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting exchange gains or losses from settlement of such transactions or translations of foreign monetary assets or liabilities are reflected in the statements of income.

Non-monetary assets and liabilities denominated in foreign currencies are measured at the historical exchange rates prevailing at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into local currencies at the exchange rate at the date that the fair value was determined. The resulting exchange gains or losses from non-monetary assets and liabilities recognized at fair value through profit or loss are reflected in the statements of income. The resulting exchange gains or losses from non-monetary assets recognized at fair value in equity are reflected in the statements of changes in stockholders' equity.

For the Consolidated Company's long term equity investments and payments that are long term advances in nature, conversion differences net of income tax effects is recorded under accumulated transaction adjustment in shareholders' equity .

(f) Impairment of assets

The Consolidated Company adopted Statement of Financial Accounting Standards No. 35 "Impairment of Assets". In accordance with SFAS No. 35, the Consolidated Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Consolidated Company estimates the recoverable amount of the asset. The Consolidated Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. If the recoverable amount of assets other than goodwill increases in a subsequent period, the previously recognized impairment loss would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

(Continued)

(g) Cash equivalents

The Consolidated Company 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.

(h) Financial instruments

The Consolidated Company adopted the SFAS No. 34 "Financial Instruments: Recognition and Measurement". The Consolidated Company classifies its financial instruments into "financial assets (liabilities) at fair value through profit or loss", "available-for-sale financial assets" and "financial assets carried at cost".

The Consolidated Company uses trade-date accounting for financial instrument transactions. The financial instruments are initially recognized at fair value plus transaction costs.

Subsequent to initial recognition of financial instruments, the Consolidated Company classifies them into the following categories according to the purpose of holding:

(1) Financial assets (liabilities) at fair value through profit or loss:

Financial assets (liabilities) are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. The derivative financial instruments held by the Consolidated Company, except for those designated as effective hedging instruments, are classified into this category.

(2) Available-for-sale financial assets:

Available-for-sale financial assets are carried at fair value. Unrealized gain or loss (net of tax) on available-for-sale financial assets is recognized directly in equity. If there is objective evidence that a financial asset is impaired, the Consolidated Company recognizes the impairment loss in the current period. For available-for-sale equity instruments, if the amount of the impairment decreases in a subsequent period, the write-down cannot be reversed; and for available-for-sale debt instruments, if the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss should be reversed through profit or loss.

(3) Financial assets carried at cost:

Equity instruments without quoted market prices in an active market and whose fair value cannot be reliably measured are initially measured at cost. If there is objective evidence that financial assets carried at cost are impaired, the Consolidated Company recognizes the impairment loss in the current period. However, the impairment losses may not be reversed subsequently.

(Continued)

(i) Derivative instruments and hedging activities

The Consolidated Company designates derivatives as hedges of operating, financing and investment risk. Pursuant to the policy, the Consolidated Company does not hold or issue derivates for trading purposes; derivatives that do not meet the criteria for hedge accounting are accounted for as trading instruments.

When a fair value hedge meets all the criteria for hedge accounting, gain or loss from the changes in the fair value of the hedging instrument and the hedged item could be offset. The gain or loss from the remeasuring or changes in the exchange rate of the hedging instrument is recognized in profit or loss immediately; gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss immediately.

(j) Allowance for doubtful accounts and accrued warranty liability for maintenance

The allowance for doubtful accounts is provided based on accounts receivable aging analysis and the expected collectability of accounts receivable.

The warranty liability for maintenance is accrued based on historical experience, sales revenue, and the warranty period of products.

(k) Inventories

Inventories are stated at the lower of cost or market value. The market value of raw materials is determined on the basis of replacement cost, and the market values of finished goods are determined on the basis of net realizable value.

(l) Long-term equity investments under equity method

Long-term investments are accounted for under the equity method when the Consolidated Company owns over 20% of investees voting shares.

Pursuant to the amended SFAS No. 5 "Long-term Investments under Equity Method", the cost of an investment shall be analyzed, and the difference between the cost of investment and net equity in excess of the fair value of identifiable net assets is recognized as goodwill. The difference between the cost of investment and net equity less than the fair value of identifiable net assets is reduced in proportion to the noncurrent assets, and the remaining amount, if any, is recorded as extraordinary gain or loss.

(Continued)

For an investee which the Consolidated Company has controlling power over, the Consolidated Company should recognize all losses of the investee when the stockholders' equity of the investee is negative and other investors of the investee have no obligation or cannot afford the losses. The Consolidated Company will continue to apply the equity method to recognize investment losses based on ownership percentages. Such credit balance of the carrying amount of a long-term equity investment is offset by any accounts receivable from the investee, and the remaining amount, if any, is recorded as other liabilities.

If an investee company issues new shares and the Consolidated Company does not acquire new shares in a proportion to its original ownership percentage, the equity in the investee's net assets will be changed. The change in the equity interest shall be used to adjust the capital surplus or retained earnings and long-term investment accounts.

When long-term equity investments under the equity method are sold, the difference between the sales price and the book value on the day of disposal is recorded as income/loss on the disposal of long term equity investments. If there is additional paid-in capital that is generated by long-term equity investments on the books, then it should be transferred to current income/loss based on the percentage sold.

All significant inter-company transaction gains or losses with investees accounted for under the equity method are deferred.

(m) Property, plant and equipment; assets held for lease; idle assets, and depreciation

Property, plant and equipment are stated at cost. Costs associated with significant additions, improvements, and replacements to property, plant and equipment are capitalized. Repairs and maintenance are charged to expenses as incurred. Gains or losses on the disposal of property, plant and equipment are accounted for as non-operating income or expenses in the consolidated statements of income.

Other than land, depreciation on fixed assets is calculated using the straight-line method over their expected life. Once depreciable assets reach their useful life, additional depreciation can be recorded based on their remaining value and a newly estimated useful life:

The useful lives of property, plant and equipment are as follows:

(1) Buildings and improvements: 5~55 years.

(2) Transportation, office equipment and others: 2~8 years.

Fixed assets that are not used in operating activities are transferred to idle assets and recorded at the lower of carrying amount or net realizable value.

(Continued)

(n) Intangible assets

On January 1, 2007, the Consolidated Company adopted Statement of Financial Accounting Standards No. 37 "Intangible Assets." Thus, expenditures for research activities are charged to expense when incurred, and those for development activities that meet the criteria for capitalization are recognized under intangible assets and amortized using the straight-line method. Those expenditures that do not meet that do not meet the criteria for capitalization are charged to expense when incurred.

The useful lives of intangible assets are as follows:

Computer software: 3~5 years

At the end of the fiscal year, the remaining value, amortization period, and amortization method of intangible assets should be evaluated annually, and any changes should be viewed as a change in accounting estimates.

(o) Retirement plan

The Company has a defined benefits pension plan; YEOCHIA, YEOMAO, YEOTAI, DHD and other holding companies do not have employees on the payroll, and therefore do not have a pension plan; D-Link Europe and other consolidated subsidiaries have a defined contribution pension plan in accordance with local regulations.

The Company has established employee noncontributory defined benefit retirement plans (the "Plans") covering all regular employees in Taiwan. In accordance with the Plans, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on the number of service years and the average salary for the six-month period before the employee's 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.

Effective July 1, 2005, the Company became subject to the "Labor Pension Act" (the "Act"), which prescribes a defined contribution pension scheme for those employees who were covered by the Labor Standards Law prior to the enforcement of the Act but elect to be subject to the pension mechanism under the Act and for those employees who are employed after the enforcement of the Act. In accordance with the Act, the Company contributes monthly to the Labor Pension Fund for the employee individual pension fund accounts at the minimum rate of 6% of the employees' monthly wages.

In accordance with the Labor Standards Law, D-Link contributes 2% of wages to a pension fund maintained with Bank of Taiwan on a monthly basis. Retirement benefits are paid firstly from the pension fund. As the Company's pension liability is sufficient to cover the amount to be paid to all qualified employees in the future, the Company obtained approval from the Labor Department, Taipei City Government, to stop contributing to its pension liability in October 2009.

Under the defined benefit pension plan, D-Link has adopted ROC Statement of Financial Accounting Standards ("SFAS") No. 18 "Accounting for Pensions." SFAS No. 18 requires D-Link to perform an actuarial calculation of its pension obligation as of each fiscal year-end. Based on the actuarial calculation, D-Link recognizes net periodic pension costs. YEOMAO, YEOCHIA, YEOTAI, DHD and other holding companies did not recognize pension expense since they have no employees.

A number of the Company'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.

For its defined contribution pension plans, the Consolidated Company contributes to the Labor Pension Fund at the rate of 6% of each employee's monthly wages and recognizes the contribution as current pension expense.

(p) Share based payments

Service cost recognized for employee stock options issued before and on January 1, 2008, is equal to the difference between the exercise price and the market price of the D-Link shares on the value day as calculated using the intrinsic value method. The pro forma net income and EPS information using the fair value method should also be disclosed. In accordance with SFAS No. 39 "Share-based Payment", the abovementioned D-Link employee stock options are not required to adopt SFAS No. 39 retroactively, but the pro forma net income and EPS are still required to be disclosed under SFAS No. 39.

(q) Employees' bonuses and directors' and supervisors' remuneration

Starting on January 1, 2008, employees' bonuses and directors' and supervisors' remuneration are accrued in accordance with Interpretation 96 Ji-Mi No. 052 issued by the Accounting Research and Development Foundation in Taiwan and are recorded under personnel costs. If the subsequent resolution by the shareholders' meeting differs from the amount disclosed in the financial statements, the difference is then recognized as a change in estimates and recorded under current-period profit/loss.

(Continued)

(r) Revenue recognition

Revenue is recognized when title to the products and the risks and rewards of ownership are transferred to the customers, which occurs principally at the time of shipment. Allowances and related provisions for sales returns are estimated based on historical experience. Such provisions are deducted from sales in the year the products are sold.

(s) 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.

Classification of deferred income tax assets or liabilities as current or noncurrent 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 expected realization date of such asset or liability.

Income tax expense is reduced by investment tax credits in the year in which the credits arise.

According to the ROC Income Tax Act, undistributed earnings of D-Link, YEOCHIA, YEOMAO, and YEOTAI in the ROC are subject to an additional ten 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. Under the Income Basic Tax Act, if the amount of regular income tax is greater than or equal to the amount of basic tax, the Company shall calculate its income tax in accordance with the Income Tax Act. When the amount of regular income tax is less than the amount of basic tax, the income tax payable shall be equal to the basic tax instead of the regular income tax. In addition, deductions claimed under investment tax credits are not allowed.

Income tax of the Consolidated Company is based on the tax laws of various countries. Income tax is declared on an individual company basis. Income tax expense of the Consolidated Company is the sum of income tax expense of the companies included in the consolidation.

(Continued)

(t) Net income per common share

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

The employee stock options and the employee bonuses settled using shares that have yet to be approved by the shareholders' meeting are deemed to be potential common stock. If the potential common stock possesses diluting effects, then diluted EPS must be disclosed in addition to basic EPS. If diluting effects do not exist, then only basic EPS are required to be disclosed.

3. Reasons for and Effect of Accounting Changes

(a) The Consolidated Company adopted Statement of Financial Accounting Standards No. 37 "Intangible Assets" on January 1, 2007. In accordance with SFAS No. 37, the Consolidated Company revaluated the useful lives and amortization methods of intangible assets already recognized as of the adoption date. No adjustments are required based on the evaluation.

(b) The Consolidated Company adopted Interpretation 96 Ji-Mi No. 052 "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration" issued by the Accounting Research and Development Foundation in Taiwan (ARDF) in classifying, valuing and disclosing its share-based payment transactions and employees' bonuses and directors' and supervisors' remuneration. The Consolidated Company, adopted the above Interpretation, resulting in a decrease in net income amounting to $104,399 and in EPS of $0.18. The adoption had no other effects. In addition, in accordance with ARDF Interpretation 97 Ji-Mi No. 169, employees' bonuses transferred to capital are not required to adjust basic and diluted EPS retroactively, and if employees' bonuses through shares have diluting effects, then they should be included in diluted EPS.

4. Significant Account Disclosures

(a) Cash and Cash Equivalents

	December31, 2008	December31, 2007
Cash on hand; checking and savings accounts	$ 1,494,060	1,739,887
Time deposits	832,150	2,795,670
Bonds with repurchase agreements	271,724	79,192
	$ 2,597,934	4,614,749

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Financial Assets

		December31, 2008	2007
Financial assets at fair value through profit or loss – current			
Financial assets held for trading:			
Beneficiary certificates – mutual funds	$	276,023	673,075
Foreign currency option contracts		5,481	4,098
Forward exchange swaps		3,819	-
Cross currency swaps		713	-
Convertible bonds		7,120	-
Structured deposits		-	455,008
	$	293,156	1,132,181
Financial liabilities at fair value through profit or loss – current			
Financial liabilities held for trading:			
Foreign currency option contracts	$	27,371	67,728
Forward exchange contracts		9,281	-
Cross currency swaps		21,451	-
	$	58,103	67,728
Available-for-sale financial assets – noncurrent:			
Cameo Communication, Inc. (CAMEO)	$	312,880	820,318
IC Plus Corp. (ICPC)		126,097	481,146
Lanner Electronics, Inc. (LEI)		51,813	162,651
Abocom Systems, Inc. (ASI)		19,817	52,332
Ralink Technology Corp. (RALINK)		154,567	-
	$	665,174	1,516,447
Financial assets carried at cost – noncurrent:			
Azure Venture Partners I, L.P.	$	116,743	175,445
Purple Communications Limited		32,860	32,443
Global Mobile Corp.		80,000	80,000
ID Branding Fund Inc.		50,000	50,000
Z-Com, Inc.		43,804	43,804
International Network Capital Corp.		19,518	23,517
Ralink Technology Corp.		-	228,000
Others		16,474	21,194
	$	359,399	654,403

(1) As a result of continuing losses of the invested companies in the Consolidated Company's financial assets carried at cost portfolio, the Consolidated Company recognized impairment loss amounting to $1,022 and $3,274 in 2008 and 2007, respectively.

(Continued)

(2) Investment in Ralink was originally classified as financial instruments carried at cost by the Consolidated Company, but as the investee was listed on the Taiwan Stock Exchange on April 8, 2008, the investment was transferred to available-for-sale financial assets – non-current starting in 2008.

(3) The Consolidated Company recognized unrealized gain/loss on its available-for-sale financial assets in 2008 and 2007 amounting to a loss of $234,388 and a gain of $3,555, respectively. The change in unrealized gain/loss on investees recognized through the equity method amounted to a loss of $939,552 and a gain of $294,666, respectively. As of December 31, 2008 and 2007, the accumulated unrealized gain/loss amounted to a loss of $316,305 and a gain of $857,635, respectively.

(c) Derivative Financial Instruments

The Consolidated Company entered into forward foreign exchange contracts, foreign currency option contracts and cross currency swaps with several banks. The main purpose of signing these contracts was to hedge the risks from exchange rate changes of some foreign currency receivables. These derivatives do not meet the criteria for an effective hedge and are accounted for as financial assets held for trading.

As of December 31, 2008 and 2007, the Consolidated Company held the derivative financial assets (liabilities) as below:

		December 31, 2008	December 31, 2007
Derivative financial assets:			
Foreign currency option contracts	$	5,481	4,098
Forward exchange contract		3,819	-
Cross currency swaps		713	-
Structured deposits		-	455,008
	$	10,013	459,106

		December 31, 2008	December 31, 2007
Derivative financial liabilities:			
Foreign currency option contracts	$	27,371	67,728
Forward exchange contracts		9,281	-
Cross currency swaps		21,451	-
	$	58,103	67,728

Details of the above financial instruments are disclosed as below:

(1) Derivative financial assets

December 31, 2008

Financial instruments	Contract principal (thousand)		Maturity date		Book value
Foreign currency option contracts:					
Put options (buy)	USD	3,000	2009.02	$	2,404
Put options (buy)	EUR	8,000	2009.02		2,855
Put options (buy)	AUD	1,500	2009.01		222
				$	5,481
Forward exchange contracts:					
EUR	EUR	2,000	2009.01	$	1,258
CAD	CAD	5,500	2009.01~2009.03		2,561
				$	3,819
Cross currency swaps:					
EUR	EUR	2,500	2009.01	$	336
AUD	AUD	1,000	2009.01		377
				$	713

December 31, 2007

Financial instruments	Contract principal (thousand)		Maturity date		Book value
Foreign currency option contracts:					
Call options (sell)	USD	4,000	2008.01	$	407
Put options (buy)	EUR	26,000	2008.01~2008.04		652
Put options (sell)	AUD	9,000	2008.01~2008.04		-
Call options (sell)	CAD	4,000	2008.01~2008.02		3,039
				$	4,098
Structured deposits:					
AUD		3,800	2008.01	$	107,888
CAD		2,650	2008.01		82,595
EUR		8,111	2008.01~2008.03		264,525
				$	455,008

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Derivative financial liabilities

Financial instruments	December 31, 2008 Contract principal (thousand)		Maturity date	Book value
Foreign currency option contracts:				
Call options (sell)	USD	3,000	2009.02	$ 253
Put options (sell)	USD	3,000	2009.02	1,505
Call options (sell)	EUR	10,000	2009.02	24,138
Put options (sell)	EUR	6,000	2009.02	192
Call options (sell)	AUD	1,500	2009.01	1,280
Put options (sell)	AUD	1,500	2009.01	3
				$ 27,371
Forward exchange contracts:				
EUR	EUR	8,000	2009.01	$ 5,079
CAD	CAD	2,000	2009.02	1,488
USD	USD	3,000	2009.02	2,714
				$ 9,281
Cross currency swaps:				
EUR	EUR	2,000	2009.01~2009.02	$ 870
CAD	CAD	4,000	2009.01	587
JPY	JPY	660,000	2009.01~2009.02	19,994
				$ 21,451

Financial instruments	December 31, 2007 Contract principal (thousand)		Maturity date	Book value
Foreign currency option contracts:				
Call options (sell)	EUR	26,000	2008.01~2008.04	$ 59,508
Call options (sell)	AUD	9,000	2008.01~2008.04	448
Call options (sell)	CAD	4,000	2008.01~2008.02	7,772
				$ 67,728

Above derivative financial assets (liabilities) were classified as financial assets at fair value through profit or loss – current.

(d) Notes and Accounts Receivable

	December31, 2008	2007
Notes receivable	$ 37,774	38,952
Accounts receivable	6,012,649	6,077,805
	6,050,423	6,116,757
Less: allowance for doubtful accounts	(161,207)	(216,092)
	$ 5,889,216	5,900,665

(e) Inventories

	December31, 2008	2007
Finished goods	$ 8,474,006	7,486,902
Raw materials	41,690	84,479
	8,515,696	7,571,381
Provision for obsolescence and devaluation	(1,113,887)	(841,039)
	$ 7,401,809	6,730,342

(f) Long-term Investments under Equity Method

Investee	December 31, 2008 Book value	2008 Percentage of ownership	2007 Book value	2007 Percentage of ownership
D-Link India Ltd. (DIN)	$ 542,449	36	626,144	36
PurpleComm Inc.	145,007	29	165,275	29
ALPHA	2,988,274	38	3,080,209	40
Bothhand Enterprise Inc. (BOTHHAND)	247,885	31	234,316	29
Quie Tek Corp. (QTC)	136,746	33	129,041	34
Vxis Technology Corp.	44,109	27	42,517	27
XTRAMUS	26,392	41	28,345	42
	$ 4,130,862		4,305,847	

(Continued)

The total investment gains related to investment accounted for under the equity method based on the audited financial statements of the investees for the same period as the Consolidated Company were $486,707 and $489,936 for the years ended December 31, 2008 and 2007, respectively. Of those, investment gains, the $40,820 and $73,407 in 2008 and 2007, respectively, and long-term investments under equity method amounting to $935,341 and $626,144 as of December 31, 2008 and 2007, respectively, were based on the audited financial statements of the invested companies.

As of December 31, 2007, the Consolidated Company no longer holds a controlling interest in ALPHA and XTRAMUS. Please see note 2(a).

As of December 31, 2008 and 2007, the market value of publicly listed investees of the Consolidated Company under long-term investments under the equity method was as follows:

	December31, 2008	2007
ALPHA	$ 3,255,443	4,924,822
BOTHHAND	129,879	259,133
DIN	325,660	1,084,629
	$ 3,710,982	6,268,584

(g) Property, Plant and Equipment; Assets Held for Lease; and Idle Assets

(1) As a result of operation considerations, the Company leased part of its land and buildings, and is recorded under assets held for lease. As of December 31, 2008 and 2007, the components of assets held for lease were as below:

	December 31, 2008	2007
Cost		
Land	$ 30,000	30,000
Building	22,196	22,196
	52,196	52,196
Less: Accumulated depreciation	(7,167)	(6,771)
Accumulated impairment loss	(19,000)	(19,000)
Net carrying amount	$ 26,029	26,425

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(2) D-Link transferred fixed assets not in use for operations to idle assets and recognized impairment loss and idle asset valuation loss based on the appraisal report or estimated net realizable value. As of December 31, 2008 and 2007, the components of idle assets were as below:

		December 31, 2008	December 31, 2007
Cost			
Land	$	27,477	27,477
Building		15,668	15,668
		43,145	43,145
Less: Accumulated depreciation		(4,360)	(4,080)
Accumulated impairment loss		(27,145)	(27,145)
	$	11,640	11,920

(3) As of December 31, 2008 and 2007, the components of accumulated impairment loss calculated in accordance with ROC SFAS No. 35 "Impairment of Assets" were as below:

		December 31, 2008	December 31, 2007
Assets held for lease – land	$	12,100	12,100
Assets held for lease – building		6,900	6,900
Idle assets – land		18,957	18,957
Idle assets – building		8,188	8,188
	$	46,145	46,145

(4) Sale of lease and idle assets

D-Link and Wistron NeWeb Corp. signed a sale of property agreement in the amount of $185,000. After subtracting the book value of $239,803 and reversing accumulated impairment loss of $52,846, the loss on sale amounted to $1,957, which was recorded under non-operating expenses – other loss.

(h) Short-term Borrowings

	December 31, 2008			December 31, 2007	
		Amount	Rate %	Amount	Rate %
Usance letters of credit	$	196,987	1.25%~4.25%	429,043	0.642%~2.56%
Unused credit facilities	$	4,612,416		7,813,629	

(Continued)

(i) Long-term Borrowings

Bank	Credit line	Term	2008 Amount	2008 Rate %	2007 Amount	2007 Rate %
Chinatrust Bank	$ 700,000	2008.12.31 ~2011.12.31, 36 months	500,000	1.79	-	-
DBS Bank	800,000	2008.12.31 ~2011.01.31, 25 months	500,000	1.96	-	-
			$ 1,000,000		-	

D-Link entered into a 3-year mid-long-term loan agreement with Chinatrust Commerical Bank on December 30, 2008. Eighteen months after initial drawdown, the credit amount will decrease by 25% every 6 months. Interest is calculated based on the period of each drawdown.

As of December 31, 2008 and 2007, D-Link's undrawn amount of its long-term loan amounted to $500,000 and $0, respectively.

(j) Retirement Plans

The following table sets forth the benefit obligation and accrued pension balance as of December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
Benefit obligation:		
Nonvested benefit obligation	$ (39,811)	(61,716)
Vested benefit obligation	(39,570)	(9,678)
Accumulated benefit obligation	(79,381)	(71,394)
Projected future salary increase	(44,915)	(35,607)
Projected benefit obligation	(124,296)	(107,001)
Fair value of plan assets	155,659	152,300
Funded status	31,363	45,299
Unrecognized net transition obligation	-	58
Unrecognized net loss	42,968	30,889
Additional minimum pension liability	-	(58)
Prepaid pension cost	$ 74,331	76,188

As of December 31, 2008 and 2007, the vested benefit for employees of the Consolidated Company that qualified for retirement amounted to $62,616 and $10,887, respectively.

(Continued)

The components of Consolidated Company's net periodic pension cost for 2008 and 2007 are summarized as follows:

	2008	2007
Service cost	$ 2,278	1,811
Interest expenses	2,943	2,834
Actual returns on pension fund	(5,615)	(4,385)
Amortization	2,309	926
Defined benefit pension cost	1,915	1,186
Defined contribution pension cost	113,824	123,291
Net pension cost	$ 115,739	124,477

Actuarial assumptions at December 31, 2008 and 2007, are summarized as follows:

	December 31, 2008	December 31, 2007
Discount rate	2.75%	2.75%
Rate of increase in future compensation levels	3.00%	3.00%
Expected long-term rate of return on plan assets	2.75%	2.75%

(k) Income Taxes

(1) The Consolidated Company's income taxes must be filed individually and should not be consolidated. The income tax of the Consolidated Company is calculated based on the effective tax rate of each jurisdiction in which individual entities operate.

(2) The Company and it's domestic company's income is subject to an income tax rate of 25% and adopted the Income Basic Tax Act starting on January 1, 2006. The income tax expense for 2008 and 2007 is made up of the following:

	2008	2007
Current	$ 285,823	291,043
Deferred	(59,805)	13,628
	$ 226,018	304,671

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(3) The components of deferred income tax assets (liabilities) as of December 31, 2008 and 2007, are summarized as follows:

		December 31, 2008	December 31, 2007
Deferred tax assets – current:			
Allowance for decline in value of inventories	$	133,470	111,256
Provision for doubtful accounts over statutory limitation		24,704	30,215
Reserve for maintenance service cost		1,705	5,204
Unrealized expenses		165,702	130,996
Others		48,054	21,914
		373,635	299,585
Less: valuation allowance		(104,589)	(79,199)
		269,046	220,386
Deferred tax liabilities – current:			
Unrealized foreign exchange gain, net	$	(1,360)	(1,278)
Others		(1,244)	(12,905)
		(2,604)	(14,183)
	$	266,442	206,203
Deferred tax assets – noncurrent:			
Investment tax credits	$	140,595	234,968
Loss carryforward		236,433	53,305
Asset devaluation and impairment loss		17,868	22,386
		394,896	310,659
Less: valuation allowance		(343,205)	(217,039)
		51,691	93,620
Deferred tax liabilities – noncurrent:			
Allowance for loss on foreign investments		(202,510)	(249,776)
Long-term investments benefits		(172,961)	(167,190)
Foreign currency translation adjustment		(101,883)	(158,065)
		(477,354)	(575,031)
Net noncurrent deferred tax liabilities	$	(425,663)	(481,411)

Net noncurrent deferred tax liabilities:

		December 31, 2008	December 31, 2007
Deferred tax assets – current	$	266,442	206,203
Deferred tax liabilities – noncurrent		(425,663)	(481,411)
Total deferred tax liabilities, net	$	(159,221)	(275,208)

(Continued)

(4) As of December 31, 2008, the unused investment tax credits and related expiration dates were as follows:

Source of tax credits		Unused investment tax credits	Expiration date
Shareholders' credit from investment in emerging strategic industries	$	75,756	2010
Shareholders' credit from investment in emerging strategic industries		1,420	2011
Research and development expense and personnel training expenditures		40,323	2,011
Research and development expense and personnel training expenditures		23,096	2012
	$	140,595	

(5) In accordance with the laws of each registered country, the assessed losses can be used to offset current-year net income. In addition, pursuant to the ROC Income Tax Act amendment on January 21, 2009, net loss of YEOTAI and YEOCHIA as assessed by the tax authorities can be carried forward for ten consecutive years to reduce future taxable income. As of December 31, 2008, the Company's unused loss carryforwards available to offset future taxable income and the expiry years were as follows:

Consolidated entity	Year	Expiry year		Amount
YEOCHIA, YEOTAI	2003	2013	$	43,930
YEOTAI	2004	2014		12,277
YEOCHIA	2006	2015		152,261
DEU	2007	Unlimited		468,892
DEU	2008	Unlimited		189,405
			$	866,765

(6) As of December 31, 2008, the ROC income tax authorities had examined the income tax returns of D-Link for all fiscal years through December 31, 2002. D-Link disagreed with the assessment made by the tax authorities for its 2002 income tax return regarding the loss on sale of long-term investments, and has filed for reassessment with the tax authority. Please see note 7(l). The income tax returns of YEOCHIA, YEOMAO, and YEOTAI have been examined through 2006

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Information relating to the integrated tax system of D-Link as of December 31, 2008 and 2007, is summarized as follows:

	December 31, 2008	December 31, 2007
Unappropriated retained earnings:		
Prior to January 1, 1998	$ 194,476	194,476
After January 1, 1998	4,133,412	4,964,826
Total	$ 4,327,888	5,159,302
Imputation credit account balance	$ 286,706	212,434

	2008	2007
Expected creditable ratio for earnings distribution to resident stockholders	9.63% (estimated)	7.34% (actual)

(l) 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. The GDRs were publicly listed on the Luxembourg Stock Exchange at September 24, 1998.

Pursuant to the board of directors' resolution on October 27, 2008, D-Link ceased to issue GDRs. D-Link has completed the related process in accordance with the depositary agreement and the delisting guidelines of the Luxembourg Stock Exchange.

Pursuant to a stockholders' resolution on June 8, 2007, D-Link increased its common stock by $204,676 through the transfer of stockholders' bonuses of $132,676 and employees bonuses of $72,000. The capital increase was registered with the government authorities on August 14, 2007, and the effective date of the capital increase was on August 2, 2007.

In order to adapt to the change in operations, reduce idle capital, and increase returns on equity, the shareholders' meeting of D-Link on June 8, 2007, decided to reduce capital by 20% and return capital of 136,769 thousand shares amounting to $1,367,691 to shareholders, the abovementioned capital reduction is effective on November 8, 2007 and has been approved by the authorities and registered.

Pursuant to a stockholders' resolution on June 13, 2008, D-Link increased its common stock by $181,415 through the transfer of stockholders' bonuses of $109,415 and employees' bonuses of $72,000, respectively. The capital increase was registered with the government authorities on August 5, 2008.

(Continued)

As of December 31, 2008 and 2007, the authorized capital amounted to $8,800,000 (including $250,000 authorized for the issuance of the employee stock options). As of December 31, 2008 and 2007, the issued capital amounted to $5,652,180 and $5,470,765, 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 Act, with the exception of capital surplus originating from long-term equity investments accounted for using the equity method, 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 SFB 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) Legal reserve

According to the ROC Company Act, D-Link must retain 10% of its annual income as a legal reserve until such retention equals the amount of authorized common stock. The legal reserve can only be used to offset an accumulated deficit and can not be used to distribute cash dividends.

(4) Distribution of earnings and dividend policy

In accordance with the D-Link's articles of incorporation revised on June 13, 2008, if there are earnings at year-end, 10 percent should be set aside as legal reserve after the payment of income tax and offsetting accumulated losses from prior years. If there is a balance remaining, 1 percent should be set aside for directors' and supervisors' remuneration and 5 to 15 percent should be set aside for employees' bonuses. The recipients of the distributions may include the employees of D-Link's affiliated companies, and a special earnings reserve can be set aside if necessary. The remaining portion will be combined with earnings from prior years, and the board of directors can propose methods of distribution to be approved by the shareholders' meeting. Dividends distributed to shareholders should not be less than 30 percent of the distributable earnings for the current year.

As required by the securities governing authorities, starting with the distribution of 1999 earnings, for any subtractions from shareholders' equity, D-Link is required to accrue a special earnings reserve of the same amount that can not be distributed. When the negative amount is recovered, the amount can be reversed and distributed.

(Continued)

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Notes to Consolidated Financial Statements

In order to adjust to the overall business environment, industry growth characteristics, long-term financial planning, and corporate sustainable management, D-Link adopts a residual dividend policy. D-Link will distribute capital in excess of its required capital as cash dividends, which cannot be lower than 10 percent of total dividends.

As of December 31, 2008, D-Link's net income less 10% legal reserve multiplied by the 10 percent set aside for employees' bonuses and 1 percent set aside for directors' and supervisors' remuneration amounted to $108,037 for employees' bonuses and $10,804 for directors' and supervisors' remuneration. The number of shares distributed as stock dividends is calculated based on the closing price of the shares the day before the shareholders' meeting while taking into consideration the ex-rights and ex-dividend effects. If the amount actually distributed based on the resolution of the shareholders' meeting differs from the estimated amount, the difference will be treated as a change in accounting estimates and recorded as income/loss in 2009.

The Company's shareholders meeting on June 13, 2008 and June 8, 2007 resolved to distribute earnings as employees' bonuses and Directors' and supervisors' remuneration as follows:

		2007	2006
Employees' bonuses – stock (par value)	$	72,000	72,000
Employees' bonuses – cash		78,263	62,000
Directors' and supervisors' remuneration		60,105	45,363
	$	210,368	179,363

The actual distribution of employees' bonuses and directors' and supervisors' remuneration for 2008 is subject to the proposal of the board of directors and a resolution of the stockholders. Relevant information would be available on the Market Observation Post System of the Taiwan Stock Exchange after the related meetings.

(m) Employee stock options

(1) D-Link was granted approval by the Securities and Futures Bureau on December 26, 2007, to issue 20,000 units of employee stock options, with each unit having the option to purchase 1,000 shares. The exercising of the options will be settled through the issuance of new shares. The options are granted to the selected employees of D-Link and companies in which D-Link has over 50% of total voting shares either directly or indirectly. The stock options have a contractual life of 6 years and may not be transferred, pledged, or bestowed on others except through inheritance. Option holders may exercise the options 2 years from the date of grant and subscribe the common shares of the Company in accordance with the following schedule.

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Period following granting of options	Percentage exercisable
2 Years	40%
3 Years	60%
4 Years	80%
5 Years	100%

(2) The information on D-Link's outstanding stock options as of December 31, 2008, is as follows:

Approval date	Issuance date	Units issued	Option effective period	Exercise restricted period	Original exercise price ($)	Adjusted exercise price ($)
2007.12.26	2007.12.28	20,000	2007.12.28~ 2013.12.27	2007.12.28~ 2009.12.27	56.60	64.15

(3) The exercise price for the D-Link employee stock option plan is equal to the closing price of D-Link common stock on the issue date; therefore, the 2007 compensation cost based on intrinsic value is $0, and will not need to be amortized in subsequent years.

(4) A summary of D-Link's stock option plans and related information for the year ended December 31, 2008, is as follows:

	2008		2007	
	Options (in thousands)	Weighted-average exercise price (NTD)	Options (in thousands)	Weighted-average exercise price (NTD)
Outstanding at beginning of period	$ 20,000	64.15	-	-
Granted	-	-	20,000	56.60
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of period	**$ 20,000**	**64.15**	**20,000**	**56.60**

(5) If D-Link uses the fair value method to recognize compensation cost of the stock options issued and the Black-Scholes method to estimate the fair value of the stock options on the date they were granted. Pro forma net income and EPS, and assumptions used are as follows:

Valuation Components	Black-Scholes Options Valuation	2008	2007

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Assumptions	Dividend rate		3.31%	3.31%
	Expected price volatility		30.89%	30.89%
	Risk free rate		2.725%	2.725%
	Expected existence period		6	6
Net income	Net income as reported	$	1,200,413	3,339,169
	Pro forma net income		1,130,136	3,338,401
Basic EPS (NT$)	Basic EPS as reported		2.12	5.03
	Pro forma basic EPS		2.00	5.03
Diluted EPS (NT$)	Diluted EPS as reported		2.11	5.03
	Pro forma diluted EPS		1.98	5.03

(n) Net Income per Common Share

Earnings per common share of the Consolidated Company in 2008 and 2007 were computed at follows:

	2008		2007	
	Before taxes	**After taxes**	**Before taxes**	**After taxes**
Basic net income per common share:				
Net income	$ 1,426,431	1,200,413	3,643,840	3,339,139
Weighted-average common shares outstanding (thousand shares)	565,218	565,218	663,611	663,611
Basic net income per common share (New Taiwan dollars)	$ 2.52	2.12	5.49	5.03
Weighted-average common shares outstanding (thousand shares) – retroactively adjusted			681,753	681,753
Basic net income per common share (New Taiwan dollars) – retroactively adjusted			$ 5.34	4.90
Diluted earnings per share:				
Net income	$ 1,426,431	1,200,413	3,643,840	3,339,139
Weighted-average common shares outstanding (thousand shares)	565,218	565,218	663,611	663,611
Effects of diluted potential common shares:				
Employees' bonuses	4,708	4,708	-	-
Employee stock options	-	-	1	1
Weighted-average number of shares outstanding during the year (thousand shares)	569,926	569,926	663,612	663,612
Diluted earnings per share (New Taiwan dollars)	$ 2.50	2.11	5.49	5.03

(Continued)

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	2008		2007	
	Before taxes	**After taxes**	**Before taxes**	**After taxes**
Weighted-average number of shares outstanding retroactively adjusted (thousand)			681,753	681,753
Diluted earnings per share retroactively adjusted (New Taiwan dollars)			$ 5.34	4.90

The employee stock options are deemed to be potential common stock and have a complex structure. In 2008, earnings (losses) per share as calculated using the treasury stock method did not have a diluting effect.

(o) Related Information on Financial Instruments:

(1) As of December 31, 2008 and 2007, the fair values of financial assets and liabilities were as follows:

	December 31,			
	2008		2007	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets:				
Financial assets at fair value through profit or loss – current:				
Beneficiary certificates	$ 276,023	276,023	673,075	673,075
Foreign currency option contracts	5,481	5,481	4,098	4,098
Forward exchange contracts	3,819	3,819	-	-
Cross currency swaps	713	713	-	-
Convertible bonds	7,120	7,120	-	-
Structured deposits	-	-	455,008	455,008
Available-for-sale financial assets – noncurrent	665,174	665,174	1,516,447	1,516,447
Financial assets carried at cost – noncurrent	359,399	Please see 2(b)	654,403	Please see 2(b)
Financial liabilities:				
Foreign currency option contracts	27,371	27,371	67,728	67,728
Forward exchange contracts	9,281	9,281	-	-
Cross currency swaps	21,451	21,451	-	-

(Continued)

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Notes to Consolidated Financial Statements

(2) The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

(i) The fair values of short-term financial instruments are estimated by their book value on the balance sheet date. Since these instruments have short-term maturities, the book value is adopted as a reasonable basis in estimating the fair value. This method is applied to cash and cash equivalents, notes receivable (payable), accounts receivable (payable), and long-term (short-term) loans and other financial assets.

(ii) The fair values of financial instruments are based on quoted market prices, where available. If quoted market prices are not available, then the fair value is determined based on certain valuation techniques. The estimations and assumptions of valuation techniques adopted by the Consolidated Company are identical to those adopted by other market participants when pricing the financial instruments. It is not practicable to estimate the fair value of financial assets carried at cost when these financial assets are not publicly traded.

(3) The fair values of financial assets and liabilities which were based on quoted market prices in an active market or determined by using certain valuation techniques were as follows:

	December 31,			
	2008		2007	
	Based on quoted market prices	Determined by using valuation techniques	Based on quoted market prices	Determined by using valuation techniques
Financial assets:				
Financial assets at fair value through profit or loss – current:				
Beneficiary certificates	$ 276,023	-	673,075	-
Foreign currency option contracts	-	5,481	-	4,098
Forward exchange contracts	-	3,819	-	-
Cross currency swaps	-	713	-	-
Convertible bonds	7,120	-	-	-
Structured deposits	-	-	-	455,008
Available-for-sale financial assets – noncurrent	665,174	-	1,516,447	-
Financial liabilities:				
Foreign currency option contracts	-	27,371	-	67,728
Forward exchange contracts	-	9,281	-	-
Cross currency swaps	-	21,451	-	-

(4) For the years ended December 31, 2008 and 2007, loss and gain arising from fair value evaluation of financial instruments by using valuation techniques amounted to a loss of $12,234 and a gain of $43,784, respectively.

(Continued)

(5) Financial risk

(i) Market risk

The Consolidated Company holds listed equity securities and open-end mutual bond funds classified as financial assets at fair value through profit or loss and available-for-sale financial assets, which are valued at fair value. The fair values of open-end mutual bond funds fluctuate as the market interest rate changes. Therefore, the Consolidated Company is exposed to market risk from changes in market prices of the underlying securities and market interest rate.

The Consolidated Company engages in derivative financial instrument transactions with the intention to hedge against the foreign exchange risk of assets (liabilities). As a result, the gains or losses resulting from changes in foreign exchange rates will be offset by those of the hedged assets (liabilities). Therefore, the related market risk is insignificant.

(ii) Credit risk

The Consolidated Company's major potential credit risk arises from cash and cash equivalents, stocks, beneficiary certificates, and accounts receivable. The Consolidated Company's cash is deposited in different financial institutions. Cash equivalents consist of central government bonds under repurchase agreements and corporate bonds. The stocks corporate bonds, and beneficiary certificates held by the Consolidated Company are issued by companies and open-end mutual funds with superior credit ratings. The Consolidated Company controls the credit risk exposure with every financial institution and considers there is no significant concentration of credit risk. The Consolidated Company is limited to engaging in derivative transactions with banks with excellent credit ratings. Therefore, the Consolidated Company does not expect its counterparties to violate the contracts, and as a result, the possible loss resulting from credit risk is not significant.

(iii) Liquidity risk

As the capital and working capital of the Consolidated Company are sufficient to fulfill all contractual obligations, there is no liquidity risk of being unable to fulfill contractual obligations.

The Consolidated Company engages in derivative financial instruments transactions in order to hedge the risk of change in exchange rate of net assets and liabilities. Since the cash flows resulting from hedging instruments and hedged items will be offset mostly at maturity, the Consolidated Company expects no significant liquidity risk. The financial assets carried at cost held by the Consolidated Company have liquidity risk as there is no active market.

(Continued)

5. **Related-party Transactions**

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

Name	**Relationship**
DIN	Investee company under equity method
Darson Trading Limited	Subsidiary of investee company under equity method
CAMEO	Subsidiary of CAMEO acts as a D-Link director
ALPHA	Investee company under equity method
Mirac Networks (Dongguan) Co., Ltd.	Subsidiary of investee company under equity method
Abovenet Taiwan(ABOVENET)	Subsidiary of investee company under equity method
L7 Networks Inc. (L7)	D-Link's subsidiary acts as its chairman of the board of directors

(b) Significant transactions with related parties as of and for the years ended December 31, 2008 and 2007 are summarized below:

(1) Operating income

Sales and other income of the Consolidated Company from related parties in 2008 and 2007 was as follows:

	2008		**2007**	
	Amount	**Percentage of net sales**	**Amount**	**Percentage of net sales**
DIN	$ 582,958	2	446,968	1
Others	22,431	-	14,079	-
	$ 605,389	2	461,047	1

As of December 31, 2008 and 2007, the accounts receivable resulting from the abovementioned sales and other income from related parties were as follows:

(Continued)

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	December 31, 2008 Amount	2008 Percentage	2007 Amount	2007 Percentage
DIN	$ 40,006	1	163,175	3
ALPHA	28,642	1	31,402	-
Others	8,400	-	5,240	-
	$ 77,048	2	199,817	3

The average credit terms extended to related parties and third-party customers were approximately 30-90 days. However, credit terms to related parties might be further extended when necessary.

(2) Purchases

Purchases of the Consolidated Company from related parties in 2008 and 2007 were as follows:

	2008 Amount	2008 Percentage of net purchases	2007 Amount	2007 Percentage of net purchases
ALPHA	$ 11,271,482	49	9,495,042	24
CAMEO	6,748,312	28	6,677,906	17
Others	469,880	2	422,514	-
	$ 18,489,674	79	16,595,462	41

There were no significant differences in purchasing terms between related parties and third-party suppliers. As of December 31, 2008 and 2007, the accounts payable from purchases from related parties were as follows:

	December 31, 2008 Amount	2008 Percentage of total accounts receivable	2007 Amount	2007 Percentage of total accounts receivable
ALPHA	$ 2,608,382	45	2,883,335	44
CAMEO	1,690,152	30	2,116,993	32
Others	208,486	4	133,190	2
	$ 4,507,020	79	5,133,518	78

(Continued)

(3) Provision of services and sales promotion

The expenses relating to after-sales repairs and other services are summarized as follows:

		Current period expense		Payable to related party	
		2008	2007	2008.12.31	2007.12.31
ALPHA	$	92,160	79,181	31,011	79,377
CAMEO		100,952	81,231	30,608	36,656
ABOVENET		54,159	30,715	54,168	16,229
Others		22,921	6,532	948	393
	$	270,192	197,659	116,735	132,655

(c) Related information on salaries of senior management is as follows:

In 2008 and 2007, salaries and remuneration paid to the Consolidated Company's directors, supervisor, CEO, vice presidents and other senior management were as follows:

		2008	2007
Salaries	$	45,579	75,585
Cash awards and special allowances		1,360	2,239
Employee bonuses		29,711	65,020
	$	76,650	142,844

6. Pledged Assets

Pledged assets	Pledged to security		December 31, 2008	2007
Time deposits	Recorded under prepayments and other current assets	$	44,449	34,883

7. Significant Commitments and Contingencies

(a) Major operating leases

According to current leasing contracts, the minimum future leasing expenses for the land and offices leased by the Consolidated Company are as below:

(Continued)

Years	Amount
2009	$ 240,598
2010	178,584
2011	101,603
2012	96,901
2013 and after	358,516
	$ 976,202

(b) Handlink Technologies Inc. ("Handlink") asserted that the Company sold products that infringed certain Handlink patents, and brought suit against the Company. Handlink asked for compensation amounting to $20 million plus 5% interest accrued during the period from the Company's receiving the indictment to the compensation being paid. The suit is still being processed by Handlink in the Shilin District Court, and the court suspended the suit because some patents needed the ROC Intellectual Property Office's clarification. The Company recently filed a complaint and has been approved by the Intellectual Property Offices and therefore the patent has been cancelled. The Company believes that the abovementioned event will not have a significant effect on operations.

(c) Wi-Lan Technologies Corporation ("Wi-Lan") asserted that the Company sold products that infringed certain Wi-Lan patents, and brought suit against DCA and DUS. The Company is pursuing the suit with the product suppliers. However, the Company believes that the abovementioned event will not have a significant effect on operations.

(d) Chrimar Systems, Inc. asserted that the Company sold products that infringed certain its patents, and brought suit against DUS. The Company is pursuing the suit with the product suppliers. However, the Company believes that the abovementioned event will not have a significant effect on operations.

(e) Commonwealth Scientific and Industrial Research Organization ("CSIRO") asserted that the Company sold products that infringed certain CSIRO patents, and brought suit against DUS. The Company is pursuing the suit with the product suppliers. However, the Company believes that the abovementioned event will not have a significant effect on operations.

(f) Optimumupathl, L.L.C filed a lawsuit against the Company's subsidiary DUS in January 2008 alleging that some of the Company's products infringed upon its patents. The Company has retained attorneys in the US and is currently building its defense with distributors. Based on its evaluation, the Company does not believe the litigation will have a significant impact on its current operations.

(Continued)

(g) Fenner Investments Inc. filed a lawsuit against the Company's subsidiary DUS in March 2008 alleging that some of the Company's products infringed upon its patents. The Company has retained attorneys in the US and is currently building its defense with distributors. Based on its evaluation, the Company does not believe the litigation will have a significant impact on its current operations.

(h) Ez4media, Inc. filed a lawsuit against the Company's subsidiary DUS in June 2008 alleging that some of the Company's products infringed upon its patents. The Company has retained attorneys in the US and is currently building its defense with distributors. Based on its evaluation, the Company does not believe the litigation will have a significant impact on its current operations.

(i) Northpeak Wireless LLC filed a lawsuit against the Company's subsidiary DUS in October 2008 alleging that some of the Company's products infringed upon its patents. The Company has retained attorneys in the US and is currently building its defense with distributors. Based on its evaluation, the Company does not believe the litigation will have a significant impact on its current operations.

(j) Finoc Design Consluting OY. filed a lawsuit against the Company's subsidiary DUS on February 5, 2009, alleging that some of the Company's products infringed upon its patents. The Company has retained attorneys in the US and is currently building its defense with distributors. Based on its evaluation, the Company does not believe the litigation will have a significant impact on its current operations.

(k) The Company is currently under negotiations with a number of companies regarding the royalty on patents. Except for the abovementioned lawsuits, the others are in the negotiation process, and therefore the amount and number are unclear. The Company has accrued the possible expense, and therefore significant losses are unlikely. In addition, the Company's products are purchased from an outside source, and therefore when certain products are alleged to infringe on patents, the Company will ask the supplier to take action in resolving the lawsuit and be responsible for all costs related to the lawsuit or settlement.

(l) The Company's 2002 income tax return had been assessed additional income tax payable amounting to $102,000 by the tax authorities in August, 2008 as a result of the loss on sale of long-term investment. The Company disagrees with the assessment and is filing an administrative appeal.

8. **Major Casualty Losses**: None.

9. **Significant Subsequent Events**: None.

(Continued)

10. Other Information

(a) In accordance with the Statute for Upgrading Industries, the Company recorded a provision for loss on foreign investment equal to 20% of the foreign investment made and registered with the authority starting from 2001. Such provision is not acceptable under generally accepted accounting principles in the ROC. The provision has been reversed when preparing the accompanying 2008 and 2007 consolidated financial statements. However, for local tax purposes, the adjustment is not posted to the Company's books. As a result, the unappropriated earnings shown in the accompanying 2008 and 2007 consolidated financial statements exceed those in the Company's books by $1,161,023 and $968,867, respectively.

(b)The information on employee, depreciation, and amortization expenses by function, is summarized as follows:

	2008			2007		
Account	**Cost of goods sold**	**Operating expense**	**Total**	**Cost of goods sold**	**Operating expense**	**Total**
Employee expenses						
Salaries (note 1)	-	3,181,880	3,181,880	137,173	2,930,005	3,067,178
Labor and health insurance	-	99,332	99,332	7,218	93,355	100,573
Pension	-	115,739	115,739	6,029	118,448	124,477
Others	-	231,422	231,422	5,759	230,929	236,688
Depreciation (note 2)	-	215,510	215,510	15,321	235,396	250,717
Amortization	-	25,290	25,290	35	38,788	38,823

Note 1: The 2008 balance includes employees' bonuses amounting to 108,037.

Note 2: In 2008 and 2007, the depreciation on rental and idle assets amounted to $676 and $6,642, respectively, which was recorded as non-operating expense.

(c) Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2007, have been reclassified to conform with the 2008 presentation for comparative purposes. These reclassifications do not have significant impact on the presentation of the consolidated financial statements.

11. Segment Financial Information

(a) Industry information

As the major products of the Consolidated Company (computer networks, systems, equipment and components) constitute more than 90 percent of its sales, operating profit, and identifiable assets, the Consolidated Company is classified as a single industry company.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Geographic information

The geographical breakdown of sales for the years ended December 31, 2008 and 2007, is as follows:

			2008		
	America	Europe	Asia	Adjustments and eliminations	Total
Area revenue:					
Third-party customers	$ 11,151,762	8,447,032	13,450,899	-	33,049,693
Inter-company	943,245	4,052	15,411,408	(16,358,705)	-
Total	$ 12,095,007	8,451,084	28,862,307	(16,358,705)	33,049,693
Department profit (loss)	$ (21,770)	(233,928)	1,890,276	(207,857)	1,426,721
Identifiable assets	$ 5,931,392	3,199,044	33,439,330	(18,246,706)	24,323,060

			2007		
	America	Europe	Asia	Adjustments and eliminations	Total
Third-party customers	$ 11,235,069	9,628,288	15,368,442	-	36,231,799
Inter-company	901,695	5,983	21,550,847	(22,458,525)	-
Total	$ 12,136,764	9,634,271	36,919,289	(22,458,525)	36,231,799
Department profit (loss) before taxes and minority interest	$ 74,945	108,198	5,624,817	(2,020,388)	3,787,572
Identifiable assets	$ 6,132,881	5,302,508	39,254,501	(22,967,695)	27,722,195

(c) Major customers

There were no individual customers representing greater than 10% of consolidated revenue in 2008 and 2007.

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